

Civil Works Fund

Principal Statements and Notes

"Transforming to Meet the Nation's Needs"



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OFFICE OF FEDERAL
FINANCIAL MANAGEMENT


EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D. C. 20503

MEMORANDUM FOR DOV S. ZAKHEIM
UNDER SECRETARY OF DEFENSE AND CONTROLLER

FROM:

Mark Everson
Controller

 1-10-02

SUBJECT:

Waiver of FY 2001 Army General Funds and Working Capital Fund
Audited Financial Statements

We understand that, due to the events of September 11, 2001, the Department of Defense is requesting a waiver of the fiscal year 2001 Army General Funds and Army Working Capital Fund audited financial statements. The Department of the Army's Resource Services Washington, the office responsible for execution and accounting of Headquarters Department of the Army funds, as well as the Army's centrally managed accounts, suffered substantial loss of budget and accounting personnel as well as loss of documents and files in the terrorists' attack

Accordingly, we grant your request and waive the requirement for the Army General Fund and the Army Working Capital Fund to prepare and submit FY 2001 financial statements.

We understand that the financial information has been collected and will be included in the Department of Defense-wide financial statements. We look forward to the timely receipt of this report and all of the other Defense-component financial statements currently required by Appendix B in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

If you have any questions, please contact Kim Geier at (202) 395-6905.

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.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

Limitations Concerning National Defense PP&E Stewardship

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for ND PP&E. The Department cannot fully comply with existing reporting requirements, because many of the Department's accountability and logistics systems do not contain the cost of the ND PP&E assets. These systems were designed for the purpose of maintaining accountability and meeting other logistics requirements and not for capturing the cost of ND PP&E.

Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing the temporary requirements and their temporary nature, the Department is suspending the reporting of ND PP&E information until such time as the FASAB adopts permanent reporting requirements.

Consolidated Balance Sheet

*Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • (\$ in thousands)*

| | FY 2001 | FY 2000 |
|--|----------------------------|----------------------------|
| 1. ASSETS (Note 2) | | |
| A. Intragovernmental: | | |
| 1. Fund Balance with Treasury (Note 3) | \$2,537,990 | \$2,404,315 |
| 2. Investments (Note 4) | 2,255,539 | 2,075,561 |
| 3. Accounts Receivable (Note 5) | 476,541 | 151,301 |
| 4. Other Assets (Note 6) | 0 | 0 |
| 5. Total Intragovernmental Assets | <u>\$5,270,070</u> | <u>\$4,631,177</u> |
| B. Cash and Other Monetary Assets (Note 7) | \$3,990 | \$965 |
| C. Accounts Receivable (Note 5) | 1,028,288 | 1,050,363 |
| D. Loans Receivable (Note 8) | 0 | 0 |
| E. Inventory and Related Property (Note 9) | 54,719 | 59,469 |
| F. General Property, Plant and Equipment (Note 10) | 34,818,281 | 34,538,092 |
| G. Other Assets (Note 6) | 16,190 | 79,891 |
| 2. TOTAL ASSETS | <u><u>\$41,191,538</u></u> | <u><u>\$40,359,957</u></u> |
| 3. LIABILITIES (Note 11) | | |
| A. Intragovernmental: | | |
| 1. Accounts Payable (Note 12) | \$92,731 | \$87,543 |
| 2. Debt (Note 13) | 30,512 | 18,212 |
| 3. Environmental Liabilities (Note 14) | 0 | 0 |
| 4. Other Liabilities (Note 15 & Note 16) | 1,167,317 | 1,166,330 |
| 5. Total Intragovernmental Liabilities | <u>\$1,290,560</u> | <u>\$1,272,082</u> |
| B. Accounts Payable (Note 12) | \$505,326 | \$585,938 |
| C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17) | 0 | 0 |
| D. Environmental Liabilities (Note 14) | 0 | 0 |
| E. Loan Guarantee Liability (Note 8) | 0 | 0 |
| F. Other Liabilities (Note 15 & Note 16) | 576,522 | 497,833 |
| 4. TOTAL LIABILITIES | <u>\$2,372,408</u> | <u>\$2,355,853</u> |
| 5. NET POSITION | | |
| A. Unexpended Appropriations (Note 18) | \$1,214,901 | \$1,004,640 |
| B. Cumulative Results of Operations | 37,604,229 | 36,999,464 |
| 6. TOTAL NET POSITION | <u>\$38,819,130</u> | <u>\$38,004,104</u> |
| 7. TOTAL LIABILITIES AND NET POSITION | <u><u>\$41,191,538</u></u> | <u><u>\$40,359,957</u></u> |

The accompanying notes are an integral part of these statements.

United States Army Annual Financial Statement Fiscal Year 2001

Consolidated Statement of Net Cost

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)

| | FY 2001 | FY 2000 |
|---|-------------|-------------|
| 1. Program Costs | | |
| A. Intragovernmental | \$1,014,550 | \$552,908 |
| B. With the Public | 3,768,681 | 3,782,955 |
| C. Total Program Cost | \$4,783,231 | \$4,335,863 |
| D. (Less: Earned Revenue) | (494,251) | (678,349) |
| E. Net Program Costs | \$4,288,980 | \$3,657,514 |
| 2. Costs Not Assigned to Programs | 0 | 0 |
| 3. (Less: Earned Revenue not attributable to Programs) | 0 | 0 |
| 4. Net Costs of Operations | \$4,288,980 | \$3,657,514 |

See Notes 1 and 19.

Consolidated Statement of Changes in Net Position

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | FY 2001 | FY 2000 |
|--|--------------|--------------|
| 1. Net Cost of Operations | \$4,288,980 | \$3,657,514 |
| 2. Financing Sources (other than exchange revenues) | | |
| A. Appropriations Used | 4,310,086 | 4,017,634 |
| B. Taxes and Other Nonexchange Revenue | 919,801 | 800,241 |
| C. Donations - Nonexchange Revenue | 275 | 1,362 |
| D. Imputed Financing (Note 20) | 211,595 | 166,464 |
| E. Transfers - in | 1,084,642 | 21,836 |
| F. Transfers - out | (777,665) | (120,682) |
| G. Other | (8,859) | (647,287) |
| H. Total Financing Sources (other than Exchange Revenues) | \$5,739,875 | \$4,239,568 |
| 3. Net Results of Operations | \$1,450,895 | \$582,054 |
| 4. Prior Period Adjustments (Note 20) | (846,129) | 360,235 |
| 5. Net Change in Cumulative Results of Operations | \$604,766 | \$942,289 |
| 6. Increase (Decrease) in Unexpended Appropriations | 210,262 | (197,777) |
| 7. Change in Net Position | \$815,028 | \$744,512 |
| 8. Net Position-Beginning of the Period | 38,004,102 | 37,259,592 |
| 9. Net Position-End of the Period | \$38,819,130 | \$38,004,104 |

See Notes 1 and 20.

United States Army Annual Financial Statement Fiscal Year 2001

Combined Statement of Budgetary Resources

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)

| | FY 2001 | FY 2000 |
|---|---------------------|---------------------|
| BUDGETARY RESOURCES | | |
| A. Budget Authority | \$5,518,284 | \$4,614,169 |
| B. Unobligated Balance - Beginning of Period | 1,638,977 | 2,136,227 |
| C. Net Transfers Prior-Year Balance, Actual | (491) | (1) |
| D. Spending Authority from Offsetting Collections | 4,504,749 | 3,909,101 |
| E. Adjustments | (17,545) | (35,122) |
| F. Total Budgetary Resources | <u>\$11,643,974</u> | <u>\$10,624,374</u> |
| STATUS OF BUDGETARY RESOURCES | | |
| A. Obligations Incurred | \$9,599,363 | \$8,926,397 |
| B. Unobligated Balances - Available | 2,044,122 | 1,694,496 |
| C. Unobligated Balances - Not Available | 489 | 3,481 |
| D. Total, Status of Budgetary Resources | <u>\$11,643,974</u> | <u>\$10,624,374</u> |
| OUTLAYS | | |
| A. Obligations Incurred | \$9,599,363 | \$8,926,397 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | (4,504,749) | (3,909,699) |
| C. Obligated Balance, Net - Beginning of Period | 797,587 | 394,538 |
| D. Obligated Balance Transferred, Net | 0 | 0 |
| E. Less: Obligated Balance, Net - End of Period | (743,772) | (715,876) |
| F. Total Outlays | <u>\$5,148,429</u> | <u>\$4,695,360</u> |

See Notes 1 and 21.

Combined Statement of Financing

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | FY 2001 | FY 2000 |
|--|----------------|----------------|
| 1. OBLIGATIONS AND NONBUDGETARY RESOURCES: | | |
| A. Obligations Incurred | \$9,599,363 | \$8,926,397 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | (4,504,749) | (3,909,699) |
| C. Donations Not in the Entity's Budget | 275 | |
| D. Financing Imputed for Cost Subsidies | 211,595 | 166,464 |
| E. Transfers-In (Out) | 1,735 | |
| F. Less: Exchange Revenue Not in the Entity's Budget | (714) | (1,956) |
| G. Nonexchange Revenue Not in the Entity's Budget | (26,044) | 23,067 |
| H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget | (43,761) | (113,056) |
| I. Other | 0 | 0 |
| J. Total Obligations as Adjusted and Nonbudgetary Resources | \$5,237,700 | \$5,091,217 |
| 2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS: | | |
| A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease | (\$281,946) | \$47,310 |
| B. Change in Unfilled Customer Orders | 231,321 | (264,157) |
| C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases | (1,540,306) | (1,815,691) |
| D. Financing Sources that Fund Costs of Prior Periods | (28,306) | 23,707 |
| E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities | 0 | 0 |
| F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost | 0 | 0 |
| G. Other - (Increases)/Decrease | 390,870 | (5,186) |
| H. Total Resources That Do Not Fund Net Costs of Operations | (\$2,010,107) | (\$2,014,017) |
| 3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES | | |
| A. Depreciation and Amortization | \$589,863 | \$580,218 |
| B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables | 0 | 0 |
| C. Revaluation of Assets and Liabilities - Increases/(Decreases) | 169,970 | 0 |
| D. Loss of Disposition of Assets | 28,145 | 0 |
| E. Other - (Increases)/Decrease | 0 | 0 |
| F. Total Costs That Do Not Require Resources | \$787,978 | \$580,218 |
| 4. FINANCING SOURCES YET TO BE PROVIDED | \$273,409 | \$96 |
| 5. NET COST OF OPERATIONS | \$4,288,980 | \$3,657,514 |

See Notes 1 and 22.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers Civil Works, as required by the Chief Financial Officers (CFO) Act, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the U. S. Army Corps of Engineers (USACE) in accordance with the "Department of Defense Financial Management Regulation" ("DoDFMR"), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and to the extent possible, generally accepted accounting principles (GAAP). The USACE's financial statements are in addition to the financial reports also prepared by the USACE pursuant to OMB directives that are used to monitor and control the USACE's use of budgetary resources.

The Corps of Engineers financial statements are prepared from the consolidation of general ledger financial data reported from the Corps of Engineers Financial System (CEFMS) to the Corps of Engineers Enterprise Management Information System (CEEMIS).

General Ledger account balances have been validated to the year-end departmental budget execution and expenditure reports. The Corps of Engineers Funds with Treasury balances have been adjusted to agree with Treasury's balances in accordance with Treasury policy.

A more detailed explanation of these financial statements elements is provided in the applicable footnote.

1.B. Mission of the Reporting Entity

Some of the missions of the Corps of Engineers include maintaining navigation channels, reducing flooding, assisting during natural disasters and other emergencies and making waterways passable. The financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards.

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

The Corps of Engineers Civil Works Program receives Federal funding through annual Energy and Water Development Appropriations Acts. Program funding is also received 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.

Entity Accounts:

General Funds

| | |
|-----------|--|
| 96X3112 | Flood Control, Mississippi River and Tributaries |
| 96X3121 | General Investigations |
| 96X3122 | Construction, General |
| 96X3123 | Operation and Maintenance, General |
| 963/73123 | Operation and Maintenance, General (fiscal year) |
| 96X3124 | General Expenses |

| | |
|-----------|---|
| 96953124 | General Expenses (fiscal year) |
| 96X3125 | Flood Control and Coastal Emergencies |
| 963/73125 | Flood Control and Coastal Emergencies (fiscal year) |
| 96X3126 | Regulatory Program |
| 96X3128 | Washington Aqueduct Capital Improvements |
| 96003129 | Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund 96X3130 |
| FUSRAP | |

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 |
| 96X5483 | San Gabriel Basin Restoration Fund |

Trust Funds

| | |
|---------|--|
| 96X8217 | South Dakota Terrestrial Wildlife habitat Restoration Trust Fund |
| 96X8333 | Coastal Wetlands Restoration Trust Fund |
| 96X8861 | Inland Waterways Trust Fund |
| 96X8862 | Rivers and Harbors Contributed and Advance Funds |
| 96X8868 | Oil Spill Research |

Transfer Funds

| | |
|-------------|---|
| 96 12X1105 | State and Private Forestry, Forest Service |
| 96 13X2050 | Economic Development Administration |
| 96 14X1039 | Construction National Park Service |
| 96 21X2020 | OMA, American Samoa Projects |
| 96 89X4045 | Bonneville Power Administration |
| 96 72 99/00 | 1021 Development Assistance, Agency for International Development |
| 96 69X8083 | Federal Aid Highways |

Non-Entity:**Deposit Funds**

| | |
|---------|--|
| 96X6075 | Withheld Allotment of Compensation for Payment of Employee Organization Dues |
| 96X6094 | Advances from the District of Columbia |
| 96X6134 | Amounts Withheld for Civilian Pay Allotments |
| 96X6145 | Technical Assistance, United States Dollars Advanced from Foreign Government |
| 96X6302 | Moneys Withheld from Contractors |
| 96X6500 | Advances without Orders from Non-Federal Sources |
| 96X6501 | Small Escrow Amounts |
| 96X6999 | Accounts Payable, Check Issue Overdrafts |

Clearing Accounts

| | |
|---------|--|
| 96F3875 | Budget Clearing Account |
| 96F3880 | Unavailable Check Cancellations and Overpayments |
| 96F3886 | TSP |

Receipt Accounts

| | |
|--------|---|
| 960891 | Miscellaneous fees for regulatory and judicial services, not otherwise classified |
| 961099 | Fines, Penalties, and forfeitures not otherwise classified |
| 961435 | General Fund Proprietary Interest, Not Otherwise Classified |
| 963220 | General Fund Proprietary Receipts. Not Otherwise Classified, All Other |
| 965007 | Special Recreation Use Fees |
| 965066 | Hydraulic Mining in California |
| 965090 | Receipts from leases of lands acquired for flood control, navigation, and allied purposes |
| 965125 | Licenses under Federal Power Act, Improvements of navigable water, maintenance and operation of dams, etc., (50%) |

The Corps of Engineers is including Coastal Wetlands Restoration Trust Fund in the Financial Statements for FY 2001. The Trust Fund had not been included in previous years' financial statements. This account is funded by transfers from the Aquatic Resources Trust Fund. Department of Transportation is the lead agency for reporting the Aquatic Resources Trust Fund. The portion transferred to the Corps is not included in Department of Transportation's financial statements. Therefore, we have included amounts for the Coastal Wetlands Restoration Trust Fund in the Corps of Engineers financial statements.

1.C. Appropriations and Funds

The Civil Works Program receives Federal funding through annual Energy and Water Development Appropriations Acts. Program funding also come 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 Supports for Others Program, which is conducted under reimbursable agreements with Federal agencies.

In 1997, the Corps received borrowing authority from the Treasury for the next three years (1997 through 1999) to finance capital improvements to the Washington Aqueduct. Appropriation 96X3128 was established to record financial transactions for these capital improvements.

The Corps' appropriations and funds are divided into the general, working capital (revolving funds), trust, special and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Corps' missions.

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

Trust funds represent the receipt and expenditure 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.

Special funds account for receipts of the government that are earmarked for a specific purpose.

Deposit funds generally are used to (1) hold assets for which the Corps is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

1.D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis as is required by GAAP. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds.

During fiscal year 1998, the Corps completed the deployment of the Corps of Engineers Financial Management System (CEFMS) to all its divisions, districts, centers, laboratories and field offices. CEFMS is a fully automated, comprehensive financial management system that simplifies the management of all aspects of the Corps business, including civil, military revolving funds and reimbursable activity. The general ledger chart of accounts in CEFMS was modified during fiscal year 2001 to be in compliance with the United States Government Standard General Ledger.

In addition, the Corps identified programs based upon the major appropriation groups provided by Congress.

1.E. Revenues and Other Financing Sources

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Corps recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Corps' operations. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

Certain expenses, such as annual and military leave earned but not taken, are financed in the period when earned.

1.G. Accounting for Intragovernmental Activities

The Corps, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Corps as though the agency was a stand-alone entity.

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

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

The Corps' civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Corps funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Corps recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the

actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. For FYs 1999, 2000 and 2001, the Corps provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the Department of the Treasury, FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Corps implemented the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. In addition, the Corps implemented the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or less to the U. S. Government. Customers may be required to make payments in advance.

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

The Corps' financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS) and Military Services and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic transfers, interagency transfers and deposits.

In addition, the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Corps recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at note 3.

1.J. Foreign Currency

The Corps conducts operations overseas. Foreign Currency fluctuations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified.

1.K. Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at note 5.

1.L. Loans Receivable. As Applicable.

Not Applicable to the Corps of Engineers, Civil Works Fund

1.M. Inventories and Related Property

Inventories are reported at approximate historical cost based on a moving weighted average based on actual cost divided by quantity. The method of valuation was misstated in previous years' statements.

