fy02

United States Army Annual Financial Statement

Transforming the Army: Imagination • Innovation • Initiative

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Transforming the Army:

Imagination • Innovation • Initiative

Secretary of the Army

There are moments in history when events suddenly allow us to see the challenges ahead with a degree of clarity previously unimaginable. September 11, 2001, created one of those rare opportunities. Now we see clearly the challenges facing us — and we are confronting them.

To succeed, the Army must accomplish three critical tasks. First, we must help win the global war on terrorism; second, we must transform to meet the challenges of future conflicts; and third, we must secure the resources needed to pursue both the war on terror and Army Transformation. We must accomplish these three tasks while sustaining the readiness of the force and caring for soldiers and their families.

The means for achieving these goals begins with the Army's biggest asset — our people. The Army is about people. At 227 years of age, the Army is an enterprise of 1.2 million individuals, including active and reserve components, civilians and contractors, serving in 180 different countries — the largest single enterprise on the face of the earth.

The war on terrorism underscored the importance of having well-trained soldiers ready to defend America's interests anywhere in the world. Our soldiers fought valiantly, in concert with American marines, sailors, airmen and indigenous Afghan forces, to defeat the Taliban, disrupt al Qaeda, liberate the Afghan people and install an interim government in Kabul. All of this was accomplished within a few short months, in the world's toughest terrain and in the dead of winter. In addition, our soldiers were in Bosnia, Kosovo and the Sinai, keeping the peace, and within our own borders, guarding airports, seaports and other potential targets.

Concurrent with the war on terrorism, we continued to transform the Army into a more agile fighting force. We tested many of the concepts of the Objective Force in concert with the Interim Force. Stryker Brigade Combat Teams participated in the joint exercise, Millennium Challenge 2002, demonstrating their capability to fight along side our joint partners, using new technologies and concepts.

Finally, obtaining the required resources and applying them prudently are pivotal to winning the war on terrorism and transforming the Army. We are working hard with the Department of Defense, within the context of the Financial Management Modernization Program and the Business Initiatives Council, to put systems and processes in place that will enable more relevant and reliable financial information and, thereby, facilitate better management. Receiving an unqualified audit opinion on our financial statements remains a priority and we continue to work toward that important goal.

I welcome your interest in the Army and its programs. In these challenging and uncertain times, the American people can be assured that the United States Army is ready to protect and defend the Constitution and our national freedoms. Our continuing stewardship of the resources that you provide will ensure that as we transform the Army into a more agile and responsive force, we are ready to meet the challenges of the 21st century.

Thomas E. White
Secretary of the Army

Transforming the Army:

Imagination • Innovation • Initiative

Assistant Secretary of the Army
(Financial Management and Comptroller)

One of the most important jobs we have in the financial management community is securing the resources needed for both the war on terror and Army Transformation. In addition to supporting the Army's obligation of fighting and winning the nation's wars, the mission of the Office of the Assistant Secretary of the Army for Financial Management and Comptroller is twofold: we owe our soldiers the best training and the best equipment and we owe the American people accountability.

Our job of securing adequate Army resources involves three essentials: (1) planning, programming and budgeting, (2) execution, and (3) financial reporting. Each of these three elements is critical in achieving our mission of accountability. Each requires the work of many, at all levels.

Given that our Army funds come from the hard-earned dollars of the American people, it is essential that we make the right decisions about how best to use those dollars. That is where our planning, programming and budgeting work comes in and culminates as a portion of the President's budget submission and, ultimately, the annual defense appropriation. Finding the right funding balance is a daunting challenge and it requires the dedicated efforts of the Army, the Department of Defense, the Office of Management and Budget, the President and, finally, the Congressional authorizers and appropriators. Our collaborative role in resourcing our country's Army has never been more mission critical.

In addition to optimizing and safeguarding the Army's resources, we owe our leaders reliable and timely financial information so that they can make informed business decisions. Providing this information is central to our mission. Receiving an unqualified audit opinion on our financial statements certifies the reliability of our financial information and, hence, remains an Army priority. Over the past year, we have made major strides in achieving this goal. For example, this year's accomplishments include: completion of milestone 3 of our Single Stock Fund implementation; Army-wide deployment of the Defense Property Accountability System; exceeding our goals for improving our accounting processes, including reducing problem disbursements, negative unliquidated obligations and outstanding travel advances and liquidating obligations in appropriations in advance of their cancellation; partnering on and advancing the development of a CFO compliant enterprise resource plan for our Logistics Modernization Program; and, positioning the Army National Guard to move simultaneously with the rest of the Army to the Department of Defense Financial Management Modernization Program's approved architecture.

Looking ahead to Fiscal Year 2003, we expect to improve the quality of the information we provide our leaders and stakeholders. Our intent is to integrate functional and financial systems more effectively in support of Army Transformation. As the rest of the Army transforms to be more lethal and more agile, we in the financial management community also must transform to become more agile and more responsive.

We are pleased to present this Fiscal Year 2002 report, the deliverable of the third critical element outlined above. It includes all three funds managed by the Army: the General Fund, the Army Working Capital Fund and the Civil Works Fund. The compact disc accompanying this report provides additional information and links to key Army web sites. We believe you will find this report useful in understanding our country's Army, its mission, and its people.

Sandra L. Pack

Sandra L. Pack
Assistant Secretary of the Army
(Financial Management and Comptroller)

Transforming the Army:

Imagination • Innovation • Initiative

Assistant Secretary of the Army
(Civil Works)

The Army has been involved in civil works and water resources since 1824, when the General Survey Act authorized the President to employ the Corps of Engineers to conduct a survey of nationally important roads and canals from a commercial, military, or mail transportation point of view. Since then, the Corps has been a dedicated servant of the American people.

In addition to its water resources mission, the Corps has supported our military forces in time of war, dating back to construction of fortifications at Bunker Hill in 1775. The Corps provided technical expertise for the Manhattan Project, and oversaw the building of the Panama Canal and the Kennedy Space Center. When a disaster strikes, Corps personnel in red jackets are there to help. Research work by the Corps resulted in building designs that saved lives in the Pentagon on September 11th. Today, 35,000 Corps employees work around the world to help improve the quality of life for people at home and abroad.

The people of America increasingly understand that our nation's water resources are finite. The debate over its use classically centers on development of water resources for social and economic benefit vs. restoration of these resources to their natural state. As science and engineering evolve, we can enhance our opportunity to find more balance between these options and make the right choices for the nation.

In terms of our nation's priorities, the war on terrorism is our main focus. We must prioritize our resources to win this war. We must also ensure that we are looking out for our nation's long-term future and ensure that our country's economy remains strong and its natural resources are protected. The Corps is continually transforming itself to better serve the ever-changing needs of the nation in a way that strikes the right balance on its critical priorities.

The Corps professionals' body of knowledge on water resources is unparalleled, and we must exploit that knowledge and associated skills to ensure that the Federal Government can continue to meet the needs of its citizens. I believe we have an opportunity to shape the nation's future and will continue to work on these important issues to achieve a national water policy that serves the best interest of all our citizens.

R. L. Brownlee

R. L. Brownlee
Acting Assistant Secretary of the Army
(Civil Works)

FY02 United States Army Annual Financial Statement

"Imagination • Innovation • Initiative"

Year in Review

The Army's primary mission is warfighting, and in this it has no peer. Its capabilities enable it also to accomplish many other missions in support of the national objectives. Prepared at all times to fight and win the nation's wars, its soldiers are ready also for deployment anywhere in the world to save lives, protect property, or keep the peace. In 227 years, the Army never has failed the nation.

In addition to these responsibilities, the Army has a responsibility to use wisely the public funds entrusted to it. Despite comprising 33 percent of all active military forces in FY 2002, the Army accomplished its missions and prepared for future missions while consuming only 23 percent of the funds allocated for the Department of Defense.

The Army comprises three separate funding entities: the General Fund, Working Capital Fund, and Civil Works Fund. This annual financial statement describes how these three funding entities operate to support the Army's people, readiness, and the transformation of its forces. The following is a synopsis of the key performance areas for each of the three funds.

General Fund

The General Fund provides funding for the Army to accomplish the many different tasks required of it by the American people, most importantly, to maintain at all times the readiness to fight and win the nation's wars.

Summary of Performance Results

The Army measures its performance against a four-dimensional risk assessment framework that allows it to evaluate tradeoffs between fundamental objectives that have been made unavoidable by resource constraints. Using this framework, the Army identified a series of performance metrics that address each of the risk management dimensions established by the 2001 Quadrennial Defense Review (QDR). Each measure is supported by a quantifiable output. The following are highlights of our FY 2002 performance.

Force Management. The primary mission of Army personnel management is to put the right person with the right skills in the right place at the right time. As it strives to fulfill this mission, the Army finds itself asking more of a smaller force, making it imperative that it has the best people available. Recruiting and training the best soldiers, officers, and civilians in the proper mix of specialties and grade levels requires an adequate compensation package; sufficient medical care and retirement programs; and opportunities for career advancement. During FY 2002, the Army exceeded its enlisted recruiting goals for all components. The Army exceeded its quality benchmarks for active and reserve high school diploma graduates (HSDG). It also exceeded the DoD target that 67 percent of enlistees score in the top half of the Armed Forces Qualification Test (AFQT), and it exceeded its self-imposed goal of 68 percent by another 0.5 percent in the reserve component. The Army also surpassed its FY 2002 retention goals for first-term soldiers by 2 percent, experiencing an increase of 0.07 percent from FY 2001. It also saw a slight increase in the retention of second-term soldiers, exceeding the performance goal by almost 2 percent


Today's soldiers are ready for any challenge.

Operational. The Army needs to manage its forces such that they are appropriately sized to accomplish both near-term war fighting tasks and small-scale contingencies. In FY 2002, Army force levels were in line with the goals established in the QDR for the Active Army Corps, Active and National Guard Divisions (including heavy and light divisions), Armored Cavalry Regiments, and Enhanced Brigades. The Army has maintained its forces at the levels established by force reductions conducted from FY 1989 through FY 1996. The Army also met its FY 2002 performance target for overseas presence by maintaining one mechanized division in the Pacific Region and two divisions with selected command, combat, and support elements in Europe. In addition, during FY 2002 the Army conducted 78 of the 80-scheduled overseas joint and combined exercises. The number of exercises scheduled and conducted each year is affected by various political and operational factors. No major exercises were cancelled in FY 2002.

Soldiers from the 101st Airborne Division (Air Assault) load onto a plane destined for Afghanistan. *Photo courtesy of AUSA.*

Overall, Army ground training continued to exhibit a positive trend during FY 2002. The active Army exceeded its home-station training target of 931 tank miles, and the Army National Guard forces recorded an increase in tank miles from FY 2001 performance levels. In response to Congressional concerns, FY 2002 is the first year in which virtual miles are reported along with actual miles.

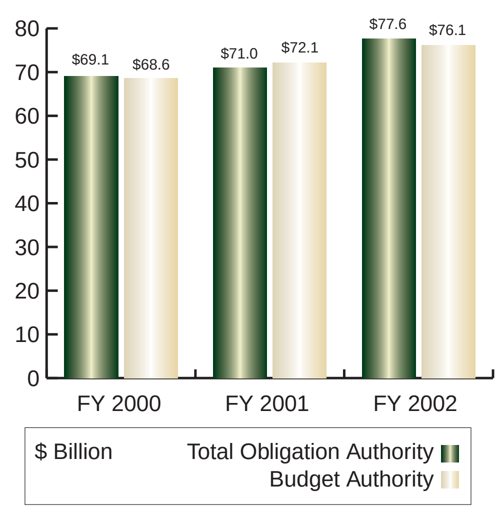
While the Army exceeded its goal for tank miles, the Army fell short of the established flying hours goals for all components. This shortfall was the result of numerous deployments, transfers of aircraft due to Aviation Transformation, and Safety of Flight (SOF) compliance messages. There were 32 SOF messages in FY 2002, a 14 percent decrease from FY 2001.

Future Challenges. The attacks of September 2001 showed that we cannot predict always with confidence which adversaries will pose threats. The types of military capabilities that will be used to challenge U.S. interests can, however, be identified and understood. The Army must shift from a threat-based to a capabilities-based paradigm. When assessing the risks of future challenges, it no longer can focus purely on the extant threats of military engagement, but must also address its

Land warrior integrates small arms with high-tech equipment, enabling ground forces to deploy, fight, and win in the 21st century.

capability to meet potential new challenges. The absence of a current, immediate threat is not justification to disregard technology that could overcome that threat. On the contrary, introducing technology early furnishes a military advantage and may dissuade a potential adversary from pursuing a similar capability. As a result of the increased complexity of modern warfare the Army established and met its goal by successfully completing 49 of a scheduled 49 Operational Test and Evaluation Events. The purpose of these assessments is to ascertain as quickly as possible how a new system or technology will perform from an operational perspective. Likewise, Congressional funding for procurement spending for FY 2002 increased by 13 percent from the previous year. Since FY 2000 there has been a 26 percent increase in procurement funding.

Institutional. Effecting changes in the way the Army conducts its support operations will require that business processes also be transformed, in order to achieve the most efficient support operations possible. It is the Army's goal to produce an increasingly responsive support structure much like the combat forces, which are becoming more agile and capable. During FY 2002, the Army conducted 17 public-private sector competitions, resulting in 11 decisions to keep the function in-house and six contract decisions to outsource for an annual savings of $87.1 million. The Army also disposed of 81.3 percent of the excess Base Realignment and Closure (BRAC) acres scheduled for disposal in FY 2002. As a result of the disposal of excess real property through the BRAC process, the Army will avoid real caretaking and related sustainment costs of $7 million in FY 2003 and beyond.



Financial Resources. The Army's budget authority for FY 2002 was $76.1 billion, a 5 percent increase from the previous year. The level of funding affects every aspect of Army operations, including its ability to attract high-quality people, to provide training, and to maintain equipment and infrastructure. It also governs the pace at which the Army is able to modernize its forces.

Working Capital Fund

The Army Working Capital Fund (AWCF) is part of the Defense Working Capital Fund and is divided into four activity groups: Supply Management, Army (SMA); Depot Maintenance; Ordnance; and Information Services. These businesses help the Army to maintain constant readiness by providing the supplies, equipment, ordnance, and information services necessary to support the deployment and projection of lethal force when required by the nation.

Summary of Performance Results

The following are highlights relating to the operation of the Army Working Capital Fund's four business units in FY 2002:

Supply Management, Army. The Supply Management, Army activity group buys and maintains assigned stocks of materiel for sale to its customers, primarily Army operating units. The constant availability of this materiel is essential to equipment and operational readiness and to the warfighting readiness and abilities of Army units. In FY 2001, SMA underwent a major change with the implementation of the Single Stock Fund (SSF) initiative, which integrated the wholesale and command retail divisions. With the implementation of the SSF, the mission of the retail division changed. The Pre-SSF retail divisions sold to authorized customers within their local geographical area. The retail divisions bought and sold both Army and non-Army managed items (AMI/NAMI) at the catalog price of the source of supply. Under the SSF the retail division consists only of NAMI. In FY 2002, gross materiel costs were lower than planned, resulting in a unit cost of $0.699 that was below the goal of $0.847. Gross materiel costs were lower than planned due to the delay in implementation of SSF Milestone 3 (MS3), which slipped by 5 months.


Supply Management, Army, operations aim at delivering supplies when and where needed.

Depot Maintenance. The Depot Maintenance activity group provides the Army with an organic industrial capability to repair, overhaul, and upgrade weapons systems end items and depot-level reparables. It also provides tenant support to Army and other DoD activities. Depot maintenance activities both compete and partner with private industry as AWCF seeks to deliver goods

Depot Maintenance employees at Anniston and Red River Army Depots keep the Army's tracked vehicles ready for combat.

and services as efficiently and effectively as possible. There are five major depots in this activity group: Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna.

Customer requirements govern the size and type of Depot Maintenance workload. Following several years of decline, FY 2002 workload increased significantly above planned levels. Depots received $183.5 million more in orders than was forecasted, or roughly 12 percent more work than planned. In response, the depots aggressively recruited to increase the workforce, employed contract support, and used high levels of overtime to respond to the increased customer demands.

Ordnance. The Ordnance activity group provides the Army with an organic industrial capability to produce high-quality munitions and large caliber weapons. It also provides the full range of ammunition maintenance for all services within the DoD and for foreign military customers. It manufactures, renovates, stores, and demilitarizes ordnance materiel and manufactures 155-millimeter howitzers, 120-millimeter gun tubes, 120-millimeter mortars, gun mounts for the M1A1 Abrams tank, grenades and smoke rounds, rebuilt protective masks, and tool sets and kits.

The Ordnance activity group manufactures and links 7.62mm ammunition for Army machine guns.

The Army manages Army Working Capital Fund cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays, not against cash balances. The Ordnance FY 2002 plan projected a drain on cash of $26.5 million, but the actual result was an increase in cash of $275.9 million. Collections were above plan as a result of advance billing of customer orders in the amount of $146 million and increased collection of valid previous year bills.

Information Services. The Information Services activity group is responsible for the development and sustainment of automated information and communications systems. It provides a multitude of services in support of the Department of Defense and foreign military sales customers including requirements analysis and definition, system design, development testing, integration, implementation support, and documentation of services.

The activity experienced a net operating results gain of $3.7 million. This was due to the increased revenue at Army's Small Computer Program (ASCP). Ordering on two contracts (Dell Army Desktop & Mobile Computing-1 contract and Oracle Enterprise Initiative Software Agreement) was heavier than anticipated. The Army continues to provide the largest source of revenue, accounting for 89 percent of total revenue in FY 2002. The Defense Finance and Accounting Service (DFAS) is also an important customer because of its needs for design, maintenance, and testing services for its financial systems.

Civil Works Fund

Since 1824, the Corps of Engineers Civil Works Program has been involved in the development, management, protection, and enhancement of America's water and related land resources. Today it is responsible for commercial navigation, flood damage reduction, environmental restoration, and related purposes. The program provides stewardship of America's water resources infrastructure and associated natural resources, and also provides emergency services for disaster relief. The Civil Works Program supports the Army in peacetime pursuits, during national emergencies, and in times of war.

Summary of Performance Results

The Civil Works Program is divided into eight distinct business programs. All programs contribute to the military power of the United States, but more important, they contribute to the economic well-being and quality of life of the nation's citizens. The following are selected highlights of FY 2002 performance.

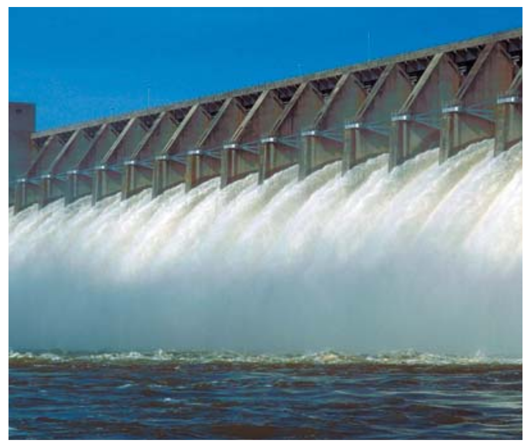
Navigation. The Civil Works navigation program is responsible for providing safe, reliable, and efficient waterborne transportation systems for the movement of commercial goods, for national security needs, and for recreation. Civil Works operates and maintains 12,000 miles of inland waterways, 235 locks, and 300 commercial harbors. Inland waterways provide a highly fuel-efficient mode of transportation, able to move freight at more than 500 ton-miles per gallon of fuel compared to the less than 400 ton-miles per gallon that rail transportation achieves. This translates to an annual savings of $7 billion in transportation costs. Every dollar invested in improving our navigation infrastructure results in a better than $3 increase in GDP.

Construction is underway on the channel leading to Victoria, TX, from the Gulf Intercoastal Waterway. The size of the channel will become the same as that of the waterway, 12 feet deep by 150 feet wide.

In FY 2002, work continued to improve the future viability of many of America's ports and harbors. In New York City, work to dredge the access channel to 41 feet is vital to ensuring that future container ships will be able to load fully in New York. This $113 million project, of which Civil Works will pay $84 million, is expected to provide $32 million in average annual benefits to the nation.

Flood and Coastal Storm Damage Reduction. There are two general approaches to reducing flood damage. The first calls for the use of large-scale engineering projects to prevent floodwaters from inundating property; the second calls for the modification of property susceptible to flooding, to minimize the risk of damage. Civil Works projects usually use a combination of approaches.

Most Corps flood and coastal storm damage reduction projects are constructed as joint ventures between the Federal Government and non-Federal sponsors, and are subsequently owned, operated, and maintained by the non-Federal sponsor. A few projects, mostly reservoirs, are operated and maintained by the Corps. The Flood and Coastal Storm Damage Reduction business program has compiled an impressive record of performance. In the period 1991-2000, floods in unprotected areas caused the United States an annual average of $4.5 billion in property damage. In the same period, Corps projects in protected areas prevented $20.8 billion in average annual damages. Through FY 2000, the nation had invested $43.6 billion ($122 billion, adjusted for inflation) in flood damage reduction projects, preventing an estimated $419 billion ($709 billion, adjusted for inflation) of flood damage. Adjusted for inflation, these figures show a return on investment of more than $6 in damage prevented for each dollar spent. The program also has helped reduce the number of lives lost annually due to floods from an average of 179 in the decade 1972-1981 to 89 in the period 1991-2000.


J. Strom Thurmond Dam and Lake, Flood Gates, Clarks Hill, SC.

Environmental. There are three program objectives in support of the strategic goals of the Civil Works Environmental Program. These are 1) to invest in mitigation and restoration projects or features to make a positive contribution to the nation's environmental resources; 2) to invest in mitigation and restoration projects and in the operation of program facilities to assist in the recovery of federally listed threatened and endangered species; and 3) to ensure that the operation of all Civil Works facilities and management of associated lands, including out-granted areas, complies with the environmental requirements of the relevant federal, state, and local laws and regulations.

Ducks, geese, and herons are protected on more than 85,200 acres of Army Corps of Engineers land devoted to wildlife management.

During FY 2002, Civil Works administered 713,909 mitigation acres, representing a slight increase of less than 0.5 percent over the acreage administered in FY 2001. The Civil Works Environmental Program also participated in recovery programs for 80 federally listed species, engaging in 496 separate opportunities to benefit these species. Finally, during FY 2002, preliminary results indicate that 100 percent of the significant findings and 62 percent of major findings were corrected. The Corps corrected four significant findings identified during FY 2002, and corrected the one remaining significant finding carried over from FY 2001.

Regulatory. Civil Works operates a comprehensive regulatory program to protect from overdevelopment the aquatic environment, primarily, but also the navigability of waterways. Management of this program has a related objective of minimizing the time taken to process decisions on requests for permits to work in the waters of the United States. There are three performance measures to support the pursuit of the strategic goals of the Civil Works mission: 1) realize no net loss of wetlands; 2) complete 85 to 95 percent of all permit actions within 60 days; and 3) complete 70 to 80 percent of decisions on standard permits within 120 days.

Inspector from Wilmington District Regulatory Office on permit site with applicants.

During FY 2002, 57,821 acres of wetlands were restored, created, enhanced, or preserved, offsetting the 24,651 acres that were lost to permitted development. The Civil Works program also completed 88 percent of all permit actions in 60 days or less. However, the performance target for standard permits was not met. During FY 2002, 61 percent of all standard permit actions were completed in less than 120 days. Performance has remained relatively steady over the last three years at between 60 percent and 62 percent.

Army Systems Controls and Legal Compliance

The Army continues to place a high priority on improving its financial management processes and associated systems. To that end, we worked aggressively through FY 2002 toward our goal of ensuring that our critical feeder systems are compliant with the Chief Financial Officers (CFO) Act and that they, therefore, will produce the requisite reliable and relevant information. The ongoing replacement or incorporation of Army feeder systems into new or evolving systems means that the number of noncompliant systems continues to diminish. Those critical feeder systems not scheduled for replacement are being evaluated for modification to achieve compliance, with each system being monitored through periodic review of the Army CFO Strategic Plan. This plan fixes responsibility and establishes a timeline for addressing and resolving problems of noncompliance, with periodic status reports going to Army leadership.

The CFO Strategic Plan is one of many initiatives designed to improve business processes throughout the Army. As these business processes improve, so too will the quality of the information that is vital to the Army's decision-makers.

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General Fund

General Fund—Overview

Profile of the Army

Mission

America has the finest Army in the world. As specified in Title 10, U.S. Code, Section 3062, the Army's mission is to defend the landmass of the United States and its territories, commonwealths, and possessions. The Army is also required to act as directed by Congress to support national policies, implement national objectives, and overcome any nations responsible for aggressive acts that imperil the peace and security of the United States.

The Army works with the other branches of the military, providing forces capable of sustained combat on land. Ensuring during peacetime that Army forces are organized, trained, equipped, and ready to act when called upon requires enormous work. As such, the Army never stands still: always drawing on the lessons of the past, its leaders constantly seek new and imaginative ways to prepare for the future.

The Army's primary mission is warfighting, and in this it has no equal, but its capabilities enable it also to accomplish many other missions in support of the national objectives. Prepared at all times to fight and win the nation's wars, its soldiers also are ready to be dispatched anywhere in the world to save lives, protect property, or keep the peace. In 227 years, the Army never has failed the nation.

What We Do

- Warfighting
- Peacekeeping
- Humanitarian Aid
- Homeland Security

In addition to these responsibilities, the Army has a responsibility to use wisely the public funds entrusted to it. Despite comprising 33 percent of all active military forces in FY 2002, the Army accomplished its missions and prepared for future missions while consuming only 23 percent of the funds allocated to the Department of Defense.

How the Army Accomplished Its Missions

The events of September 11, 2001, thrust America into a war on terrorism that has engaged the Army in operations around the globe. America's position as the world's sole superpower means that it has at the same time other unique responsibilities in what is an increasingly complex post-Cold War world. The Army helped America fulfill those responsibilities in FY 2002.

War Fighting

The Army was involved deeply in the war on terrorism throughout FY 2002. In Afghanistan, Army Special Operations Forces, followed rapidly by conventional forces, contributed greatly to the overthrow of the Taliban. Working with Afghan militia and in partnership with the forces of the other U.S. services and of America's allies, the Army significantly disrupted the Al Qaeda terrorist network, liberated the people of Afghanistan from Taliban rule, and helped install an interim government in Kabul. This was accomplished in a few short months, over inhospitable terrain during the dead of winter, 7,000 miles from American shores. The 14,000 soldiers deployed in and around the theater of operations in support of Operation Enduring Freedom, positioned from Egypt to Pakistan and from Kenya to Kazakhstan, clearly demonstrated the necessity of maintaining a trained and ready force.

A Special Operations soldier, prepared to call in close air support, watches an assault on anti-Taliban forces. *Photo courtesy of AUSA.*

In all aspects of this new war, the Army has demonstrated imagination and initiative in accomplishing a wide range of missions. In Afghanistan, America employed indigenous forces in a way that may serve as a model for future conflicts, relying on them to do much of the early fighting on the ground. The 5th Special Forces Group overcame differences in language, culture, tactics, and weapons to organize the disparate Afghan militia into an effective fighting force. Operating in a joint environment, the Afghan militia ultimately took maximum advantage of American air power to sweep rapidly the Taliban from power.

New recruits of the Afghan National Army practice saluting in their new uniforms at the Afghan National Army training site in Kabul, Afghanistan.

The Special Forces mission did not end with the liberation of the Afghan people. Afghanistan needs a stable government, supported by a trained and disciplined army, to ensure it does not revert to being a haven for terrorists. Engagement in foreign internal defense is fundamental to America's efforts to promote regional stability, and the 3rd Special Forces Group contributed significantly to this task in Afghanistan by training local recruits, as many as 2,400 at a time, in soldier skills. Drawn from all elements of Afghan culture, these enlistees are the nucleus of a national Afghan army that ultimately will be capable of providing security for the Afghan people within the country's borders and of sustaining an environment able to foster economic development and the establishment of civilian institutions and infrastructure.

Soldiers from the 10th Mountain Division negotiate a narrow trail in the Afghan mountains. *Photo courtesy of AUSA.*

The Army's conventional forces also have played an important role in the war on terrorism. As the Taliban regime collapsed, hundreds of Taliban and Al Qaeda fighters took refuge in the mountains of Afghanistan. Operation Anaconda, led by elements of the 101st Airborne Division (Air Assault) and the 10th Mountain Division, operating in concert with Special Forces and indigenous groups, was mounted to root out and neutralize these forces.

Military police from Fort Hood, TX, conduct training at Guantanamo, Cuba, prior to arrival of first detainees.

Subsequent to the fall of the Taliban, America transferred hundreds of high-risk detainees from the theater of operations to Guantanamo, Cuba. The Army has provided five military police companies from the active Army, the National Guard, and the Army Reserves to secure these detainees and to ensure they are provided properly with food, water, shelter, clean clothes, blankets, and medical treatment. In Afghanistan, the Army continues to perform an important role in maintaining an American presence there, guarding key airfields, and coordinating with government and humanitarian agencies.

The Army's role in the war on terrorism is not confined to Afghanistan. When America recognized the threat of terrorist activity emanating from the Republic of Georgia, it again turned to Army Special Forces soldiers to help that nation's government deal with the threat. Under the Georgia Train and Equip Program, the Army is training the Georgian Army staff in the principles of devising standardized procedures, training plans, and operational plans. This will be followed by tactical training up to platoon level. The program also calls for the provision to Georgia of uniforms, communications equipment, medical equipment, small arms, ammunition, fuel, and other military gear.

These examples illustrate just a few of the diverse tasks and challenges that the first war of the 21st century has placed before the Army. America's past investment in its Army has ensured that it has a force flexible enough to meet these challenges. Today the efforts in support of Operation Enduring Freedom cost approximately $365 million a month. This is an investment America must make to preserve its freedom.

Under Secretary of the Army Les Brownlee prepares to ride on night patrol.

Peacekeeping

The requirement to fight terrorism has not reduced the Army's responsibilities elsewhere as peacekeeper. Throughout FY 2002 the Army continued in this role in Bosnia, Kosovo, and the Sinai.

In Bosnia the Army is engaged in a battle of ideas as it supports efforts to move the culturally diverse and strife-torn Bosnian people toward democracy. Working within the international

Stabilization Force (SFOR), Army units act as enablers in this effort by helping maintain an environment in which democratic ideals can flourish. SFOR, which works in cooperation with nongovernmental agencies, the media, and others, provides a vivid demonstration of how American soldiers in a diverse international force can act in harmony in the pursuit of peace.

SGT Patrick Lum of Company B 54th Engineer Battalion checks authorization documents of farmers transporting a load of wood. *Photo courtesy of AUSA.*

Policy calls for Army units to rotate through SFOR on a six-month basis. At the start of FY 2002, SFOR was led by the 29th Infantry Division of the Virginia and Maryland Army National Guard; early in the fiscal year, the mission passed to the active component's 25th Infantry Division from Hawaii, which in turn passed it on to the 28th Infantry Division of the Pennsylvania Army National Guard. Regardless of who leads SFOR, it is always made up of a mixture of active and reserve component forces.

SFOR was assigned a variety of missions in FY 2002. For example, soldiers provided medical assistance to the 175 villagers of Srednja Trnova, who had not seen a doctor in several years. The villagers were in dire financial straights and had no transportation to the nearest medical facility 12 miles away. SFOR doctors treated patients from the village for pneumonia, cataracts, and glaucoma; they also extracted 57 teeth. In another mission, Joint Military Affairs soldiers trained by the Humanitarian Demining Training Center at Fort Leonard Wood, Missouri, trained and monitored Bosnian forces in the clearing of mines that threatened the civilian population and others.

SFOR Accomplishments in FY 2002

- Returned more than 2,400 displaced families to pre-war homes
- Cleared mines from more than 300 square kilometers of land
- Eliminated 17 weapons storage sites

The Army has accomplished a great deal in this troubled part of the world. Its achievements can be measured readily in the number of families returned to their homes, the area of land cleared of mines, and the reduction of ammunition storage sites. In another vital area the Army's achievement is measured less easily: that of the contribution made to American security. The events of September 11, 2001, raised concerns that Bosnia, because of its disorder and turbulence, might emerge as a haven for those who wish to do harm to the United States. The success of SFOR as a stabilizing force has prevented this from happening.

"The Army is truly integrated. I cannot tell the difference between active duty, Guard, and Reserve soldiers when I meet with them all over the world."

Thomas E. White
Secretary of the Army

Working within the framework of the Kosovo Force (KFOR), the Army also is helping to keep the peace in Kosovo, an area formerly of Yugoslavia that is troubled with ethnic rivalries. In FY 2002, soldiers from the 10th Mountain Division relieved a combined force from the 101st Airborne Division (Air Assault) and the 3rd Infantry Division. Their leaders charged the soldiers of KFOR to leave Kosovo a better place than they found it. In addition to undertaking operations similar to those performed in Bosnia, KFOR soldiers are sharing management techniques with indigenous Kosovar and United Nations forces. One American senior noncommissioned officer recognized that the Kosovo Protection Corps (KPC) had no operational management systems in place, and as a consequence was continuing to pay individuals who were no longer part of the KPC. Because of the initiative of this American soldier, 1.3 million deutsche marks (about $650,000) was recovered and put to better use.

U.S. Army Lieutenant. Laurie Green, a platoon leader with Company B, 92nd Engineer Battalion, helps an Afghan child try on her new coat. The coats were donated by school children in Green's hometown of Morehead City, NC *(Photo by Pfc. J. Wilson Guthrie, 314th Press Camp Headquarters.)*

Peacekeeping also continues in the Sinai. As part of the 1979 Camp David Accords, the Army, since 1981, has provided forces to act as a buffer between Israel and Egypt. In FY 2002 the Oregon National Guard replaced the 172nd Separate Infantry Brigade, an active component unit that had been scheduled to assume this mission. This is only the second time a reserve component force has been called upon in this capacity, the late substitution releasing the 172nd for possible duty in the war on terrorism. The move exemplifies the flexibility of today's Army.

Humanitarian Efforts

America is a caring nation and its Army reflects that in its operations. In FY 2002, even as it was involved heavily in a war in Afghanistan, the Army exercised its capacity to care for people in need.

"We have fed 7,000 families in four weeks. The civil affairs teams have really helped us…"

Simon Brooks
Chief, Red Cross Sub-Delegation
Mazar E Sharif

Across Afghanistan, the Army has deployed civil affairs teams to provide food and technical assistance to local people and to assist in rebuilding the infrastructure of the country. Many humanitarian agencies had been forced by the Taliban to maintain a low profile. In the early days of Operation Enduring Freedom, Army civil affairs teams sought out humanitarian workers and encouraged them to resume their work. When aid workers expressed their concerns that many refugees were armed, the civil affairs teams worked with Special Forces who, in turn, coordinated with Afghan forces to remove weapons from the camps. This allowed the aid workers to resume safely their operations.

The Army also worked with coalition forces in Afghanistan to bring health care to those most in need. For example, American Special Forces soldiers trained Jordanian Special Forces soldiers to secure properly a hospital location; soldiers from the 10th Mountain Division then combined with Jordanian soldiers to build a tent hospital. Sited in Mazer E Sharif, the hospital was completed in just 10 days. The U.S. Army Medical Care Center (Europe) provided more than 7,500 medical supply items to the 200 Jordanians running the hospital, which with two operating rooms, 15 surgeons, and experts in 20 specialties is one of the most modern hospitals in the country.

The Army also maintained and demonstrated its capability to respond elsewhere. When an ammunition depot located near housing areas and two schools in Nigeria exploded, the Army responded at the request of the U.S. embassy. Medical teams, explosives experts, and others deployed from Europe to dispose of unexploded ammunition and to instruct the local population in how to recognize and deal with unexploded ordnance. This team enabled hundreds of Nigerians to return to their homes and resume their lives in safety.

As the year drew to a close, the Army demonstrated also its capacity to react at home. About 1,000 National Guard soldiers responded to the floods caused by Tropical Storm Isidore, staffing emergency relief shelters, transporting people and equipment through the flood waters, and serving on security details.

Homeland Security

In addition to its operations abroad, post-September 11, 2001, the Army has devoted significant resources to defense of the homeland. In ways clearly visible to the public at large and in other ways not so visible, the Army has responded to the new threat at home.

In the immediate wake of the terrorist attacks, more than 5,000 National Guard soldiers were deployed to 442 airports nationwide to help secure air travel. Trained by the Federal Aviation Administration to work with the U.S. Marshals and the Border Patrol, these soldiers monitored the alertness of airport security personnel and helped operate security checkpoints.

Another 1,500 National Guard soldiers were deployed along America's borders with Canada and Mexico. Working with the Immigration and

"To make sure we improve security right now, the federal government will pay …to…place Guardsmen…in airports…so the traveling public will know that we are serious about airline safety in America."

President
George W. Bush

Naturalization Service and the Customs Service, these soldiers eased the pressure on a work force that had been working 12 to 15-hour shifts in the aftermath of the terrorist attacks. Inspecting vehicles and luggage, they helped realize a 50 percent increase over the previous year in arrests and seizures of illegal drugs.

An Army National Guard soldier checks a vehicle in Salt Lake City. *Photo courtesy of AUSA.*

In FY 2002, assuring the security of the Olympics in Utah also became a significant concern. With 70,000 spectators a day, 15,000 accredited media personnel, and a worldwide television audience, the games potentially were a prime terrorist target. About 3,100 National Guard soldiers assisted in searching vehicles and buildings and performing X-ray searches. Other soldiers were present to provide reaction teams in the event of an attack involving weapons of mass destruction. The games were a great success, passing without incident.

The Army also worked behind the scenes in ways not so visible. In the aftermath of the anthrax attacks, Army doctors at Walter Reed Army Medical Center began studying how the infection develops and began testing antibiotics to determine which is most effective against it. They also are using nuclear medicine to track the infection, with the goal of drastically reducing diagnostic times. Early diagnosis is essential in protecting the public from these types of terrorist attacks.

Dr. David Norwood of the Army Medical Research Institute of Infectious Diseases wears a protective suit to process samples that could pose a hazard. *Photo courtesy of AUSA.*

The Army additionally is taking an active role in studying how to improve America's response to terrorism. For example, the Army War College included homeland security as part of its annual Strategic Crisis Exercise, with the goal of developing and sharing with government leaders new ideas for responding to potential threats and attacks. Representatives of the FBI, Justice Department, and the Federal Emergency Management Agency joined in the exercise to gain a better understanding of the challenges of maintaining homeland security and to clarify the different areas of responsibility.

Vision for the Future

The Army must balance at all times the twin imperatives of maintaining readiness today and assuring preparedness for tomorrow. Even while engaged in its many diverse missions of FY 2002, the Army continued to plan for the future. In doing so, it is guided by a clear vision: People, Readiness, and Transformation.

The Army Vision

People

Readiness

Transformation

SMA Tilley takes the reenlistment oath with three 1st Infantry Division (Mechanized) soldiers. *Photo courtesy of AUSA.*

People

People—soldiers, civilians, retirees, and families—are the Army. They make the sacrifices and take the risks necessary to defend this nation; they must therefore be of the highest quality. A new recruiting campaign —"An Army of One" — was launched to raise public awareness of and interest in the potential of an Army career, and in FY 2002 the Army met its recruiting goals early. It also succeeded in improving the quality of its recruits over FY 2001.

It is not sufficient merely to recruit soldiers of the right caliber. Having done so, the Army must retain them. Ensuring their well-being is vital to this effort. America can never compensate adequately its soldiers for the sacrifices they make, but the Army at least must ensure that its soldiers can provide for themselves and their families. In FY 2002, soldiers received a 4.6 percent pay raise, with additional pay raises granted according to grade and years of service. This is a key component of the President's initiative to improve quality of life for military personnel. The Army also adjusted housing allowances to reduce average out-of-pocket expenses from 15 percent in FY 2001 to 11.3 percent in FY 2002.

Another factor critical to well-being is education. To most Americans, soldiers included, education is the springboard to a better life. The Army offers its soldiers abundant opportunities to further their education. More than 23,000 soldiers are enrolled in the innovative eArmyU program, an unprecedented collaboration with 23 colleges and universities and with hardware and software providers. The Army provides soldiers with full tuition assistance, books and fees, and the technology—a laptop computer, printer, and Internet account—to access the more than 4,000 courses that are available online. More than 90 different on-line degrees and certificates are available; already, more than 50 soldiers have completed degrees.

"So long as their families are safe [soldiers] will defend their country, believing that by their sacrifice they are safeguarding their families. But even the bonds of patriotism ... are loosened when the family ... is threatened."

William Tecumseh Sherman
General, United States Army
1864

As warfare evolves and technology advances, the Army of the future will need a new kind of leader. These leaders will be drawn from today's recruits. Through Training and Leader Development Panels, the Army is exploring innovative ways to develop the officers, warrant officers, noncommissioned officers, and civilians who will lead it successfully into the future.

Readiness

Readiness is the cornerstone upon which victory is built. It requires that forces be manned, equipped, and trained properly. In FY 2000, the Army implemented a strategy aimed at achieving 100 percent manning of all units. Starting with divisional units, the program expanded in FY 2001 and FY 2002 to include early-deploying units. This was accomplished with some risk, with some other organizations unavoidably staffed at strengths between 83 and 96 percent. This cross-leveling of personnel nonetheless achieved the Army's staffing priority: to man fully its combat forces without disabling the institutional forces.

"Our training is demanding, realistic, and it saves lives in combat."

Thomas E. White
Secretary of the Army

Once manned, units must train the way they will fight. Unit training is undertaken at three Combat Training Centers. As warfare evolves, the training facilities must modernize and adapt: combat forces, for example, will be dispersed greatly on future battlefields. With this in mind, the Army has proposed an expansion plan for Fort Irwin, California, that would open up 110,000 acres of new maneuver area and release for training an additional 22,000 acres that it already owns. The expansion plan takes full account of operational needs, land management, explosive safety, and the responsibility for environmental stewardship. While some of this land is home to endangered species, for example, the proposed expansion is in compliance with existing environmental law.

"It is no exaggeration to say that our installations are the foundation of the force—the heart of a great army."

Thomas E. White
Secretary of the Army

Readiness additionally is influenced directly by the condition of Army installations. These are the readiness and well-being platforms of the force. Commanders, however, rate two-thirds of the Army's installations as so poor that they adversely impact readiness and morale. In large part this situation is the result of the need in the past to move funds from installation management to mission accomplishment. To address this problem, in FY 2002 the Army prepared to activate the Installation Management Activity, which will standardize the level and quality of services provided at each installation. This corporate structure will create a more consistent flow of resources to Army installations.

Finally, the Army must be able to gauge the net effect of all factors that impact readiness. Reliable assessment of the condition of the force and its ability to accomplish its mission requires reporting that is accurate, objective, and uniform. The Army therefore is adopting the Strategic Readiness System (SRS) to measure and manage readiness. SRS is a predictive tool capable of linking costs to readiness, and will enable the Army to apply effectively its resources to near and far-term requirements. A prototype SRS is being tested at several installations to ensure that it meets all congressionally mandated reporting requirements and the management needs of Army leaders—i.e., the capability to produce a real-time representation of the entire Army, operating forces, institutional forces, and installations.

Readiness is bolstered by new facilities that improve quality of life, like these new barracks at Schofield Barracks, HI. *Photo courtesy of AUSA.*

Transformation

The Army began Transformation in 1999. The ultimate goal of Transformation is an Objective Force that can dominate across the full spectrum of conflict. While today's heavy forces have unmatched lethality on the battlefield, they lack the strategic mobility to get there quickly; conversely, today's light forces are strategically mobile, but lack lethality. Transformation to the full capabilities envisioned for the Objective Force will be by way of an Interim Force that will combine the best aspects of today's forces and that will act as a testing vehicle for new ways to fight.

The terrorist attacks on America underlined the validity of this strategy and the urgency of creating a more strategically responsive, deployable, lethal, agile, survivable, and sustainable force. Technology will play an important part for this force, delivering information that will enable leaders and soldiers to assess rapidly a situation and take appropriate action, to seize the initiative, and to attack the enemy at the time of their choosing. Technology is only an enabler, however. Transformation is first and foremost about instituting a culture of innovation within the Army, about developing leaders with imagination and initiative, and about developing highly adaptable, multi-skilled soldiers capable of rapid decisions in a fast-paced, complex environment.

"Tentativeness and faintheartedness are not acceptable."

General Eric K. Shinseki
Chief of Staff

During FY 2002, the Army took several important steps on its road to the Objective Force. It continued with the fielding at Fort Lewis of the first two Stryker brigades and identified the next four brigades that will be transformed, including one National Guard brigade, at the cost of about $1 billion per brigade. The Army also contracted with a Boeing/Scientific Applications International Corporation team to act as the integrator for the Future Combat System. This team will help integrate a variety of technologies, combining the best elements of manned systems and robotics, to produce a ground combat system of unparalleled power and mobility. The Army is scheduled to field the Future Combat System to the first Objective Force unit in 2008.


Air Force load masters direct Stryker aboard a C-130 at the National Training Center, Fort Irwin, CA, during Millennium Challenge 2002. *Photo courtesy of AUSA.*

Exercise Millennium Challenge 2002, undertaken by the U.S. Joint Forces Command, provided a vehicle for testing the capabilities of the Interim Force. Elements of a Stryker brigade combat team conducted an assault landing at the National Training Center in California, linking up with elements of the 82nd Airborne Division that had parachuted in earlier. The Stryker force then moved to 29 Palms and conducted an urban warfare exercise with the U.S. Marines before deploying successfully back to Fort Lewis by U.S. Navy experimental sealift.

The exercise also provided the Army with an opportunity to test emerging concepts, providing a preview of the new ways of fighting. The Army's III Corps was designated as the Joint Task Force headquarters just two weeks prior to the exercise. The corps quickly integrated a 55-person cell from Joint Forces Command along with an operational command and control architecture to enable operations across a 3,000-mile battle space. The command and control architecture allowed the commander to communicate his intent simultaneously to multiple echelons, thereby allowing concurrent rather than sequential planning, increasing the tempo of operations, and complicating the enemy's efforts to respond.


Using the Force XXI Battle Command Brigade and Below Frequency Modulation System for tactical updates gives the Stryker brigade enhanced situational awareness. *Photo courtesy of AUSA.*

Through the Interim Force, the Army is developing leaders and soldiers adept at operating in this environment. Stryker brigade combat teams are being equipped with the latest available command, control, communications, computers, intelligence, surveillance, and reconnaissance technologies, and leaders and soldiers in both the current force and the Interim Force are building the experiential base needed for the initial Objective Force units. Their experience is essential in helping to refine the technology that will underlie the Objective Force, and demonstrates the critical role of people in Army Transformation.

Organizational Structure

The Army is an organization of headquarters, staffs, commands, and units integrated into a single system with a common mission. Because of its size and complexity, the Army requires an approach that permits independent action by its separate parts while ensuring that its leadership retains overall command and control. The Army has three distinct subsystems—production, combat, and integrating—each of which operates within its own environment.

The Army is an organization of headquarters, staffs, commands, and units integrated into a single system with a common mission.

The Production Subsystem

The Army is charged with organizing people and machines into the configuration best able to perform its mission. The production subsystem, often referred to as the institutional Army, primarily supports the combat subsystem. Through a number of diverse organizations, the production subsystem obtains the raw materials that the Army needs, recruiting people, searching for new technologies, and dealing with the producers of required materiel.

Other elements of this subsystem then convert these raw materials into "intermediate goods;" for example, training centers and schools turn untrained people into tank crewmen, infantrymen, and mechanics. Schools additionally convert ideas and knowledge into doctrine, tactics, and training methods to enhance the capability of the combat subsystem. Also, laboratories, arsenals, and procurement and test organizations convert technology and contractor effort into weapons and equipment for combat.

The two major components of the production subsystem are the Training and Doctrine Command and the Army Materiel Command. The former produces the training, doctrine, and tactics needed to fight and win America's wars. The latter provides the materiel solutions needed by the warfighting units of the combat subsystem.

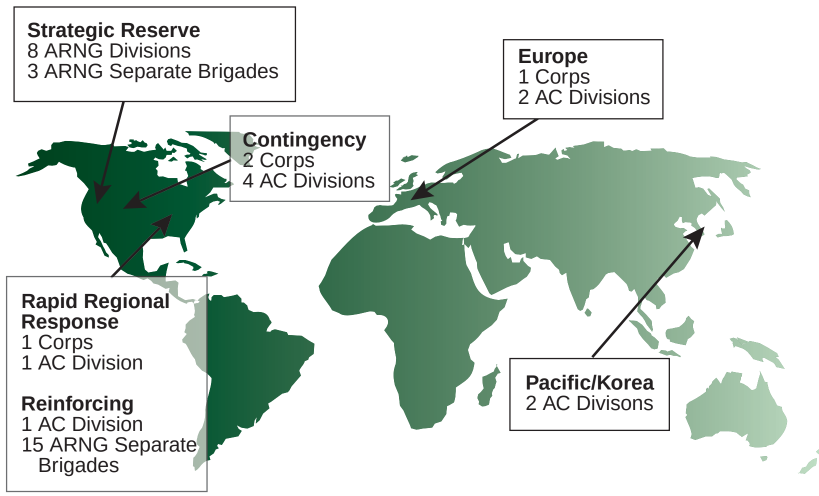
The Combat Subsystem

The combat subsystem converts the intermediate goods of the production subsystem into mission-ready units. It melds together individual soldiers, pieces of equipment, and doctrine to produce combat readiness. It stays abreast of potential threats and the needs of the unified combatant commanders to whom it provides ready forces.

The combat force structure is organized into corps and divisions placed under the peacetime command of major Army commanders. The commanders are charged with keeping their assigned forces ready to fight whenever and wherever needed. These corps and divisions may be forward-deployed or stationed within the United States. Regardless, they are prepared for rapid response or other contingencies, or are held for strategic reserve. Figure 1 shows the stationing of major Army combat forces.

The active, reserve, and civilian components of the Army each play an integral part.

Figure 1. Combat Force Stationing in FY 2002



The active, reserve, and civilian components of the Army each play an integral part in enabling the combat subsystem to accomplish its goal of providing combat-ready forces. The active component forms the nucleus of the initial combat forces in a crisis; the reserve components reinforce and augment the active forces, either by unit or by individual replacements; and the civilian component complements this subsystem by providing critical support and sustainment.