The stock record accounting system in CEFMS is designed to allow the timely flow of supplies to the requesting customer while providing necessary controls to preclude over-stocking and zero balances. Controls also exist within the system to automatically generate requisitions in order to replenish stock to maintain authorized stockage levels. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost, as new receipts are recorded.

Material disclosures related to inventory and related property are provided at Note 9.

1.N. Investments in U.S. Treasury Securities

Investments in U. S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Corps' 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, because in the majority of cases, they are held to maturity. Amounts reported reflect the value of investments in the South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance Trust Fund accounts, which are managed by the Treasury Department. Material disclosures are provided at Note 4.

1.O. General Property, Plant and Equipment

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals 1\$ for real property and \$25,000 for personal property.

All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

When it is in the best interest of the government, the Corps provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Corps, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E should be included in the value of General PP&E reported on the Corps' Balance Sheet. The Department recently completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Corps currently reports only government property in the possession of contractors that is maintained in the Corps property systems.

To bring the Corps into compliance with federal accounting standards, the Department has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

Material disclosures are provided at Note 10.

1.P Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

1.Q. Leases

Generally, lease payments are for the rental of equipment, space, and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease terms.

1.R. Other Assets

The Corps conducts business with commercial contractors under two primary types of contracts—fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Corps provides financing payments. One type of financing payment that the Corps makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulation, the Corps makes financing payments under fixed price contracts that are not based on a percentage of completion. The Corps reports these financing payments as advances or prepayments in the "Other Assets" line item. The Corps treats these payments as advances or prepayments because the Corps becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Corps is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Corps for the full amount of the advance.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Corps. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Corps' loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as ship and vehicle accidents, property or environmental damages, and contract disputes.

1.T. Accrued Leave

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred.

Cumulative results of operations represents the difference, since inception of an activity, between expenses and losses and financing sources including appropriations, revenue, and gains. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

1.V. Treaties for Use of Foreign Bases

The Corps has no existing treaties for use of foreign bases.

1.W. Comparative Data

Beginning in FY 2001, the U.S. Army Corps of Engineers will present the current and previous year's financial data for comparative purposes. This data will be presented in the financial statements, as well as in the notes to the principal statements.

1.X. Unexpended Obligations

The Corps records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

Note 2. Assets

As of September 30,
(Amounts in thousands)

| | 2001 | | | 2000 |
|--|-----------|--------------|--------------|--------------|
| | Nonentity | Entity | Total | |
| 1. Intragovernmental Assets: | | | | |
| A. Fund Balance with Treasury | \$22,832 | \$2,515,158 | \$2,537,990 | \$2,404,315 |
| B. Investments | 0 | 2,255,539 | 2,255,539 | 2,075,561 |
| C. Accounts Receivable | 1 | 476,540 | 476,541 | 151,301 |
| D. Other Assets | 0 | 0 | 0 | 0 |
| E. Total Intragovernmental Assets | \$22,833 | \$5,247,237 | \$5,270,070 | \$4,631,177 |
| 2. Nonfederal Assets: | | | | |
| A. Cash and Other Monetary Assets | \$3,990 | \$0 | \$3,990 | \$965 |
| B. Accounts Receivable | 933,378 | 94,910 | 1,028,288 | 1,050,363 |
| C. Loans Receivable | 0 | 0 | 0 | 0 |
| D. Inventory & Related Property | 0 | 54,719 | 54,719 | 59,469 |
| E. General Property, Plant and Equipment | 0 | 34,818,281 | 34,818,281 | 34,538,092 |
| F. Other Assets | 0 | 16,190 | 16,190 | 79,891 |
| G. Total Nonfederal Assets | \$937,368 | \$34,984,100 | \$35,921,468 | \$35,728,780 |
| 3. Total Assets: | \$960,201 | \$40,231,337 | \$41,191,538 | \$40,359,957 |

4. Other Information:

Line 1A - Federal nonentity Fund Balance with Treasury consists of amounts collected into deposit, suspense and clearing accounts. Line 2B - Nonfederal nonentity accounts receivable represents all current and non-current receivables due from non-federal sources, net of allowance for estimated uncollectible accounts. Other non-entity receivables include \$1 billion in long-term receivables due from state and local municipalities for water storage contracts, \$7.9 million in current receivables due from the state and local municipalities for water storage, \$.4 million in accrued interest receivable with the water storage contracts, \$1.7 million in claims receivable, and \$1.7 million in long-term receivable for hydraulic mining. The additional \$.6 million represents amount due from the leasing of land acquired for flood control purposes. The allowance for doubtful accounts totals \$1.7 million. Receipts are deposited with the Department of Treasury and are, therefore, identified as nonentity. Investments net of premiums and discounts increased by \$180 million or 9% during FY01. Eighty-five percent of the increase was from the Harbor Maintenance Trust Fund. Investments net of premiums and discounts increased by \$151 million. This increase was funded in part by an increase in receipts of \$50 million and a decrease in transfers out to other government agencies of \$42 million. The increase in receipts is primarily from excise taxes on imports and exports. Investment discounts also decreased by \$23 million or 45% because more

funds from maturing treasury bills were invested in one-day securities. A review of monthly investment activity shows that more funds were available for investment in September. The average monthly transfer to the Corps of Engineers was \$54 million in FY01 but the actual September transfer to the Corps was \$17 million. Line 2F - Other Entity Assets includes \$7 million in land and \$55 million in structures and facilities awaiting disposition or sale, and \$10 million in cost for cultural resources preservation.

Note 3. Fund Balance with Treasury

As of September 30,
(Amounts in thousands)

| | 2001 | 2000 |
|---|--------------------|--------------------|
| 1. Fund Balances: | | |
| A. Appropriated Funds | \$1,351,271 | \$1,230,972 |
| B. Revolving Funds | 849,577 | 855,237 |
| C. Trust Funds | 11,129 | 919 |
| D. Other Fund Types | 326,013 | 317,188 |
| E. Total Fund Balances | <u>\$2,537,990</u> | <u>\$2,404,316</u> |
| 2. Fund Balances Per Treasury Versus Agency: | | |
| A. Fund Balance per Treasury | \$2,532,474 | \$2,404,93 |
| B. Fund Balance per USACE | 2,537,990 | 2,404,316 |
| C. Reconciling Amount | <u>(\$5,516)</u> | <u>\$620</u> |

3. Explanation of Reconciliation Amount:

Fund Balance per USACE includes \$6,102,340.15 and \$533.57 cash reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the Corps is identified as the lead agency for reporting. Funds Balance per USACE also includes (\$591,652.29) Disbursing Officer's Cash transactions during FY2001.

Fund Balance per USACE excludes (\$4.7) thousand shown on the TFS 6654 in account 96F3880. This amount was posted by Treasury and not yet recorded in the USACE balance.

4. Other Information Related to Fund Balance with Treasury:

Receipts in the amount of \$133.6 million that were returned to Treasury during fiscal year 2001 are not reflected in these financial statements.

Fund Balance per USACE includes \$11.7 million in transfer appropriations that were not reported by the Corps on the FMS 2108. Those transfer appropriations are reported by the parent agencies on the FMS 2108. The parent agencies are Department of Energy, Department of Transportation, and Department of Commerce. However, these appropriations must be included in the financial statements of the receiving entity. Therefore, we have included financial data for transfer appropriations in our financial statements for the period ending September 30, 2001.

Fund Balance Per Treasury includes funds available in appropriation 96X6094 in the amount of \$7.9 million. This account was established to record operating costs at the Washington Aqueduct which are reimbursed by local municipalities. Since funding is used in operations, the balance is included with entity assets.

Line 1D - Other Fund types consists of \$23.4million in deposit suspense and clearing accounts that are not available to finance the Corps' activities, \$4.5 million in borrowing authority, \$299 million in contributed funds, and (.6) million in Disbursing Officer's Cash transactions.

Note 4. Investments

| As of September 30, (Amounts in thousands) | 2001 | | | | | 2000 |
|---|-------------|------------------------|-------------------------------------|---------------------|----------------------------|---------------------|
| | Cost | Amortization Method | Amortized (Premium/ Discount) | Investments, Net | Market Value Disclosure | Investments, Net |
| 1. Intragovernmental Securities: | | | | | | |
| A. Marketable | \$0 | | \$0 | \$0 | \$0 | \$2,070,889 |
| B. Non-Marketable, Par Value | 0 | | 0 | 0 | 0 | 0 |
| C. Non-Marketable, Market-Based | 2,252,093 | SL | (1,247) | 2,250,846 | 2,250,8460 | 0 |
| D. Subtotal | \$2,252,093 | | (\$1,247) | \$2,250,846 | \$2,250,846 | \$2,070,889 |
| E. Accrued Interest | \$4,693 | | | \$4,693 | \$4,693 | \$4,672 |
| F. Total Intragovernmental Securities | \$2,256,786 | | (\$1,247) | \$2,255,539 | \$2,255,539 | \$2,075,561 |

2. Other Information:

Investments for the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration Trust Funds are reported by the Treasury and included in U.S. Army Corps of Engineers' Financial Statements. Investment amounts include \$408 million in Inland Waterways, \$1800 million in Harbor Maintenance and \$32 million in the South Dakota Terrestrial Wildlife account.

It is the intent to hold investments until maturity unless they are needed to sustain operations. Provisions are not made for unrealized gains or losses on these securities. The Trust Funds use the same method that conforms to the prevailing practice in the financial community to determine the amortized book value of investments currently held and the related effective interest yield on investments. These calculated yields agree with yields published in the security tables of U. S. Treasury securities.

These types of investments are recorded at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. Investment decisions for these funds are made by the managing entity, in this case the Department of the Treasury.

Investments were incorrectly reported as marketable in FY 2000. Upon confirmation from Treasury, investments are now reported as Non-Marketable, Market-Based.

Note 5. Accounts Receivable

| As of September 30, (Amounts in thousands) | 2001 | | | 2000 |
|---|---------------------|---|-----------------------------|-----------------------------|
| | Gross Amount Due | Allowance for Estimated Collectibles | Accounts Receivable, Net | Accounts Receivable, Net |
| 1. Intragovernmental Receivables: | \$476,541 | N/A | \$476,541 | \$151,301 |
| 2. Nonfederal Receivables (From the Public): | \$1,029,978 | (\$1,690) | \$1,028,288 | \$1,050,363 |
| 3. Total Accounts Receivable: | \$1,506,519 | (\$1,690) | \$1,504,829 | \$1,201,664 |

4. Allowance method:

The method of calculating the allowance for estimated uncollectibles is based on the aging of receivables and application of pre-determined percentages. Average percentages were calculated based on write-off to outstanding public accounts receivable during prior fiscal years. The Code of Federal Regulations (4CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables.

5. Other information:

Accounts receivable represents all current receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts. The amount of public receivables over 180 days old is

\$129.1 million. Receivables with the public include \$24.3 million in accrued interest on delinquent receivables. No public receivables have been submitted to the Department of Justice for opinion. The amount of intragovernmental receivables over 180 days old is \$18.1 million. No intragovernmental receivables have been submitted to the General Accounting office for opinion. The Corps was able to compare its accounts receivable balances with the accounts payable balances of its intragovernmental trading partners. No material differences were identified.

FY 2001 amount includes \$1 billion in long-term accounts receivable associated with water storage contracts.

The amount of Public Receivables on the Report on Receivables Due from Public is \$1,346 million. The difference is attributed to \$154 million adjustment for long-term receivables, which was already reflected in the beginning balance, and therefore included in the total twice on the report, \$ 169.7 million in duplicate receivables included on the report, \$7.7 million in current portion of long-term receivables not included on the report, \$1.7 million allowance for estimated uncollectibles not included on the report, and \$14 thousand for work in progress amounts not included on the receivables report.

The Allowance for Estimated uncollectibles increased \$.6 million from FY 2000. This increase is attributed to a larger number of past due public receivables and an increase in the amount of receivables in the age category that has a higher allowance percentage.

Note 6. Other Assets

As of September 30,
(Amounts in thousands)

| | 2001 | 2000 |
|--|----------|----------|
| 1. Intragovernmental Other Assets: | | |
| A. Advances and Prepayment | \$0 | \$0 |
| B. Other Assets | 0 | 0 |
| C. Total Intragovernmental Other Assets | \$0 | \$0 |
| 2. Nonfederal Other Assets: | | |
| A. Outstanding Contract Financing Payments | \$0 | \$0 |
| B. Other Assets (With the Public) | 16,190 | 79,891 |
| C. Total Nonfederal Other Assets | \$16,190 | \$79,891 |
| 3. Total Other Assets: | \$16,190 | \$79,891 |

4. Other Information Related to Other Assets:

Line 2B - Other Assets (With the Public) include \$10 million in cost for archaeological and cultural resource preservation.

Note 7. Cash and Other Monetary Assets

As of September 30,
(Amounts in thousands)

| | 2001 | 2000 |
|---|---------|-------|
| 1. Cash | \$622 | \$819 |
| 2. Foreign Currency (non-purchased) | 3,368 | 146 |
| 3. Other Monetary Assets | 0 | 0 |
| 4. Total Cash, Foreign Currency, & Other Monetary Assets | \$3,990 | \$965 |

5. Other Information Pertaining to Entity Cash & Other Monetary Assets:

Line 1 - This amount consists solely of Disbursing Officers' Cash and reconciles to Note 15A Line 1.E and the Statement of Accountability.

Line 2 - The Corps translates foreign currency to U. S. dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U. S.

Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. The increase of \$3.2 million was incorrectly reported by Japan District as entirely Civil Works. The amount includes the Military portion of foreign currency and will be corrected in FY 2002.

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

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.B. Direct Loans Obligated After FY 1991

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.C. Total Amount of Direct Loans Disbursed

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.D. Subsidy Expense for Post-1991 Direct Loans

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.E. Subsidy Rate for Direct Loans

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.F. Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.G. Defaulted Guaranteed loans from Post-1991 Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.H. Guaranteed Loans Outstanding

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.I. Liability for Post-1991 Loan Guarantees, Present Value

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.J. Subsidy Expense for Post-1991 Loan Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.K. Subsidy Rate for Loan Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.L. Schedule for Reconciling Loan Guarantee Liability Balances for Post-1991 Loan Guarantees

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 8.M. Administrative Expense

The Corps participates in Military Housing Privatization Initiatives only from our military funded accounts. Therefore, these Civil Works Financial Statements reflect no activity in this area.

Note 9. Inventory and Related Property

As of September 30,
(Amounts in thousands)

| | 2001 | 2000 |
|---|-----------------|-----------------|
| 1. Inventory, Net (Note 9.A.) | \$54,420 | \$59,287 |
| 2. Operating Materials & Supplies, Net (Note 9.B.) | 299 | 182 |
| 3. Stockpile Materials, Net (Note 9.C.) | 0 | 0 |
| 4. Total | <u>\$54,719</u> | <u>\$59,469</u> |

Note 9.A. Inventory, Net

As of September 30,
(Amounts in thousands)

| | 2001 | | 2000 | | Valuation Method |
|---|--------------------------|--------------------------|-----------------|-----------------|---------------------|
| | Inventory Gross Value | Revaluation Allowance | Inventory, Net | Inventory, Net | |
| 1. Inventory Categories: | | | | | |
| A. Available and Purchased for Resale | \$95,225 | (\$47,882) | \$47,343 | \$53,191 | |
| B. Held for Repair | 0 | 0 | 0 | 0 | |
| C. Excess, Obsolete, and Unserviceable | 55 | (55) | 0 | 8 | NRV |
| D. Raw Materials | 0 | 0 | 0 | 0 | |
| E. Work in Process | 7,077 | 0 | 7,077 | 6,088 | |
| F. Total | <u>\$102,357</u> | <u>(\$47,937)</u> | <u>\$54,420</u> | <u>\$59,287</u> | |

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

2. Restrictions of Inventory Use, Sale, or Disposition:

Inventory may be sold to foreign, state and local governments, private parties and contractors in accordance with current policies and guidance or at the direction of the U. S. President. Otherwise, there are no restrictions on the use, sale or disposition of inventory.

3. Other Information:

The inventory valuation method is based on a moving weighted average based on actual cost divided by quantity. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost as new receipts are recorded. The method of valuation was misstated in previous years' statements as Latest Acquisition Cost.

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. "Inventory held for Current Sale" is that expected to be sold in the normal course of operations. "Excess Inventory" is that which exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale. "Obsolete Inventory" is that which no longer is needed due to changes in technology, laws, customs or operations. "Unserviceable Inventory" is damaged inventory that is more economical to dispose of than to repair.

The inventory data reported on the financial statements is derived from the Corps of Engineers Financial Management System (CEFMS). CEFMS is a comprehensive system that is designed to capture and maintain historical cost data necessary to fully comply with the Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property.

Line 1C - Excess, Obsolete, and Unserviceable. Revaluation is determined using 1.9% of the gross as the net realizable value, based in DFAS memorandum DFAS-DAC, dated 23 August 2001, subject: FY 2002 Supply Management Inventory Adjustment Factors, signed by Robert McNamara. The memo states, in part, "items stratified as potential reutilization/disposal stock and items no longer economically repairable is revised to 1.9 percent of the LAC for FY 2001 yearend reporting."

Note 9.B. Operating Materials and Supplies, Net

| As of September 30, (Amounts in thousands) | 2001 | | 2000 | | Valuation Method |
|---|-------------|--------------------------|-----------|-----------|---------------------|
| | OM&S Amount | Revaluation Allowance | OM&S, Net | OM&S, Net | |
| 1. OM&S Categories: | | | | | |
| A. Held for Use | \$299 | \$0 | \$299 | \$182 | |
| B. Held for Repair | 0 | 0 | 0 | 0 | |
| C. Excess, Obsolete, and Unserviceable | 0 | 0 | 0 | 0 | |
| D. Total | \$299 | \$0 | \$299 | \$182 | |

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

2. Restrictions on Operating Materials & Supplies:

There are no restrictions on operating materials and supplies. The valuation method is based on a moving weighted averaged based on actual cost divided by quantity. The valuation method was misstated in previous years' statements .