The Integrating Subsystem

The integrating subsystem ties the other two subsystems together and decides what must be done to ensure that the Army can accomplish its mission. Integration is the primary function of the Secretary of the Army and of the Army Chief of Staff. The Honorable Thomas E. White assumed duties as the 18th Secretary of the Army in May 2001; General Eric K. Shinseki has served as the 34th Chief of Staff since June 1999. Together they lead the Headquarters Department of the Army (HQDA) in ensuring that the major tasks required of the Army are accomplished.

HQDA is comprised of two elements: the Army Secretariat (the civilian leadership) focuses on managing the business of the Army, and the Army Staff (military leadership) is responsible for planning, developing, executing, reviewing, and analyzing Army programs.

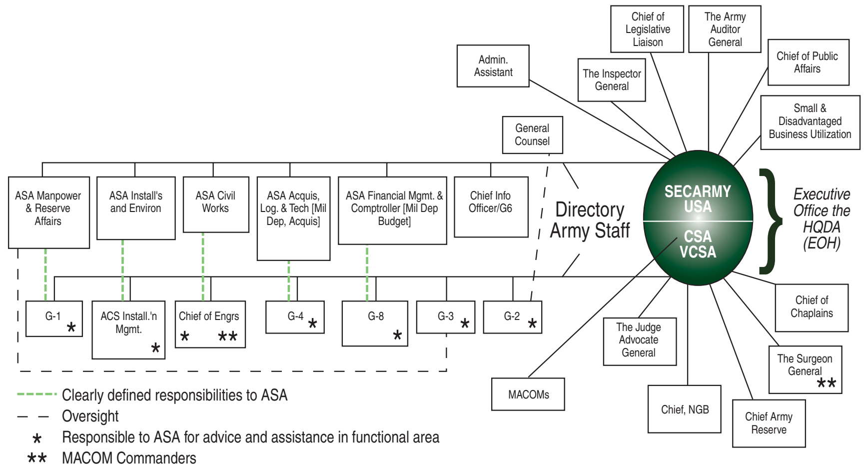
In performing its integrating function, HQDA determines the nature of the Army's mission requirements in conjunction with Congress, the Department of Defense, and the other military services, and by assessing the nature of the threats faced by the nation. HQDA then charts a course for the Army, securing the necessary resources and allocating them to best accomplish the mission. HQDA continually monitors the performance of the other subsystems and effects change when performance does not meet requirements.

In FY 2002 HQDA underwent significant change. Recognizing that it has not kept pace with the changing business environment, the Army is transforming its business practices both to enhance the capabilities and creativity of its people and to free up resources to support warfighting and transformation. Starting at the top, the Army began by merging the Secretariat and the Army Staff into a single headquarters structure to improve decision-making, to reduce redundancy, to focus better on core competencies, and to redirect people and resources thus released from other duties to its war fighting forces. The reorganization of HQDA has had significant impact. Decision-making authority is now unified in the Executive Office of HQDA. The Army eliminated redundancy by defining the responsibility of the Secretariat as policy, direction, and oversight and by realigning operational missions to the Army Staff. Additionally, it returned requirements generation approval to the Chief of Staff, putting more discipline in the process. The new HQDA organization is shown in Figure 2.

"Boundaries must be broken to accelerate change across the entire Army."

Thomas E. White
Secretary of the Army

Figure 2. New HQDA Organization



The reduction of headquarters layers will enable much more effective use of the Army's financial resources. For example, the Army has unified its acquisition effort under a single acquisition executive, with the result that funding now flows directly from the acquisition executive to program managers. The reorganization of HQDA has eliminated thus far more than 700 headquarters management account spaces, which now are available to the combat and production subsystems. HQDA reduction will continue as further non-core functions are identified and eliminated.

General Fund Performance Results: Mitigating DoD Risk Dimensions

The Government Performance and Results Act (GPRA) of 1993 seeks to improve government-wide program effectiveness, government accountability, and, ultimately, public confidence by requiring federal agencies to identify measurable annual performance goals against which actual achievements can be compared. Each agency additionally is required to submit a comprehensive strategic plan that identifies its major goals and objectives. The DoD Strategic Plan is defined in the Quadrennial Defense Review (QDR) of September 2001, which established a four-dimensional risk framework designed to ensure that DoD is sized, shaped, postured, and committed appropriately. In support of the risk management framework, the Army has identified a series of performance measures to enable the assessment of progress in key performance areas toward the accomplishment of DoD policy goals. These performance measures, which are described in the following section, will guide Army leaders in making the decisions that will assure its future readiness.

Performance measures will guide Army leaders in making the decisions that will assure the Army's future readiness.

DoD Risk Management Dimensions

Following the September 2001 QDR, DoD developed a four-dimensional risk assessment framework to enable it to evaluate tradeoffs between fundamental objectives that have been made unavoidable by resource constraints. Using this framework, DoD addresses the issues associated with developing and evaluating the operational force, its infrastructure, and key enabling capabilities. In turn, the Army has identified a series of performance metrics that address each of the risk management dimensions established by the QDR. Each measure is supported by a quantifiable output. The four risk dimensions and the corresponding Army performance measures are defined as follows:

1) Force Management — "the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing its many operational tasks."

The Army measures force management risk by reporting and evaluating the following metrics:

- Enlisted Recruiting
- Recruit Quality Benchmarks

- Enlisted Component Retention Rates
- Select Reserve Attrition Rates

2) Operational — "the ability to achieve military objectives in a near-term conflict or other contingency."

The Army measures operational risks by reporting and evaluating the following metrics:

- Army Overseas Presence
- Number of Overseas Exercises
- Force Levels
- Number of Flying Hours per Month
- Number of Tank Miles per Year
- Forces Supported by Land- and Sea-Based Prepositioning

3) Future Challenges — "the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid- to long-term military challenges."

The Army measures risks posed by future challenges by reporting and evaluating the following metrics:

- Annual Procurement Spending
- Successful Completion of Operational Test and Evaluation Events

4) Institutional —"the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the Defense establishment."

The Army measures institutional risks by reporting and evaluating the following metrics:

- Public/Private Sector Competitions
- Disposal of Excess Property
- Percentage of Paperless Transactions

The Army's ability to respond quickly anywhere in the world is a direct result of its commitment to maintaining readiness. The readiness we enjoy today is, in turn, a direct result of many years of investment in high-quality people, training, doctrine, force mix, modernization, and leader development. The following performance measures ensure that the Army maintains ready forces, properly supplied, with the ability to respond to any crisis, to shape the international environment, and to protect America's citizens, interests, and friends whenever and wherever needed.

Risk Area: Force Management

The Army strives to put the right person with the right skills in the right place at the right time.

The primary mission of Army personnel management is to put the right person with the right skills in the right place at the right time. As it strives to fulfill this mission it finds itself asking more of a smaller force, making it imperative that it have the best people available to perform its duties. No amount of technical superiority will enable the Army to respond to its future challenges if it fails to maintain the quality of its personnel by not making the investments necessary to develop them to their full potential. Recruiting and training the best soldiers, officers, and civilians in the proper mix of specialties and grade levels requires an adequate compensation package, sufficient medical care and retirement programs, and opportunities for career advancement. The Army accordingly is committed to providing adequate funding to recruit, train, and retain our personnel to Congressionally mandated strength and quality standards. The following performance measures assist us in tracking our progress toward ensuring that it meets the needs of soldiers.

Performance Measure: Enlisted Recruiting

Metric: Enlisted recruiting represents the projected number of new personnel needed each year to maintain statutorily defined military end-strengths and the proper distribution by rank.

Output: During FY 2002, the Army exceeded its enlisted recruiting goals for all components.

Table 1. Enlisted Recruiting

	FY 2000	FY 2001	FY 2002	
	Actual	Actual	Goal	Actual
Active Army	80,113	75,855	79,500	79,585
National Guard	62,015	61,956	60,545	63,251
Army Reserve	48,596	42,097	38,857	41,697

Performance Measure: Recruit Quality Benchmarks

Metric: The quality benchmarks for recruiting were established in 1992, based upon a study conducted by DoD and the National Academy of Sciences. The results produced a model linking recruit quality and recruiting resources to the job performance of enlistees. The Army has adopted the DoD recruiting targets that were derived from the model—90 percent high school diploma graduates and 60 percent top-half aptitude personnel (AFQT categories I-III)—as its minimum acceptable quality thresholds. Adhering to these benchmarks will reduce personnel and training costs while ensuring that the Army meets its high performance standards.

Output: During FY 2002, the Army exceeded its quality benchmarks for active and reserve high school diploma graduates (HSDGs). Enlistment in both the active and reserve components exceeded the DoD target that a minimum of 67 percent of enlistees score in the top half of the Armed Forces Qualification Test (AFQT), and enlistment in the reserve component furthermore exceeded the Army's self-imposed goal of 68 percent top-half applicants.

Table 2. Quality Benchmarks for Enlisted Recruits (percentage)

	FY 2000 Actual (Active/Reserve)	FY 2001 Actual (Active/Reserve)	FY 2002	
			Goal	Actual (Active/Reserve)
Recruits Holding High School Diplomas	90.3/90.1	90.2/92.7	90	91/93.8
Recruits in AFQT Categories I-IIIA	63.5/61.9	63.2/64.6	67	68/68.5
Recruits in AFQT Category IV	2.0/2.0	1.9/1.6	2	1.4/0.5

NOTE: AFQT = Armed Forces Qualification Test. The AFQT is a subset of the standard aptitude test administered to all applicants for enlistment. It measures math and verbal aptitude and has proven to correlate closely with trainability and job performance.

Performance Measure: Enlisted Component Retention Rates

Metric: Army retention goals have been in flux for almost a decade, as the Army has moved toward the force reduction targets made at the end of the Cold War. The draw-down is now effectively over, and personnel levels are stabilizing. Retention rates are based on required staffing in each pay grade; unlike the other services, the Army has historically managed retention by setting firm numeric targets for the number of personnel expected to reenlist.

Output: The Army exceeded its FY 2002 retention goal for first-term soldiers by 2 percent. It also saw a slight increase in the retention of second-term soldiers, exceeding the performance goal for second-term soldiers by almost 2 percent.

Table 3. Active Component Enlisted Retention Rates

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
First-Term Soldiers	21,409	20,000	19,000	19,433
Second-Term Soldiers	24,118	23,727	22,700	23,074

Performance Measure: Selected Reserve Attrition Rates

Metric: The Army employs attrition rates rather than reenlistment rates to assess retention trends in the Army National Guard and Army Reserves. Attrition is computed by dividing total losses for a fiscal year by the average personnel strength for that year. This metric is preferable because only a small portion of the entire reserve population is eligible for reenlistment during a given year.

CPT Rebecca Leggieri reenlists MSG Troy Falardeau. Both are assigned to the Office of the Chief, Army Reserve. *Photo courtesy of AUSA.*

Output: During FY 2002, the Army National Guard Selected Reserve had an attrition rate of 20.3 percent, which exceeded the ceiling of 19.5 percent and which marked also a 0.5 percent degradation from the FY 2001 rate for the National Guard. The Army Reserve, in contrast, had a Selected Reserve attrition rate of 23.4 percent, which was below the ceiling rate of 25.2 percent.

Table 4. Selected Reserve Enlisted Attrition Rates (percentage)

	FY 2000	FY 2001	FY 2002 Goal (Ceiling)	FY 2002 Actual
Army National Guard	20.9	19.8	19.5	20.3
Army Reserve	27.8	26.2	25.2	23.4

Risk Area: Operational

The Army needs to manage its forces such that they are appropriately sized to accomplish both near-term war fighting tasks and small-scale contingencies. The metrics used in the past to assess readiness were designed and evaluated against a narrow set of military missions and associated tasks. With the nation now facing a broader range of threats, the measurement of operational risk must be expanded to reflect the full range of capabilities that U.S. forces must possess and the additional missions that they must perform.

Today's security environment more than ever demands that forces be properly trained. It is essential that the Army maintain an appropriate level of readiness, as measured by the amount of time spent on out-of-station deployments (DEPTEMPO). To maintain pilot and crew proficiency, the Army measures the amount of flying hours, including training and maintenance activities, conducted by the active and reserve components of the Army. It also measures the number of tank miles per year covered during individual tank crew and squad training, and the amount of platoon-level training conducted at the Combat Training Center and the National Training Center.

Currently, OPTEMPO is the framework for estimating the funds necessary for fuel, spare parts, and other recurring costs of home-station operations, training, and maintenance. OPTEMPO requirements are based on unit-specific events in the battalion-level training model. OPTEMPO does not equate to readiness.

The following performance measures accordingly are designed to assess the Army's capability to meet the expanded role our nation's military forces must now play.

25th Infantry Division (Light) soldiers show soldiers from the Japan Defense Force how to prime a bangalore torpedo during an Orient Shield exercise. *Photo courtesy of AUSA.*

Performance Measure: Army Overseas Presence

Metric: Maintain a mechanized division in the Asia-Pacific region and two divisions with selected command, combat, and support elements in Europe. In Europe, these forces affirm the United States' commitment to its leadership role in NATO and reinforce bilateral relations with our key partners. Forward-deployed Army units in the Asia-Pacific region underscore the U.S. commitment to be a stabilizing influence in the region and to deter aggression on the Korean peninsula and elsewhere within the region.

Output: The Army met its FY 2002 performance target for overseas presence by maintaining one mechanized division in the Pacific Region and two divisions with selected command, combat, and support elements in Europe.

Table 5. Army Overseas Presence

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Mechanized Divisions in Pacific Region	1	1	1	1
Divisions with Elements in Europe	2	2	2	2

Performance Measure: Number of Overseas Exercises

Metric: The overseas exercise program demonstrates U.S. resolve and our ability to project forces to locations abroad in support of our national interests and our commitments to our allies. The program provides joint force training that emphasizes interoperability, joint warfighting doctrine, and rapid deployment. Such training provides opportunities to test and evaluate U.S. and host nation systems, lines of communication, and support agreements. Each year the Army establishes a goal (schedule of exercises) for the number of Joint and Combined Exercises.

Today's security environment more than ever demands that forces be properly trained.

Output: During FY 2002, the Army conducted 78 of the 80 scheduled overseas joint and combined exercises. The number of exercises scheduled each year is affected by various political and operational reasons. No major exercises were cancelled in FY 2002.

Table 6. Number of Overseas Exercises

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Number of Joint and Combined Exercises	71	77	80	78

Performance Measure: Army Force Levels

Metric: The force structure requirements for the Active Army Corps, Active and National Guard Divisions (including heavy and light divisions), Armored Cavalry Regiments, and Enhanced Brigades were established to meet the intent of the QDR by reflecting the needs for existing forces and adequate preparation for the future.

Output: During FY 2002, Army force levels were in line with the goals established in the QDR for the Active Army Corps, Active and National Guard Divisions (including heavy and light divisions), Armored Cavalry Regiments, and Enhanced Brigades. The Army has maintained its forces at the levels established by force reductions conducted from FY 1989 through FY 1996.

Table 7. Army Force Levels

	FY 2000 Actual	FY 2001 Actual	FY 2002	
			Goal	Actual
Active Corps	4	4	4	4
Divisions (Active/National Guard)	10/8	10/8	10/8	10/8
Active/National Guard Armored Cavalry Regiments*	2/0	2/0	2/0	2/0
Enhanced Brigades	15	15	15	15

* The 278th Armored Cavalry Regiment was previously classified as both an Enhanced Brigade and an Armored Cavalry Regiment. This resulted in double counting. It is now classified as an Enhanced Brigade only.

A flight of Apaches takes off from a Polish airfield during V Corps' Victory Strike II exercise, which honed deep-attack skills. *Photo courtesy of AUSA.*

Performance Measure: Number of Flying Hours per Month

Metric: Number of aircraft flying hours per month, including training and maintenance activities, required for active, Army Reserve, and Army National Guard components to maintain pilot and crew proficiency.

Output: During FY 2002, the Army fell short of the established flying hours goals for the active, Army Reserve, and Army National Guard forces. This shortfall was the result of numerous deployments, transfers of aircraft due to Aviation Transformation, and Safety of Flight (SOF) compliance messages. There were 32 SOF messages in FY 2002, a 14 percent decrease from FY 2001.

Table 8. Number of Flying Hours per Month

	FY 2000 Actual	FY 2001 Actual	FY 2002	
			Goal	Actual
Active	12.8	13.1	14.5	13.1
Army Reserve	8.5	8.9	9.0	8.9
National Guard	6.3	5.9	9.0	6.6

Note: The active Army converted to Crew OPTEMPO in FY 2000 to meet the requirements of the Aviation Restructure Initiative (ARI), which increased the number of aviators in combat units from a 1-to-1 aircraft-to-crew ratio to 1-to-1.23.

Performance Measure: Number of Tank Miles per Year

Metric: Tank miles represents the average level of peacetime activity—including in-field training, combat simulations, and equipment maintenance—

needed to achieve wartime proficiency standards, as defined by Army doctrine.

Output: Overall, Army ground training continued to exhibit a positive trend during FY 2002. The active Army exceeded its home-station training target of 931 tank miles, and the Army National Guard (ARNG) forces recorded an increase in tank miles from FY 2001 performance levels. In response to Congressional concerns, virtual miles were reported this year along with actual miles.

Table 9. Number of Tank Miles per Year

	FY 2000 Actual	FY 2001 Actual	FY 2002[a]	
			Goal	Actual
Active	702	787	931	944
National Guard[b]	150	113	184	123

[a] FY 2002 is first year of new reporting methodology reflecting both live and virtual miles.
[b] Composite average of all National Guard units, including annual mileage for ARNG Divisions and Enhanced Brigades.

Prepositioning of military equipment and supplies near regions where conflicts potentially may arise shortens the Army's response time in contingencies and assures its capability to project power from the continental United States, Alaska, and Hawaii to trouble spots anywhere in the world. Prepositioned stocks are maintained both afloat and on land, and are maintained at levels necessary to equip and sustain the operating forces for the lengths of time and levels of conflict outlined in the National Military Strategy and The Army Plan. At the center of this program are seven armor-heavy brigade equipment sets, the prepositioning of which enables U.S.-based soldiers to fly accompanied by minimal amounts of personal and small equipment, draw a brigade set, and deploy to battle positions in just days. Prepositioning objectives are based on the size and structure of the forces calculated as necessary to halt an enemy's progress in the very early stages of conflict.

1st Infantry Division tank from the 1st Battalion, 63rd Armor Regiment screams across the Bahna training site in the Czech Republic.

Performance Measure: Forces Supported by Land- and Sea-Based Prepositioning

Metric: Land-based prepositioning programs are maintained in Europe, Southwest Asia, and the Pacific region. Sea-based prepositioning complements these programs, providing the flexibility to move equipment within and between theaters of operation. Additional prepositioning programs provide base, fuel, and medical support.

Output: During FY 2002, the Army achieved its goal of maintaining five land-based and one sea-based prepositioned programs.

Table 10. Forces Supported by Land- and Sea-Based Prepositioning

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Land-based	6	5	5	5
Afloat	1	1	1	1

America cannot take future success for granted.

Risk Area: Future Challenges

The U.S. military, despite the upheavals of the past decade, has conducted all of its operations successfully. Nonetheless, America cannot take future success for granted or assume that no other nation or group will attempt to challenge it in the future. The attacks of September 2001 made that clear. Nor can America predict with confidence which adversaries will pose threats. The types of military capabilities that will be used to challenge U.S. interests and military forces can, however, be identified and understood. As in the September terror attacks in New York and Washington, any future adversaries will seek to attack America where it is vulnerable, using asymmetric approaches such as electronic terrorism and attacks against domestic infrastructure.

It is clear that the Army must shift from a threat-based to a capabilities-based paradigm. When assessing the risk of future challenges, it can no longer focus on extant threats of military engagement, but must address its capability to meet potential new challenges. The absence of a current, immediate threat is not justification to disregard a technology that could overcome that; on the contrary, introducing technology early both furnishes a military advantage, and may dissuade a potential adversary from pursuing a similar capability.

Performance Measure: Annual Procurement Spending

Metric: To achieve the appropriate balance between modernization investments and Operations and Maintenance (O&M) expenditures, the QDR calls for a substantial increase in funding for modernization. The Army accordingly tracks and reports on its Annual Procurement funding.

Output: Congressional funding for procurement spending for FY 2002 increased by nearly 14 percent from the previous year. Since FY 2000 there has been more than a 26.2 percent increase in procurement funding.

Table 11. Annual Procurement Spending ($ in millions)

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
President's Budget - Army	$8,569	$9,738	$10,424	$12,371
Total Appropriated*	$9,241	$10,265	$11,985	$11,666

*Appropriated dollars are available for spending over a three-year period.

Performance Measure: Successful Completion of Operational Test and Evaluation Events

Metric: The Army's test and evaluation programs aim to ensure that all forces are provided with weapons systems and equipment that are effective and suitable for the missions they are designed to accomplish. In the future, combat systems will be increasingly interoperable and interdependent. New systems entering service will have to function effectively not only with other systems in the U.S. inventory but also with weaponry and equipment operated by allied and coalition forces. The increased complexity of modern warfare will demand rigorous operational assessments and testing throughout the acquisition cycle. The purpose of these assessments is to ascertain, as quickly as possible, how a new system or technology will perform from an operational perspective.

The Ronald Reagan Ballistic Missile Defense Test Site on Kwajalein Atoll offers extensive flexibility for missile testing. *Photo courtesy of AUSA.*

Output: The Army established a goal to complete successfully 49 Operational Test and Evaluation Events for FY 2002. During FY 2002, the Army met its goal by completing 49 of the 49 scheduled tests.

Table 12. Successful Completion of Operational Test and Evaluation Events

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Percentage of OT&E events successfully completed	100%	100%	100%	100%

Risk Area: Institutional

The Army, along with all U.S. military forces and operations, is changing dramatically in response to resource constraints and advances in technology. Effecting changes in the way the Army conducts its support operations will require that business processes also be transformed in order to achieve the most efficient support operations possible. Much like the combat forces, which are becoming more agile and capable, the Army's goal is to produce an increasingly responsive support structure. Some of the specific types and areas of infrastructure change are financial management, public-private sector competitions, and the disposal of excess property.

Performance Measure: Public/Private Sector Competitions

Metric: As part of its efforts to reduce infrastructure, the Army conducts regular reviews of various functions and their associated billets. As a result of these reviews, some functions are retained in-house, others are outsourced, and others are reengineered.

Output: During FY 2002, the Army conducted 17 public-private sector competitions, resulting in 11 decisions to keep the function in-house and six contract decisions to outsource for an annual savings of $87 million.

Table 13. Public Private Sector Competitions

	FY 2000 Actual	FY 2001 Actual	FY 2002	
			Goal	Actual
Number of positions subject to A-76 competitions or strategic sourcing reviews	2,624	5,115	3,576	2,646

Performance Measure: Disposal of Excess Property.

Metric: The maintenance of excess property is wasteful of scarce military resources. Disposal of such property frees up funds that can be applied to force modernization and readiness.

Output: During FY 2002 the Army disposed of 81.3 percent of the excess Base Realignment and Closure (BRAC) acres scheduled for disposal in FY 2002. As a result of the disposal of excess real property for FY 2002, the Army's real property maintenance sustainment costs were $ 331.5 million, based on $4.89 per square foot. In FY 2002, $1.51 million was saved based on $.40 per square foot for 3.8 million square feet.

Table 14 - Disposal of Excess Real Property

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
BRAC Excess Acreage Remaining for Disposal	201,268	135,310	125,854	127,180
BRAC Acres Disposed of During the Fiscal Year	10,454	65,959	10,000	8,130
BRAC dollars spent during FY ($000)	$133,711	$265,100	$167,900	$158,176

Performance Measure: Percentage of Paperless Transactions

Metric: The Army is committed to employing contemporary information technology and commercial best practices to reinvent its contracting processes. Contracting, and particularly contracting related to high-cost weapon systems, consumes a large portion of the defense budget and employs a significant portion of the Army workforce. Over time, paperless contracting will contribute to a reduction in acquisition cycle times and to the streamlining of the acquisition workforce.

The Defense Reform Initiative (DRI) set the goal that 90 percent of selected transactions be performed electronically by FY 2000, and The National Partnership for Reinventing Government (NPR) additionally set the goal of reducing by 50 percent the number of paper-based transactions performed in FY 2000 from the FY 1997 baseline.

Output: During FY 2002 the Army exceeded all goals for the percentage of paperless transactions and exceeded the NPR goal for total electronic contracting and payment transactions.

Table 15. Percentage of Paperless Transactions

	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
DRI Goals				
Purchase requests	81%	93%	90%	94%
Funding documents	81%	93%	90%	94%
Solicitations	97%	98%	90%	98%
Awards/Modifications	94%	95%	90%	94%
NPR Goal				
Total electronic contracting and payment transactions	50%	95%	90%	95%

Management Integrity

The Army's approach to assuring management control and integrity is anchored in the fundamental philosophy that all commanders and managers have an inherent management control responsibility. The Headquarters Department of the Army (HQDA) (the Integrating Subsystem) functional proponents are responsible for establishing sound management controls in their policy directives and for exercising oversight to ensure compliance with these policies. Commanders and managers throughout the Army are responsible for establishing and maintaining the control and integrity of their operations.