3. Other Information:

Note 9.C. Stockpile Materials, Net

| As of September 30, (Amounts in thousands) | 2001 | | | 2000 | |
|---|-------------------------------|---------------------------------|-----------------------------|-----------------------------|---------------------|
| | Stockpile Materials Amount | Allowance for Gains (Losses) | Stockpile Materials, Net | Stockpile Materials, Net | Valuation Method |
| 1. Stockpile Materials Categories: | | | | | |
| A. Held for Sale | \$0 | \$0 | \$0 | \$0 | |
| B. Held in Reserve for Future Sale | 0 | 0 | 0 | 0 | |
| C. Total Stockpile Materials, Net | \$0 | \$0 | \$0 | \$0 | |

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

2. Restrictions on Stockpile Materials:

3. Other Information:

Note 10. General PP&E, Net

| As of September 30, (Amounts in thousands) | 2001 | | | | | 2000 | |
|---|---|--------------|----------------------|---|-------------------|----------------------------|--|
| | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated) Depreciation Amortization | Net Book Value | Prior FY Net Book Value | |
| 1. Major Asset Classes: | | | | | | | |
| A. Land | N/A | N/A | \$7,876,387 | N/A | \$7,876,387 | \$7,801,562 | |
| B. Buildings, Structures, and Facilities | S/L | 20-100 | 29,755,018 | (\$12,526,962) | 17,228,056 | 18,324,584 | |
| C. Leasehold Improvements | S/L | 5-lease term | 1,334 | (867) | 467 | 589 | |
| D. Software | S/L | 2-10 | 54,567 | (18,765) | 35,802 | 34,708 | |
| E. Equipment | S/L | 5-100 | 1,142,292 | (532,380) | 609,912 | 610,325 | |
| F. Assets Under Capital Lease ¹ | S/L | lease term | 0 | 0 | 0 | 0 | |
| G. Construction-in-Progress | N/A | N/A | 9,043,763 | N/A | 9,043,763 | 7,753,407 | |
| H. Other | | | 23,894 | 0 | 23,894 | 12,916 | |
| I. Total General PP&E | | | \$47,897,255 | (\$13,078,974) | \$34,818,281 | \$34,538,091 | |

¹Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

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

2. Other Information:

Line 1A - Land. \$2 billion previously identified as intangible assets has been reclassified as land. These assets are comprised of historical costs associated with the acquisition of land in conjunction with power projects. Costs were originally classified as intangible assets in order to comply with Federal Energy Regulatory Commission guidelines on cost recovery. However, the decision was made that these costs were improperly classified in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment", as they were part of the initial acquisitions cost of the land and should have been classified as such. We have also made a reversing entry for current year amortization in our fiscal year 2001 statements to properly reflect the effect of the transfer into land (category 00) where accumulated depreciation is inappropriate.

Line 1 B - Buildings, Structures, and Facilities. An adjustment of \$401.7 million was made to the Buildings and Structures Net Book Value due to subsequent audit findings that acquisition value had been overstated and accumulated depreciation had been understated.

Line 1 G - Construction-in-Progress. The increase of \$1.3 billion is attributed to contract progress payments (ENG Form 93).

Line 1H - Other. Other assets represent property awaiting disposition or sale.

The service lives for our multiple purpose project assets are derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards.

Note 10.A. Assets Under Capital Lease

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 11. Liabilities Not Covered by Budgetary Resources

| As of September 30, (Amounts in thousands) | 2001 | | | 2000 |
|--|--------------------------------------|---|-------------|-------------|
| | Covered by Budgetary Resources | Not Covered by by Budgetary Resources | Total | |
| 1. Intragovernmental Liabilities: | | | | |
| A. Accounts Payable | \$92,731 | \$0 | \$92,731 | \$87,543 |
| B. Debt | 692 | 29,820 | 30,512 | 18,212 |
| C. Environmental Liabilities | 0 | 0 | 0 | 0 |
| D. Other | 31,616 | 1,135,701 | 1,167,317 | 1,166,330 |
| E. Total Intragovernmental Liabilities | \$125,039 | \$1,165,521 | \$1,290,560 | \$1,272,085 |
| 2. Nonfederal Liabilities: | | | | |
| A. Accounts Payable | \$505,326 | \$0 | \$505,326 | \$585,937 |
| B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities | 0 | 0 | 0 | 0 |
| C. Environmental Liabilities | 0 | 0 | 0 | 0 |
| D. Loan Guarantee Liability | 0 | 0 | 0 | 0 |
| E. Other Liabilities | 543,018 | 33,504 | 576,522 | 497,833 |
| F. Total Nonfederal Liabilities | \$1,048,344 | \$33,504 | \$1,081,848 | \$1,083,770 |
| 3. Total Liabilities: | \$1,173,383 | \$1,199,025 | \$2,372,408 | \$2,355,855 |

4. Other Information:

Line 1D - Intragovernmental other unfunded liabilities includes \$35 million to offset interest and accounts receivable which, when collected, will be returned to the Treasury. Judgment fund liabilities in the amount of \$103.61 million and the FY 2001 Workmen's Compensation liabilities in the amount of \$43 million are also recognized as unfunded. Also included is the deferred credit liability in the amount of \$1.1 billion representing future revenue from long term receivables recorded for water storage contracts.

Line 2B - The Actuarial Liability for Federal Employee's Compensation Act (FECA) is not included. The Department of Labor is unable to furnish a figure for FECA liability specific to the Corps of Engineers.

Line 2E - Other Liabilities (Covered) includes \$335.8 million in accrued funded payroll and leave, \$43 million in contract holdbacks, \$17.8 million in employer contributions and payroll taxes, \$77.5 million in contributed funds, mainly from state and local municipalities for work to be done on a cost-share

basis, \$41.8 million is maintained to fund contingent liabilities arising from casualty losses, \$27 million in deposit fund and clearing account liabilities. Other Liabilities (Not Covered) includes \$44.7 million in offsets to receivables that will be returned to Treasury when collected, \$1.7 million in deferred credit for long term receivable for hydraulic mining, and .6 million in Disbursing Officer's cash.

Note 12. Accounts Payable

| As of September 30, (Amounts in thousands) | 2001 | | | 2000 |
|--|------------------|--|-----------|-----------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total | Total |
| 1. Intragovernmental Payables: | \$92,731 | N/A | \$92,731 | \$87,543 |
| 2. Nonfederal Payables (to the Public): | \$505,326 | \$0 | \$505,326 | \$585,937 |
| 3. Total | \$598,057 | \$0 | \$598,057 | \$673,480 |

4. Other Information:

The Corps has no known delinquent accounts payable, therefore no amount is reported for interest, penalties, and administrative fees. During FY 2001, the Corps paid \$497 thousand in interest, from Civil Works appropriations, on payments of \$3.5 billion subject to the Prompt Payment Act (.014%).

An adjustment of \$161.1 million was made to Nonfederal Payables due to subsequent audit findings that accruals had been recorded in the incorrect period.

Note 13. Debt

| As of September 30 (Amounts in thousands) | 2001 | | | 2000 |
|--|-------------------|----------------|----------------|----------------|
| | Beginning Balance | Net Borrowings | Ending Balance | Ending Balance |
| 1. Public Debt: | | | | |
| A. Held by Government Accounts | N/A | N/A | N/A | N/A |
| B. Held by the Public | N/A | N/A | N/A | N/A |
| C. Total Public Debt | N/A | N/A | N/A | N/A |
| 2. Agency Debt: | | | | |
| A. Debt to the Treasury | \$18,490 | \$12,022 | \$30,512 | \$18,212 |
| B. Debt to the Federal Financing Bank | 0 | 0 | 0 | 0 |
| C. Debt to Other Federal Agencies | 0 | 0 | 0 | 0 |
| D. Total Agency Debt | \$18,490 | \$12,022 | \$30,512 | \$18,212 |
| 3. Total Debt: | \$18,490 | \$12,022 | \$30,512 | \$18,212 |
| 4. Classification of Debt: | | | | |
| A. Intragovernmental Debt | | | \$30,512 | \$18,212 |
| B. Nonfederal Debt | | | N/A | N/A |
| C. Total Debt | | | \$30,512 | \$18,212 |

5. Other Information:

During fiscal years 1997, 1998, and 1999, the Corps of Engineers executed three promissory notes totaling \$75 million with the Department of the Treasury. Funds provided were used for capital improvements to the Washington Aqueduct. Funding to repay the debt is provided by Arlington County and Falls Church, Virginia, and the District of Columbia. Actual drawdown of funds has been made from the Treasury in the amount of \$63.1 million. Principal repayments as of September 30, 2001 total \$33.3 million. \$692,425.43 represents accrued interest payable at September 30, 2001.

During fiscal year 2001, actual drawdown of funds from the Treasury totals \$20.2 million. Principal repayments during fiscal year 2001 total \$8 million.

Note 14. Environmental Liabilities and Environmental Disposal Liabilities

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 15.A. Other Liabilities

| As of September 30, (Amounts in thousands) | 2001 | | | 2000 |
|---|-------------------|----------------------|--------------------|--------------------|
| | Current Liability | Noncurrent Liability | Total | Total |
| 1. Intragovernmental: | | | | |
| A. Advances from Others | \$21,490 | \$0 | \$21,490 | \$24,072 |
| B. Deferred Credits | 0 | 991,343 | 991,343 | 1,015,762 |
| C. Deposit Funds and Suspense Account Liabilities | 0 | 0 | 0 | 0 |
| D. Resources Payable to Treasury | 0 | 0 | 0 | 0 |
| E. Disbursing Officer Cash | 649 | 0 | 649 | 965 |
| F. Nonenvironmental Disposal Liabilities: | | | | |
| (1) ND PP&E (Nonnuclear) | 0 | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 0 | 0 | 0 | 0 |
| (3) Conventional Munitions Disposal | 0 | 0 | 0 | 0 |
| (4) Other | 0 | 0 | 0 | 0 |
| G. Accounts Payable-- Cancelled Appropriations | 0 | 0 | 0 | 0 |
| H. Judgement Fund Liabilities | 103,618 | 0 | 103,618 | 12,637 |
| I. FECA Reimbursement to the Department of Labor | 16,624 | 23,554 | 40,178 | 43,601 |
| J. Capital Lease Liability | 0 | 0 | 0 | 0 |
| K. Other Liabilities | 10,039 | 0 | 10,039 | 69,293 |
| L. Total Intragovernmental Other Liabilities | \$152,420 | \$1,014,897 | \$1,167,317 | \$1,166,330 |
| 2. Nonfederal: | | | | |
| A. Accrued Funded Payroll and Benefits | \$353,707 | \$0 | \$353,707 | \$322,324 |
| B. Advances from Other | 77,527 | 0 | 77,527 | 74,670 |
| C. Deferred Credits | 6 | 0 | 6 | 0 |
| D. Loan Guarantee Liability | 0 | 0 | 0 | 0 |
| E. Liability for Subsidy Related to Undisbursed Loans | 0 | 0 | 0 | 0 |
| F. Deposit Funds and Suspense Accounts | 27,010 | 0 | 27,010 | 23,199 |
| G. Temporary Early Retirement Authority | 0 | 0 | 0 | 0 |
| H. Nonenvironmental Disposal Liabilities: | | | | |
| (1) ND PP&E (Nonnuclear) | 0 | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 0 | 0 | 0 | 0 |
| (3) Conventional Munitions Disposal | 0 | 0 | 0 | 0 |
| (4) Other | 0 | 0 | 0 | 0 |
| I. Accounts Payable--Cancelled Appropriations | 0 | 0 | 0 | 0 |
| J. Accrued Unfunded Annual Leave | 0 | 0 | 0 | 0 |
| K. Accrued Entitlement Benefits for Military Retirees and Survivors | 0 | 0 | 0 | 0 |
| L. Capital Lease Liability | 0 | 0 | 0 | 0 |
| M. Other Liabilities | 118,272 | 0 | 118,272 | 77,641 |
| N. Total Nonfederal Other Liabilities | \$576,522 | \$0 | \$576,522 | \$497,834 |
| 3. Total Other Liabilities: | \$728,942 | \$1,014,897 | \$1,743,839 | \$1,664,164 |
| 4. Other Information Pertaining to Other Liabilities: | | | | |

Line 1B - Deferred credits represent future revenue from long term receivables recorded for water storage contracts and hydraulic mining.

Line 1H - Judgment Fund Liabilities. The Corps of Engineers Civil Works Directorate has recognized 22 unfunded liabilities arising from Judgment Fund Contract Disputes Act settlement in accordance with the interpretation of Federal Financial Accounting Standards Number 2, Accounting for Treasury Judgment Fund Transactions. The Corps included \$80.07 million in the FY03 Energy and Water Development Act Budget Submission. Congress has included specific language instructing the Corps not to use appropriated funds to repay Judgment Fund liabilities. The Corps did not request the entire \$103.61 million in the FY03 budget due to the fact that we have several Judgment Fund liabilities valued at \$23.54 million which were associated with reimbursable work for local sponsors and these customers need to find appropriate funding. Until this is accomplished, the Corps will report these liabilities.

Liabilities for outstanding Judgment Fund claims include information for prior years provided by our POC at Army Headquarters. This information did not include all outstanding judgment fund claims paid during this fiscal year. Based on information from the Judgment Fund's website, treasury paid claims totaling \$10 million for the Corps in FY01. We determined that this amount included \$4.5 million for military claims based on information provided by Army Headquarters. We could not determine if any portion of the remaining amount, \$5.5 million, applied to civil works projects due to a lack of information.

Line 1I - FECA Reimbursement to the Department of Labor. Workman's Compensation costs reflect cost incurred for income lost and medical costs for federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The costs are paid from the Federal Employees' Compensation Act (FECA). Fiscal year 2002 costs are reflected as a non-current liability.

Line 1K - Other Liabilities. This includes \$.5 million for Uncollected Custodial Liability, \$9.5 million in Employer Contributions and Payroll Taxes, of which \$.28 million is the Voluntary Separation Incentive Program (VSIP) liability.

Line 2B - Advances from Others. \$77.5 million is for contributed funds, mainly from state and local municipalities for work to be done on a cost-share basis.

Line 2M - Other Liabilities. \$41.8 million is maintained to fund contingent liabilities arising from casualty losses. Other public current liabilities include \$43 million in contract holdbacks on construction-in-progress payments and \$44.7 million in uncollected liability.

Note 15.B. Capital Lease Liability

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 16. Commitments and Contingencies

Proprietary contingencies are commonly referred to as contingent liabilities. The Corps of Engineers has twenty-eight cases, in which the relief requested is \$5.35 million or more, that are pending litigation. The Corps' Legal Counsel is of the opinion that it is "reasonably possible" that the outcome of the litigation will result in a loss. Since these cases fail to satisfy the criteria to record a contingent liability in accordance with the Federal Financial Accounting Standard Number 5, Accounting for Liabilities of the Federal Government, no amount is included in our financial statements.

Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

The Actuarial Liability for Federal Employees' Compensation Act (FECA) is not included. The Department of Labor is unable to furnish a figure for FECA liability specific to the Corps of Engineers.

Note 18. Unexpended AppropriationsAs of September 30,
(Amounts in Thousands)

| | 2001 | 2000 |
|--------------------------------------|--------------------|--------------------|
| 1. Unexpended Appropriations: | | |
| A. Unobligated, Available | \$747,093 | \$663,784 |
| B. Unobligated, Unavailable | 489 | 3,481 |
| C. Unexpended Obligations | 467,319 | 337,374 |
| D. Total Unexpended Appropriations | <u>\$1,214,901</u> | <u>\$1,004,639</u> |

2. Other Information Pertaining to Unexpended Appropriations:

Unexpended appropriations are the amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Unexpended obligations represent those goods and services that have not yet been received/performed.

Note 19.A. General Disclosures Related to the Statement of Net Cost

The amounts presented in the Statement of Net Cost reflect accrued costs. The Corps of Engineers records transactions on an accrual basis as required by the Statement of Federal Financial Accounting Standards.

Note 19.B. Gross Cost and Earned Revenue by Budget Functional Classification

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.C. Gross Cost to Generate Intragovernmental Revenue and Earned Revenue (Transactions with Other Federal-Non-DoD-Entities) by Budget Functional Classification

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.D. Imputed ExpensesAs of September 30,
(Amount in thousands)

| | 2001 | 2000 |
|---|------------------|------------------|
| 1. Civilian (e.g., CSRS/FERS) Retirement | \$80,620 | \$72,438 |
| 2. Civilian Health | 99,996 | 93,608 |
| 3. Civilian Life Insurance | 344 | 418 |
| 4. Military Retirement Pension | 0 | 0 |
| 5. Military Retirement Health | 0 | 0 |
| 6. Judgment Fund/Litigation | 30,635 | 0 |
| 7. Total Imputed Expenses | <u>\$211,595</u> | <u>\$166,464</u> |

OPM administers three earned benefit programs for civilian Federal employees: the Retirement Program - comprised of the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS); the Federal Employees Health Benefits program (FEHB); and the Federal Employees Group Life Insurance Program (FGLI).

Imputed financing in the amount of \$181 million was recorded for retirement, health and life insurance benefits for civilian Federal employees. Imputed financing also included \$5.1 million for power plant fees paid to states as compensation for "lost" property taxes on federally leased land leased to others and \$25.5 million for Judgment Fund liabilities for which the Corps is not responsible for reimbursement to the Department of the Treasury. This information was obtained from Treasury's Judgment Fund website.