... all commanders and managers have an inherent management control responsibility.

Corrected Weakness

Pollution Prevention

In 1998 the Army identified that it did not integrate adequately pollution prevention into all of its programs. It since has identified the critical requirements for achieving this integration and has linked all "must fund" environmental management policies to the Army Planning, Programming, Budgeting, and Execution System to ensure that they receive adequate resources. The Army furthermore now integrates environmental quality considerations into its weapons acquisition system and system engineering processes and has developed a pollution prevention training program for use in Army Acquisition Corps training. In FY 2002, the U.S. Army Audit Agency completed its review of this weakness and concluded that the Army has effectively dealt with the issue.

Uncorrected Weaknesses

Paperless Contract Writing System

The Standard Procurement System (SPS) was intended to be fielded as a paperless contract writing system using electronic data feeds to create electronic images of contracts viewable by paying offices and to populate the Contract Accounts Payable System (CAPS) data fields to effect payments. Army contracting offices currently use SPS to write contracts for vendors at Army posts, camps and stations with the Defense Finance and Accounting Service (DFAS) using CAPS to process payment information for most of these contracts. The Army is experiencing numerous problems getting these systems to work together effectively. Reliable electronic data feeds from contracting offices to CAPS paying offices have not been established to support timely and accurate payments of contractors in accordance with Title 5, Code of Federal Regulations, Part 1315 (Prompt Payment).

The use of contract images posted in the Electronic Document Access for use by DFAS paying offices has not proven reliable yet, requiring the contracting offices to forward printed copies of the contracts to the paying office. Furthermore, the electronic data file of contract information created by the SPS interface program has been successful only sporadically, requiring manual entry of vendor payment data upon receipt of the paper contract when the electronic data feed fails. This problem has contributed directly to the late payment interest penalties of about $470,000 in FY 2001 by the Army. In many of these cases where the SPS interface failed, the paper contract is received well after goods and services are provided to and accepted by the government. If not corrected, Army contracting offices will be required to forward paper contracts to paying offices increasing the likelihood of erroneous contractor payments and unnecessary interest payments. In addition, contracting and paying personnel will not meet the goal of paperless contracting, resulting in other inefficiencies in processing these payments.

To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA (AL&T)) and DFAS entered into a Memorandum of Agreement to address data migration and interface requirements for information traveling from SPS to CAPS.

Financial Reporting of General Equipment

The Army does not meet yet the financial reporting requirements for general equipment because it cannot present yet the historical cost and depreciation of those assets in its financial statements. While the Army has physical control over these assets, the absence of any requirement that its original property accountability systems provide for proprietary accounting means that historical costs and depreciation expenses were not maintained by those systems.

In FY 2002, the Army completed fielding of the Defense Property Accountability System (DPAS), resolving the issue of recording historical costs and calculating depreciation expenses. The Army Audit Agency will validate the effectiveness of this action, and the Army expects to close this weakness in FY 2003.

Army Purchase Card Program

The General Accounting Office (GAO) identified a lack of adherence by field activities to established purchase card internal controls. Although no substantial instances of fraud, waste and abuse were identified, an environment existed that easily could have fostered fraud. As a result, GAO has expanded the audit to include a review of the Army and other Defense Components.

The Army has addressed positively every GAO finding regarding the Army Purchase Card Program. To correct this problem, the OASA (AL&T) has sought aggressively to establish positive controls in the areas where weaknesses were found.

Previously Reported Weaknesses

The Army reported two weaknesses last year that it had expected to close. Various circumstances prevented this from happening.

Manpower Requirements Determination. The Army is seeking to establish effective manpower programs for managing and controlling Tables of Distribution and Allowances (TDA) workload, organizations, and manpower staffing. The current system for manpower requirements determination lacks the ability to link workload, manpower requirements, and dollars. This makes it difficult for managers to support staffing needs, manpower budgets, and personnel reductions.

The Army has been pursuing corrective actions since 1997 and expected to eliminate this weakness in FY 2002. However, Army leaders were uncertain that the adopted path would yield an adequate requirements determination method to allow for rational decision-making. As a result, the Army adjusted its approach to provide the analytic support, validation, and prioritization of missions and requirements necessary to provide leaders and managers at all levels with the information needed to make near-term and out-year manpower decisions. The Army expects to complete its efforts in FY 2005.

Financial Reporting of Equipment-in-Transit: The Army does not have reliable data on the value of equipment in-transit. The Army believed it had addressed all required issues, but AAA review found that additional work still is required. The target date for closure of this weakness is FY 2005.

Future Effects of Existing Conditions

Operational Risk

The Army's current force is very similar to that of the Army that 11 years ago fought so decisively in Desert Storm. In the intervening years the nature of the threat facing America has evolved. The force that deployed in the Gulf War was developed under a strategy that envisioned a scenario of two simultaneous major regional conflicts. The 2001 terrorist attacks on America introduced an enemy instead that would employ asymmetrical warfare to avoid our strengths and attack our vulnerabilities. It is difficult to assess exactly what form future threats will take. As a consequence, the Army has moved away from a threat-based force and is intent on building a capabilities-based force equipped to function across the full spectrum of military operations.

The Army has moved away from a threat-based force and is intent on building a capabilities-based force.

Identified as the Objective Force, this new force will fight in a noncontiguous manner, and will be capable of rapid deployment in a crisis to either fight or, ideally, to deter conflict. It will have the capability of being projected anywhere in the world—not just to easily accessible areas with multiple air and seaports, but also to remote, landlocked, and infrastructure-poor areas. The importance of this capability was demonstrated in Afghanistan, where the rapid engagement of U.S. forces contrasted dramatically with the long build-up that preceded Desert Storm. Failure at this point to develop this capability to project sustainable combat power anywhere in the world (i.e., failure to realize the Objective Force) could leave the nation's worldwide interests vulnerable to attack.

Institutional Risk

The Army must make the best use of its resources in its day-to-day operations. This requires that it transform its business practices to improve its financial management and that it streamline its infrastructure.

Business practices have, in the last decade, changed fundamentally, leading to significantly increased productivity, lower costs, and higher-quality outputs. The Army has not kept pace and must transform how it does business so that it might free up resources that can be applied to the fielding of the Objective Force. Many functional activities need to be examined and improved, streamlined, or eliminated. This requires imagination and innovation.

It is essential to the effort to reduce costs and increase productivity that Army leaders and managers be supplied with reliable information. The Army's inability thus far to achieve an unqualified audit opinion on its financial statements indicates that the information it is given is not reliable, with the result that resources are not being used to their best effect. The Army estimates that 80 percent of the data found in its financial systems comes from functional area systems such as logistics, personnel, acquisition, and other systems. The Army realizes that the capability to deliver reliable information will require the integration of these functional management systems with financial management systems. Until this is done the Army will continue to be at risk of sub-optimizing its use of resources.

Another way to lower costs is to eliminate unnecessary infrastructure: as much as 25 percent of the Army's infrastructure is surplus to its needs. However, the decision to delay for two years the base closure program has obligated the Army to apply resources to maintenance of this excess infrastructure, and increased force protection requirements have exacerbated this problem. The Army, furthermore, has been forced to delay its investments in infrastructure revitalization until it becomes clear which installations will be closed and which will be kept open. Commanders already rate two-thirds of Army infrastructure as so poor that it is damaging to readiness and morale; these matters can serve only to make the situation worse.

Human Capital

A critical element of Transformation is determining the proper mix of civilian, military, and contractor personnel to assure the Army's success. This includes an assessment of core competencies across the full spectrum of military operations. As the Army seeks to increase its "tooth-to-tail" ratio, it must carefully weigh the important roles played by combat support and combat service support personnel. There is a temptation to reduce the number of personnel that perform these roles in order to convert their positions to combat roles, but there are some essential support positions that must be retained and filled by military personnel. Logistical support to the troops in combat in particular must not be compromised.

While many support tasks can be outsourced, the Army must ensure that it can meet the demands of "the last logistical mile." In many instances, it would not be appropriate to rely on contractors or civilian employees to perform these tasks. The Army must, therefore, balance the economic gains of outsourcing against the need to ensure that the military force structure can deliver the necessary logistics on the battlefield. Selecting the right structure for a force of 480,000 is a complex task involving many tradeoffs. The challenge facing the Army is to determine precisely the core competencies it requires to sustain combat operations and to ensure that it retains the right mix of combat and support troops.

Advancing the President's Management Agenda

"Being at war is no excuse for not implementing business reform."

Thomas E. White
Secretary of the Army

The President's Management Agenda provides a route to greater efficiency and the means whereby the Army can identify the actions it must take to improve management performance at all levels. Just as the Army is reinventing itself as a fighting force, it is changing the way that it conducts the business of supporting that force.

Strategic Management of Human Capital

A key element of successful personnel management is providing people with information and trusting them to use it to the benefit of the organization as a whole. The Army is taking steps to empower its soldiers and civilian employees with greater knowledge.

Army Knowledge Management

The Army, at its core, is people who, by doing their jobs well every day, contribute to the accomplishment of the Army mission. Putting knowledge in the hands of its people makes the Army stronger. Army Knowledge Management is an innovative strategy to transform the Army into a knowledge-based force that will improve performance at every level.

Under the umbrella of Army Knowledge Management, the Army has introduced the new tactical Warrior Knowledge Network, which relies heavily on communities of practice. Akin to guilds, these are voluntary associations of people bound together by common professional interests. The network uses the Internet to enable soldiers to share knowledge and learn from their peers, mentors, experts, and other resources. By leveraging emerging methods of knowledge creation and transfer, it supports the Army's drive toward becoming a "learning organization" that shares knowledge and information that is relevant to its mission.

eArmyU

Trained soldiers are difficult to replace, and investment in retaining them can represent money well spent. One major retention incentive is education, and the Army has taken an innovative approach to leveraging this incentive through the creation of eArmyU. Initially offered at three installations, the Army expanded the program in FY 2002 to a total of five installations. Once enrolled, soldiers can continue their studies wherever they are assigned, which includes today Australia, Honduras, Kosovo, Bosnia, Belgium, Japan, Egypt, Kuwait, Singapore, Germany, Korea, Macedonia, Italy, and Jordan. In FY 2002, 16 percent of the soldiers in the program extended in order to meet eArmyU's eligibility requirements.

In addition to contributing to a soldier's education, eArmyU functions in support of Army Transformation. Through its intensive use of information technology, the program is aiding in the development of technology-savvy soldiers who can succeed on the digitized battlefield.

Competitive Sourcing

Many of the tasks performed by government employees can be contracted out to the commercial marketplace, often at savings in a range of 20 to 50 percent. The Army continues to seek savings by outsourcing non-core functions. Successful outsourcing will also contribute to the efforts to man fully combat units while preserving the institutional Army.

Residential Communities Initiative

The Army is partnering with private sector firms to manage its residential communities. Family housing facilities are conveyed to a developer with a long-term land lease in return for an agreement to renovate or replace existing quarters and build new units as needed. The developer also is responsible for operating and maintaining the housing units. In return the developer collects service member tenants' Basic Allowance for Housing.

The Residential Communities Initiative (RCI) was authorized in 1996 and has seen four successful pilot installations. Eight more were initiated in FY 2002, with an additional 15 planned by FY 2005. This will result in the privatization of more than 71,000 family housing units. RCI is an innovative and financially prudent way for the Army to cope with a requirement of $6 billion for the 70 percent of its inventory that is in need of renovation.

Recruiting

The Army's vision for readiness requires that all combat units be staffed fully and that this be achieved without breaking the institutional Army. Army recruiters are a key part of the institutional Army and skilled noncommissioned officers traditionally have filled the recruiter position.

Seeking a way to release skilled soldiers from the institutional Army, the Army has awarded contracts to two civilian firms to perform the recruiting mission. This is a test program that will run through FY 2006 at 10 locations. The contractors will replace more than 350 non-commissioned officers who can be released for other duties.

The contractors will put a premium on hiring veterans who are smart, energetic, and who have a recruiting background. They will be trained in enlistment eligibility, enlistment incentives, and U.S. Army Recruiting Command policies and procedures. The Army National Guard has been using civilian contractors to successfully augment its recruiting efforts since 1999. If this test is successful, it could be expanded to return an even greater number of non-commissioned officers to the force.

Improved Financial Performance

"This is not just about money. It's about responsibility to the men and women in uniform who put their lives at risk. We owe them the best training and best equipment, and we need the resources to provide that."

Donald H. Rumsfeld
Secretary of Defense

In FY 2002, Secretary White approved a number of initiatives that will enable the Army to make better use of its funds. The Army also is pursuing other long-term initiatives aimed at putting more useful and more reliable financial information in the hands of managers, with the aim of enabling them to make more efficient use of resources.

Better Use of Training Funds

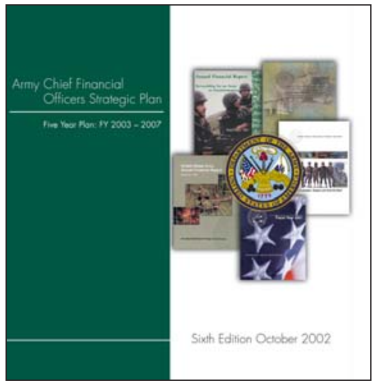
When soldiers leave their home station for training, the costs incurred are funded by the sending installation—despite the fact that those costs are controlled by the training installation. The Army will initiate a test to examine whether costs for lodging, food, and local transportation can be reduced if the funding is controlled by the training installation. The Army believes this will result in lower funding requirements, reduced accounting transactions and delinquent accounts, and reduced out-of-pocket expenses for soldiers.

In an initiative that will require Congressional support, the Army will seek to fund reserve component new equipment training with procurement funds, rather than with reserve component operations and maintenance (O&M) and personnel funds. Because these latter funds are only available for one year, if a program is accelerated or delayed the funds may not be available for the new equipment training when it actually occurs. The Army will seek approval to allow program managers to reimburse the reserve component accounts out of multi-year procurement funds under their control. Authorized to use multi-year funds, program managers would have more flexibility to absorb schedule changes without affecting adversely reserve component training.

CFO Strategic Plan

To successfully achieve its vision, the Army must have sufficient resources with which to take care of its soldiers, ensure near-term readiness, and transform itself into the force of the 21st century. The delivery of high-quality financial information upon which resource decisions can be based is imperative for improved financial performance.

Delivery of this information requires integrating with the financial management processes and systems the many stovepipe processes and systems that affect the consumption of financial resources. The Army has developed and is executing a strategic plan that synchronizes efforts across the Army to integrate processes and systems, while improving upon the quality of management information.



The Army is implementing modern technology in the development of flexible, streamlined procedures and processes that will provide the type of information upon which sound decisions can be based. Within the context of this plan, the financial management and functional communities are working together to eliminate unnecessary systems. Financial managers and functional leaders are working to ensure that the systems brought forward comply with all statutory, regulatory, and audit requirements. The Army's plan is designed to complement the DoD Financial Management Modernization Program, which is working to identify systems, to map processes, and to determine the optimal architecture for the future.

By integrating effectively the financial processes and systems with the many other functional processes and systems that impact on commanders' resources, the Army can provide commanders with relevant and reliable information on the availability of funds. This information will enable commanders to better assess their ability to train and maintain and will help them to articulate better the financial costs and benefits of different options.

Expanded Electronic Government

The President's Management Agenda asserts that, through electronic means, government can both reduce costs and provide better service. The Army, accordingly, is pursuing a number of electronic initiatives aimed at providing better service to its soldiers and civilian employees.

Eagle Cash

Eagle Cash is a Financial Stored Value Card (SVC) developed by a partnership of the Department of Treasury, the Defense Finance and Accounting Service, the Army and Air Force Exchange Service (AAFES), and the Army. The card is the size of a standard credit card and has an embedded microprocessor chip that holds information in electronic form.

Local finance officials in Bosnia, Honduras, Hungary, Kosovo, and Macedonia issue the cards to deployed soldiers and civilians in lieu of cash. This has the dual effect of reducing the amount of cash required in a theater of operations, thereby reducing cash handling costs, and reducing the vulnerability of soldiers to loss or theft. It also reduces AFFES's vulnerability to bad checks. The result has been a 58 percent reduction in cash disbursed to soldiers and a 49 percent reduction in cash and administrative paper work turned in to overseas finance offices by AAFES and military postal offices.

The card has the added benefit of improving cash flow in AAFES businesses in a theater of operations. Prior to Eagle Cash, it took up to 15 days to process a cash deposit through a finance office for deposit at an AAFES bank account. This has been reduced to as little as two days with Eagle Cash, which enables finance offices to settle deposits by postal offices and AAFES through secure Internet. This technology provides a viable alternative to military pay certificates and U.S. currency in deployed environments.

Military Paper Check Conversion

Most overseas finance offices process check deposits through a manual, labor-intensive process, with returned checks taking up to three months to debit the finance officer's account. Through Military Paper Check Conversion, affected via secure Internet, the Army converts paper checks into an electronic debit of

the check writer's account. This reduces to 24 hours the time for the check to clear; it also reduces the time for AAFES to receive funds from as many as 15 days to just two.

In a one-year pilot conducted in FY 2002, finance offices processed 82,560 personal checks, valued at $35 million. Of these, 99.6 percent were successfully processed the first time. For those that were returned for re-presentment, 96 percent were successfully collected because notifications for insufficient funds were reduced from 28 days to two days making it easier to take corrective actions. This technology has enhanced the finance officer's mission during contingency operations.

U.S. Debit Card

The Department of Treasury, the Defense Finance and Accounting Service (DFAS), the U.S. Southern Command (SOUTHCOM) and the Army developed the U.S. Debit Card (USDC) in partnership. The USDC is a flexible, magnetic stripe card that uses the secure Internet as its infrastructure to allow the local comptroller to load funds to the card and to monitor the expenses of the employees. The USDC is used at the SOUTHCOM to fund escort agents in the performance of their duties of escorting foreign nationals to their headquarters. The past business practices were manual, time consuming, and lacking in internal controls on the funds being used. This technology allows the comptroller to support their escort officers' mission 24 hours a day, 7 days a week effectively, efficiently and easily. To date, SOUTHCOM has improved their business processes to include obligations and accountability of funds. Over $2 million has been processed using this technology.

“Imagination • Innovation • Initiative”

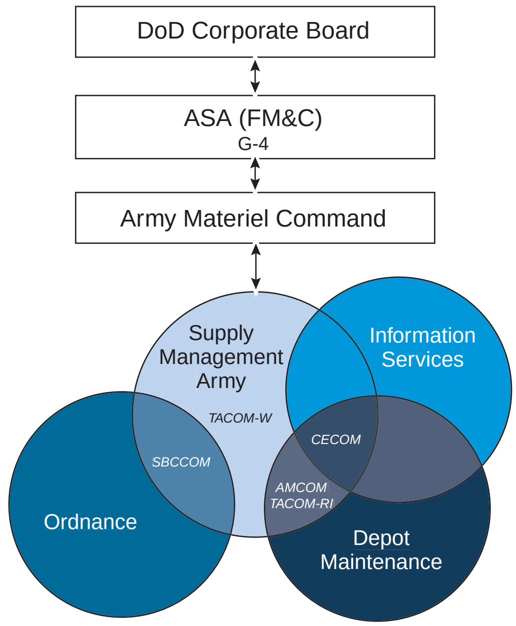
Working Capital Fund

Profile of Working Capital Fund—Overview

The Army Working Capital Fund (AWCF) is part of the Defense Working Capital Fund, established by the Secretary of Defense under the authority of Title 10, U.S Code, Section 2208. Section 2208 allows for the establishment of working capital funds to finance inventories and provide working capital for industrial-type activities that provide common services within or among the departments and agencies of the Department of Defense (DoD).

The AWCF is divided into four activity groups: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services (see Figure 3). The Army Materiel Command (AMC) exercises command and control over the activity groups through one or more of its six major subordinate commands. AMC in turn reports activities to the Deputy Chief of Staff, G-4 and to the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)). A DoD corporate board additionally maintains oversight of AWCF functions.

Figure 3. AWCF Organizational Chart



Mission

The overarching goal of the AWCF is to promote Army readiness by assuring the agility and sustainability of Army support systems. In essence, the relationship between the operating forces and the support organizations is that of customer and provider. As a provider, the AWCF activity above all must serve the needs of its most important customers, the operating forces; it must do so, however, while observing also an obligation to control or reduce costs. AWCF managers, accordingly, are charged with satisfying their customer requirements within cost goals established in their budgets. In part, and where appropriate, managers are seeking to do this through the application and adaptation to Army support functions of private sector best practices.

AWCF Readiness Enhancers

- Stable Rates
- Surge Capability
- Quality Maintained

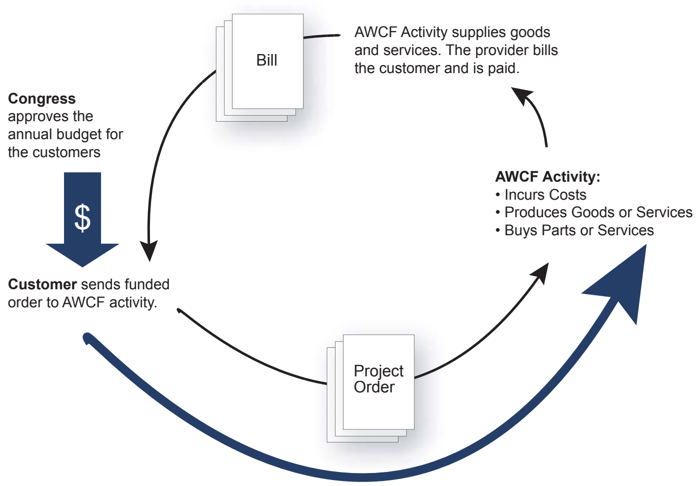
The public and private sector are not perfectly analogous, however. It is not acceptable that critical Army operations be susceptible to short-term price fluctuations, for example. The AWCF activities therefore provide mission-critical support at rates that remain stable during the year of execution, regardless of price changes. This protects the operating forces from having to reduce their readiness programs should prices rise above anticipated levels. The AWCF activities also maintain a surge capability to provide extraordinary supply or other support should mobilization conditions require. Finally, and regardless of whether it is performed internally or contracted out, all AWCF work is undertaken to standard specifications, without compromise.

How the AWCF Works

The AWCF uses a revolving fund structure, named for the cyclical nature of the cash flow in and out of the fund. Activities price their goods and services such that the sale of those goods and services recovers the total cost incurred in providing them; the income from sales, in turn, is used to buy or replace inventory and to finance the delivery of future goods and services.

The AWCF operates through a four-step process (see Figure 4). First, Congress reviews the budget submissions of the AWCF customers, approves a budget for those customers, and appropriates to them the approved funds. The customer next sends to an AWCF activity a funded order—essentially a fixed-price contract based on the work required and the AWCF rate for the goods and services. Third, the AWCF activity performs the work necessary to produce the goods and services required, incurring costs as it does so. Finally, the activity invoices the customer per the funded order, thus recovering its costs and completing the funding cycle.

Figure 4. How the AWCF Operates



The revolving fund concept enables AWCF managers to be flexible when acquiring the resources that they need, but it also gives AWCF customers the freedom to evaluate prices and performance when deciding on the level of service that they will acquire. Taken together, these two factors serve as an incentive to AWCF managers to provide the highest quality services at the lowest possible price.

The revolving fund concept enables AWCF managers to be flexible when acquiring the resources that they need, but it also gives AWCF customers the freedom to evaluate prices and performance.

The Activity Groups

Supply Management, Army

The Supply Management, Army (SMA) activity group buys and maintains assigned stocks of materiel for sale to its customers, primarily Army operating units. The constant availability of this materiel is essential to equipment and operational readiness and to the warfighting readiness and abilities of Army units. In FY 2001, SMA underwent a major change with the implementation of the Single Stock Fund (SSF) initiative, which integrated the wholesale and command retail divisions. Under SSF the wholesale division remains subdivided by commodity, and is managed by major subordinate commands under AMC. The command retail divisions no longer exist. Table 16 provides the breakdown of the wholesale subdivisions.

Table 16. Supply Management, Army Activities

Major Subordinate Command	Wholesale Subdivisions	Materiel Managed
AMCOM	U.S. Army Aviation and Missile Command, Huntsville, AL	Aircraft and aviation ground support items; missile system items
CECOM	U.S. Army Communications-Electronics Command, Fort Monmouth, NJ	Communication and electronics items
TACOM-W	U.S. Army Tank-automotive and Armaments Command, Warren, MI	Combat, automotive, and construction items
TACOM-RI	U.S. Army Tank-automotive and Armaments Command Acquisition and Logistics Activity, Rock Island, IL	Weapons, special weapons, and fire control systems
SBCCOM	U.S. Army Soldier and Biological Chemical Command, Natick, MA	Ground support items and chemical weapons

SMA recoups all costs related to the supply of goods and services through a stabilized price system within which the price includes a surcharge to cover such costs as inventory loss, transportation, obsolescence, and the cost of inventory management supply operations. The latter includes the cost of civilian labor and military personnel at supply activities, a portion of headquarters costs related to inventory management, costs incurred through the receipt and issue of Army-managed material at distribution points, and the depreciation of capital assets.