Note 19.E. Benefit Program Expenses

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.F. Exchange Revenue

Goods and services provided through reimbursable programs to the public or another U. S. Government entity (Intra-Corps, Intra-DoD, or other federal government entity) are provided at cost. Such reimbursable sales are reported as earned revenues. Costs are equal to the amount reported as earned.

Note 19.G. Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.H. Stewardship Assets

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 19.I. Intragovernmental Revenue and Expense

The Corps of Engineers Financial Management System (CEFMS) captures trading partner data at the transaction level in a manner that facilitates trading partner reconciliation and elimination entries.

Note 19.J. Suborganization Program Costs

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 20. Disclosures Related to the Statement of Changes in Net Position

As of September 30,
(Amounts in thousands)

| | 2001 | 2000 |
|---|-----------|-----------|
| 1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance: | | |
| A. Changes in Accounting Standards | \$0 | \$0 |
| B. Errors and Omissions in Prior Year Accounting Reports | (846,197) | 360,236 |
| C. Other Prior Period Adjustments | 67 | 0 |
| D. Total Prior Period Adjustments | (846,130) | \$360,236 |
| 2. Imputed Financing: | | |
| A. Civilian CSRS/FERS Retirement | \$80,620 | \$72,438 |
| B. Civilian Health | 99,996 | 93,608 |
| C. Civilian Life Insurance | 344 | 418 |
| D. Military Retirement Pension | 0 | 0 |
| E. Military Retirement Health | 0 | 0 |
| F. Judgement Fund/Litigation | 30,635 | 0 |
| G. Total Imputed Financing | \$211,595 | \$166,464 |

3. Other Information:

Taxes and Other Nonexchange Revenue include \$834.3 million in tax collections deposited into the trust fund accounts. \$112.7 million was derived from excise taxes and was deposited into the Inland Waterways Trust Fund. \$721.6 million was collected and deposited into The Harbor Maintenance Trust Fund reported tax collections totaling \$721.6 million. These taxes were derived from:

| | |
|----------------------|----------------|
| Tax on Domestics | \$39.3 million |
| Tax on Exports | 2.5 million |
| Tax on Foreign Trade | 86.3 million |
| Tax on Imports | 583.2 million |
| Tax on Passengers | 10.3 million |

Transfers in include \$23 million transferred into the San Gabriel Restoration Fund and \$10 million transferred into the South Dakota Terrestrial Wildlife Restoration Trust Fund. Also included is \$288 million in budget authority which was transferred into the Coastal Wetlands Restoration Trust Fund from the Aquatic Resources Trust Fund. Transfers in also include \$9.6 million from the Bonneville Power Administration.

Transfers out to other government agencies include \$7.3 million to the Department of the Interior, \$3 million to the Customs Department, \$13 million to the Saint Lawrence Seaway Development Corporation, \$40 thousand to the Department of Transportation, \$22 thousand to the Tennessee Valley Authority, \$59 thousand to General Services Administration and \$350.7 thousand to the Department of Defense.

Prior period adjustments were made as follows:

A \$20 million increase was made to recognize a receivable prior to the SF 1151 Nonexpenditure Transfer Authorization of Inland Waterways authority. In contrast with other Federal nonexpenditure transfers, transfers between trust fund corpus accounts and agency allocation accounts require different accounting and reporting treatment. To maintain sound cash management principles, funds remain invested until needed for disbursement to maximize the interest earned on investments. Since the Treasury's Bureau of Public Debt (PBD) performs the investment function for the Inland Waterways Trust Fund and the Corps of Engineers performs the obligation and disbursement function, a budgetary mechanism is needed to transfer the budget authority prior to actually transferring the funds. This mechanism results in a receivable recorded by the Corps and a payable recorded by PBD. The guidance for recording this authority is contained in the Federal Trust Fund Accounting Guide, Scenario V, Treasury-Managed Trust Fund Allocation Accounts.

A \$36 million increase was made to record the results of operations in the Coastal Wetlands Restoration Trust Fund account. This account is a transfer out of the Aquatic Resources trust fund and has not previously been reported by the USACE. Therefore, the adjustment was necessary to establish the beginning balance in results of operations for prior fiscal years.

A \$17 million decrease was recorded in the trust fund accounts to transfer amounts previously reported as unexpended into results of operations. The adjustment was based upon guidance contained in the Federal Trust Fund Accounting Guide released by the Department of the Treasury in June 2001. Since trust funds do not receive Treasury appropriation warrants but consist predominantly of tax receipts, customs duties, fines and penalties, these funds should not use the account to record Unexpended Appropriations.

A \$57 million decrease was recorded to adjust the value of land, buildings and structures awaiting disposal. Of this amount, \$51 million was erroneously reflected as assets awaiting disposal at the Los Angeles District. Costs that should have been expensed were incorrectly capitalized during conversion of automated financial systems in fiscal year 1998. The remaining \$6 million adjustment was made to reflect assets awaiting disposal at the net realizable value. Upon retirement of an asset, CEFMS records the asset at its net book value. In accordance with OSD policy, the book value has been restated to net realizable value.

A \$317 million decrease to results of operations was recorded to recognize previously unrecorded depreciation expense. An additional audit recommended adjustment was made for \$358 million due to understatements of accumulated depreciation for prior periods.

A \$44 million decrease was made as a result of an audit finding that the value of buildings and structures was overstated.

Cost transfers to/from Construction-in-Progress (CIP) and expenses resulted in a \$35 million decrease to results of operations. Other decreases in the amount of \$55 million related to asset reconciliation efforts between the general ledger account balances and property records.

Finally, a net decrease of \$19 was recorded by the Savannah District to recognize the CIP associated with the enjoined project for the Richard Russell pump storage project. The FY 00 financial statements included a \$477 million adjustment to recognize this asset. During FY 01, the Savannah District recorded a \$458 million prior period adjustment through a journal voucher entry into their CEFMS database. The net adjustment to remove the duplicate recording was \$19 million.

Imputed financing reported on Line 2F includes \$5.1 million for power plant fees paid to states as compensation for "lost" property taxes on federally leased land leased to others. Line 2F also includes \$25.5 million for Judgment Fund liabilities for which the Corps is not responsible for reimbursement to the Department of the Treasury.

Note 21.A. Disclosures Related to the Statement of Budgetary Resources

| As of September 30, (Amounts in thousands) | 2001 | 2000 |
|---|-------------|-------------|
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | \$1,412,416 | \$1,142,720 |
| 2. Available Borrowing and Contract Authority at the End of the Period | \$42,167 | \$26,781 |

3. Other Information:

Intra-Corps transactions have not been eliminated because the Statement of Budgetary Resources is presented as combined and combining.

Borrowing authority is for capital improvements to the Washington Aqueduct. Funding to repay the debt is provided by Arlington County, Virginia, Falls Church, Virginia, and the District of Columbia.

Unobligated Balance Beginning of Period differs from Unobligated Balance Available and Unavailable at FY 2000 yearend. Adjustments were made at FY 2000 yearend to reconcile Funds Balance with Treasury. Databases were corrected in FY 2001 to reflect what the correct ending balance was at FY 2000 yearend. The Beginning Balance includes an amount for Coastal Wetlands Restoration Trust Fund, which was not reported last year.

Obligated Balance Beginning of Period differs from Obligated Balance End of Period FY 2000. Beginning Balance includes an amount for the Coastal Wetlands Restoration Trust Fund, which was not reported last year.

Note 21.B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

| As of September 30, (Amounts in thousands) | 2000 | 2001 | Cumulative(Decrease)/ Increase |
|--|----------|----------|-----------------------------------|
| 1. Problem Disbursements | \$0 | \$0 | \$0 |
| 2. In-transit Disbursements, Net | \$0 | \$0 | \$0 |
| 3. Other Information Related to Problem Disbursements and In-transit Disbursements: | | | |
| 4. Suspense/Budget Clearing Accounts | | | |
| Account | Sep 2000 | Sep 2001 | (Decrease)/Increase |
| F3875 | \$17,909 | \$17,422 | (\$487) |
| F3880 | (5) | (5) | 0 |
| Total | \$17,904 | \$17,417 | (\$487) |

F3875 includes a portion of receipts from leases of land to the public for flood control, navigation and allied purposes. The portion of lease receipts when the term of the lease extends into fiscal year 2002 is collected into F3875. The collections are transferred out in the year following collection. Also included are receivables of \$188 thousand that pertain to the leases of land.

F3875 includes a \$13 million disputed collection on a water storage contract at Tulsa District

Note 22. Disclosures Related to the Statement of Financing

Transfers to other government agencies include \$7.3 million to the Department of the Interior, \$40 thousand to the Department of Transportation, \$22 thousand to the Department of Agriculture, \$70 thousand to the Tennessee Valley Authority, \$59 thousand to General Services Administration, and \$357.7 thousand to the Department of Defense.

Transfers in from other government agencies include \$9.6 million from the Department of Energy.

Note 23. Disclosures Related to the Statement of Custodial Activity

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 24. Other Disclosures

Not Applicable to the Corps of Engineers, Civil Works Fund

Note 24.A. Other Disclosures

Not Applicable to the Corps of Engineers, Civil Works Fund

Consolidating Balance Sheet

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • (\$ in thousands)

| | Special Funds | Trust Funds | Transfer Funds | Borrowing Authority |
|--|-----------------|--------------------|------------------|---------------------|
| 1. ASSETS (Note 2) | | | | |
| A. Intragovernmental: | | | | |
| 1. Fund Balance with Treasury (Note 3) | \$24,537 | \$11,129 | \$56,434 | \$4,457 |
| 2. Investments (Note 4) | 0 | 2,255,539 | 0 | 0 |
| 3. Accounts Receivable (Note 5) | 0 | 285,534 | 3 | 0 |
| 4. Other Assets (Note 6) | 0 | 0 | 0 | 0 |
| 5. Total Intragovernmental Assets | <u>\$24,537</u> | <u>\$2,552,202</u> | <u>\$56,437</u> | <u>\$4,457</u> |
| B. Cash and Other Monetary Assets (Note 7) | \$0 | \$0 | \$0 | \$0 |
| C. Accounts Receivable (Note 5) | 2,255 | 0 | 0 | 0 |
| D. Loans Receivable (Note 8) | 0 | 0 | 0 | 0 |
| E. Inventory and Related Property (Note 9) | 0 | 0 | 0 | 0 |
| F. General Property, Plant and Equipment (Note 10) | 1,996 | 632,367 | 133,215 | 55,024 |
| G. Other Assets (Note 6) | 0 | 0 | 0 | 0 |
| 2. TOTAL ASSETS | <u>\$28,788</u> | <u>\$3,184,569</u> | <u>\$189,652</u> | <u>\$59,481</u> |
| 3. LIABILITIES (Note 11) | | | | |
| A. Intragovernmental: | | | | |
| 1. Accounts Payable (Note 12) | \$135 | \$4,098 | \$1,680 | \$0 |
| 2. Debt (Note 13) | 0 | 0 | 0 | 30,512 |
| 3. Environmental Liabilities (Note 14) | 0 | 0 | 0 | 0 |
| 4. Other Liabilities (Note 15 & Note 16) | 2,262 | 5,999 | 0 | 0 |
| 5. Total Intragovernmental Liabilities | <u>\$2,397</u> | <u>\$10,097</u> | <u>\$1,680</u> | <u>\$30,512</u> |
| B. Accounts Payable (Note 12) | \$3,044 | \$16,053 | \$4,994 | \$0 |
| C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17) | 0 | 0 | 0 | 0 |
| D. Environmental Liabilities (Note 14) | 0 | 0 | 0 | 0 |
| E. Loan Guarantee Liability (Note 8) | 0 | 0 | 0 | 0 |
| F. Other Liabilities (Note 15 and Note 16) | 4 | 1,238 | 525 | 50 |
| 4. TOTAL LIABILITIES | <u>\$5,445</u> | <u>\$27,388</u> | <u>\$7,199</u> | <u>\$30,562</u> |
| 5. NET POSITION | | | | |
| A. Unexpended Appropriations (Note 18) | (\$1,536) | \$0 | \$54,303 | \$15,436 |
| B. Cumulative Results of Operations | 24,879 | 3,157,181 | 128,150 | 13,483 |
| 6. TOTAL NET POSITION | <u>\$23,343</u> | <u>\$3,157,181</u> | <u>\$182,453</u> | <u>\$28,919</u> |
| 7. TOTAL LIABILITIES AND NET POSITION | <u>\$28,788</u> | <u>\$3,184,569</u> | <u>\$189,652</u> | <u>\$59,481</u> |

Consolidating Balance Sheet

*Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • (\$ in thousands)*

| | Revolving Funds | Contributed Funds | General Funds | FUSRAP |
|--|-----------------|-------------------|---------------|----------|
| 1. ASSETS (Note 2) | | | | |
| A. Intragovernmental: | | | | |
| 1. Fund Balance with Treasury (Note 3) | \$849,577 | \$298,724 | \$1,251,821 | \$41,311 |
| 2. Investments (Note 4) | 0 | 0 | 0 | 0 |
| 3. Accounts Receivable (Note 5) | 7,791 | 1 | 183,212 | 0 |
| 4. Other Assets (Note 6) | 0 | 0 | 0 | 0 |
| 5. Total Intragovernmental Assets | \$857,368 | \$298,725 | \$1,435,033 | \$41,311 |
| B. Cash and Other Monetary Assets (Note 7) | \$0 | \$0 | \$3,990 | \$0 |
| C. Accounts Receivable (Note 5) | 1,163 | 0 | 1,024,870 | 0 |
| D. Loans Receivable (Note 8) | 0 | 0 | 0 | 0 |
| E. Inventory and Related Property (Note 9) | 39,252 | 0 | 15,467 | 0 |
| F. General Property, Plant and Equipment (Note 10) | 881,559 | 767,561 | 32,346,539 | 20 |
| G. Other Assets (Note 6)0 | 42 | 0 | 16,148 | 0 |
| 2. TOTAL ASSETS | \$1,779,384 | \$1,066,286 | \$34,842,047 | \$41,331 |
| 3. LIABILITIES (Note 11) | | | | |
| A. Intragovernmental: | | | | |
| 1. Accounts Payable (Note 12) | \$52,688 | \$607 | \$33,310 | \$213 |
| 2. Debt (Note 13) | 0 | 0 | 0 | 0 |
| 3. Environmental Liabilities (Note 14)0 | 0 | 0 | 0 | 0 |
| 4. Other Liabilities (Note 15 & Note 16) | 9,658 | 1,171 | 1,148,227 | 0 |
| 5. Total Intragovernmental Liabilities | \$62,346 | \$1,778 | \$1,181,537 | \$213 |
| B. Accounts Payable (Note 12) | \$45,039 | \$11,785 | \$398,707 | \$25,704 |
| C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17) | 0 | 0 | 0 | 0 |
| D. Environmental Liabilities (Note 14) | 0 | 0 | 0 | 0 |
| E. Loan Guarantee Liability (Note 8) | 0 | 0 | 0 | 0 |
| F. Other Liabilities (Note 15 and Note 16) | 418,070 | 3,280 | 153,078 | 277 |
| 4. TOTAL LIABILITIES | \$525,455 | \$16,843 | \$1,733,322 | \$26,194 |
| 5. NET POSITION | | | | |
| A. Unexpended Appropriations (Note 18) | \$0 | \$283,052 | \$848,529 | \$15,117 |
| B. Cumulative Results of Operations | 1,253,929 | 766,391 | 32,260,196 | 20 |
| 6. TOTAL NET POSITION | \$1,253,929 | \$1,049,443 | \$33,108,725 | \$15,137 |
| 7. TOTAL LIABILITIES AND NET POSITION | \$1,779,384 | \$1,066,286 | \$34,842,047 | \$41,331 |

United States Army Annual Financial Statement Fiscal Year 2001

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2001 • (\$ in thousands)

| | 2001 Combined | Eliminations | 2001 Consolidated | 2000 Consolidated |
|--|---------------------|--------------|---------------------|---------------------|
| 1. ASSETS (Note 2) | | | | |
| A. Intragovernmental: | | | | |
| 1. Fund Balance with Treasury (Note 3) | \$2,537,990 | \$0 | \$2,537,990 | \$2,404,315 |
| 2. Investments (Note 4) | 2,255,539 | 2,255,539 | 2,075,561 | |
| 3. Accounts Receivable (Note 5) | 476,541 | 0 | 476,541 | 151,301 |
| 4. Other Assets (Note 6) | 0 | 0 | 0 | 0 |
| 5. Total Intragovernmental Assets | \$5,270,070 | \$0 | \$5,270,070 | \$4,631,177 |
| B. Cash and Other Monetary Assets (Note 7) | \$3,990 | \$0 | \$3,990 | \$965 |
| C. Accounts Receivable (Note 5) | 1,028,288 | 0 | 1,028,288 | 1,050,363 |
| D. Loans Receivable (Note 8) | 0 | 0 | 0 | 0 |
| E. Inventory and Related Property (Note 9) | 54,719 | 0 | 54,719 | 59,469 |
| F. General Property, Plant and Equipment (Note 10) | 34,818,281 | 0 | 34,818,281 | 34,538,092 |
| G. Other Assets (Note 6) | 16,190 | 0 | 16,190 | 79,891 |
| 2. TOTAL ASSETS | \$41,191,538 | \$0 | \$41,191,538 | \$40,359,957 |
| 3. LIABILITIES (Note 11) | | | | |
| A. Intragovernmental: | | | | |
| 1. Accounts Payable (Note 12) | \$92,731 | \$0 | \$92,727 | \$87,540 |
| 2. Debt (Note 13) | 30,512 | 0 | 30,512 | 18,212 |
| 3. Environmental Liabilities (Note 14) | 0 | 0 | 0 | 0 |
| 4. Other Liabilities (Note 15 & Note 16) | 1,167,317 | 0 | 1,167,318 | 1,166,330 |
| 5. Total Intragovernmental Liabilities | \$1,290,560 | \$0 | \$1,290,557 | \$1,272,082 |
| B. Accounts Payable (Note 12) | \$505,326 | \$0 | \$505,328 | \$585,938 |
| C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17) | 0 | 0 | 0 | 0 |
| D. Environmental Liabilities (Note 14) | 0 | 0 | 0 | 0 |
| E. Loan Guarantee Liability (Note 8) | 0 | 0 | 0 | 0 |
| F. Other Liabilities (Note 15 and Note 16) | 576,522 | 0 | 576,523 | 497,833 |
| 4. TOTAL LIABILITIES | \$2,372,408 | \$0 | \$2,372,408 | \$2,355,853 |
| 5. NET POSITION | | | | |
| A. Unexpended Appropriations (Note 18) | \$1,214,901 | \$0 | \$1,214,901 | \$1,004,640 |
| B. Cumulative Results of Operations | 37,604,229 | 0 | 37,604,229 | 36,999,464 |
| 6. TOTAL NET POSITION | \$38,819,130 | \$0 | \$38,819,130 | \$38,004,104 |
| 7. TOTAL LIABILITIES AND NET POSITION | \$41,191,538 | \$0 | \$41,191,538 | \$40,359,957 |