Depot Maintenance

The Depot Maintenance activity group provides the Army with an organic industrial capability to repair, overhaul, and upgrade weapons systems end items and depot-level reparables. It also provides tenant support to Army and other DoD activities. Depot maintenance activities both compete and partner with private industry as the AWCF seeks to deliver goods and services as efficiently and effectively as possible. There are five major depots in this activity group: Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna. The depots are managed by major subordinate commands under AMC (see Table 17).

Table 17. Army Depots

Major Subordinate Command	Location	Activity Performed
TACOM	Anniston Army Depot, Anniston, AL	Maintenance, overhaul, and repair of heavy tracked combat vehicles and artillery; provision of base support to tenants
AMCOM	Corpus Christi Army Depot, Corpus Christi, TX	Maintenance, repair, overhaul, and upgrade of rotary wing aircraft, engines, and components
AMCOM	Letterkenny Army Depot, Chambersburg, PA	Maintenance, repair, and overhaul of tactical missile systems; provision of base support to tenants
TACOM	Red River Army Depot, Texarkana, TX	Maintenance and repair of light armored vehicles and select missile systems; provision of base support to tenants
CECOM	Tobyhanna Army Depot, Tobyhanna, PA	Manufacture, maintenance, testing, and fielding of communications-electronics systems and equipment and missile guidance and control systems and equipment; provision of base support to tenants

Ordnance

The Ordnance activity group provides the Army with an organic industrial capability to produce high-quality munitions and large-caliber weapons. It also provides the full range of ammunition maintenance for all services within the DoD and for foreign military customers. It manufactures, renovates, stores, and demilitarizes ordnance materiel and manufactures 155-millimeter howitzers, 120-millimeter gun tubes, 120-millimeter mortars, gun mounts for the M1A1 Abrams tank, grenades and smoke rounds, rebuilt protective masks, and tool sets and kits.

Ordnance activities provide logistics support including management, follow-on procurement, production, maintenance, and engineering. They also provide storage, maintenance, and demilitarization of conventional ammunition.

The activity group consists of three arsenals, two ammunition plants, three ammunition storage depots, and three munitions centers. The Soldier Biological and Chemical Command, located at Aberdeen Proving Ground, MD, manages Pine Bluff Arsenal. The Operations Support Command (OSC) located at Rock Island, IL, manages the remaining arsenals, ammunition plants, and ammunition logistics activities. The arsenals and plants provide depot operations, set assembly, tenant support and national procurement services for thin- and thick-walled cannon. They additionally are responsible for ammunition logistics management including follow-on procurement, production, maintenance, engineering, and integrated logistics support management.

Table 18. Army Ordnance Activities

Activity	Location	Mission
Pine Bluff Arsenal	Pine Bluff, AR	– Primary manufacturing capabilities include the production of conventional ammunition and chemical and biological defense items including white phosphorous and red phosphorous munitions, signaling and obscuring smokes, incendiaries, irritants, and the production and rebuild of decontaminating kits, large filters, masks and defensive chemical test equipment – Provides base support to tenants
Rock Island Arsenal	Rock Island, IL	– Primary materiel and industrial capabilities include the production of aircraft weapons, infantry weapons, air defense weapons and artillery; armament for tanks, artillery, personnel and cargo-carriers; and special tools and tool sets – Major in-house programs include: maintenance truck, heavy; spare parts for M119 and M198 towed howitzers; explosive ordnance disposal vehicles; and 120mm gun mount for Abrams main battle tank – Provides base support to approximately 40 tenants
Watervliet Arsenal	Watervliet, NY	– Primary materiel and industrial responsibilities include production of mortars, recoilless rifles, cannon for tanks and towed and self-propelled artillery, special tool sets, and training devices and simulators – Major in-house programs include: the M256 gun tube, M284/M109A6 howitzer, and XM297 howitzer – Provides base support to tenants

Activity	Location	Mission
Crane Army Ammunition Activity	Crane, IN	– Primary materiel and industrial responsibilities include manufacturing, load and assembly, supply depot operations, and renovation, maintenance, and demilitarization of conventional ammunition and ammunition-related components
McAlester Army Ammunition Activity	McAlester, OK	– Primary materiel and industrial responsibilities include ammunition manufacturing and the rapid outload, maintenance, and demilitarization of conventional ammunition and missiles. The premier bomb loading facility for DoD – Provides base support to tenants
Sierra Army Depot	Herlong, CA	– Primary materiel and industrial responsibilities include the receipt, storage, care of supplies in storage (COSIS), repair, assembly, disassembly, and shipment of major and secondary items for operational project stocks – Provides base support to tenants
Tooele Army Depot	Tooele, UT	– Responsible for design and development of ammunition peculiar equipment; stores, maintains, distributes, and demilitarizes conventional ammunition – Provides base support to tenants
Blue Grass Army Depot	Richmond, KY	– Primary materiel and industrial responsibilities include the receipt, issue, storage, testing, and minor repair of chemical defense equipment. Stores, maintains, distributes, and demilitarizes conventional ammunition – Provides base support to tenants
Red River Munitions Center	Texarkana, TX	– Stores, maintains, distributes, and demilitarizes conventional ammunition
Letterkenny Munitions Center	Chambersburg, PA	– Stores, maintains, distributes, and demilitarizes conventional ammunition
Anniston Munitions Center	Anniston, AL	– Stores, maintains, distributes, and demilitarizes conventional ammunition

Information Services

The Information Services activity group is responsible for the development and sustainment of automated information and communications systems. It provides a multitude of services in support of the Department of Defense and foreign military sales customers including requirements analysis and definition, system design, development testing, integration, implementation support, and documentation of services. The group, which comprises two Central Design Activities (CDAs), the Integrated Logistics Systems Office, and the Army Small Computer Program is managed by the U.S. Army Communications and Electronics Command (CECOM) at Fort Monmouth, NJ.

The two CDAs, Software Development Centers (SDCs) Lee and Washington, provide support for eight personnel and retail logistics systems. Significant among these are the Inspector General Network, the Housing Operations Management System, and the Financial Management Information System.

The Integrated Logistics Systems Offices (ILSO), located in Chambersburg, PA, and St. Louis, MO, provide subject matter expertise and government oversight of the Logistics Modernization Program (LMP). Implementation of the LMP has seen the outsourcing of the activity group's software maintenance and sustainment mission to the Computer Science Corporation, which now performs all the mission-related work of ILSO.

The Army Small Computer Program (ASCP) provides customers with fully competed commercial sources of small and medium-sized computers, software, networking infrastructure, and support services.

Effective FY 2002 the Information Services activity group eliminated the use of stabilized rates. All customers now pay for services on a reimbursable basis as the Army prepares to decapitalize this activity group at the end of FY 2003. Charging its customers at the actual costs for FY 2002 and 2003 will ensure that it will not incur losses before it is decapitalized.

Working Capital Fund — Performance Measures

Corporate Performance

The mission of the AWCF is to provide support services to the operating forces in the most efficient and cost-effective manner possible. Assessing the performance of the AWCF through the use of financial and program performance measures indicates how well the AWCF is accomplishing its mission.

The mission of the AWCF is to provide support services to the operating forces in the most efficient and cost-effective manner possible.

Performance Measures

Cash Management

The ability to generate cash is dependent on setting rates to recover full costs, including any prior year losses; on accurately projecting workload; and on meeting established operational goals. The Army must maintain sufficient cash on hand in the AWCF account at the U.S. Treasury to pay liabilities when due. Unlike the private sector, the Army does not have the ability to take advantage of lines of credit. To minimize the cash balance required for operating and capital disbursements, the Army manages cash at the corporate level. Rather than having to maintain a positive cash balance, the AWCF activity groups and installations project collections and disbursements on a monthly basis, working within a 10 percent margin of error.

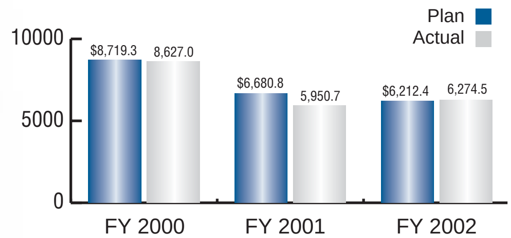
Projecting cash flows has proven challenging in prior years. While the Army has the capability to estimate collections and disbursements, current revenue recognition and expensing policies sometimes prevent us from establishing a direct correlation between monthly revenue and collections or between monthly expenses and disbursements, making the development of forecasting models difficult.

The Army's ability to predict the effects of transactions made by others on the cash balance also has been difficult, with undistributed collections and disbursements fluctuating dramatically throughout the year. The Defense Finance and Accounting Service (DFAS), the Army's accounting services provider, currently is implementing systems improvements that we expect will enable the Army to make more accurate projections in the future.

To ensure solvency during periods of diminished cash flow, the Army can exercise the options of conducting advance billing, curtailing new obligations, imposing cash surcharges on new orders, or increasing its collection efforts for

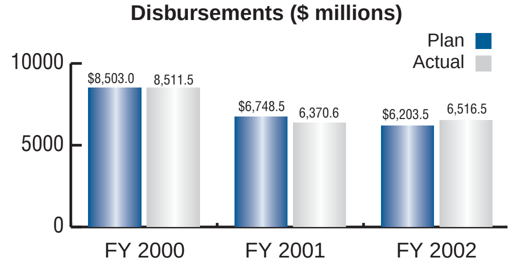
Figure 5. Cash Management ($ millions)

Collections ($ millions)



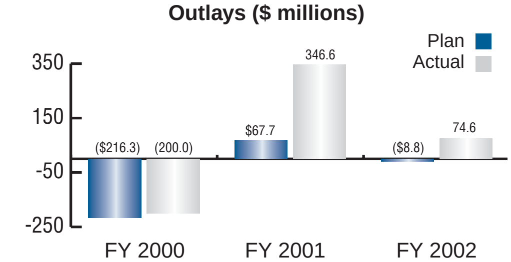
	FY 2000	FY 2001	FY 2002
Variance	($92.30)	($730.1)	$62.1
Variance (%)	(1.6)	(10.9)	1.0

Disbursements ($ millions)



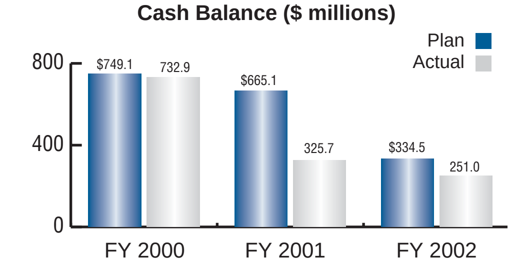
	FY 2000	FY 2001	FY 2002
Variance	$8.50	($377.9)	$313.0
Variance (%)	0.10	(5.6)	5.0

Outlays ($ millions)



	FY 2000	FY 2001	FY 2002
Variance	$16.30	$278.9	$83.4
Variance (%)	7.54	411.9	947.7

Cash Balance ($ millions)



	FY 2000	FY 2001	FY 2002
Variance	($16.20)	($339.4)	($83.5)
Variance (%)	(2.16)	(51.0)	(24.9)

prior-year accounts receivable. In FY 2002, to remain solvent, the Army was required to advance bill $200 million in the Depot Maintenance and Ordnance activity groups. At the end of the year it still had $200 million in advanced billings. It also increased the collection of valid prior-year bills.

In the last two years the Army has struggled to maintain the minimum cash balance required to meet operational requirements. At the end of FY 2002, the Army had a $30 million shortfall in its cash corpus, due in part to the reduced rates set by the Supply Management, Army activity in order to return excess cash held in the AWCF at the end of FY 2000. A $92 million settlement for Asbestos Environment Differential Pay at Corpus Christi Army Depot also contributed to the cash shortfall.

Figure 5 shows the planned and actual collections, disbursements, and outlays at Army corporate level for the last three fiscal years, and the consequent cash balance. The AWCF ended FY 2002 with a cash balance of $251 million, $83.5 million below plan, but within a 25 percent variance of projected balance. This represents a substantive improvement over the previous year, in which the Army missed year-end projections by more than $339 million.

Total Revenue

Total Revenue is an indicator of the volume of work completed by the AWCF activity groups. The total projected revenue for FY 2002 was $7.6 billion. Actual revenue was $8.3 billion, 9.5 percent greater than projected. This was due primarily to operations in support of the war on terrorism.

Table 19 displays total revenue by customer. The largest customer for the AWCF is Operations and Maintenance, Army (OMA), which accounted for revenues of $5.4 billion.

Table 20 displays total revenue by activity group. Supply Management, Army (SMA) is the largest, accounting for more than $5.8 billion in revenue, or 70 percent of all AWCF revenue. In addition to the revenue shown in Table 19 and Table 20, the AWCF received $18.1 million in FY 2001 and $167.4 million in FY 2002 in direct appropriations.

Table 19. Total Revenues by Customer ($ millions)

Customer	FY 2000	FY 2001	FY 2002
Operations and Maintenance, Army	$5,488.7	$5,384.5	$5,417.4
Army Procurement	400.1	469.5	609.3
AWCF	3,030.6	1,444.0	1,044.0
Other Army	1491.1	117.7	178.7
Other Services	398.4	376.9	460.2
Other DoD	919.1	150.8	135.7
Foreign Military Sales	316.5	172.6	201.9
Non-DoD	44.1	152.1	233.2
Total Revenue	**$12,088.6**	**$8,268.1**	**$8,280.1**

Table 20. Total Revenue by Activity Group ($ millions)

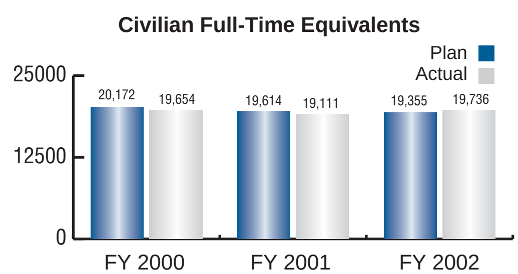
Appropriation	FY 2000	FY 2001	FY 2002
Supply Management, Army	$10,003.8	$6,068.4	$5,837.4
Depot Maintenance	1,291.8	1,434.1	1,668.4
Ordnance	658.1	667.8	669.8
Information Services	134.9	97.8	104.8
Total Revenue	**$12,088.6**	**$8,268.1**	**$8,280.4**

Personnel Resources

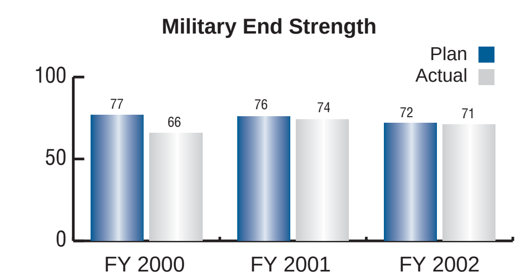
To achieve maximum efficiency of performance, the AWCF activity groups need to achieve the optimum configuration of skilled workforce appropriate to the workload. Skill mismatches sometimes occur as a result of deviations between planned and actual workload; they also can be caused by workforce reductions realized through voluntary separation and hiring freezes. Such mismatches can lead to unplanned operating losses.

As Figure 6 shows, there was a 0.4 percent increase over the last three fiscal years in the number of civilian full-time equivalents employed by the AWCF activity groups. In FY 2002, the AWCF did not meet its planned reduction in civilian full-time equivalents by 2.0 percent.

Figure 6. Personnel Indicators



	FY 2000	FY 2001	FY 2002
Variance	(518)	(503)	381
Variance (%)	(2.6)	(2.6)	2.0



	FY 2000	FY 2001	FY 2002
Variance	(11)	(2)	(1)
Variance (%)	(14.3)	(2.6)	(1.4)

Supply Management, Army

Program Scope

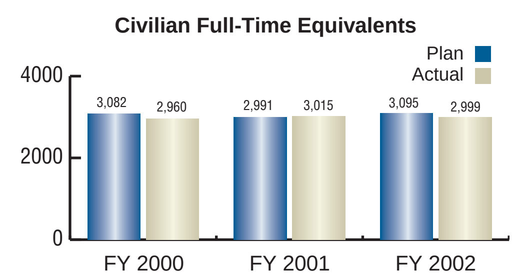
Customer Revenue (Program Size)

SMA revenue from customer sales in FY 2002 was $5.8 billion. This exceeded plan, with the excess revenue a direct result of unforeseen operations conducted in support of the war on terrorism. As shown in Table 21, total SMA revenues decreased significantly between FY 2000 and FY 2002; this is due to elimination of the retail stock fund, a second point of sale. In addition to the revenue shown in the table, SMA received $7.8 million in FY 2001 and $163.6 million in FY 2002 in direct appropriations.

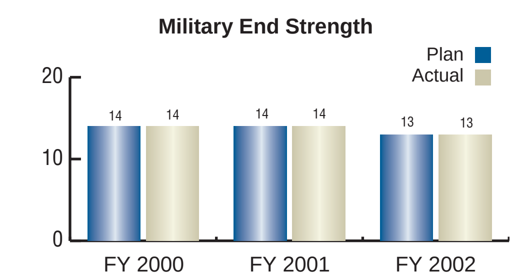
Table 21. Total Revenue by Customer ($ millions)

Appropriation	FY 2000	FY 2001	FY 2002
Operations and Maintenance, Army	$4,742.4	$4,513.2	$4,473.6
Army Procurement	103.1	170.5	208.4
AWCF	2,468.8	705.5	405.2
Other Army	1,422.1	76.9	121.7
Other Services	308.5	281.8	366.5
Other DoD	667.2	90.1	58.6
Foreign Military Sales	271.9	115.8	114.0
Non-DoD	19.8	114.6	89.4
Total Revenue	**$10,003.8**	**$6,068.4**	**$5,837.4**

Figure 7. Personnel Indicators



	FY 2000	FY 2001	FY 2002
Variance	(122)	24	(96)
Variance (%)	(4.0)	0.8	(3.1)



	FY 2000	FY 2001	FY 2002
Variance	0	0	0
Variance (%)	0.0	0.0	0.0

Personnel

A key objective of the SMA activity group is ensuring that the appropriate number of skilled workers are employed in the right places to fulfill the group's workload obligations. Over the last three fiscal years, actual civilian full-time equivalents have increased by 1 percent.

The Army achieved reductions in military personnel through a combination of Voluntary Separation Incentive Programs and attrition. Over the last three fiscal years personnel levels trended downward consistent with the requirements of the Quadrennial Defense Review. The AMC Integrated Materiel Management Centers continue to develop more efficient and more effective ways of doing business.

Performance Measures

Financial Performance

The financial performance of the SMA activity group is evaluated on a variety of fiscal measures. The primary measure, unit cost, is defined as cost per dollar of sales. Other measures include total gross sales; revenue; cost; net operating results; capital investment; cash collections, disbursements, and outlays; stock availability and stock turn.

Wholesale Unit Costs. The wholesale division sells principally to federal government customers and, through the Foreign Military Sales Program, to foreign governments. Wholesale costs include the costs of logistics operations and of materiel obligations for repair or procurement, and credit issued to customers for materiel returns. Unit cost is measured by dividing these costs by gross wholesale sales.

In FY 2002, the wholesale division achieved a unit cost of $1.07. The unit cost goal (UCG) was $1.076. The division's under-execution in pursuit of the UCG was due to the unpredictability of credit, which offsets available obligation authority.

Table 22. Actual Cost per Dollar of Sales

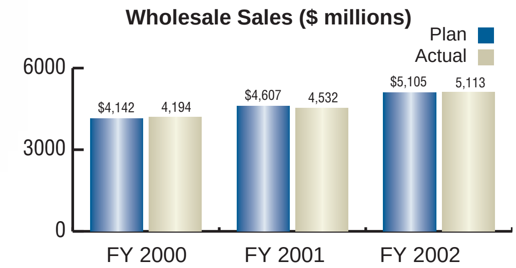
	FY 2000	FY 2001	FY 2002
Wholesale ($)	$1.020	$1.195	$1.07
NAMI/Retail ($)	$0.982	$0.496	$0.699

NAMI/Retail Unit Costs. Implementation of the Single Stock Fund (SSF) has altered the mission of the retail division. Prior to the SSF, the retail divisions sold to authorized customers within their local geographical area. The retail divisions bought and sold both Army managed items (AMI) and non-Army managed items (NAMI) at the catalog price of the source of supply. Under the SSF, the retail division consists only of NAMI.

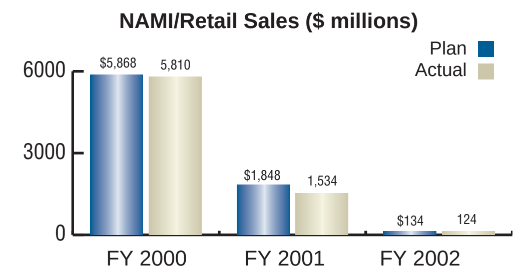
In FY 2002, gross materiel costs were lower than planned, producing a unit cost of $0.699 that was below the UCG of $0.847. Gross materiel costs were lower than planned due to a five-month delay in implementation of SSF Milestone 3 (MS3).

Gross Sales. Attaining projected sales levels is key to achieving goals in inventory management and operations management, as well as to recouping operations costs.

Figure 8. Gross Sales



	FY 2000	FY 2001	FY 2002
Variance	$52	($75)	$8
Variance (%)	1.2	(1.6)	0.1



	FY 2000	FY 2001	FY 2002
Variance	($58)	($314)	($10)
Variance (%)	(1.0)	(17.0)	(7.5)

Sales for the wholesale division were below plan for FY 2001 and above plan for FY 2002.

NAMI/Retail sales were lower than expected in FY 2001 as a result of the uncertainty related to transition to the SSF. NAMI sales in FY 2002 were above plan because of sales associated with operations in Afghanistan and the war on terrorism.

Financial Operating Measures. Budgetary guidelines require the activity group to recover its operating costs and fees while achieving zero accumulated operating results at the end of the budget period. To achieve this goal, AWCF activities set stabilized rates eight or more months prior to the beginning of each fiscal year. These rates use forecasting methods to determine the potential workload and the cost of meeting workload requirements. This projection then is used to set a standard price for AWCF goods and services. Since revenue is defined as gross sales at standard price, revenue, cost, and net operating results are the logical financial measures of AWCF operations. In FY 2002, the rates were set to achieve a net operating result (NOR) of ($242.4) million. The actual NOR was a loss of $354.6 million. Results of operations, computed according to budget guidance, are presented in the Table 23.

Results of operations, when computed according to financial accounting standards, can vary with inventory valuations, the timing of cost recognition, transfer fees, and the inclusion of non-recoverables such as planned inventory reductions.

Table 23. Results of Operations ($ millions)

FY 2000	Plan	Actual	Variance (%)
Revenue	$9,595.4	$10,003.8	4.3
Cost of Goods Sold	9,598.7	10,005.2	4.2
Net Operating Results	(3.3)	(1.4)	57.6
Accumulated Operating Results	27.7	(0.9)	(103.2)
FY 2001	**Plan**	**Actual**	**Variance (%)**
Revenue	$7,173.2	$6,068.4	(15.4)
Cost of Goods Sold	7,252.1	6,188.2	(14.6)
Net Operating Results	(78.9)	(119.8)	(55.1)
Accumulated Operating Results	$131.9	$90.1	(31.6)
FY 2002	**Plan**	**Actual**	**Variance (%)**
Revenue	$5,239.2	$5,837.4	(9.0)
Cost of Goods Sold	5,645.2	6,192.0	(9.7)
Net Operating Results	(242.4)	(354.6)	73.6
Accumulated Operating Results	($38.3)	$197.8	616.4

Capital Investment. The SMA activity group's capital investment program is focused primarily on the development of computer software to assist managerial decision-making, to enable the sharing of databases, and to support the development of more efficient business practices.

Table 24. Capital Budget Obligations ($ millions)

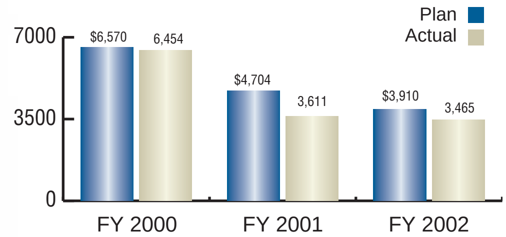
Category	FY 2000	FY 2001	FY 2002
Equipment	$0.0	$0.0	$0.0
ADPE and Telecom	0.0	0.0	0.0
Software	65.7	62.3	61.2
Total	**$65.7**	**$62.3**	**$61.2**

FY 2002 Capital Investment Program (CIP) projects include the purchase of the following:

Logistics Modernization Program (LMP) ($21.7 million). The goal of LMP is to reengineer current wholesale logistics business processes to provide integrated, seamless, real-time asset visibility of the entire logistics supply chain. The service being contracted will employ Enterprise Resource Planning (ERP) to integrate business processes across the supply chain, and

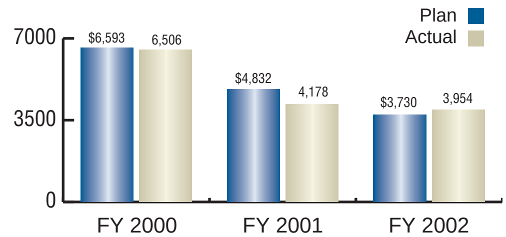
Figure 9. Cash Management

Cash Collections



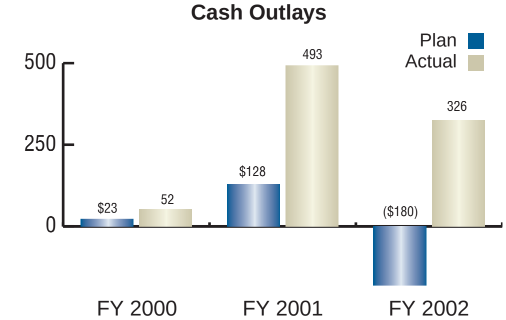
	FY 2000	FY 2001	FY 2002
Variance	($116)	($1,093)	($445)
Variance (%)	(1.8)	(23.2)	(11.3)

Cash Disbursements



	FY 2000	FY 2001	FY 2002
Variance	($87)	($654)	$224
Variance (%)	(1.4)	(13.5)	6.0

Cash Outlays



	FY 2000	FY 2001	FY 2002
Variance	$29	$365	$506
Variance (%)	126.1	285.3	281.1

Note: Positive outlays drain cash

modernize the Army’s wholesale logistics processes through the adoption of best commercial practices. This effort supports the ongoing revolution in military logistics.

Commercial Asset Visibility II (CAV II) ($1.9 million). CAV II improves asset visibility at contractor maintenance sites and improves shipping procedures, measures repair turnaround time, and monitors contractor performance. It also corrects financial and inventory imbalances. CAV II will interface with the LMP.

Common Operating Environment (COE) ($4.9 million). The COE provides a Windows-based common technology architecture for the various wholesale logistics processes, enabling users of logistics systems to perform all business functions from a single workstation. It will also interface with the LMP.

Single Stock Fund (SSF) ($32.6 million). The SSF concept integrates retail and wholesale inventory, management, and financial accounting functions to deliver business process improvements and improve the efficiency of inventory management. This vertical stock fund for Army-managed items furthermore will eliminate one point of sale, thus ending duplication in logistical and financial processing and providing greater visibility of assets.

Cash Management

The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays rather than against independent cash balances.

FY 2002 collections were below plan and disbursements were above plan. The SMA activity group collected $445 million less and disbursed $224 million more than planned. Collections were under plan because sales were overestimated by $300 million. Cash outlays exceeded plan by $506 million.

Program Performance

The SMA activity group measures program performance using stock availability.

Stock Availability (Fill Rate). Stock availability measures the percentage of SMA requisitions for stocked items completely filled within Uniform Materiel Movement and Issue Priority System (UMMIPS) timeframes. DoD and the Army have set a target of 85 percent stock availability. Increased demands and understated procurement lead times in FY 2000 contributed to a decrease in stock availability that SMA has been working to correct. A Spares Parts Shortage Integrated Process Team has been established to conduct a thorough analysis of the health of the Army Materiel Command's spare parts program, to identify deficiencies within the requirements determination and execution process, and to recommend corrective measures. The SMA met or exceeded its stock availability goal for each quarter during FY 2002.

Table 25. Stock Availability (percentage)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
FY 2000	84.4	82.9	83.2	83.9
FY 2001	83.0	85.9	87.1	86.5
FY 2002	85.0	86.3	87.0	86.0

Depot Maintenance

Program Scope

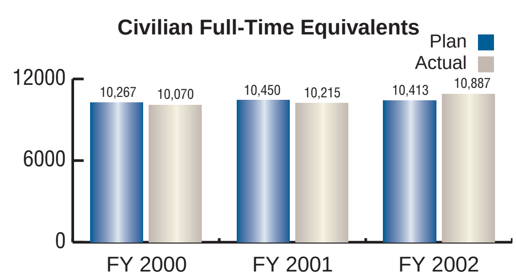
Customer Revenue (Program Size)

Customer requirements govern the size and type of the Depot Maintenance workload. The revenue from customer sales in FY 2002 was $1.7 billion. Table 26 displays customer revenue for the past three fiscal years.

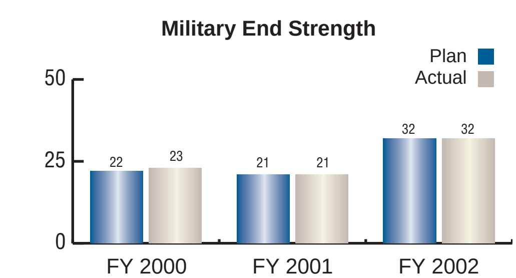
Table 26. Total Revenue by Customer ($ millions)

Appropriation	FY 2000	FY 2001	FY 2002
Operations and Maintenance, Army	$427.5	$538.2	$627.0
Army Procurement	115.5	145.6	253.3
AWCF	447.2	618.1	506.9
Other Army	37.1	11.0	30.1
Other Services	65.1	63.1	79.6
Other DoD	163.0	10.3	7.2
Foreign Military Sales	27.7	41.6	67.0
Non-DoD	8.7	6.2	113.0
Total Revenue	**$1,291.8**	**$1,434.1**	**$1,666.1**

Figure 10. Personnel Indicators



	FY 2000	FY 2001	FY 2002
Variance	(197)	(235)	474
Variance (%)	(1.9)	(2.2)	4.5



	FY 2000	FY 2001	FY 2002
Variance	1	0	0
Variance (%)	4.5	0	0

Total revenue increased by $232.0 million, or 13.9 percent, between FY 2001 and FY 2002. This was despite a rate increase of only 7.4 percent. In addition to the revenue shown in Table 26, Depot Maintenance received $6.2 million in FY 2001 and $2.3 million in FY 2002 in direct appropriations.

Personnel

A key objective of the Army is to have the correct number of appropriately skilled people in the right places to meet the demands of the workload.

Following several years of decline, workload increased in FY 2002 significantly above planned levels. Depots received $183.5 million more in orders than was forecasted; roughly 12 percent more work than planned. The depots expanded their workforce, employed contract support, and used high levels of overtime in an effort to meet the increased customer demand. As a consequence, the depots over-executed civilian full-time equivalent staffing by 474, or 4.5 percent.

Performance Measures

Financial Performance

There are five fiscal performance measures for Depot Maintenance: cost per direct labor hour, financial operating measures, customer revenue rate, capital investment, and cash management.

Cost per Direct Labor Hour. The cost per direct labor hour (DLH) is computed by taking the sum of all labor and non-labor expenses (direct, indirect, and general and administrative (G&A)), plus the change in work in process, and dividing that sum by the total number of DLHs worked during the fiscal year.

Table 27. Cost per Direct Labor Hour

Category	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual
Cost per Direct Labor Hour	$116.64	$135.99	$155.17
Change from Prior Year (%)	(3.0)	16.6	14.1
Direct Labor Hours (000s)	10,598	10,277	11,381

Table 28 breaks down DLH costs into their component parts. Direct costs include civilian labor, materiel, supplies, equipment, and other costs that are directly related to a funded order (travel, training, and purchased services). The indirect/G&A elements comprise all costs not directly related to an order and that are recovered as overhead expenses. These include administrative personnel costs, base support costs, support personnel costs, and facility repair and maintenance costs.

Table 28. FY 2000 Costs ($ millions)

Category	FY 2000	FY 2001	FY 2002
Direct Labor	$296.9	$311.4	$418.4
Indirect Labor	233.3	250.8	293.5
General and Administrative Labor	10.7	20.1	14.5
Direct Materiel	382.1	455.2	635.9
Indirect Materiel	48.4	52.2	71.3
Indirect Other	263.6	304.0	299.8
Total	**$1235.0**	**$1,393.7**	**$1,733.4**
Direct Labor Hours	10,598	10,277	11,381
Cost per Hour ($)	$116.53	$135.61	$152.29
Change in Work in Process	($1.2)	($3.9)	($32.7)
Cost of Goods Sold ($ millions)	$1,236.2	$1,397.6	$1,766.2
Cost per Hour (unit cost, $)	$116.64	$135.99	$155.17

Financial Operating Measures. Under the full-cost recovery concept, stabilized rates are set such that they should cover all costs and produce a zero accumulated operating result (AOR) at the end of the budget year. During execution, the activity group may experience either a positive or negative net operating result (NOR). The gain or loss shown in the NOR is added to the AOR from prior years. Stabilized rates are included in the President's Budget, published approximately eight months in advance of the year of execution. The rates are stabilized so that customers' programs will not be affected during execution, even though the actual costs of the AWCF activity may be higher or lower than planned.

Deviations from the plan impact the activity group to the extent that an unplanned gain or loss must be included in the following year's rates to bring the AOR to zero. Any change in rates may in turn result in an increase or decrease in the customer's buying power.

Table 29 shows the operating measures for the past three fiscal years. FY 2002 revenue and costs were both above plan. Acceptable deviation from the plan is plus or minus 10 percent. FY 2002 expenses, NOR, and AOR were adversely affected by the asbestos settlement at Corpus Christi Army Depot. This resulted in an unplanned/unbudgeted expense of $92.3 million (comprising a $90.7 million award to employees and $1.6 million processing costs). Independent of this action, the Depot Maintenance Activity performed better than planned.

Table 29. Results of Operations ($ millions)

	FY 2000		FY 2001	
	Plan	Actual	Plan	Actual
Revenue	$1,216.3	$1,291.8	$1,389.3	$1,434.1
Cost of Goods Sold	1,190.5	1,236.2	1,357.9	1,390.1
Operating Results	25.8	55.6	31.4	44.0
(less Capital Surcharge)	52.5	45.4	15.7	12.5
(less Extraordinary Items)	0.0	0.0	0.0	0.0
Net Operating Results	(26.7)	10.2	15.7	31.5
Beginning AOR	85.1	26.7	55.2	55.2
(less Prior-Year Adjustment)	(58.4)	18.4	0.1	(3.5)
Beginning AOR Adjusted	26.7	45.1	55.3	51.7
AOR (NOR plus Adjusted AOR)	$0.0	$55.2	$71.0	$83.2

	FY 2002	
	Plan	Actual
Revenue	$1,580.0	$1,668.4
Cost of Goods Sold	1,599.0	1,766.2
Operating Results	(19.0)	(97.8)
(less Capital Surcharge)	0.2	0.6
(less Extraordinary Items)	0.0	0.0
Net Operating Results	(19.2)	(98.4)
Beginning AOR	64.6	83.2
(less Prior-Year Adjustment)	0	(23.8)
Beginning AOR Adjusted	64.6	59.4
AOR (NOR plus Adjusted AOR)	$45.4	($39.0)

Customer Revenue Rate. In Depot Maintenance, customer revenue rates are set per direct labor hour. These rates are stabilized so that the customer's buying power is protected in the year of execution. Table 30 shows the stabilized revenue rates per DLH.

Table 30. Stabilized Rates

Direct Labor Rate	FY 2000	FY 2001	FY 2002
Customer Revenue Rate ($)	$111.87	$119.81	$124.57
Customer Rate Change (%)	5.9	7.1	4.0

The FY 2002 rate of $124.57 per DLH cash was 4 percent higher than that of FY 2001.

Capital Investment. The Depot Maintenance activity group seeks to maintain and develop its capabilities through the acquisition of new equipment and the execution of minor construction projects. The capital budget provides for equipment acquisitions to replace obsolete and unserviceable equipment, to eliminate environmental hazards, and to decrease costs through improvements in productivity. Table 31 represents the obligation authority of the capital budget.

Table 31. Capital Budget ($ millions)

Category	FY 2000	FY 2001	FY 2002
Equipment	$4.4	$3.6	$7.1
Minor Construction	1.9	1.9	1.1
ADPE and Telecom	0.8	0.0	0.0
Software	10.2	13.8	16.7
Total	$17.3	$19.3	$24.9

Note: ADPE is automated data processing equipment

FY 2002 Capital Investment Program (CIP) projects include the purchase of the following:

Various Capital Equipment - Replacement (>$500K) ($2.4 million). This program seeks to replace depot equipment items costing more than $500 thousand that have outlived their useful lives, become uneconomical to repair or become unsafe to operate.

Various Capital Equipment - Productivity (>$500K) ($0.6 million). This program seeks to modernize equipment costing more than $500 thousand to improve depot productivity and efficiency and reduce operating costs.

Electron Beam Welder ($0.9 million). The electron beam welder is used to reclaim critical parts for the Advanced Gas Turbine 1500 Engine that supports the M1 Tank Family of Vehicles.

Engine Test Cell Capacity Upgrade ($3.1 million). Enables one of the CH47 engine test cells to test any engine or engine component configuration. The test cell upgrade enables fast data sampling, fast configuration conversion, and faster, more robust data display to assure the operator that the test is not damaged and that the final product is of high quality.

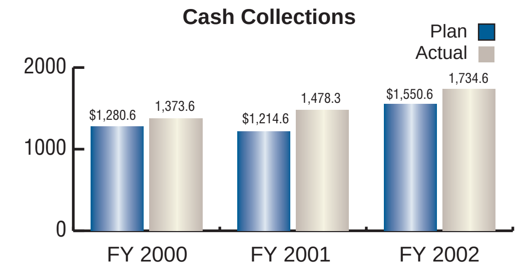
Various Minor Construction ($1 million). This program corrects various workload and production shortcomings and health, safety, environmental, and security conditions.

Army Workload and Performance System (AWPS) ($2.9 million). The AWPS is a personal computer-based, network software solution designed to integrate existing production and financial data into a single graphic program. This will assist the Tank, Automotive and Armament Command (TACOM), Communications and Electronics Command (CECOM), and Aviation and Missile Command (AMCOM), in managing complex workload and employment strategies. This is a Congressional mandate.

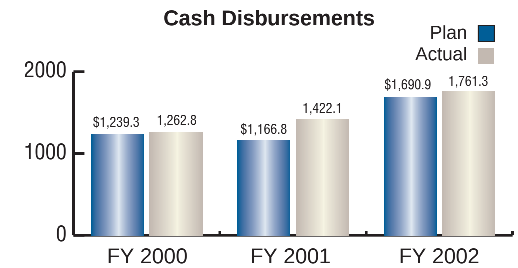
Logistics Modernization Program (LMP) ($7.4 million). The LMP seeks to reengineer existing logistics processes to provide flexibility in support of CONUS-based power projection scenarios to leverage modern information technology enablers to provide real-time visibility of the entire logistics supply chain, and thereby to support the Revolution in Military Logistics.

SDS Data Collection/Shop Floor/AIT ($6.3 million). This program provides a Windows-based common technology architecture for the various wholesale logistics processes that will enable users of logistics systems to perform all business functions from a single workstation. It will interface with the LMP.

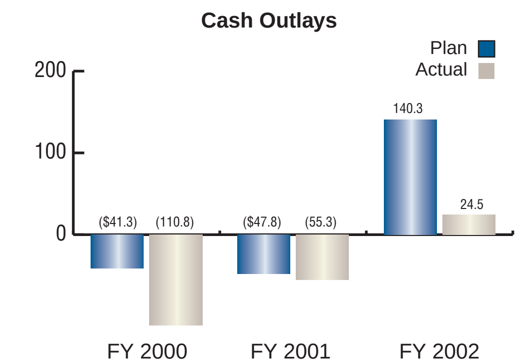
Figure 11. Cash Management ($ millions)



Variance	$93	$263.7	$184.0
Variance (%)	7.3	21.7	11.9



Variance	$25.5	$255.3	$70.4
Variance (%)	2.0	21.9	4.2



Variance	($69.5)	($7.5)	($115.8)
Variance (%)	(168.3)	15.7	(82.5)

Cash Management

The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays rather than in terms of cash balances. Depot Maintenance collections and disbursements in FY 2002 were $1.73 billion and $1.76 billion, respectively. Both collections and disbursements were over plan and reflect the revenue and expense positions of the Depot Maintenance activity group.

Program Performance

The Depot Maintenance activity group uses two program performance measures: production output and schedule conformance.

Production Output. Table 32 lists the quantity and customer price for five representative end items for the last three fiscal years. The table highlights one specific item at each of the major repair depots that is receiving A1 (cyclic, normal overhaul, rebuild) work. The prices indicated are the unit prices by year for this type of work; price fluctuations are due to changes in materiel and labor costs, distribution of overhead costs, AOR recovery, and the cash surcharge.

Table 32. Production Output

	FY 2000		FY 2001	
	Actual Quantity	Unit Price ($)	Actual Quantity	Unit Price ($)
Rear Module, M1A1 (ANAD)	419	51,308	378	63,107
Engine, Turbine, T700-GE (CCAD)	40	150,278	120	250,100
Paladin Chassis (LEAD)	56	180,000	51	382,024
Wheel, Solid Rubber (RRAD)**	5721	246.00	2851	250.46
Visual Display Unit, AH64 (TYAD)	60	10,188	70	8,576

	FY 2002			
	Proposed Quantity	Actual Quantity	Deviation (%)	Unit Price ($)
Rear Module, M1A1 (ANAD)	334	334	0	68,613
Engine, Turbine, T700-GE (CCAD)	120	120	0	256,083
Paladin Chassis (LEAD)	28	28	0	440,615
Wheel, Solid Rubber (RRAD)**	2800	2800	0	248.75
Visual Display Unit, AH64 (TYAD)	60	60	0	8,263

**The quantities and unit prices reflected for RRAD are for 26x6 roadwheels only.

Schedule Conformance. This performance measure records the number of units completed on schedule as a percentage of the number of units scheduled. Units completed are defined as major end items plus reparables.

Table 33. Schedule Conformance (percentage)

	FY 2000	FY 2001	FY 2002
Plan	90	89	90
Actual	86	90.9	93.9
Variance (percentage)	(4)	1.9	3.9

The difference between planned and actual performance in FY 2002 was because both Anniston and Red River executed greater unplanned workload in response to increased customer demands.

Ordnance

Program Scope

Customer Revenue (Program Size)

Customer requirements dictate the size of the Ordnance workload. Table 34 displays customer revenue for the past three fiscal years.

Revenue from customer orders in FY 2002 was slightly above that of FY 2001. The increase in revenue is due to increased shipments in support of overseas military operations, troop support/force protection, and receipt of unplanned orders and miscellaneous spares.

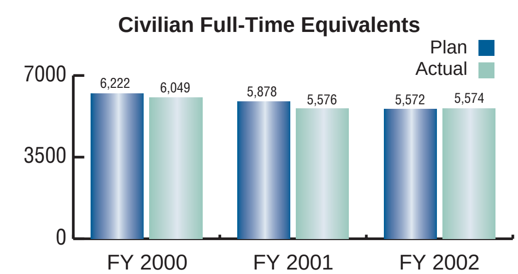
Table 34. Total Revenue by Customer ($ millions)

Appropriation	FY 2000	FY 2001	FY 2002
Operations and Maintenance, Army	$265.4	$299.4	$282.4
Procurement, Army	177.2	151.1	165.5
AWCF	52.4	75.4	75.8
Other Army	29.9	25.6	22.8
Other Services	24.8	32.0	14.1
Other DoD	80.1	42.3	62.0
Foreign Military Sales	16.9	15.2	20.9
Non-DoD	11.4	26.8	26.3
Total Revenue	**$658.0**	**$667.8**	**$669.8**

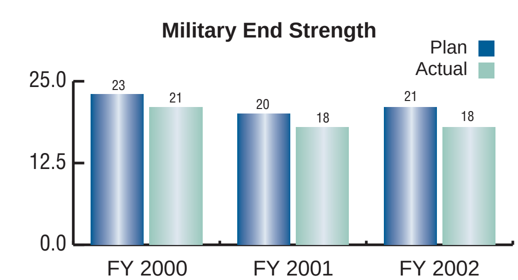
Personnel

A key objective of the Army is to have the correct number of appropriately skilled people in the right places to meet workload requirements. As workload has declined, staffing levels also have been reduced, through a combination of involuntary separations, voluntary separation incentive programs, and hiring freezes. Figures for the last three fiscal years show an overall decline in personnel levels consistent with the activity's falling workload. There were no changes in military end strength between FY 2001 and FY 2002.

Figure 12. Personnel Indicators



	FY 2000	FY 2001	FY 2002
Variance	(173)	(302)	2
Variance (%)	(2.8)	(5.1)	0.04



	FY 2000	FY 2001	FY 2002
Variance	(2)	(2)	(3)
Variance (%)	(8.7)	(10.0)	(14.3)

Performance Measures

Financial Performance

There are four financial performance measures for Ordnance. These are cost per direct labor hour, customer revenue rate, capital investment, and cash management.

Civilian technicians move ordnance out of a storage facility. *Photo courtesy of AUSA.*

Financial Operating Measures. Under the full-cost recovery concept, stabilized rates are set to cover all costs and produce a zero accumulated operating result (AOR) at the end of the budget year. During execution, the activity group may experience either a positive or negative net operating result (NOR). The gain or loss shown in the NOR is added to the AOR from prior years. Stabilized rates are included in the President's Budget, published approximately eight months in advance of the year of execution. The rates are stabilized so that customers' programs will not be affected during execution, even though the actual costs of the AWCF activity may be higher or lower than planned.

Deviations from the plan impact the activity group to the extent that an unplanned gain or loss must be included in the following year's rates to bring the AOR to zero. Any change in rates may, in turn, result in an increase or decrease in the customer's buying power.

Table 35 shows the results of operations for Ordnance for the past three fiscal years. FY 2002 revenue and costs were both above plan but were within the acceptable deviation from plan of plus or minus 10 percent.

Table 35 Results of Operations ($ millions)

	FY 2000		FY 2001	
	Plan	Actual	Plan	Actual
Revenue	$660.3	$658.1	$678.0	$667.8
Cost of Goods Sold	$708.2	$694.3	696.0	663.8
Operating Results	(47.9)	(36.2)	(18.0)	4.0
(less Capital Surcharge)	24.1	18.3	5.5	5.6
(less Extraordinary Items)	0.0	(16.8)	(1.8)	0.0
Net Operating Results	(72.0)	(37.7)	(21.7)	(1.6)
Beginning AOR	(0.3)	55.1	58.6	58.6
(less Prior-Year Adjustment)	58.4	41.2	0.0	(5.4)
Beginning AOR (Adjusted)	58.1	96.3	58.6	53.2
AOR (NOR plus Adjusted AOR)	($13.9)	$58.6	$36.9	$51.6

	FY 2002	
	Plan	Actual
Revenue	$633.7	$669.2
Cost of Goods Sold	680.5	696.1
Operating Results	(46.8)	(26.3)
(less Capital Surcharge)	1.8	1.9
(less Extraordinary Items)	0.0	0.0
Net Operating Results	(48.6)	(28.2)
Beginning AOR	66.7	51.6
(less Prior-Year Adjustment)	0.0	158.2
Beginning AOR (Adjusted)	66.7	209.8
AOR (NOR plus Adjusted AOR)	$18.1	$181.6

Cost per Direct Labor Hour. The cost per DLH rate is computed by dividing the sum of all labor and non-labor expenses (direct, indirect, and general and administrative (G&A)) plus the change in work in process by the total number of productive DLHs worked in the fiscal year.

Table 36. Cost per Direct Labor Hour

	FY 2000	FY 2001	FY 2002
Cost per Direct Labor Hour ($)	$112.99	$150.59	$155.69
Change from Prior Year (%)	5.4	33.3	3.4
Direct Labor Hours (000s)	6,145	4,408	4,471

The number of DLHs executed in FY 2002 was 3 thousand more than planned, but was 63 thousand more than were executed during FY 2001. Non-receipt of planned manufacturing and maintenance workload and loss of demilitarization workload were the primary causes of the FY 2002 decrease.

Table 37 beaks down the overall costs for FY 2002. Direct costs are the costs of civilian labor, materiel, supplies, equipment, and others that are directly related to a funded order. Indirect costs are those not directly related to an order, such as administrative personnel costs, base support costs, support personnel costs, and facility repair and maintenance costs.

Table 37. FY 2000 Cost Estimates ($ millions)

Category	FY 2000	FY 2001	FY 2002
Direct Labor	$173.1	$167.6	$168.8
Indirect Labor	121.5	104.8	139.5
General and Administrative Labor	53.0	59.6	46.2
Direct Materiel	100.1	93.9	82.4
Indirect Materiel	20.2	16.6	25.5
Indirect Other	89.3	214.3	231.9
Total	**$557.2**	**$656.8**	**$694.3**
Direct Labor Hours	6,145	4,408	4,471
Cost per Hour (unit cost, $)	$90.68	$149.00	$155.29
Change in Work in Process	(2.6)	(7.0)	(1.8)
Cost of Goods Sold	$694.3	663.8	696.1
Cost per Hour (unit cost, $)	$112.99	$150.59	$155.69

Customer Revenue Rate. The Ordnance activity group sets customer revenue rates per direct labor hour. These rates are stabilized so that the customer's buying power is protected in the year of execution. Table 38 shows the revenue rate per DLH, and indicates a 7.9 percent rate reduction between FY 2001 and FY 2002.

Table 38. Stabilized Direct Labor Hours

Direct Labor Hourly Rate	FY 2000	FY 2001	FY 2002
Customer Revenue Rate	$99.10	$102.70	$94.59
Customer Rate Change (%)	(5.73)	3.6	(7.9)

Capital Investment Program. The Ordnance group seeks to maintain and develop its capabilities through the acquisition of equipment and the execution of minor construction projects. The capital budget provides for equipment acquisition to replace obsolete and unserviceable equipment, to eliminate environmental hazards, and to decrease repair costs by improving productivity. Table 39 represents the obligation authority of the capital budget.