Consolidating Statement of Net Cost

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | 2001 Combined | Eliminations | 2001 Consolidated | 2000 Consolidated |
|--------------------------------|---------------|--------------|-------------------|-------------------|
| 1. Program Costs | | | | |
| A. Borrowing Authority | | | | |
| 1. Intragovernmental | \$1,311 | \$0 | \$1,311 | \$1,135 |
| 2. With the Public | 8,239 | 0 | 8,239 | 16,086 |
| 3. Total Program Cost | \$9,550 | \$0 | \$9,550 | \$17,221 |
| 4. (Less: Earned Revenue) | (8,971) | 0 | (8,971) | (16,612) |
| 5. Net Program Costs | \$579 | \$0 | \$579 | \$609 |
| B. Contributed Fund | | | | |
| 1. Intragovernmental | \$6,486 | (\$5,390) | \$1,096 | \$550 |
| 2. With the Public | 139,174 | 0 | 139,174 | 119,239 |
| 3. Total Program Cost | \$145,660 | (\$5,390) | \$140,270 | \$119,789 |
| 4. (Less: Earned Revenue) | 1,165 | 0 | 1,165 | 0 |
| 5. Net Program Costs | \$146,825 | (\$5,390) | \$141,435 | \$119,789 |
| C. FUSRAP | | | | |
| 1. Intragovernmental | \$26,208 | (\$25,733) | \$475 | \$211 |
| 2. With the Public | 151,840 | 0 | 151,840 | 131,991 |
| 3. Total Program Cost | \$178,048 | (\$25,733) | \$152,315 | \$132,202 |
| 4. (Less: Earned Revenue) | 0 | 0 | 0 | (20,000) |
| 5. Net Program Costs | \$178,048 | (\$25,733) | \$152,315 | \$112,202 |
| D. General Funds | | | | |
| 1. Intragovernmental | \$127,493 | (\$5,507) | \$121,986 | \$57,824 |
| 2. With the Public | 3,448,065 | 0 | 3,448,065 | 3,060,358 |
| 3. Total Program Cost | \$3,575,558 | (\$5,507) | \$3,570,051 | \$3,118,182 |
| 4. (Less: Earned Revenue) | (475,218) | 36,593 | (438,625) | (486,407) |
| 5. Net Program Costs | \$3,100,340 | \$31,086 | \$3,131,426 | \$2,631,775 |
| E. Revolving Funds | | | | |
| 1. Intragovernmental | \$887,835 | (\$325) | \$887,510 | \$492,308 |
| 2. With the Public | (660,624) | 0 | (660,624) | (294,504) |
| 3. Total Program Cost | \$227,211 | (\$325) | \$226,886 | \$197,804 |
| 4. (Less: Earned Revenue) | (53,683) | 5,864 | (47,819) | (52,274) |
| 5. Net Program Costs | \$173,528 | \$5,539 | \$179,067 | \$145,530 |
| F. Special Funds | | | | |
| 1. Intragovernmental | \$73 | (\$69) | \$4 | \$0 |
| 2. With the Public | 16,037 | 0 | 16,037 | 14,734 |
| 3. Total Program Cost | \$16,110 | (\$69) | \$16,041 | \$14,734 |
| 4. (Less: Earned Revenue) | (1) | 0 | (1) | 0 |
| 5. Net Program Costs | \$16,109 | (\$69) | \$16,040 | \$14,734 |
| G. Transfer Funds | | | | |
| 1. Intragovernmental | \$3,255 | (\$3,187) | \$68 | \$738 |
| 2. With the Public | 14,580 | 0 | 14,580 | 4,295 |
| 3. Total Program Cost | \$17,835 | (\$3,187) | \$14,648 | \$5,033 |
| 4. (Less: Earned Revenue) | 0 | 0 | 0 | 0 |
| 5. Net Program Costs | \$17,835 | (\$3,187) | \$14,648 | \$5,033 |
| See Note 1 and Note 19. | | | | |

Consolidating Statement of Net Cost

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)

| | 2001 Combined | Eliminations | 2001 Consolidated | 2000 Consolidated |
|---|---------------|--------------|-------------------|-------------------|
| H. Trust Funds | | | | |
| 1. Intragovernmental | \$4,346 | (\$2,246) | \$2,100 | \$142 |
| 2. With the Public | 651,370 | 0 | 651,370 | 730,756 |
| 3. Total Program Cost | \$655,716 | (\$2,246) | \$653,470 | \$730,898 |
| 4. (Less: Earned Revenue) | 0 | 0 | 0 | (103,056) |
| 5. Net Program Costs | \$655,716 | (\$2,246) | \$653,470 | \$627,842 |
| I. Total Program Costs | | | | |
| 1. Intragovernmental | \$1,057,007 | (\$42,457) | \$1,014,550 | \$552,908 |
| 2. With the Public | 3,768,681 | 0 | 3,768,681 | 3,782,955 |
| 3. Total Program Cost | \$4,825,688 | (\$42,457) | \$4,783,231 | \$4,335,863 |
| 4. (Less: Earned Revenue) | (536,708) | 42,457 | (494,251) | (678,349) |
| 5. Net Program Costs | \$4,288,980 | \$0 | \$4,288,980 | \$3,657,514 |
| 2. Costs Not Assigned to Programs | \$0 | \$0 | \$0 | \$0 |
| 3. (Less: Earned Revenue not attributable to Programs) | 0 | 0 | 0 | 0 |
| 4. Net Costs of Operations | \$4,288,980 | \$0 | \$4,288,980 | \$3,657,514 |

See Note 1 and Note 19.

Consolidating Statement of Changes in Net Position

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | Special Funds | Trust Funds | Transfer Funds | Borrowing Authority |
|--|---------------|-------------|----------------|------------------------|
| 1. Net Cost of Operations | \$16,109 | \$655,716 | \$17,835 | \$579 |
| 2. Financing Sources (other than exchange revenues) | | | | |
| A. Appropriations Used | 16,556 | 633 | 37,052 | (1,631) |
| B. Taxes and Other Nonexchange Revenue | 0 | 945,870 | 0 | 8,045 |
| C. Donations - Nonexchange Revenue | 0 | 0 | 0 | 0 |
| D. Imputed Financing (Note 20) | 0 | 0 | 0 | 0 |
| E. Transfers - in | 22,890 | 1,052,143 | 8,496 | 0 |
| F. Transfers - out | (685) | (781,527) | (2,971) | 0 |
| G. Other | 0 | 0 | 1 | 0 |
| H. Total Financing Sources (other than Exchange Revenues) | \$38,761 | \$1,217,119 | \$42,578 | \$6,414 |
| 3. Net Results of Operations | \$22,652 | \$561,403 | \$24,743 | \$5,835 |
| 4. Prior Period Adjustments (Note 20) | 14 | 49,296 | (444) | 0 |
| 5. Net Change in Cumulative Results of Operations | \$22,666 | \$610,699 | \$24,299 | \$5,835 |
| 6. Increase (Decrease) in Unexpended Appropriations | (1,897) | 10,759 | 37,443 | 2,217 |
| 7. Change in Net Position | \$20,769 | \$621,458 | \$61,742 | \$8,052 |
| 8. Net Position-Beginning of the Period | 2,573 | 2,535,721 | 120,711 | 20,866 |
| 9. Net Position-End of the Period | \$23,342 | \$3,157,179 | \$182,453 | \$28,918 |

See Note 1 and Note 20.

Consolidating Statement of Changes in Net Position

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)

| | Revolving Funds | Contributed Funds | General Funds | FUSRAP |
|--|-----------------|-------------------|---------------|------------|
| 1. Net Cost of Operations | \$173,528 | \$146,825 | \$3,100,340 | \$178,048 |
| 2. Financing Sources (other than exchange revenues) | | | | |
| A. Appropriations Used | 11,874 | 300,679 | 3,766,875 | 178,048 |
| B. Taxes and Other Nonexchange Revenue | 0 | 0 | (34,114) | 0 |
| C. Donations - Nonexchange Revenue | 5 | 0 | 270 | 0 |
| D. Imputed Financing (Note 20) | 180,960 | 0 | 30,635 | 0 |
| E. Transfers - in | 29 | 43 | 16,520 | 0 |
| F. Transfers - out | (287) | 0 | (7,674) | 0 |
| G. Other | 0 | 0 | (8,860) | 0 |
| H. Total Financing Sources (other than Exchange Revenues) | \$192,581 | \$300,722 | \$3,763,652 | \$178,048 |
| 3. Net Results of Operations | \$19,053 | \$153,897 | \$663,312 | \$0 |
| 4. Prior Period Adjustments (Note 20) | (2,361) | 9,062 | (901,696) | 0 |
| 5. Net Change in Cumulative Results of Operations | \$16,692 | \$162,959 | (\$238,384) | \$0 |
| 6. Increase (Decrease) in Unexpended Appropriations | 0 | 12,144 | 187,952 | (38,356) |
| 7. Change in Net Position | \$16,692 | \$175,103 | (\$50,432) | (\$38,356) |
| 8. Net Position-Beginning of the Period | 1,237,237 | 874,341 | 33,159,160 | 53,493 |
| 9. Net Position-End of the Period | \$1,253,929 | \$1,049,444 | \$33,108,728 | \$15,137 |

See Note 1 and Note 20.

Consolidating Statement of Changes in Net Position

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | 2001 Combined | Eliminations | 2001 Consolidated | 2000 Consolidated |
|--|---------------|--------------|-------------------|-------------------|
| 1. Net Cost of Operations | \$4,288,980 | \$0 | \$4,288,980 | \$3,657,514 |
| 2. Financing Sources (other than exchange revenues) | | | | |
| A. Appropriations Used | 4,310,086 | 0 | 4,310,086 | 4,017,634 |
| B. Taxes and Other Nonexchange Revenue | 919,801 | 0 | 919,801 | 800,241 |
| C. Donations - Nonexchange Revenue | 275 | 0 | 275 | 1,362 |
| D. Imputed Financing (Note 20) | 211,595 | 0 | 211,595 | 166,464 |
| E. Transfers - in | 1,100,121 | 15,479 | 1,084,642 | 21,836 |
| F. Transfers - out | (793,144) | (15,479) | (777,665) | (120,682) |
| G. Other | (8,859) | 0 | (8,859) | (647,287) |
| H. Total Financing Sources (other than Exchange Revenues) | \$5,739,875 | \$0 | \$5,739,875 | \$4,239,568 |
| 3. Net Results of Operations | \$1,450,895 | \$0 | \$1,450,895 | \$582,054 |
| 4. Prior Period Adjustments (Note 20) | (846,129) | 0 | (846,129) | 360,235 |
| 5. Net Change in Cumulative Results of Operations | \$604,766 | \$0 | \$604,766 | \$942,289 |
| 6. Increase (Decrease) in Unexpended Appropriations | 210,262 | 0 | 210,262 | (197,777) |
| 7. Change in Net Position | \$815,028 | \$0 | \$815,028 | \$744,512 |
| 8. Net Position-Beginning of the Period | 38,004,102 | 0 | 38,004,102 | 37,259,592 |
| 9. Net Position-End of the Period | \$38,819,130 | \$0 | \$38,819,130 | \$38,004,104 |

See Note 1 and Note 20.

Combining Statement of Budgetary Resources

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)

| | Special Funds | Trust Funds | Transfer Funds | Borrowing Authority |
|---|-----------------|------------------|-----------------|---------------------|
| BUDGETARY RESOURCES | | | | |
| A. Budget Authority | \$14,477 | \$1,042,227 | \$79,637 | \$0 |
| B. Unobligated Balance - Beginning of Period | 192 | (75,845) | 7,328 | 20,491 |
| C. Net Transfers Prior-Year Balance, Actual | 0 | 0 | (491) | 0 |
| D. Spending Authority from Offsetting Collections | 100 | 0 | 44 | 8,971 |
| E. Adjustments | 0 | 0 | 5 | (8,116) |
| F. Total Budgetary Resources | <u>\$14,769</u> | <u>\$966,382</u> | <u>\$86,523</u> | <u>\$21,346</u> |
| STATUS OF BUDGETARY RESOURCES | | | | |
| A. Obligations Incurred | \$14,470 | \$785,577 | \$49,319 | \$17,453 |
| B. Unobligated Balances - Available | 299 | 180,805 | 37,196 | 3,893 |
| C. Unobligated Balances - Not Available | 0 | 0 | 8 | 0 |
| D. Total, Status of Budgetary Resources | <u>\$14,769</u> | <u>\$966,382</u> | <u>\$86,523</u> | <u>\$21,346</u> |
| OUTLAYS | | | | |
| A. Obligations Incurred | \$14,470 | \$785,577 | \$49,319 | \$17,453 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | (100) | 0 | (49) | (8,971) |
| C. Obligated Balance, Net - Beginning of Period | 3,145 | 97,516 | 12,800 | 12,983 |
| D. Obligated Balance Transferred, Net | 0 | 0 | 0 | 0 |
| E. Less: Obligated Balance, Net - End of Period | (1,348) | (109,754) | (24,194) | (12,285) |
| F. Total Outlays | <u>\$16,167</u> | <u>\$773,339</u> | <u>\$37,876</u> | <u>\$9,180</u> |

See Note 1 and Note 21.

Combining Statement of Budgetary Resources

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | Revolving Funds | Contributed Funds | General Funds | FUSRAP |
|---|-----------------|-------------------|---------------|-----------|
| BUDGETARY RESOURCES | | | | |
| A. Budget Authority | \$0 | \$330,838 | \$3,911,413 | \$139,692 |
| B. Unobligated Balance - Beginning of Period | 495,588 | 197,339 | 974,418 | 19,466 |
| C. Net Transfers Prior-Year Balance, Actual | 0 | 0 | 0 | 0 |
| D. Spending Authority from Offsetting Collections | 3,381,281 | 9 | 1,101,442 | 12,902 |
| E. Adjustments | 0 | 0 | (9,434) | 0 |
| F. Total Budgetary Resources | \$3,876,869 | \$528,186 | \$5,977,839 | \$172,060 |
| STATUS OF BUDGETARY RESOURCES | | | | |
| A. Obligations Incurred | \$3,449,055 | \$332,599 | \$4,782,276 | \$168,614 |
| B. Unobligated Balances - Available | 427,814 | 195,587 | 1,195,082 | 3,446 |
| C. Unobligated Balances - Not Available | 0 | 0 | 481 | 0 |
| D. Total, Status of Budgetary Resources | \$3,876,869 | \$528,186 | \$5,977,839 | \$172,060 |
| OUTLAYS | | | | |
| A. Obligations Incurred | \$3,449,055 | \$332,599 | \$4,782,276 | \$168,614 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | (3,381,281) | (9) | (1,101,437) | (12,902) |
| C. Obligated Balance, Net - Beginning of Period | 359,649 | 96,456 | 150,006 | 65,032 |
| D. Obligated Balance Transferred, Net | 0 | 0 | 0 | 0 |
| E. Less: Obligated Balance, Net - End of Period | (421,764) | (103,137) | (33,425) | (37,865) |
| F. Total Outlays | \$5,659 | \$325,909 | \$3,797,420 | \$182,879 |

See Note 1 and Note 21.

Combining Statement of Budgetary Resources

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)

| | <u>2001 Combined</u> | <u>2000 Combined</u> |
|---|----------------------|----------------------|
| BUDGETARY RESOURCES | | |
| A. Budget Authority | \$5,518,284 | \$4,614,169 |
| B. Unobligated Balance - Beginning of Period | 1,638,977 | 2,136,227 |
| C. Net Transfers Prior-Year Balance, Actual | (491) | (1) |
| D. Spending Authority from Offsetting Collections | 4,504,749 | 3,909,101 |
| E. Adjustments | (17,545) | (35,122) |
| F. Total Budgetary Resources | <u>\$11,643,974</u> | <u>\$10,624,374</u> |
| STATUS OF BUDGETARY RESOURCES | | |
| A. Obligations Incurred | \$9,599,363 | \$8,926,397 |
| B. Unobligated Balances - Available | 2,044,122 | 1,694,496 |
| C. Unobligated Balances - Not Available | 489 | 3,481 |
| D. Total, Status of Budgetary Resources | <u>\$11,643,974</u> | <u>\$10,624,374</u> |
| OUTLAYS | | |
| A. Obligations Incurred | \$9,599,363 | \$8,926,397 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | (4,504,749) | (3,909,699) |
| C. Obligated Balance, Net - Beginning of Period | 797,587 | 394,538 |
| D. Obligated Balance Transferred, Net | 0 | 0 |
| E. Less: Obligated Balance, Net - End of Period | (743,772) | (715,876) |
| F. Total Outlays | <u>\$5,148,429</u> | <u>\$4,695,360</u> |

See Note 1 and Note 21.

Combining Statement of Financing

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | Special Funds | Trust Funds | Transfer Funds | Borrowing Authority |
|---|-----------------|--------------------|-------------------|---------------------|
| 1. OBLIGATIONS AND NONBUDGETARY RESOURCES: | | | | |
| A. Obligations Incurred | \$14,470 | \$785,577 | \$49,319 | \$17,453 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | | | | |
| Donations Not in the Entity's Budget | (100) | 0 | (49) | (8,971) |
| C. Financing Imputed for Cost Subsidies | 0 | 0 | 0 | 0 |
| D. Transfers-In (Out) | (685) | (11,736) | 5,525 | 0 |
| E. Less: Exchange Revenue Not in the Entity's Budget | 7 | 0 | 0 | 0 |
| F. Nonexchange Revenue Not in the Entity's Budget | 0 | 0 | 0 | 8,045 |
| G. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget | 0 | 0 | 0 | 0 |
| H. Other | 0 | 0 | 0 | 0 |
| I. Total Obligations as Adjusted and Nonbudgetary Resources | <u>\$13,692</u> | <u>\$773,841</u> | <u>\$54,795</u> | <u>\$16,527</u> |
| 2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS: | | | | |
| A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases | \$2,086 | (\$8,802) | (\$9,552) | \$819 |
| B. Change in Unfilled Customer Orders | 0 | 0 | 12 | 0 |
| C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases | 323 | (157,606) | (36,823) | (28,962) |
| D. Financing Sources that Fund Costs of Prior Periods | (565) | 0 | 0 | 0 |
| E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities | 0 | 0 | 0 | 0 |
| F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost | 0 | 0 | 0 | 0 |
| G. Other - (Increases)/Decrease | 0 | 46,126 | (442) | 0 |
| H. Total Resources That Do Not Fund Net Costs of Operations | <u>\$1,844</u> | <u>(\$120,282)</u> | <u>(\$46,805)</u> | <u>(\$28,143)</u> |
| 3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES | | | | |
| A. Depreciation and Amortization | \$7 | \$2,157 | \$1,349 | \$0 |
| B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables | 0 | 0 | 0 | 0 |
| C. Revaluation of Assets and Liabilities - Increases/(Decreases) | 0 | 0 | 8,497 | 0 |
| D. Loss of Disposition of Assets | 0 | 0 | 0 | 0 |
| E. Other - (Increases)/Decrease | 0 | 0 | 0 | 0 |
| F. Total Costs That Do Not Require Resources | <u>\$7</u> | <u>\$2,157</u> | <u>\$9,846</u> | <u>\$0</u> |
| 4. FINANCING SOURCES YET TO BE PROVIDED | <u>\$565</u> | <u>\$0</u> | <u>\$0</u> | <u>\$12,194</u> |
| 5. NET COST OF OPERATIONS See Note 1 and Note 22. | <u>\$16,108</u> | <u>\$655,716</u> | <u>\$17,836</u> | <u>\$578</u> |

The accompanying notes are an integral part of these statements.

United States Army Annual Financial Statement Fiscal Year 2001

Combining Statement of Financing

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)

| | Revolving Funds | Contributed Funds | General Funds | FUSRAP |
|---|--------------------|--------------------|----------------------|------------------|
| 1. OBLIGATIONS AND NONBUDGETARY RESOURCES: | | | | |
| A. Obligations Incurred | \$3,449,055 | \$332,599 | \$4,782,276 | \$168,614 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | | | | |
| Donations Not in the Entity's Budget | (3,381,281) | (9) | (1,101,437) | (12,902) |
| C. Financing Imputed for Cost Subsidies | 5 | 0 | 270 | 0 |
| D. Transfers-In (Out) | 180,960 | 0 | 30,635 | 0 |
| E. Less: Exchange Revenue Not in the Entity's Budget | (259) | 43 | 8,847 | 0 |
| F. Nonexchange Revenue Not in the Entity's Budget | 17 | 0 | (738) | 0 |
| G. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget | 0 | 0 | (34,089) | 0 |
| H. Other | 0 | 0 | (43,761) | 0 |
| I. Total Obligations as Adjusted and Nonbudgetary Resources | <u>\$248,497</u> | <u>\$332,633</u> | <u>\$3,642,003</u> | <u>\$155,712</u> |
| 2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS: | | | | |
| A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases | (\$36,651) | (\$13,641) | (\$243,147) | \$26,942 |
| B. Change in Unfilled Customer Orders | (43,990) | 4 | 279,901 | (4,606) |
| C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases | (46,216) | (164,425) | (1,106,597) | 0 |
| D. Financing Sources that Fund Costs of Prior Periods | 0 | 0 | (27,741) | 0 |
| E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities | 0 | 0 | 0 | 0 |
| F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost | 0 | 0 | 0 | 0 |
| G. Other - (Increases)/Decrease | (2,495) | 9,064 | (443,123) | 0 |
| H. Total Resources That Do Not Fund Net Costs of Operations | <u>(\$129,352)</u> | <u>(\$168,998)</u> | <u>(\$1,540,707)</u> | <u>\$22,336</u> |
| 3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES | | | | |
| A. Depreciation and Amortization | \$53,409 | \$169 | \$532,772 | \$0 |
| B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables | 0 | 0 | 0 | 0 |
| C. Revaluation of Assets and Liabilities - Increases/(Decreases) | 154 | (18,149) | 179,468 | 0 |
| D. Loss of Disposition of Assets | 0 | 0 | 28,145 | 0 |
| E. Other - (Increases)/Decrease | 0 | 0 | 0 | 0 |
| F. Total Costs That Do Not Require Resources | <u>\$53,563</u> | <u>(\$17,980)</u> | <u>\$740,385</u> | <u>\$0</u> |
| 4. FINANCING SOURCES YET TO BE PROVIDED | <u>\$819</u> | <u>\$1,170</u> | <u>\$258,661</u> | <u>\$0</u> |
| 5. NET COST OF OPERATIONS | <u>\$173,527</u> | <u>\$146,825</u> | <u>\$3,100,342</u> | <u>\$178,048</u> |
| See Note 1 and Note 22. | | | | |

Combining Statement of Financing

*Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2001 • (\$ in thousands)*

| | 2001 Combined | 2000 Combined |
|--|---------------|---------------|
| 1. OBLIGATIONS AND NONBUDGETARY RESOURCES: | | |
| A. Obligations Incurred | \$9,599,363 | \$8,926,397 |
| B. Less: Spending Authority from Offsetting Collections and Adjustments | | |
| Donations Not in the Entity's Budget | (4,504,749) | (3,909,699) |
| C. Financing Imputed for Cost Subsidies | 275 | 0 |
| D. Transfers-In (Out) | 211,595 | 166,464 |
| E. Less: Exchange Revenue Not in the Entity's Budget | 1,735 | 0 |
| F. Nonexchange Revenue Not in the Entity's Budget | (714) | (1,956) |
| G. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget | (26,044) | 23,067 |
| H. Other | (43,761) | (113,056) |
| I. Total Obligations as Adjusted and Nonbudgetary Resources | 0 | 0 |
| 2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS: | | |
| A. Change in Amount of Goods, Services and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases | \$5,237,700 | \$5,091,217 |
| B. Change in Unfilled Customer Orders | (\$281,946) | \$47,310 |
| C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases | 231,321 | (264,157) |
| D. Financing Sources that Fund Costs of Prior Periods | (1,540,306) | (1,815,691) |
| E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities | (28,306) | 23,707 |
| F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost | 0 | 0 |
| G. Other - (Increases)/Decrease | 0 | 0 |
| H. Total Resources That Do Not Fund Net Costs of Operations | (390,870) | (5,186) |
| 3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES | | |
| A. Depreciation and Amortization | (\$2,010,107) | (\$2,014,017) |
| B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables | \$589,863 | \$580,218 |
| C. Revaluation of Assets and Liabilities - Increases/(Decreases) | 0 | 0 |
| D. Loss of Disposition of Assets | 169,970 | 0 |
| E. Other - (Increases)/Decrease | 28,145 | 0 |
| F. Total Costs That Do Not Require Resources | \$787,978 | \$580,218 |
| 4. FINANCING SOURCES YET TO BE PROVIDED | \$273,409 | \$96 |
| 5. NET COST OF OPERATIONS | \$4,288,980 | \$3,657,514 |
| See Note 1 and Note 22. | | |

United States Army Annual Financial Statement Fiscal Year 2001

Heritage Assets

For Fiscal Year Ended September 2001

| (a) | (b) Measurement Quantity | (c) As of 10/1/2000 | (d) Additions | (e) Deletions | (f) As of 9/30/2001 |
|----------------------------------|--------------------------------|---------------------------|------------------|------------------|---------------------------|
| Museums | Each | | | | |
| Monuments & Memorials | Each | 1 | | | 1 |
| Cemeteries & Archeological Sites | Sites | 120 | | | 120 |
| Buildings & Structure | Each | 144 | 180 | | 324 |
| Major Collections | Each | 7,909 | 190 | | 8099 |

Narrative Statement:

Other than multipurpose heritage assets, heritage assets are not material to the mission of the U. S. Army Corps of Engineers. Disclosures pertinent to multipurpose heritage assets is contained in the financial statements.

Heritage assets classified as Land are special land plots containing archaeological sites as listed on the National Register of Historic Places or eligible to be listed.

Heritage assets on display are assumed to be in adequate condition for display purposes, consistent with their origins, unless otherwise noted. Reported heritage assets are free of material conditions that are counter to safeguarding, adequately protecting, and properly managing those assets; they have not materially degraded while under the care of the U. S. Army Corps of Engineers. The existence of most of the un-categorized heritage assets is informally known to be adequate for display purposes, however, the condition of many un-categorized assets are unknown.

General Property, Plant and Equipment

Real Property Deferred Maintenance Amounts

As of September 30, 2001

(\$ in thousands)

| | |
|---------------------------|------------------|
| Property Type/Major Class | |
| 1. Real Property | |
| A. Buildings | \$0 |
| B. Structures | 415,000 |
| C. Land | 0 |
| 2. Total | <u>\$415,000</u> |

Narrative Statement:

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

U.S. Army Corps of Engineers

| Schedule, Part A DoD Intra-governmental Asset Balances (\$ Amounts in Thousands) | Treasury Index: | Fund Balance with Treasury | Accounts Receivable: | Loans Receivable: | Investments: | Other: |
|---|--------------------|-------------------------------|-------------------------|----------------------|--------------------|--------|
| General Printing Office | 05 | | \$81 | | | |
| The Judiciary | 10 | | 11 | | | |
| Executive Office of the President | 11 | | 0 | | | |
| Department of Agriculture | 12 | | 4,481 | | | |
| Department of Commerce | 13 | | 1,149 | | | |
| Department of the Interior | 14 | | 274,306 | | | |
| Department of Justice | 15 | | 14,595 | | | |
| Department of Labor | 16 | | 29 | | | |
| Navy General Fund | 17 | | 4,302 | | | |
| United States Postal Service | 18 | | 16 | | | |
| Department of State | 19 | | 2,866 | | | |
| Department of the Treasury | 20 | \$2,537,990 | 21,634 | | \$2,255,539 | |
| Army General Fund | 21 | | 3,873 | | | |
| Office of Personnel Management | 24 | | 1 | | | |
| Social Security Administration | 28 | | 3 | | | |
| Nuclear Regulatory Commission | 31 | | 7 | | | |
| Smithsonian Institution | 33 | | 76 | | | |
| Department of Veterans Affairs | 36 | | 497 | | | |
| U.S. Equal Employment Opportunity Commission | 45 | | 3 | | | |
| General Service Administration | 47 | | 554 | | | |
| National Science Foundation | 49 | | 292 | | | |
| Securities and Exchange Commission | 50 | | 0 | | | |
| Air Force General Fund | 57 | | 232 | | | |
| Federal Emergency Management Agency | 58 | | 23,608 | | | |
| Railroad Retirement Board | 60 | | 6 | | | |
| Tennessee Valley Authority | 64 | | 222 | | | |
| Environmental Protection Agency | 68 | | 34,696 | | | |
| Department of Transportation | 69 | | 6,849 | | | |
| Agency for International Development | 72 | | 1,754 | | | |
| Department of Health and Human Services | 75 | | 389 | | | |
| National Aeronautics and Space Administration | 80 | | 3,302 | | | |
| Department of Housing and Urban Development | 86 | | 231 | | | |
| Department of Energy | 89 | | 4,110 | | | |
| Department of Education | 91 | | 8 | | | |
| Independent Agencies | 95 | | 70,853 | | | |
| US Army Corps of Engineers | 96 | | | | | |
| Other Defense Organizations General Funds | 97 | | 887 | | | |
| Other Defense Organizations Working Capital Funds | 97-4930 | | 327 | | | |
| Army Working Capital Fund | 97-4930.001 | | 25 | | | |
| Navy Working Capital Fund | 97-4930.002 | | 266 | | | |
| Totals might not match reports. Totals: | | \$2,537,990 | \$476,541 | | \$2,255,539 | |

Required Supplementary Information

U.S. Army Corps of Engineers

| Schedule, Part B DoD Intra-governmental Entity Liabilities (\$ Amounts in Thousands) | Treasury Index: | Accounts Payable: | Debts/Borrowings From Other Agencies: | Other: |
|---|--------------------|----------------------|--|--------------------|
| Government Printing Office | 04 | \$193 | | |
| Department of Agriculture | 12 | 5,064 | | \$230 |
| Department of Commerce | 13 | 3,985 | | 11 |
| Department of the Interior | 14 | 12,134 | | 8,513 |
| Department of Justice | 15 | 620 | | 20 |
| Department of Labor | 16 | 279 | | 40,178 |
| Navy General Fund | 17 | 1,191 | | |
| United States Postal Service | 18 | 1 | | 8 |
| Department of State | 19 | 375 | | (237) |
| Department of the Treasury | 20 | 1,199 | \$30,512 | 1,096,171 |
| Army General Fund | 21 | 16,415 | | 298 |
| Office of Personnel Management | 24 | 232 | | 9,477 |
| Department of Veterans Affairs | 36 | 1 | | 42 |
| U.S. Equal Employment Opportunity Commission | 45 | 1 | | |
| General Service Administration | 47 | 33,808 | | 340 |
| Federal Labor Relations Authority | 54 | 0 | | |
| Air Force General Fund | 57 | 58 | | |
| Federal Emergency Management Agency | 58 | 15 | | 0 |
| Office of Special Counsel | 62 | | | 1,403 |
| Tennessee Valley Authority | 64 | 4,527 | | |
| Environmental Protection Agency | 68 | 509 | | |
| Department of Transportation | 69 | 465 | | 1 |
| Small Business Administration | 73 | | | 1 |
| Department of Health and Human Services | 75 | 782 | | 5 |
| National Aeronautics and Space Administration | 80 | 240 | | |
| Department of Housing and Urban Development | 86 | | | 8,344 |
| National Archives and Records Administration | 88 | 21 | | |
| Department of Energy | 89 | 2,034 | | 386 |
| Department of Education | 91 | | | 1,472 |
| Independent Agencies | 95 | 25 | | 654 |
| Other Defense Organizations General Funds | 97 | 5,768 | | |
| Other Defense Organizations Working Capital Funds | 97-4930 | 1,743 | | |
| Army Working Capital Fund | 97-4930.001 | 1 | | |
| Navy Working Capital Fund | 97-4930.002 | 1,023 | | |
| Air Force Working Capital Fund | 97-4930.003 | 22 | | |
| Totals might not match reports. Totals: | | \$92,731 | \$30,512 | \$1,167,317 |

United States Army Annual Financial Statement Fiscal Year 2001

| Schedule, Part C DoD Intra-governmental Revenue and Related Costs (\$ Amounts in Thousands) | Treasury Index: | Earned Revenue: |
|--|--------------------|------------------|
| Government Printing Office | 04 | \$0 |
| General Printing Office | 05 | 740 |
| Other Legislative Branch Agencies | 09 | 1 |
| The Judiciary | 10 | 32 |
| Executive Office of the President | 11 | 0 |
| Department of Agriculture | 12 | 12,765 |
| Department of Commerce | 13 | 2,591 |
| Department of the Interior | 14 | 36,880 |
| Department of Justice | 15 | 56,143 |
| Department of Labor | 16 | 39 |
| Navy General Fund | 17 | 3,956 |
| United States Postal Service | 18 | 125 |
| Department of State | 19 | 4,546 |
| Department of the Treasury | 20 | 17,776 |
| Army General Fund | 21 | 17,993 |
| Office of Personnel Management | 24 | 9 |
| Social Security Administration | 28 | 6 |
| Nuclear Regulatory Commission | 31 | 58 |
| Smithsonian Institution | 33 | 93 |
| Department of Veterans Affairs | 36 | 911 |
| U.S. Equal Employment Opportunity Commission | 45 | 5 |
| General Service Administration | 47 | 1,778 |
| National Science Foundation | 49 | 1,284 |
| Securities and Exchange Commission | 50 | 0 |
| Air Force General Fund | 57 | 265 |
| Federal Emergency Management Agency | 58 | 29,314 |
| Railroad Retirement Board | 60 | 19 |
| National Labor Relations Board | 63 | 1 |
| Tennessee Valley Authority | 64 | 612 |
| Environmental Protection Agency | 68 | 120,368 |
| Department of Transportation | 69 | 20,361 |
| Agency for International Development | 72 | 10,102 |
| Small Business Administration | 73 | 5 |
| Department of Health and Human Services | 75 | 838 |
| National Aeronautics and Space Administration | 80 | 7,595 |
| Department of Housing and Urban Development | 86 | 483 |
| Department of Energy | 89 | 10,776 |
| Department of Education | 91 | 48 |
| Independent Agencies | 95 | 118,293 |
| Other Defense Organizations General Funds | 97 | 4,792 |
| Other Defense Organizations Working Capital Funds | 97-4930 | 963 |
| Army Working Capital Fund | 97-4930.001 | 43 |
| Navy Working Capital Fund | 97-4930.002 | 494 |
| Totals might not match reports. Totals: | | \$483,103 |

Required Supplementary Information

*Schedule, Part D applies only to the agency-wide statements

U.S. Army Corps of Engineers

| Schedule, Part E DoD Intra-governmental Non-exchange Revenues (\$ Amounts in Thousands) | Treasury Index: | Transfers - In | Transfers - Out |
|--|--------------------|--------------------|------------------|
| Department of Agriculture | 12 | | \$75 |
| Department of the Interior | 14 | \$265,322 | 7,331 |
| Department of Justice | 15 | | 15 |
| Navy General Fund | 17 | | 0 |
| Department of the Treasury | 20 | 809,711 | 756,815 |
| Army General Fund | 21 | | 159 |
| General Service Administration | 47 | | 59 |
| Air Force General Fund | 57 | | 0 |
| Tennessee Valley Authority | 64 | | 97 |
| Department of Transportation | 69 | | 13,015 |
| Department of Energy | 89 | 9,609 | |
| Other Defense Organizations Working Capital Funds | 97-4930 | | 99 |
| Totals might not match reports. Totals: | | \$1,084,642 | \$777,665 |

United States Army Annual Financial Statement Fiscal Year 2001
 CIVIL WORKS PROGRAM



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

February 20, 2002

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
COMMANDER AND CHIEF OF ENGINEERS, U.S.
ARMY CORPS OF ENGINEERS**

SUBJECT: Report on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspector General. The Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," dated October 16, 2000, establishes the minimum requirements for audits of Federal financial statements. The Office of Management and Budget Bulletin No. 01-02 requires the Inspector General, DoD, to express an opinion on the U.S. Army Corps of Engineers, Civil Works, (Corps of Engineers) financial statements and to report on the adequacy of internal controls and compliance with laws and regulations. The financial statements are the responsibility of the Corps of Engineers management. The Corps of Engineers management is also responsible for implementing effective internal controls and complying with laws and regulations.