Table 39. Capital Budget ($ millions)

Category	FY 2000	FY 2001	FY 2002
Equipment	$6.7	$11.8	$2.8
Minor Construction	3.4	7.8	1.3
ADPE and Telecom	2.7	4.9	1.9
Software	8.7	4.8	4.7
Total	**$21.5**	**29.3**	**10.7**

FY 2002 capital investment program (CIP) projects include purchase of the following:

Various Capital Equipment - Replacement ($2.1 million). This program funds the replacement of items of equipment costing more than $500 thousand that have outlived their useful lives, are uneconomical to repair, or are unsafe to operate.

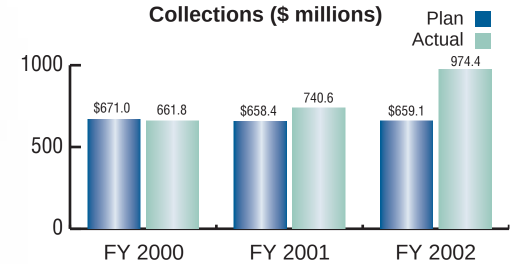
Laser Punch ($0.7 million). The laser punch provides state-of-the-art laser technology to support the manufacture of critical parts for the Contact Maintenance Truck, Heavy (CMTH), the Forward Repair System, and the BMP-3 (Soviet Bronevaya Maschina Piekhota) Surrogate Target Tank. This program improves the state of readiness for combat-essential weapon systems.

Minor Construction (<$500K) ($1.3 million). This program addresses and corrects various problems at Ordnance installation facilities that give rise to poor working conditions, reduce productivity, lack energy conservation features, compromise security, fail to comply with fire and safety codes, or present health hazards.

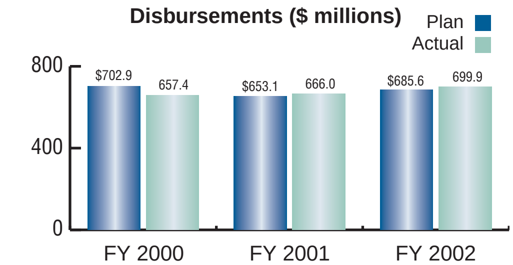
Miscellaneous Automated Data Processing Equipment (ADPE) (more than $500K) ($1.9 million). The ADPE program replaces old, obsolete, and irreparable equipment with state-of-the-art equipment to bring Ordnance sites up to Army standards and to improve communications with other Army sites. New technology also will improve security and reduce the threat of intrusion by unauthorized sources.

Army Workload and Performance System (AWPS) ($4.7 million). The AWPS is a personal computer-based, network software solution designed to integrate existing production and financial data into a single graphic program.

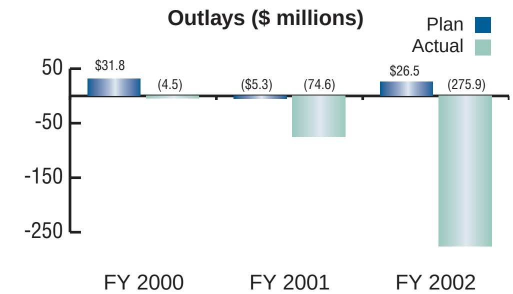
Figure 13. Cash Management ($ millions)



	FY 2000	FY 2001	FY 2002
Variance	($9.2)	$82.2	$315.3
Variance (%)	(1.4)	12.5	47.8



	FY 2000	FY 2001	FY 2002
Variance	($45.5)	$12.9	$14.3
Variance (%)	(6.5)	1.9	2.1



	FY 2000	FY 2001	FY 2002
Variance	($36.3)	($69.3)	($302.4)
Variance (%)	(114.0)	(1,307.5)	(1,141.1)

It will enable production and resource managers to isolate scheduling and cost problems at the product level and to estimate the workforce needed to accomplish various levels of workload. This is a congressional mandate.

Cash Management

The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays, not against cash balances. The FY 2002 plan for Ordnance projected a $26.5 million drain on cash, but the actual result was a cash increase of $275.9 million. Collections were above plan by $315 million, partly as a result of the advance billing of customers in the amount of $146 million. The Ordnance business activity also increased collection of valid prior-year bills. Outlays exceeded the plan by $302 million.

Program Performance

The Ordnance activity group uses three program performance measures: production output, schedule conformance, and ammunition short tons.

Production Output. Shows the quantities and unit prices for three ordnance items produced by the group during the last two fiscal years. For FY 2002, plan amounts are also listed.

Table 40. Production Output

	FY 2000		FY 2001	
	Actual Quantity	Unit Price ($)	Actual Quantity	Unit Price ($)
155MM M804A1 Practice (Crane)	35,512	244.48	0	0
Bomb, 500lb, BDU 45 (McAlester)	10,914	77.48	11,517	1,017.4
G982 M83 Training Grenade (Pine Bluff)	330,234	19.98	158,912	19.98

FY 2002

	Proposed Quantity	Actual Quantity	Deviation (%)	Unit Price ($)
155MM M804A1 Practice (Crane)	0	0	0	0
Bomb, 500lb, BDU 45 (McAlester)	13,998	15,882	13.5	1,000.78
G982 M83 Training Grenade (Pine Bluff)	111,856	111,856	0	20.31

Schedule Conformance. This performance measure shows the number of units completed on schedule against the number of units scheduled. Units completed are defined as major end items plus reparable items.

Table 41. Schedule Conformance

	FY 2000	FY 2001	FY 2002
Plan	150.0	295.3	286.3
Actual	121.0	287.5	297.6
Variance (percentage)	(19.3)	(2.6)	3.9

For FY 2002, the positive deviation from plan was primarily due to increased efforts to produce units on time.

Ammunition Short Tons. This measures the amount of short tons of ordnance received, issued, or demilitarized. (A short ton is 2,000 pounds of ammunition.) Based on standards at the installations, this figure has a direct correlation to personnel, funding, and rates.

Table 42. Ammunition Short Tons

	FY 2000	FY 2001	FY 2002		
	Actual	Actual	Plan	Actual	Variance (%)
Receipts	142,544	125,100	128,500	131,700	2.5
Issues	140,445	162,400	157,800	165,800	5.1
Demilitarized	42,446	36,799	25,707	27,759	8.0

Receipts, issues, and demilitarization workload were higher than planned due to the response to the terrorist attacks of September 11, 2001.

Information Services

Program Scope

Customer Revenue (Program Size)

Customer requirements dictate the workload of the Information Services activity group. Customers of the group's four Central Design Activities (CDAs) sign letters of intent, followed by support agreements that estimate the number of work-years required by each project and the project's anticipated costs. Revenue from customer orders in FY 2002 totaled $104.8 million. Table 43 provides a breakdown of orders by customer for FY 2000 through FY 2002.

Table 43. Total Revenue by Customer ($ millions)

Appropriation	FY 2000	FY 2001	FY 2002
Operations and Maintenance, Army	$52.3	$33.7	$34.4
Procurement, Army	3.4	2.3	0.1
AWCF	57.3	45.0	53.8
Other Army	5.4	4.2	4.1
Other DoD	10.4	8.1	7.9
Foreign Military Sales	0.0	0.0	0.0
Non-DoD	5.9	4.5	4.5
Total Revenue	**$134.7**	**$97.8**	**$104.8**

The Army continues to be the largest source of revenue, accounting for 89 percent of total revenue in FY 2002. The Defense Finance and Accounting Service (DFAS) also is an important customer because of its needs for design, maintenance, and testing services for its financial systems.

The Information Services activity group also includes the Army Small Computer Program (ASCP), the primary objective of which is to provide customers with the latest technology at the best price. The program negotiates directly with commercial information technology vendors for hardware, software, and support services, and in so doing is able to eliminate the duplicated costs associated with individual procurements. In addition, the ASCP is in a position to ensure that all products purchased adhere to Army and DoD interoperability and compliance standards. The program collects a fee of 1 percent of the total order cost for providing this service. In FY 2002, revenue was $6.6 million.

Personnel

Civilian end strength and work-years were on plan in FY 2002, as was military end strength.

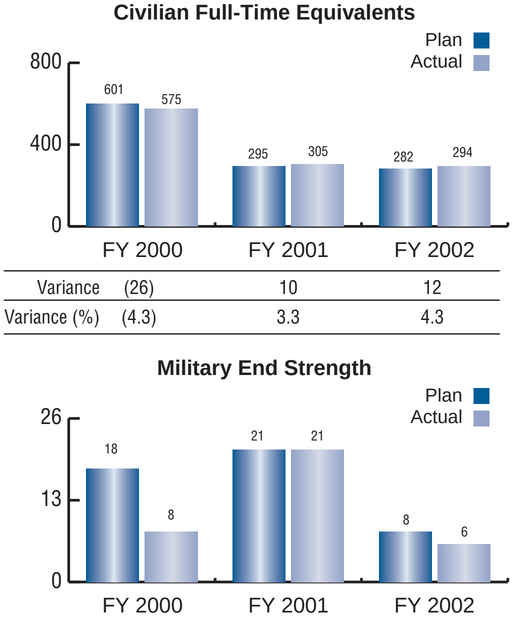
Performance Measures

Financial Performance

The Information Services activity group uses three financial performance measures: cost per direct labor hour (DLH), financial operating measures (revenue, costs, and net operating results), and cash management.

Cost per Direct Labor Hour. The DLH rate is computed by dividing the sum of all activity labor and non-labor expenses (direct, indirect, and general and administrative (G&A)) incurred during the fiscal year by the total number of direct labor hours executed. Excluded from this computation are contractor support costs, ASCP expenses, and direct labor hours, which are treated as direct reimbursable costs. For FY 2001 and FY 2002 this activity group is working on a cost-reimbursable basis in anticipation of decapitalization at the end of FY 2003; cost per direct labor hour therefore is not applicable.

Figure 14. Cash Management ($ millions)



Civilian Full-Time Equivalents

	FY 2000	FY 2001	FY 2002
Variance	(26)	10	12
Variance (%)	(4.3)	3.3	4.3

Military End Strength

	FY 2000	FY 2001	FY 2002
Variance	(10)	0	(2)
Variance (%)	(55.6)	0	(25)

Table 44. Cost per Direct Labor Hour

	FY 2000	FY 2001	FY 2002
Cost per Direct Labor Hour	$115.12	$449.77	$268.85
Change from Prior Year (%)	52.4	290.6	40.3
Direct Labor Hours* (000s)	596	219	260

*Note: These amounts exclude ASCP direct labor hours.

Net Operating Results. The activity experienced NOR of $3.7 million in excess of plan. This was due primarily to increased revenue at the Army's Small Computer Program (ASCP). Ordering on two contracts (Dell Army Desktop and Mobile Computing-1 contract and Oracle Enterprise Initiative Software Agreement) in particular was heavier than anticipated.

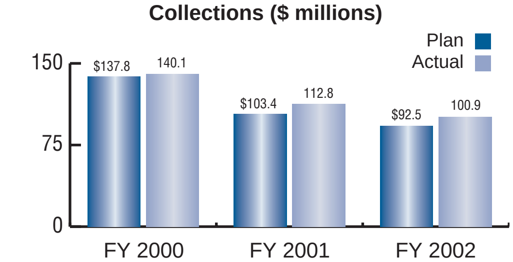
Table 45 Results of Operations ($ millions)

	FY 2000		FY 2001	
	Plan	Actual	Plan	Actual
Revenue	$159.6	$134.9	$129.3	$97.8
Expense	159.7	136.2	135.0	101.5
Operating Results	($0.1)	($1.3)	($5.7)	($3.7)
(less Non-Recoverable)	0.0	0.3	0.0	0.0
Net Operating Results	($0.1)	($1.6)	($5.7)	($3.7)

	FY 2002	
	Plan	Actual
Revenue	$105.3	$103.8
Expense	105.3	100.2
Operating Results	0.0	3.7
(less Non-Recoverable)	0.0	0.0
Net Operating Results	0.0	3.7

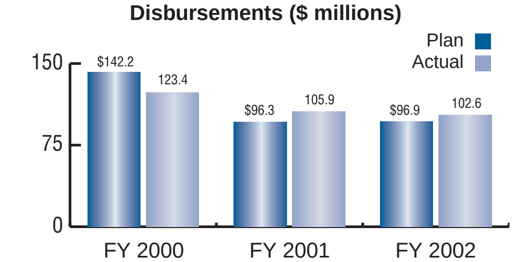
Figure 15. Personnel Indicators

Collections ($ millions)



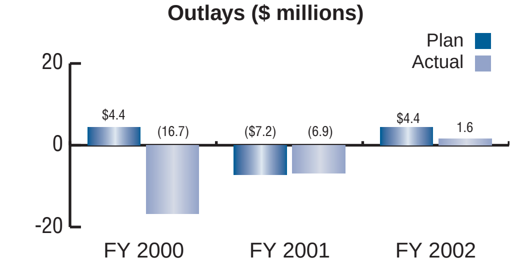
	FY 2000	FY 2001	FY 2002
Variance	$2.3	$9.4	$8.4
Variance (%)	1.7	9.1	9.1

Disbursements ($ millions)



	FY 2000	FY 2001	FY 2002
Variance	($18.8)	$9.6	$5.7
Variance (%)	(13.2)	9.9	5.9

Outlays ($ millions)



	FY 2000	FY 2001	FY 2002
Variance	($21.1)	$0.3	($2.8)
Variance (%)	(479.5)	4.2	(63.6)

Cash Management. The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays, not against cash balances. A positive outlay means the activity group is losing cash; a negative outlay means the activity group is generating cash. The actuals in Figure 15 reflect the cash transactions reported to Treasury for the activity group. These include residual transactions from Fort Huachuca, which moved out of the AWCF several years ago. The Information Services activity group ended the year with $1.6 million of outlays versus planned outlays of $4.4 million. The primary cause of the low outlay was the group's increased emphasis on collecting accounts receivable.

Program Performance

The Information Services activity group is still relatively new to the AWCF, and only one program performance measure (direct labor hours executed versus planned) has been developed. We are seeking better measures that would be applicable across all of the four Central Design Activities.

Direct Labor Hours. The number of DLHs achieved in FY 2002 was 27,000 over plan.

Table 46. Direct Labor Hours (000s)

Category	FY 2000	FY 2001	FY 2002
Plan	659	254	250
Actual	609	236	277
Variance	(50)	(18)	27
Variance (percentage)	(7.5)	7.1	10.8

Management Integrity

Continuing Challenge

Lack of Spare Parts

The AWCF is struggling with a critical shortage of spare parts. Sustaining the Army requires a level of inventory that is sufficient to meet OPTEMPO and surge requirements; however, the Army has identified a $1.3 billion spare parts inventory shortfall. The AWCF's difficulty in meeting these requirements is due to fragmented pricing and credit policies, and to inconsistent management information.

Sustaining the Army requires a level of inventory that is sufficient to meet OPTEMPO and surge requirements.

The Army was able to ensure that this shortfall did not impact readiness in FY 2002, but good management demands that requirements for spare parts be identified and funded during the normal budget process rather than during the year of execution. The Army therefore has established a work group to review the underlying causes of this problem. The group will examine logistics and financial systems to identify those business rules and processes that must be changed such that the total requirement for parts can be established accurately and funding aligned accordingly within the normal budget process. The AWCF goal is to ensure that the spare parts inventory maintains 85 percent stock availability.

The Army is working now to identify the FY 2003 shortfall. It plans by FY 2004 to have in place the policies and procedures that will enable it to identify the requirements for spare parts during the normal budget process.

Future Effects of Existing Conditions

Logistics Transformation

As part of Army Transformation, several financial reform initiatives have been recommended by the Logistics Transformation Task Force (LTTF) that may result in a change to the pricing and recording of products and/or services sold by the AWCF. The proposed changes will be reviewed by the task force and, if approved, will be implemented during FY 2004-FY 2007. The goal of these reform initiatives is to promote cost visibility while streamlining price development. If this is achieved as required, the buyer/seller relationships will benefit.

Facilities Recapitalization

The Army has identified a need for a facilities framework capable of properly supporting its future worldwide missions. This will require programs and budgets that ensure a day-to-day readiness of modern facilities relevant to future operations and services. The Army will use standard tools and metrics to determine the appropriate investment levels for this facilities recapitalization.

The recapitalization rate metric is one element of a larger paradigm that has been under development in DoD since 1999. This paradigm is composed of restructured programs and new performance metrics for facilities sustainment, restoration, and modernization (S/RM). The new S/RM paradigm is expected to solve long-standing problems that the Army has faced in determining funding requirements for facilities. It supports the Government Performance and Results Act and the Chief Financial Officer's Act.

The new sustainment, restoration, and modernization paradigm is expected to solve long-standing problems that the Army has faced in determining funding requirements for facilities.

The Defense Planning Guidance for FY 2004-FY 2009 provides a revised investment strategy based on S/RM principles. However, the challenge of how to implement the strategy remains. Successful implementation will require a major transformation of existing practices and a long-term commitment to resolve the problem.

Using the S/RM-based strategy, the Army plans to first forecast its required inventory and then:

- fully sustain its assets and stop the loss of service life;
- restore by 2010, where appropriate and affordable, C2 readiness to facilities rated C-3 or C-4 in the bear term buying back lost service life; and
- modernize for the future, establishing by 2007 a recapitalization investment stream tied to average expected service life (67 years).

For mainstream recapitalization programs — and for recapitalization typically funded by traditional military construction, O&M, and working capital fund resources — the recapitalization rate metric is ready and usable for the FY 2004-FY 2009 program and budget cycle. Additional research and analysis is required before the metric can be applied successfully to selected specialty areas, such as family housing programs, foreign or internationally funded programs, and non-appropriated fund programs.

Advancing the President's Management Agenda

The President's Management Agenda has great relevance in the logistics arena. By improving their management efficiency, all AWCF activities should be able to lower the rates they charge to customers.

The President's Management Agenda has great relevance in the logistics arena.

Strategic Management of Human Capital

Workforce Revitalization

The AWCF has a critical role in helping to ensure the success of Army Transformation, but the ability of the AWCF workforce to perform its mission is in peril. The AWCF is afflicted by a growing number of retirement-driven shortages in critical areas, and after more than a decade of cutbacks is facing serious skill imbalances. The limited intake of new personnel furthermore means that employees now average more than 20 years of service; unless someone is in place to inherit their legacy, as staff members leave, that knowledge and experience will be lost with them.

The Army Materiel Command (AMC) is seeking to put in place a Workforce Revitalization Program that will institute hiring programs for apprentices, interns, and multidisciplinary fellows. Using innovative recruiting techniques, AMC will assess the abilities of new employees and determine and address their development needs. The desired result is a viable and skilled workforce able to share the knowledge of experienced employees.

Graduate Studies for Logistics Officers

AWCF managers routinely are expected to apply and modify the best practices of the private sector to AWCF businesses. But while AWCF businesses are as complex and challenging as any in the private sector, the Army's logistics officers typically are not trained in the professional business skills necessary to run AWCF businesses in accordance with best business practices.

AWCF logisticians receive a variety of military service school training, but this does not approach the level of education found in civilian graduate business schools, nor are they offered the opportunity to undertake fully funded studies at civilian graduate business schools. The lack of such opportunities has contributed, in the past, to the decision of some logisticians to leave the Army rather than pursue assignments for which they are not prepared adequately. Seeking to address this weakness, the Army is evaluating the feasibility of making business graduate programs available for up to 5 percent of eligible captains. In FY 2002, 885 captains would have been eligible; had such a program been in place, up to 40 officers, therefore, would have been given the opportunity to genuinely prepare themselves to run AWCF businesses.

Improved Financial Performance

Single Stock Fund

The Single Stock Fund (SSF) initiative was begun in FY 1998. The SSF is designed to reengineer business processes to improve logistics and financial processes in the AWCF.

As force structure and technology changed, the need arose for a speed of system processing and a supply chain agility that the previous environment could not support. The SSF combined the wholesale stocks previously managed by the Army Materiel Command with the retail stock previously managed by Army major commands. By integrating the asset requirements at both levels, the Army thus gained a corporate visibility of its assets that it previously lacked. This lack of corporate visibility had contributed greatly to an accumulation of excess stock and a duplication of workload.

The SSF is streamlining operations by eliminating multiple points of sales, multiple ledger and billing accounts, duplicative automated systems, and other inefficiencies. With the implementation of SSF Milestones 1 and 2, the Army capitalized $489 million of retail stocks to the SSF.

Milestone 3 implementation began on July 1, 2002, with the commencement of the Verification of Initial Operating Capability (VIOC) at III Corps, the Texas Army National Guard, and selected U.S. Army Reserve units. Army-wide implementation began in November 2002, with completion scheduled for May 2003. This will round out the program by capitalizing to the SSF an additional 395 customer accounts with an approximate value of $900 million. The benefits of the SSF are exceeding expectations. The redistribution of Army-owned materiel that previously was inaccessible has improved greatly AWCF customer responsiveness and has lowered costs significantly. A cost-benefit analysis conducted in 1999 projected a benefit-to-investment ratio of 6.3 to 1; actual implementation evidence indicates that the SSF is well on track to exceed that estimate.

Logistics Modernization Program

LMP has been an ongoing modernization process to allow the Army the flexibility to support today's CONUS-based power projection scenarios and utilize modern information technology enablers that provide real time visibility of the entire logistics supply chain. In addition, LMP ensures integrated logistical and financial system processes that will maximize resources to ensure all efforts toward total asset visibility are maintained and accurate requirements determination is derived to support near and long-term readiness objectives.

When fully implemented, LMP will provide a single point of entry for the recording, reporting, and analysis of inventory and related financial data, directly addressing an identified internal control weakness cited in the Army's FY 2000 financial statements. The modernization program will provide a financial information management system while simultaneously providing the logistics community with easy access to online, real-time information at a detail level low enough to enable data to be summarized and sorted. Managers will be able to use these data to perform such functions as Activity-Based Costing and will bring financial data for the AWCF under general ledger control.

Dollar Cost Banding

Under the current system, an item is added to Authorized Stock Lists (ASLs) when nine requests are made for that item. Three demands are needed to retain the item on the ASL. This system operates regardless of cost, with the result that inexpensive, but often critical, components are not held in stock. Dollar Cost Banding (DCB) seeks to ease this situation by reducing the add/retain criteria for items costing less than $1,000; as the unit price of an item decreases, the criteria by which it is on the ASL are incrementally lowered. There would be no change to the current system for items priced more than $1,000 per unit. DCB allows units to add to the ASL many critical small items, at very little cost. Most units that have tried DCB have experienced order fill rates between 10 and 20 percent better than under the previous system with no increase in the total cost of the ASL. The benefits to readiness are obvious. While DCB has been optional, its success has led to it being adopted broadly across the Army.

"Imagination • Innovation • Initiative"

Civil Works Fund

Civil Works Fund—Overview

Profile of Civil Works Program

Mission

The Civil Works mission is evolving constantly to keep pace with the changing needs of the nation.

Developing and Managing Water Resources

The original Civil Works mission, as it related to developing and managing water resources, was to support navigation by maintaining and improving water channels. In 1824, a series of laws authorized the Corps of Engineers also to improve safety on the Ohio and Mississippi Rivers, and in 1909 the Rivers and Harbors Act authorized the consideration of various water uses, including hydroelectric power generation, in the planning, design, and construction of water resource development projects. The Flood Control Act of 1917 established for Civil Works a role in flood damage reduction, and in 1936 the Flood Control Act gave Civil Works the responsibility for providing flood protection for the entire country.

The Civil Works Mission

The Civil Works mission is to contribute to the national welfare and serve the public by providing the nation with quality and responsive

- Development and management of the nation's water resources
- Protection, restoration, and management of the environment
- Disaster response and recovery
- Engineering and technical services in an environmentally sustainable, economically and technically sound manner through partnerships and the project management business process


A park ranger emphasizes safety at the John Day Dam, OR.

Recreation was added to the Civil Works portfolio by the Flood Control Act of 1944, which authorized the provision of recreational facilities at reservoirs. The River and Harbor Flood Control Act expanded this authority in 1962, providing authority to build, where feasible, recreational facilities as part of all water resource development projects.

Another aspect of water resources management is that of water supply. The changing role of the Civil Works Program in water supply has been directed by a series of Water Resources Development Acts. The Water Supply Act of 1958 gave Civil Works the authority to include water storage in both new and existing reservoir projects for municipal and industrial uses at 100 percent non-Federal cost.

Protecting, Restoring, and Managing the Environment

The Rivers and Harbors Act of 1899 required the Corps of Engineers to prevent the obstruction of navigable waterways, making the Corps an early tool used to protect the environment. As concerns over the environment grew in the late 20th century, the Clean Water Act of 1972 greatly broadened the Corps's responsibility by providing authority over dredging and filling in "the waters of the United States," including the filling in or destruction of wetlands. The program's environmental responsibilities were broadened further by new legislation, introduced in 1986, that expanded our traditional environmental mitigation activities at new and existing projects to include the enhancement and restoration of natural resources at our projects and in areas not directly tied to our projects. This new legislation made providing environmental protection one of the primary missions of our water resource development activities.