Disclaimer of Opinion

We delegated the audit of the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements to the Army Audit Agency.¹ We did not audit the U.S. Army Corps of Engineers, Civil Works, FY 2001 Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing; therefore, we do not express an opinion on these statements. Our work on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet was sufficient to identify persisting material internal control weaknesses related to General Property, Plant, and Equipment; Accounts Payable - Public; and general and application controls. Because the Corps of Engineers was unable to substantiate significant amounts in the Consolidated Balance Sheet, we are unable to express and we do not express an opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet.

On February 1, 2002, we informed the Army Audit Agency that we disagreed with its draft audit report "FY 2001 Financial Statements; U. S. Army Corps of Engineers, Civil Works," because the audit work did not warrant issuing a qualified opinion on the Consolidated Balance Sheet. The Army Audit Agency was directed to revise its draft audit report. The Army Audit Agency disagreed with our direction and on February 8, 2002, issued Report No. AA 02-142, "Fiscal Year 2001 Financial Statements; U.S. Army Corps of Engineers, Civil Works," which expressed a qualified opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet. The report was addressed internally to the Secretary of the Army and the Commander, U.S. Army Corps of Engineers. Based on our review of the audit information provided to us as of February 20, 2002, the Army Audit Agency work did not comply with generally accepted government auditing standards. External parties should not rely on the Army Audit Agency qualified opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Consolidated Balance Sheet.

¹On January 25, 2002, the General Accounting Office issued a new Government Auditing Standard on organizational independence. The new standard is to be applied on a prospective basis and does not affect the audit work that was ongoing for the FY 2001 financial statements. We will apply the new standard for future audit work and will not delegate the financial statement audit work.

We were also unable to express an opinion on the U.S. Army Corps of Engineers, Civil Works, FY 2000 Financial Statements. We delegated to the Army Audit Agency the audit of the FY 2000 financial statements. The Army Audit Agency disclaimed an opinion on the FY 2000 financial statements because of material weaknesses and reportable conditions associated with the internal controls and compliance with laws and regulations. The complete text of the "Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 2000 U.S. Army Corps of Engineers, Civil Works Program, Financial Statements," Report No. D-2001-067, dated February 28, 2001, can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>. Fiscal years 2000 and 2001 Corps of Engineers financial statements are available on the Internet at <http://www.dtic.mil/comptroller>.

Material Weaknesses

The scope of our work was sufficient to identify deficiencies that constitute material internal control weaknesses related to General Property, Plant, and Equipment; Accounts Payable - Public; and general and application controls.

General Property, Plant, and Equipment. Because the Corps of Engineers lacked complete and reliable information to support these assets, valued at about \$34.8 billion on the balance sheet, it could not satisfactorily substantiate amounts at which they were valued or verify that certain reported assets actually exist. The Corps of Engineers General Property, Plant, and Equipment (PP&E) assets consisted of \$17 billion of buildings, structures, and facilities; \$9 billion of construction-in-progress; \$8 billion of land; \$600 million of equipment; and about \$60 million of other assets. Internal controls related to these assets were not adequate to ensure that amounts reported in the financial statements were not materially misstated. Of the \$41 billion of total assets reported on the balance sheet, at least 70 percent had not been determined by audit to be free of material misstatement. For example:

- beginning balances had not been established for about \$25 billion of general PP&E;
- at least \$219 million was misclassified as construction in progress including costs that should have been expensed, as well as completed projects that were not timely transferred to sponsors or placed in service;
- depreciation was not consistently or accurately computed and analytical tests indicate that it could be misstated by as much as \$400 million; and
- some assets reported in financial records did not actually exist or were not owned by the Corps of Engineers.

The Army Audit Agency advised and the Corps of Engineers made a \$401.7 million adjustment to buildings, structures, and facilities. The adjustment was based on an Army Audit Agency straight-line depreciation calculation that was unsupported by sufficient, relevant audit evidence. The computation relied on untested systems-generated information even though the system controls are known to be unreliable. The cause of the misstatements was not determined before the calculation was made, so the actual amount of the misstatement was not known.

Accounts Payable – Public. The Corps of Engineers could not demonstrate that the Corps of Engineers Financial Management System (CEFMS) captured and reported accounts payable transactions in the proper period. Independent vendor confirmations and contracting actions in the DoD DD-350 database (Reports to Congress on Contracting Actions in Excess of \$25,000) show that the CEFMS Accounts Payable – Public general ledger account was incomplete. In addition, CEFMS does not recognize liabilities in accordance with Statement of Federal Financial Accounting Standard No. 1, which requires that an account payable be established when goods or services are received. Instead, CEFMS does not allow an account payable to be recognized until an obligating document is entered into the system, regardless of when the goods or services were received. The Corps of Engineers could not ensure that its accounts payable, reported at \$505 million, were not materially misstated.

The Army Audit Agency advised and the Corps of Engineers made a \$161 million adjustment to Accounts Payable – Public on the balance sheet to prevent a potential accrual overstatement. The adjustment lacked sufficient and relevant audit support.

General and Application Controls. The General Accounting Office (GAO) Report, GAO-01-89, "Financial Management Significant Weaknesses in Corps of Engineers Computer Controls," dated October 11, 2000, identified significant vulnerabilities and risks associated with CEFMS and its applications. GAO performed followup tests of the general and application controls in FY 2001. Based upon our review of the GAO general and application control work, we concluded that the CEFMS general and application controls cannot be relied on for day-to-day transactions affecting the FY 2001 financial statements. Without reliance on the CEFMS controls or sufficient internal control testing to mitigate risks, the risk associated with Corps of Engineers financial statements was high.

Internal Controls

The objective of the audit was not to provide assurance on internal controls and we do not express an opinion on internal controls. Internal controls consist of the control environment, risk assessments, monitoring, information and communication, and control activities. Audit standards require the auditor to assess the risk that errors and irregularities may cause a material misstatement in the financial statements. Our limited review of internal controls included independent tests and analyses of tests conducted by the Army Audit Agency to determine whether controls were effective and working as designed. The FY 2001 GAO audit concluded that general and application control weaknesses precluded reliance on systems-generated data. We concluded that Corps of Engineers internal controls were not adequate to ensure that:

- PP&E assets were adequately supported and accurately valued in financial statements,
- Accounts Payable - Public liabilities were properly recorded and reported, and
- sensitive and financial information was safeguarded.

Risk Assessment

For financial reporting purposes, risk assessment is a significant component of internal control. An entity's risk assessment is its identification, analysis, and management of risks relevant to the preparation of financial statements following generally accepted accounting principles. The Corps of Engineers uses multiple systems and manual processes to compile its financial statements. Internal controls were not sufficient to provide adequate audit trails for \$14 billion of year-end accounting entries.

The GAO audited CEFMS general and application controls affecting the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements and identified weaknesses in system controls at the Corps of Engineers processing centers. At other Corps of Engineers sites, GAO identified serious vulnerabilities that would allow both hackers and legitimate users with valid access privileges to improperly modify, inappropriately disclose, and destroy sensitive and financial data. The Army Audit Agency's limited tests of internal controls were not sufficient to support an opinion on mitigating controls. Therefore, the risk associated with the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements was high, which requires more extensive testing to determine their reliability. The Army Audit Agency considered the risk associated with the financial statements to be less than high and designed inadequate tests to provide the necessary level of assurance about the reliability of material amounts in the financial statements. The tests provided insufficient audit evidence to support their conclusions that material amounts were fairly presented in the financial statements.

Indicators of Fraud and Illegal Acts

The American Institute of Certified Public Accountants Statement of Auditing Standard No. 82, "Consideration of Fraud in a Financial Statement Audit," February 1997, requires auditors to assess the risk

of material misstatement caused by fraud or illegal acts in order to provide reasonable assurance that fraud or illegal acts material to the financial statements are detected.

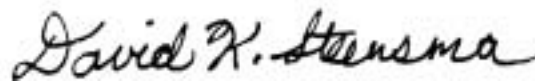
Our audit procedures were limited, therefore, we were not able to obtain sufficient evidence to provide reasonable assurance that fraud or illegal acts were detected. However, we identified no material instances of fraud or illegal acts. We are unable to report the effect that fraud risk factors had on the U.S. Army Corps of Engineers, Civil Works, FY 2001 Financial Statements. Nonetheless, the Corps of Engineers internal control weaknesses significantly impair the ability to monitor, detect, and investigate fraud or theft of assets. A high risk of material misstatements caused by fraud or illegal acts will continue to be present until internal control weaknesses are remedied.

Compliance with Laws and Regulations

We did not perform tests of the Corps of Engineers' compliance with laws and regulations over financial reporting. Because the scope of our audit on compliance with laws and regulations was limited, we did not obtain sufficient evidence to support an opinion on the Corps of Engineers' compliance with laws and regulations. Therefore, we do not express an opinion on compliance.

Required Supplementary Information

The Overview, Heritage Assets, the Real Property Deferred Maintenance Amounts, and the Intra-governmental Amounts are not a required part of the principal financial statements. We did not audit and do not express an opinion on such information.



David K. Steensma
Acting Assistant Inspector General
for Auditing



**DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL**
3101 Park Center Drive
Alexandria, VA 22302-1596

8 February 2002

Secretary of the Army
Commander, U.S. Army Corps of Engineers

This report summarizes the results of our audit of the U.S. Army Corps of Engineers, Civil Works Principal Financial Statements for the fiscal year ended 30 September 2001. The Commander, U.S. Army Corps of Engineers and The Auditor General signed an engagement letter in January 2002 defining this audit. The financial statements for the year ended 30 September 2001 included comparative data for the year ended 30 September 2000. We performed our work pursuant to the Chief Financial Officers Act of 1990 as amended by the Government Management Reform Act of 1994.

We issued a disclaimer of opinion on the financial statements for the period ended 30 September 2000 on 14 February 2001 (Audit Report: AA 01-187). We are expressing a qualified opinion on the Consolidated Balance Sheet as of 30 September 2001. We are still not able to express an opinion on the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing. The followup of the general and application control review of the Corps of Engineers Financial Management System has not been completed, so we could not rely on the computer-processed data as sufficient support for day-to-day transactions. Also, we were not able to apply other auditing procedures at this time to satisfy ourselves as to the fairness of the data presented in those statements.

This report doesn't contain recommendations, but it does include brief discussions of our results and conclusions. More detailed discussions of our results and conclusions are in supporting audit reports (see Annex C).

I appreciate the cooperation and courtesies extended to us during the audit.

A handwritten signature in cursive script that reads "Francis E. Reardon".

FRANCIS E. REARDON, CPA
The Auditor General

AUDITOR'S REPORT



DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
3101 Park Center Drive
Alexandria, VA 22302-1596

Secretary of the Army
Commander, U.S. Army Corps of Engineers

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the U.S. Army Corps of Engineers prepared the accompanying financial statements for fiscal years 2000 and 2001. The Corps engaged us to audit its Civil Works Balance Sheet as of 30 September 2000 and 30 September 2001, and the Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position for the fiscal years ended 30 September 2000 and 30 September 2001. These financial statements are the responsibility of Corps management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We issued a disclaimer of opinion on the financial statements for fiscal year 2000 on 14 February 2001. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements for fiscal year 2000.

The general and application control review of the Corps financial management system identified 34 areas where improvements were needed. Corps management reported it corrected many of the deficiencies during the period ended 30 September 2001. However, followup audit work has not been completed to verify that corrective actions have been completed. Therefore, we could not rely on the computer-processed data as sufficient support for day-to-day transactions. We were not able to apply other auditing procedures at this time to satisfy ourselves as to the fairness of the information presented in the Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position. As a result, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the U.S. Army Corps of Engineers (Civil Works) Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position.

The Corps lacked adequate supporting documentation for us to reconcile the \$9.04 billion reported as construction-in-progress under the category General Property, Plant and Equipment as of 30 September 2001. We were not able to apply other auditing procedures at this time to satisfy ourselves as to the fairness of the data presented.

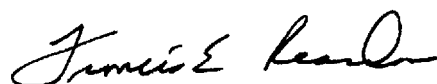
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to reconcile the balance of construction-in-progress, the consolidated bal-

ance sheet referred to above presents fairly, in all material respects, the financial position of the U.S. Army Corps of Engineers (Civil Works) as of 30 September 2001, in conformity with generally accepted accounting principles.

We performed limited tests of internal controls in order to determine if controls were working as designed. Our review showed that there were areas in which internal controls needed improvements, including general property, plant, and equipment and information systems. Internal controls consist of the following components: control environment, risk assessment, control activities, information and communication, and monitoring. Effective implementation of these controls provides reasonable assurance that accounting data is accumulated, recorded, and reported properly by management and that assets are safeguarded. Management is responsible for internal controls. Our tests of internal controls do not provide sufficient evidence to support an opinion; therefore, we do not express an opinion on the internal controls.

We also reviewed the Corps' compliance with laws and regulations in relation to its financial statements. Our objective was to assess compliance, not to express an opinion. Therefore, we do not express an opinion on compliance with laws and regulations. The Corps did not comply with Office of Management and Budget Bulletin Number 01-09 (Form and Content of Agency Financial Statements) and Statement of Federal Financial Accounting Standards Number 4, (Managerial Cost Accounting Standards) requirements to present the Statement of Net Cost by business programs.

We also reviewed the information presented in the Corps' overview section accompanying its financial statements. We do not express an overall opinion on this information. However, we found no material inconsistencies between the information presented in the overview and the information presented in the financial statements.



FRANCIS E. REARDON, CPA
The Auditor General

8 February 2002

SIGNIFICANT MATTERS

SUMMARY

The U.S. Army Corps of Engineers is a leader among the major DOD commands in striving to meet the goals of the Chief Financial Officers Act. In FY 93, the Corps was among the first to prepare and submit a separate set of financial statements. In FY 94, the Corps volunteered as a pilot project under the Government Performance and Results Act. During FY 98, the Corps completed fielding of its new financial management system and made changes in business practices to strengthen internal controls and meet the requirements of both acts.

We issued a disclaimer of opinion on the financial statements for the period ended 30 September 2000. The scope of our work was not sufficient to express, and we do not express an opinion on the financial statements for the period ended 30 September 2000.

Except for construction-in-progress, we have completed our audit work to determine if the category of General Property, Plant and Equipment is fairly stated. This category represents about \$34.8 billion (85 percent) of the Corps assets. We have also completed our audit work on the other material asset and liability categories. We are expressing a qualified opinion on the balance sheet as of 30 September 2001.

We, the General Accounting Office and an independent public accounting firm jointly performed a comprehensive test of general and application controls over the Corps of Engineers Financial Management System. A General Accounting Office audit report addressed system general and application controls, and an Agency report addressed system security issues. Corps management has reported that corrective action was taken on many of the deficiencies. However, follow up audit work has not been completed to assess those corrective actions. As a result, we were unable to rely solely on the system controls when developing audit procedures.

During previous audits we discovered problems that required correction by the Corps. During the FY 01 audit, we followed up to determine whether actions were taken to correct the problems related to the following areas:

- General Property, Plant and Equipment Documentation.
- Accumulated Depreciation Related to Buildings and Structures.
- Statement of Net Cost.
- General and Application Controls Review.

DISCUSSION

In this section we discuss our audit work related to the consolidated balance sheet as of 30 September 2001. This includes our previous audit work to assess the reasonableness of the beginning balances for general property, plant and equipment as of 1 October 2000 and our audit work to assess the reasonableness of the ending balances for all material lines on the consolidated balance sheet as of 30 September 2001. Specific discussion sections relate to:

- FY 00 beginning balances for general property, plant, and equipment.
- FY 01 consolidated balance sheet ending balances.

We also discuss followup work on prior year issues related to:

- Accumulated depreciation related to buildings and structures.
- Documentation for buildings and structures.
- General and application controls review.
- Statement of net cost.

FY 00 Beginning Balances for Property, Plant and Equipment

The Corps' general property, plant, and equipment is the most significant asset category on its financial statements. For FY 01, the Corps reported a net value of about \$34.8 billion for general property, plant, and equipment.

Our initial audit work related to establishing the FY 00 beginning balances for general property, plant, and equipment.

For FY 00, the Corps reported a capitalized cost of about \$1.1 billion and a net value of about \$625 million, as its beginning balance for general equipment. We selected a statistical sample of equipment items and reviewed supporting documentation to verify recorded amounts. Our sample results, projected to the population of general equipment, did not show any material misstatements for the FY 00 beginning balance for general equipment.

The largest category of general property, plant, and equipment reported by the Corps was real property. This category consists of land, buildings and structures, and construction-in-progress. The Corps reported a net value of about \$33.3 billion as the beginning balance for FY 00. In order to assess the reasonableness of the reported beginning real property balance for FY 00, we separated the Corps' real property assets into two categories:

- Assets on power-producing projects.
- Assets on non-power-producing projects.

Assets on Power-Producing Projects

To establish the beginning balances for assets on power-producing projects, we reviewed and relied on audits performed by independent accounting firms that audit the financial statements of the Power Marketing Administrations. The Power Marketing Administrations market hydropower on behalf of the Department of Energy. About \$9.5 billion of the FY 00 beginning balance for Corps land, buildings, and structures is related to power-producing projects. As part of their rate-setting practices, these Power Marketing Administrations engage independent public accounting firms to perform annual audits of the recorded values for these power-producing assets. We reviewed the work of the public accounting firms and were able to rely on it to agree with the recorded values for the power-producing assets.

Assets on Non-Power-Producing Projects

We used a combination of methods to review the beginning balances for the remaining \$16.9 billion recorded for land, buildings, and structures, and the \$6.9 billion recorded for construction-in-progress. For example, we sampled individual properties and obtained supporting documentation for the recorded property values. We also performed other analytical reviews on the assets related to non-power-producing projects.

Land. The beginning FY 00 balance for land assets on non-power-producing projects was \$4.4 billion. This cost included both the cost paid to the previous owner to acquire the land tracts and the administrative cost associated with the acquisition. Therefore, we performed two reviews to determine the reasonableness of the costs recorded for land. We used a nonrepresentative selection of 177 land tracts to determine the amount paid to previous owners for the land. We also reviewed 92 projects to evaluate recorded amounts for administrative costs. Federal financial accounting standards require that asset costs include all costs incurred to bring the land to a form and location suitable for its intended use, which includes the administrative costs of acquiring the land. These administrative costs include Corps labor and legal fees, as well as costs such as relocations required to prepare the land for its intended use. Our review of the land tract costs and the review of the administrative costs showed that the recorded costs for land, at the beginning of FY 00, were reasonable and did not contain material misstatements.

Buildings and Structures. The Corps' FY 00 beginning balance, net of depreciation, for buildings and other structures on non-power-producing projects was \$12.5 billion. To verify the recorded values for these assets, we selected a statistical sample of 371 buildings and structures from a universe of 31,180. Corps management provided available documentation in an effort to support the recorded values for the sample items. The documentation provided included both internally generated historical documentation and documentation obtained from sources external to the Corps. Examples of internal historical documentation included programming, budgeting, estimating, and accounting documents. Our review of the supporting documentation showed that the recorded values for buildings and structures were generally reasonable. However, because many of the sample items were supported by internal historical documentation, we established an assessment process in order to provide additional support for the validity of the values supported by internal historical documentation. We contracted with the Department of Interior's Bureau of Reclamation to perform independent reviews of samples of the documentation. The Bureau of Reclamation's assessments showed that these documents were generally reliable and could be used to corroborate recorded values for property.

Construction-In-Progress. The FY 00 beginning balance for construction-in-progress was \$6.9 billion. To verify the beginning balance for construction-in-progress, we selected a statistical sample of 161 of the Corps' 1,703 ongoing projects. Many of the projects we reviewed were actually started prior to the deployment of the Corps of Engineers Financial Management System. For these projects, costs were recorded using the previous financial system-the Corps of Engineers Management Information System. During the conversion, Corps personnel transferred construction-in-progress balances to the new financial management system. However, the costs weren't always distributed to the proper method of accomplishment codes that identify the type of cost incurred (for example, contract cost, in-house labor, reimbursable cost). The conversion process, along with post-conversion transfers from the construction-in-progress accounts, has made it difficult to validate the reported balances for construction-in-progress. Therefore, we could not complete the audit work on the sample projects. We will continue to work with Corps management to develop a methodology to reconcile recorded costs for construction-in-progress.

FY 01 Consolidated Balance Sheet Ending Balances

The following paragraphs describe our testing on the FY 01 consolidated balance sheet ending balances.

Fund Balance With Treasury

For FY 01, the Corps reported an ending fund balance with treasury of about \$2.5 billion. We reconciled this amount to recorded amounts maintained by the Department of the Treasury. We also tested FY 01 collection and disbursement activity. Our reconciliation and testing did not show any material misstatements.

Investments

For FY 01, the Corps reported an ending investments balance of about \$2.3 billion. These investments were related to amounts in the Inland Waterways Trust Fund, the Harbor Maintenance Trust Fund, and the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund. We independently confirmed these amounts with the Department of the Treasury, which maintains the trust fund balances. Our confirmation did not show any material misstatements.

Accounts Receivable

For FY 01, the Corps reported an ending accounts receivable balance of about \$1.5 billion. The majority of this balance relates to long-term water storage contracts with local water authorities. We confirmed the amounts and verified them to individual contracts with local water authorities. We also reviewed amounts estimated for uncollectible accounts with the public. Our review resulted in some recommended adjustments that were accepted by management, but did not show any material misstatements.

General Property, Plant and Equipment

The largest category of assets reported by the Corps was general property, plant and equipment. This category consists of land, buildings and structures, equipment, and construction-in-progress. For FY 01, the Corps reported an ending balance of about \$35.2 billion (prior to auditor-recommended adjustments) for general property, plant and equipment. Specifically, the Corps reported about \$7.9 billion for land, about \$17.6 billion for buildings and structures, about \$610 million for equipment, about \$9 billion for construction-in-progress, and about \$60 million for other assets. We had previously tested the FY 00 beginning balance for the material lines of general property, plant, and equipment and did not find material misstatements. Accordingly, we then tested the additions and deletions for land, buildings and structures, equipment, and other assets that had taken place for fiscal years 2000 and 2001. Our review did not show any material misstatements.

We are still working with Corps management to reconcile amounts recorded for construction-in-progress. Until the reconciliation is completed, the amounts recorded for construction-in-progress cannot be verified.

Public Accounts Payable and Other Liabilities

For FY 01, the Corps reported an ending balance for public accounts payable of \$688.3 million. We selected a sample of public accounts payable transactions and reviewed the supporting documentation. Our review showed that public accounts payable were overstated because yearend accruals were inflated. To determine the amount of the overstatement, we analyzed payments against these accruals during the 2-month period following 30 September 2001. Our analysis showed the accruals were overstated by about \$161 million. We recommended an adjustment, and Corps management agreed and made the recommended adjustment along with other minor adjustments. The total of the adjustments reduced the reported public accounts payable to about \$505.3 million. We also compared the amounts recorded as a liability from the long-term water storage contracts to the amounts verified as receivables. Our review did not show any material misstatements.

Followup Work on Prior Year Issues

During our audit, we also followed up on several issues we had identified in previous audit work at the Corps.

Accumulated Depreciation Related to Buildings and Structures

We recalculated accumulated depreciation as of 30 September 2001 and found it was understated by about \$358 million. We recommended an adjustment; Corps management agreed and made the adjustment.

In order to evaluate the reasonableness of the reported amount for accumulated depreciation, we recalculated accumulated depreciation for all building and structure properties owned by the Corps. We made this calculation using a straight-line depreciation method. The recalculation used the recorded acquisition costs, acquisition dates, and useful lives for each of the building and structure properties. During our FY 00 and FY 01 audits, we concluded that acquisition costs for buildings and structures were reasonable. We also reviewed acquisition dates and useful lives for a number of selected sample properties and found that acquisition dates and useful lives recorded in the financial management system were generally accurate.

The Corps initially reported an acquisition value of \$29.8 billion, accumulated depreciation of \$12.2 billion and a net value of \$17.6 billion for its buildings and structures. However, our recalculation showed that depreciation was understated by about \$358 million. Therefore, the net value of buildings and structures as well as general property, plant and equipment as a whole was overstated by about \$358 million. We recommended a \$358 million adjustment to accumulated depreciation, and Corps management agreed and made the adjustment. The Corps increased the amount reported for accumulated depreciation to about \$12.5 billion, resulting in a net value of \$17.2 billion for buildings and structures.

Prior to the adjustment recommended in the previous paragraph, we identified a significant or unusual balance change in accumulated depreciation for FY 01. Specifically, from FY 00 to FY 01, accumulated depreciation for buildings and structures increased by about \$878 million. Our analysis showed that about \$317 million of this increase was due to corrections for prior-year depreciation based on our previous audit work. The remaining depreciation increase was routine depreciation for FY 01.

Documentation for Buildings and Structures

In FY 99, we reported that the Corps hadn't provided adequate documentation to support the recorded values for over half of the properties in our buildings and structures sample. During fiscal years 2000 and 2001, we worked with Corps management in a major effort to obtain and reconstruct supporting documentation for values on property, plant and equipment assets. Through this effort, we were able to obtain documentation for the items in our sample and, therefore, project that the value of buildings and structures was not materially misstated. In addition, the Corps agreed to maintain supporting documentation in the future for the life of the asset.

General and Application Controls Review

The Corps needed to improve general and application controls related to network and data processing activities. We made an initial review of the general and application controls and concluded that we couldn't rely on the data in the Corps' financial management system as sufficient support for day-to-day transactions related to the operating statements. Because of the control environment related to the financial management system, we didn't attempt to perform the audit work needed to provide an opinion on the statements of net cost, changes in net position, budgetary resources, and financing. We will continue the general and application control review and monitor corrective actions taken by Corps management. As the controls are improved we will be able to increase our reliance on the financial data recorded in the financial system.

Statement of Net Cost

Again in FY 01, the Corps prepared its Statement of Net Cost by appropriation rather than by business programs. In doing so, the Corps complied with DOD guidance, but didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board. In FY 00 we reported that the Corps didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board for its Statement of Net Cost. The Federal Accounting Standards require the Corps to present the statement by business programs, but the Corps presented the statement by appropriation. However, the Corps did comply with the requirements of the DOD Financial Management Regulation. This regulation requires DOD activities to report program costs by appropriation rather than by business program. The Corps has the capability to report by business programs since it has fielded its new standard financial management system.

REPORT ON INTERNAL CONTROLS

For financial reporting purposes, the Corps' internal control objectives are to ensure that:

- Transactions properly record and maintain accountability for assets and permit the preparation of accurate and reliable financial statements.
- Funds, property, and other assets are safe from loss, unauthorized use, or misappropriation.
- Transactions are in accordance with applicable laws and regulations.

Numerous factors, both individually and collectively, comprise the overall control environment. For example:

- Management's perceptions and integrity concerning the importance of controls will reflect in the entity's overall attitude.
- Policies designed to establish some measure of control must be strictly enforced.

Procedures implemented by management should adhere to fundamental control techniques, such as segregating key duties, providing for tests and reconciliations, and limiting access. A comprehensive internal control structure consisting of checks and balances ensures that the control objectives will be met.

FY 01 Review

In planning and performing our audit, we:

- Obtained an understanding of the Corps' internal controls.
- Determined whether these internal controls had been placed in operation.
- Assessed control risk.
- Performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We randomly selected Corps operating activities, transactions, and personnel and conducted limited testing of internal controls related to:

- Property, plant, and equipment.
- Revenues and receipts.
- Expenses and disbursements.
- Payroll.
- Budgetary resources.
- Financial reporting.
- Information systems.

Our tests of internal controls did not provide sufficient evidence to support an opinion; therefore, we do not express an opinion on the internal controls.

Limitations

Our review of the Corps' internal controls wouldn't necessarily disclose all matters related to financial reporting that might be considered reportable conditions. Under standards issued by the American Institute of Certified Public Accountants used standards that stated:

- Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Corps ability to record, process, summarize, and report financial data consistent with the financial statements.
- Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce-to a relatively low level-the risk that misstatements in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Therefore, losses, noncompliance, or misstatements may occur and not be detected because of the inherent limitations in any system of internal controls. We caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate due to changes in conditions or the degree of compliance with controls may deteriorate.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We evaluated the Corps compliance with the provisions of the laws and regulations listed in the Audit Scope and Methodology section of this report and in Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements). Our objective was to assess compliance with laws and regulations in relation to the financial statements, not to express an opinion. Therefore, we do not express an opinion on compliance with laws and regulations.

The audit did not identify instances of material noncompliance with selected laws and regulations. An instance of material noncompliance is reportable if it could result in a material misstatement to the financial statements, or if the sensitivity of the matter would cause others to perceive it as significant.

Chief Financial Officers Act of 1990

We evaluated Corps compliance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, and various implementing regulations issued by the Office of Management and Budget and DOD as they relate to financial statement presentation. The Corps has made a concerted effort to meet the act's requirements. In this report, we discuss areas in which the Corps can achieve financial reporting improvements; however, we do not believe these areas represent material noncompliance with the act.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 requires the Corps to report annually to the Secretary of the Army about whether its management controls comply with the act's requirements. In its FY 00 annual assurance statement, the Corps added a reported material weakness related to its computer system controls. The Corps continued to report this material weakness in its FY 01 annual assurance statement. We addressed these general and application controls weaknesses in the system-related reports listed in Annex C of this report.

Federal Financial Management Improvement Act of 1996

Under the Federal Financial Management Improvement Act of 1996, we are required to report whether the Corps' financial management system substantially complied with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet this requirement, we performed some tests of compliance and reviewed prior audit work performed during the system's development and after the system was deployed.

We found that the Corps' financial management system substantially complied with two of the three requirements of the Federal Financial Management Improvement Act of 1996. However, because of previously identified deficiencies in general and application controls related to the system, we could not confirm that the system complied with the first requirement of the act.

- **Federal Financial Management System Requirements.** Federal financial management system requirements have been well established in Office of Management and Budget Circular A-127, "Financial Management Systems," dated 23 July 1993, that requires financial management systems to provide complete, reliable, consistent, timely, and useful information. To achieve this goal, the Corps established and maintained a single, integrated financial management system. A review of the system in FY 99 and FY 00 identified deficiencies related to general and application controls of the system. Management personnel at the Corps have reported that action has been taken to correct many of the deficiencies identified. A followup review is scheduled for completion in FY 02. Auditors from the Agency, the General Accounting Office, and an independent public accounting firm are jointly conducting that review. Until the review is completed, we are unable to verify if the system complies with all Federal financial management system requirements.

- **Federal Accounting Standards.** Federal agencies reporting under the Government Management Reform Act of 1994 are to follow accounting standards and concepts agreed to by the Director of the Office of Management and Budget, the Comptroller General, and the Secretary of the Treasury. For FY 01 the financial management system substantially complied with the Federal Accounting Standards. However, the Corps didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board and the format included in Office of Management and Budget Bulletin 01-09 for its FY 01 Statement of Net Cost. The standards and the bulletin require reporting activities to present the statement by business programs, but the Corps presented the statement by appropriation. The Corps did comply with the requirements of the DOD Financial Management Regulation to report program costs by appropriation rather than by business program. The Corps does have the capability to present the statement by business program since it has completed fielding of its standard, integrated financial management system. However, because of the DOD requirement to report by appropriation, the Corps hasn't changed its reporting software to actually produce the report by business program.
- **U.S. Standard General Ledger at the Transaction Level.** The U.S. Standard General Ledger should be implemented at the transaction level or have adequate crosswalks to the U.S. Standard General Ledger. Federal agencies are permitted to supplement their application of the U.S. Standard General Ledger to meet agency-specific information requirements. However, agency standard general ledgers must maintain consistency with the U.S. Standard General Ledger. During FY 01, the Corps completed its conversion to the U.S. Standard General Ledger in its financial management system.

OTHER MATTERS

Overview Information

The Corps overview information is incorporated into the Army's financial statements overview. We reviewed the following information presented in the Corps' overview:

- Background.
- Mission.
- Performance Results.
- Management Initiatives.

We don't express an overall opinion on this information. However, we compared this information for consistency with the financial statements. Based on this limited work, we found no material inconsistencies between the information presented in the overview and the information presented in the financial statements.

Required Supplementary Stewardship Information

The Stewardship Statement addresses only heritage assets because they are the only type of stewardship assets managed under the Corps' Civil Works Program. Deferred Maintenance is reported for Civil Works Water Resources Projects operated and maintained by the Corps. The amount for Deferred Maintenance was determined through the budget development process. We made inquiries of management regarding the methods of preparing the required supplementary stewardship information. We also compared the information to previous periods for consistency. However, we did not audit this information and do not express an opinion on it.



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