Responding and Assisting in Disaster Relief

Throughout its history, America has relied upon Civil Works for help in times of national disaster. This help is provided now under two basic authorities: the Flood Control and Coastal Emergency Act (P.L. 84-99. as amended), and the Stafford Disaster and Emergency Assistance Act. Under P.L. 84-99, Civil Works has direct authority to provide emergency assistance during or following flooding events to protect lives, public facilities, and infrastructure.

Under the Stafford Act, the program supports the Federal Emergency Management Agency (FEMA) in carrying out the Federal Response Plan, which calls upon 26 Federal departments and agencies to provide coordinated disaster relief and recovery operations. The primary role for Civil Works in emergency relief and recovery operations is to provide public works and engineering support.

Fighting the flood in Fort Wayne, IN.

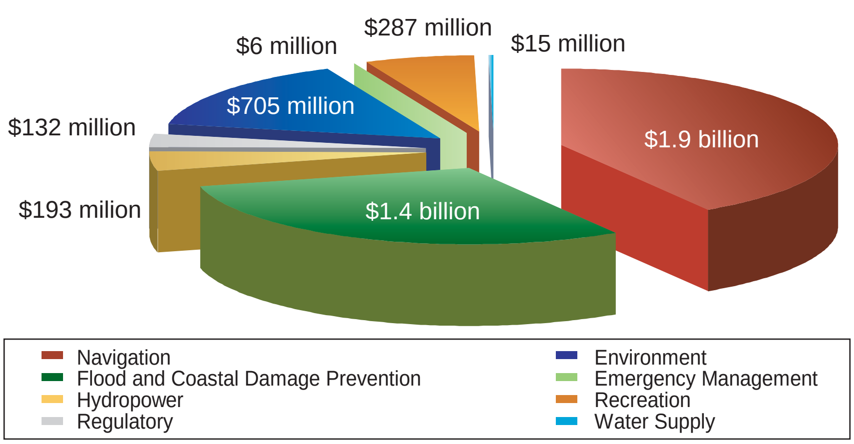
Providing Engineering Support and Technical Services

In Titles 10 and 33 of the U.S. Code, Congress expresses its intent that the U.S. Army Corps of Engineers provide services on a reimbursable basis to other Federal entities, state, local and tribal governments, private firms and international organizations. Additional authorities to provide services that are applicable to all Federal agencies are provided in Titles 15, 22 and 31. These authorities include providing services to friendly foreign governments.

The Business Programs

The Civil Works Program has established nine business programs through which to accomplish the four components of its mission. Figure 16 defines eight of the nine business programs that receive direct appropriations. The ninth program, Support for Others, is conducted on a reimbursable basis. Each business program specifically addresses a single mission component, but all programs also contribute to one or more of the other mission components.

Figure 16. FY 2002 Civil Works Appropriation by Business Program



Navigation

The Navigation business program is responsible for providing safe, reliable, efficient, and environmentally sustainable waterborne transportation systems for the movement of commercial goods, for national security needs, and for recreation. The program seeks to meet this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The Navigation program is vital to the nation's economic prosperity: 99 percent of America's international trade moves through our ports, and 20 percent of American jobs depend to some extent on this trade.

Major Commodities Handled by Civil Works Ports and Waterways in CY 2001

Crude Oil	574 million tons
Petroleum Products	475 million tons
Coal	295 million tons
Food/Farm Products	282 million tons

NOTE: Statistics are compiled on a calendar year basis. CY 2002 statistics not available at time of printing.

In FY 2002, work continued to improve the future viability of many of America's ports and harbors. In New York City, work to dredge the access channel to 41 feet is vital to ensuring that future containerships will be able to load fully in New York. This $113 million project, of which Civil Works will pay $84 million, is expected to provide $32 million in average annual benefits to the nation.

Civil Works operates and maintains 12,000 miles of inland waterways, nearly 13,000 miles of deep draft and coastal inlet channels, 238 lock chambers, 300 major commercial harbors, and over 600 smaller recreational and commercial harbors. Inland waterways provide a highly fuel-efficient mode of transportation, able to move freight at more than 500 ton-miles per gallon of fuel compared to the less than 400 ton-miles per gallon that rail transportation achieves. This translates to an annual savings of $7 billion in transportation costs. Every dollar invested in improving our navigation infrastructure results in a better than $3 increase in GDP.


A container vessel navigates the Kill Van Kull channel as it passes under the Bayonne Bridge, NJ. The Corps has deepened this channel to accommodate modern shipping vessels.

In FY 2002, this $1.9 billion program accounted for 41 percent of the Civil Works budget.

Flood and Coastal Storm Damage Reduction

This business program is aimed at saving lives in the event of floods and storms and of reducing the property damage that they cause. Civil Works provides 8,500 miles of emplaced levees and dikes, 383 reservoirs, and more than 90 shore protection projects along 240 miles of the nation's 2,700 miles of shoreline. With the exception of the reservoirs, most of the infrastructure constructed under this business program is owned and operated by the sponsoring cities, towns, and agricultural districts.

FY 2002 Damage Results*

Damage Suffered	$2.0 billion
Damage Prevented	$23.1 billion*

*Preliminary estimate.

The Flood and Coastal Storm Damage Reduction business program has compiled an impressive record of performance. In the period 1991-2000, floods in unprotected areas caused the United States an average of $4.5 billion in property damage. In the same period, Corps projects in protected areas prevented $20.8 billion in average annual damages. Through FY 2000, the nation had invested $43.6 billion ($122 billion, adjusted for inflation) in flood damage reduction projects, preventing an estimated $419 billion ($709 billion, adjusted for inflation) of flood damage. Adjusted for inflation, these figures show a return on investment of more than $6 in damage prevented for each dollar spent. The program also has helped reduce the number of lives lost annually due to floods from an average of 179 in the decade 1972-1981 to 89 in the period 1991-2000.

A Corps-led sandbag operation in Portland, OR.

Through its Flood Plain Management Services, the Flood and Coastal Storm Reduction Program additionally advises property owners and communities on protective measures that they can take on their own behalf. Each year this service responds to more than 40,000 requests for information on how to protect more than $6 billion worth of property.

As an ever more affluent society moves toward America's coastal regions, protecting the coastline is a matter of increasing Federal interest. The Flood and Coastal Storm Reduction Program seeks the most economical and environmentally sound solutions to achieve this. Most shore protection projects are carried out at the request of local sponsors, as authorized and funded by Congress, and are cost-shared with the state and local government within whose jurisdiction the project falls. Projects are performed only on publicly accessible beaches, and only after thorough studies have determined that there exists a positive benefit-to-cost ratio. While most projects provide also for shoreline protection, habitat protection and renewal, and recreation, the primary purpose is the protection of life and property.

In FY 2002 the Civil Works Flood and Coastal Storm Reduction Program completed a project that will protect millions of Americans. In the early 1990s, the Los Angeles County Drainage Area, covering an area of 2,000 square miles, was protected only partially from floods. Enormous population growth in the area rendered the existing flood control system inadequate, to the extent that the Federal Emergency Management Agency (FEMA) required residents to hold mandatory flood insurance. Initiated in 1996 at an estimated cost of more than $450 million, the Los Angeles County Drainage Area project was completed for roughly $200 million, of which Civil Works paid $150 million. The project saw the building of 21 miles of parapet walls, armored the back slopes of levees, and modified or raised 26 bridges. As a result of these improvements, FEMA eliminated the obligation for flood insurance.

In FY 2002, this $1.4 billion program accounted for 30 percent of the Civil Works budget.

Environmental Protection, Restoration, and Management

This evolving and growing business program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development. Responding to the growing national demand for restoration and protection, the program's work takes many forms, ranging from monitoring water quality at dam sites to operating fish hatcheries with the states to restoring the environment at the sites of earlier projects. Since 1998, we have added more than 120,000 acres of aquatic, wetland, and floodplain ecosystems to America's natural habitats.

Kissimmee River C-38 Restoration Project, FL.

"The optimal solution will not always be obvious or easy, but [it] is what we will work together to find."

Steven McCormick
President, Nature Conservancy

One example where work proceeded in FY 2002 was on the Kissimmee River in Florida. In the 1960s this 103-mile river was reduced to a 52-mile canal in order to control flooding and resulted in a degradation of the natural ecosystem. The current project is aimed at restoring 52 miles of the river and 27,000 acres of wetlands; improving water quality; and restoring the conditions for over 300 fish and wildlife species.

The Corps of Engineers and the Nature Conservancy have agreed to a collaborative effort to improve the management of dams on various rivers. The Sustainable Rivers Project will seek to improve dam operations, helping to restore and protect the health of rivers and surrounding natural areas while continuing to meet human needs for services such as flood control and power generation. The collaborative effort will initially examine the potential to improve operations at 13 dams on nine rivers in nine states.

In 1997, the Civil Works Program took over from the Department of Energy the Formerly Utilized Sites Remedial Action Program, which mandates the clean-up of former Manhattan Project and Atomic Energy Commission sites. The transfer of this program to Civil Works capitalizes on our experience gained in cleaning up former military sites and hazardous waste sites under the Environmental Protection Agency's "Superfund" program. Work under the program is ongoing at 46 locations in Missouri, Illinois, Ohio, Maryland, New Jersey, New York, Connecticut, Pennsylvania, and Massachusetts.

Formerly Utilized Sites Remedial Action Program. Groundwater sampling for radioactive materials, Wayne, NJ.

In FY 2002, this $705 million program accounted for 15 percent of the Civil Works budget.

Regulation of Waterways and Wetlands

The Civil Works Regulatory Program is responsible for the issue of permits for construction and dredging in the nation's navigable waters, including wetlands. In doing so it must take into account the requirements to protect America's aquatic resources while allowing reasonable use of private property and infrastructure development. The staff that performs this mission evaluates permit applications for most construction activities that occur in the nation's waters and for all work that would take place in the nation's navigable waters.

The Corps considers the views of other Federal, state and local agencies, interest groups, and the general public in rendering its final permit decisions. The program seeks to balance the reasonably foreseeable benefits and detriments of proposed projects with the goal of making permit decisions that recognize the essential values of aquatic ecosystems to the general public. Any unavoidable adverse impacts to the aquatic environment of a proposed project are offset by mitigation requirements, which may include the requirement to restore, enhance, establish, or protect and maintain aquatic functions and values.

Great effort is made to make permit decisions in a timely manner to minimize the inconvenience caused to the regulated public. In FY 2002, 88 percent of all permit actions were completed in 60 days.

In FY 2002, this $132 million program accounted for 3 percent of the Civil Works budget.

Emergency Management

In a typical year, there are 30 presidential disaster declarations demanding a response from the Civil Works Program. It is often difficult to know more than a few days in advance when a hurricane or other natural disaster will strike, and in the case of a man-made disaster, as the events of September 11, 2001, showed, there may be no notice at all. To prepare for such events, the Corps has implemented Readiness 2000, a unified and integrated corporate planning project, to raise responsiveness to the highest possible level. Predicting impending disasters can be difficult, but the returns on investment in emergency preparedness can be dramatic.

In FY 2002 the Emergency Management Program continued the work it started in late FY 2001 at the World Trade Center site in New York City. Structural engineers monitored unstable buildings, and other Civil Works employees supported search and rescue work. The program also provided a mobile command center to support the New York Fire Department. Perhaps the biggest mission, however, was debris removal. Civil Works experts helped to set up management processes and develop a plan for debris removal; they also set up and conducted dredging operations to allow barges to access the site. Dredging 75,000 cubic yards in just nine days, this solution eliminated the need for trucks to traverse the 20-mile land route from the site to the landfill. With each barge carrying 30 truckloads of debris, it also greatly reduced traffic and road wear.

Besides the ongoing World Trade Center response activities, there were numerous flood events throughout the United States involving nearly every Corps District throughout the year. Emergency Management Personnel responded to 10 Presidential Disaster Declarations at the request of the Federal Emergency Management Agency and to other flood events under Public Law 84-99, Flood Control and Coastal Emergencies. The response to Typhoon Chaatan in the Federated States of Micronesia, Guam, and the Island of Chuk in the Commonwealth of Northern Mariana Islands and the risk of imminent failure of the Rapidan Dam on the Blue Earth River upstream of the City of Mankato, MN, are examples of the diverse emergency events responded to by Emergency Management personnel. The response to Typhoon Chaatan, at the request of FEMA, included providing emergency power, debris removal and emergency water supply. The Rapidan Dam response was initiated under Public Law 84-99 and involved providing emergency repairs to stabilize the dam.

In FY 2002, this program received new budget authority of $6 million that accounted for less than 1 percent of the Civil Works new budget authority. The program is actually larger than indicated by the new budgetary view. The $6 million is augmented by reimbursable work performed for FEMA and by prior-year disaster recovery appropriations carried over into FY 2002.

Hydropower

Some of the Civil Works projects built for navigation and flood control have the additional benefit of providing hydroelectric power. This is in keeping with Civil Works policy and with the Congressional direction to maximize public benefits in all projects for all desirable purposes, including power generation. The Civil Works Program operates and maintains 75 power plants, mostly in the Pacific Northwest, generating about 24 percent of America's hydroelectric power. The program is the country's largest producer of hydroelectricity. Hydropower is a low-cost, renewable power source that produces none of the airborne emissions that contribute to acid rain or the greenhouse effect, leading many to view it as the least environmentally disruptive source of electric power.

In FY 2002, this $193 million program accounted for 4 percent of the Civil Works budget. In FY 2002 the Federal Power Marketing Agencies returned $700 million to the U.S. Treasury from power sales.

Water Supply

Civil Works has 167 projects with municipal and industrial water supply as an authorized purpose. It supplies water to 10 million people in 115 cities, including some of America's largest metropolitan areas, such as Washington, D.C., Atlanta, and Dallas-Fort Worth. In arid parts of the country there are 62 projects that have irrigation as an authorized purpose. Many of these projects serve flood control, navigation, and hydroelectric purposes as well as irrigation.

In FY 2002, this $15 million business program accounted for less than 1 percent of the Civil Works budget.

Recreation

The Civil Works Recreation Program is an important provider of outdoor recreation opportunities. The program operates more than 44,000 recreation sites at 456 projects, mostly lakes, hosting more than 396 million visits a year at its facilities. One in 10 Americans visit a Civil Works recreation site at least once a year. These projects have significant economic impact supporting 500,000 jobs and generating $15 billion in visitor spending annually. In addition, there are approximately 500 concessionaires on Civil Works recreation sites, representing more than a billion dollars in fixed assets. Corps lands are also leased to nearly 600 state parks, 600 local government parks, and 420 boy or girl scout camps, church camps, boating clubs, and other such organizations that are open to public membership and that have defined goals that are consistent with the Corps' public recreation stewardship responsibilities.

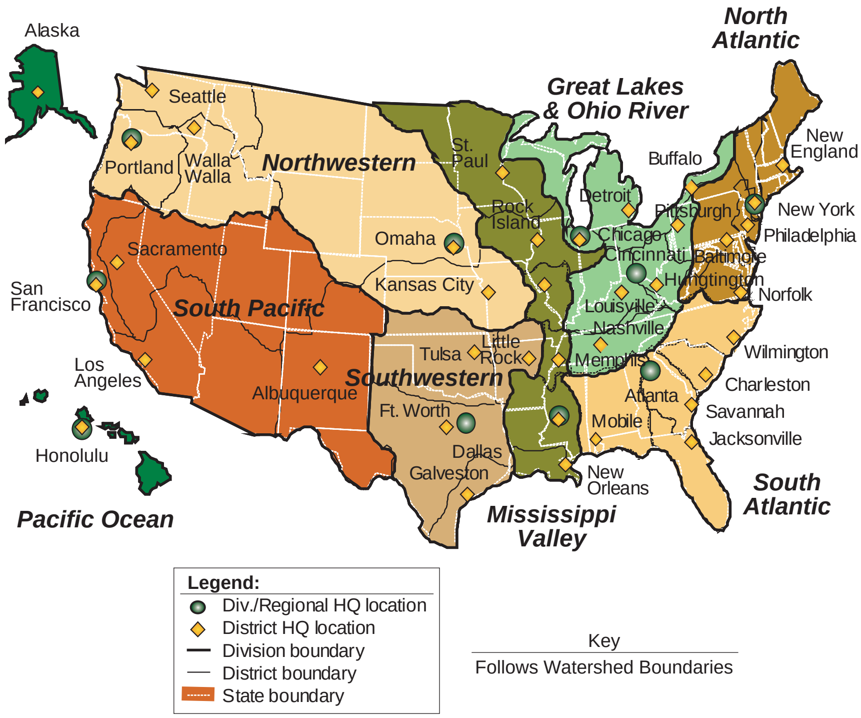
In FY 2002, this $287 million business program accounted for 6 percent of the Civil Works budget.

Organizational Structure

The Workforce

Civil Works employs more than 25,000 people. Funded through the Energy and Water Development Appropriation, it executes programs through eight regional divisions and 38 of the 41 districts of the Corps of Engineers. Figure 17 shows the division boundaries. Rather than being demarcated by state boundaries, these are defined by watersheds and drainage basins, reflecting the water-oriented nature of the Civil Works Program.

Figure 17. Civil Works Boundaries



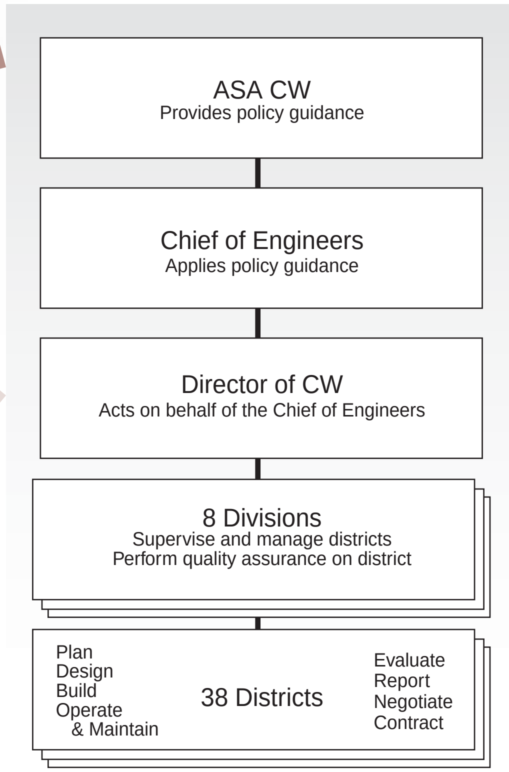
The distribution of Civil Works employees similarly highlights the customer focus of the program: 95 percent of the employees work at the district level, reflecting the fact that project management is performed at the district level.

The Civil Works mission contracts out to civilian companies all of its construction and most of its design work. While Civil Works employs only 25,000 people, as many as 150,000 people thus are employed indirectly in support of its projects. The close working relationships established with these private firms have served the nation well in times of emergency.

The Leadership

Oversight of Civil Works is provided through four levels of authority. The Assistant Secretary of the Army for Civil Works (ASA (CW)) is appointed by the President and establishes Civil Works policy. The Chief of Engineers reports to the ASA (CW) for Civil Works mission accomplishment and in turn delegates most of his responsibilities for managing the various programs to the Director of Civil Works. The Chief of Engineers, through the Director of Civil Works, is responsible for the leadership and management of the program and for ensuring that policies established by the ASA (CW) are applied to all phases of project development.

Figure 18. Civil Works Levels of Authority



The divisions, commanded by Division Engineers, are regional offices responsible for the supervision and management of their subordinate districts, including the monitoring and quality assurance of district work.

The districts are the foundation of the Civil Works mission, managing water resource development over a project's life cycle. They conduct planning studies, perform project design, oversee construction by contractors, and manage completed facilities. They develop decision documents and write reports, prepare cost estimates, negotiate agreements, and perform all the day-to-day activities that get the job done. They are the program's face to the nation.

Civil Works — Performance Results

Civil Works directly impacts America's prosperity, competitiveness, quality of life, and environmental stability. Civil Works leaders accordingly have developed a draft strategic plan to identify and answer the nation's water resources needs. Research findings and input from the public, gained through public listening sessions, have led us to identify the following five issues as the main national water resource challenges facing the nation:

- Balancing demands for water resource development in terms of access to and use of those resources and of the preservation of environmental quality
- Repairing damage to our environment from past development
- Addressing the performance and safety implications of an aging water resources infrastructure
- Ensuring the capability to respond to natural disasters
- Minimizing the impact of institutional inhibitors on water resources decision-making and management

Civil Works directly impacts America's prosperity, competitiveness, quality of life, and environmental stability.

To address these challenges, we have developed the following five strategic goals. Specific objectives associated with each goal enable the measurement of our annual performance toward achievement of the strategic goal:

- Provide sustainable water resources development and integrated management of the nation's water resources
- Repair past environmental degradation and prevent future environmental losses
- Ensure that projects perform in a manner that meets authorized purposes and evolving conditions
- Reduce vulnerabilities and losses to the nation and the Army from natural and man-made disasters, including terrorism
- Be a world-class public engineering organization

Civil Works' mission is able to enhance the nation's economic well-being.

Strategic Goals

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

Through anticipating, identifying, and addressing water resources infrastructure problems and needs the Army Corps of Engineers Civil Works mission is able to enhance the nation's economic well-being. By maintaining coastal harbors and intercoastal waterways, Civil Works strengthens America's ability to export its products to the world and to move those products around the nation.

To continue to manage our water resources effectively and to maintain waterway infrastructure, the Civil Works mission applies a consistent program investment objective to the development and management of water resources infrastructure. At the core of this objective are two guiding principles:

- Invest in the navigation program infrastructure when project benefits exceed their costs.
- Invest in the flood and coastal storm damage reduction program infrastructure when project benefits exceed their costs.

Performance Measure 1: For investments in navigation projects, the benefit-to-cost ratio at the completion of project construction should at least equal the benefit-to-cost ratio at the time of initial project funding. The performance target for FY 2002 was to achieve a benefit-to-cost ratio at completion within 10 percent of the initial benefit-to-cost ratio.

Performance Result 1: In FY 2002, two navigation construction projects were completed. Both of the projects were completed with a benefit-to-cost ratio exceeding the benefit-to-cost estimate used to justify initial project construction funding.

Performance Measure 2: For investments in flood and coastal storm damage reduction projects, the benefit-to-cost ratio at the completion of project construction should at least equal the estimated benefit-to-cost ratio at the time of initial project funding.

Performance Result 2: In FY 2002, seven flood damage reduction projects were completed. Five of the seven projects were completed with a benefit-to-cost ratio that exceeded the estimate used to justify the initial project construction funding. A sixth project was completed within 10 percent of the estimate used to justify initial project construction funding. The seventh project was completed with a benefit-to-cost ratio that fell short of the performance target; the ratio achieved nonetheless was positive, thereby validating the initial investment.

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

To accomplish the second strategic goal Civil Works must anticipate, identify, and address the nation's needs for the environmental restoration and enhancement of its water resources. Civil Works will work with its partners, including other Federal and state agencies, nongovernmental organizations, and Native American tribes, to develop creative solutions that are both effective and efficient, employing, where appropriate, leading-edge technologies and methodologies.

Civil Works must anticipate, identify, and address the nation's needs for the environmental restoration and enhancement of its water resources.

Civil Works is pursuing the restoration of environmental damages and losses that resulted from past actions where it did not anticipate adequately or take into account the environmental consequences of those actions. It plans to exercise its authority to the fullest extent in support of the ecosystem restoration portion of the Civil Works Program. In addition, it will support the national commitment to wetlands embodied in the Clean Water Action Plan, by adding to the nation's environmental resource base through restoration and enhancement projects. It is working to ensure that there is no further net loss of wetlands due to unwise development activity.

In addition, the Corps of Engineers has been given responsibility to execute an environmental clean-up program of contaminated sites under the Formerly Utilized Sites Remedial Action Program (FUSRAP). Accomplishment of the clean-up program will result in the elimination of potential risks to health and the environment at these high-priority sites.

Success in pursuit of this strategic goal is demonstrated through the performance measures that have been developed for the Environmental and Regulatory business programs.

Environmental

The Environmental business program emphasizes environmental stewardship, ecosystem restoration, mitigation, environmental compliance, and research and development. The work undertaken by this program takes many forms, reflecting the growing national demand for restoration and protection.

There are three program objectives in support of the strategic goals of the Civil Works Environmental Program. These are as follows:

- Invest in mitigation and restoration projects or features to make a positive contribution to the nation's environmental resources.
- Invest in mitigation and restoration projects and in the operation of program facilities to assist in the recovery of federally listed threatened and endangered species.
- Ensure that the operation of all Civil Works facilities and management of associated lands, including out-granted areas, complies with the environmental requirements of the relevant Federal, state, and local laws and regulations.

Performance Measure 1: The percentage of Civil Works Environmental Program-administered mitigation land meeting the requirements of the authorizing legislation or of the relevant Corps of Engineers decision document. The target for FY 2002 was to meet requirements for 80 percent of mitigation lands. This measure is calculated as a percentage of all designated program-administered mitigation land that meets mitigation requirements.

Performance Result 1: During FY 2002, Civil Works administered 713,909 mitigation acres, representing a slight increase of less than 0.5 percent over the acreage administered in FY 2001 that is statistically insignificant. This measure applies only to project lands that remain in Corps of Engineers ownership; it therefore reflects retained stewardship responsibility. Civil Works is achieving mitigation requirements on 79 percent of lands designated for mitigation, falling just short of the performance target of 80 percent. The 80 percent target was based on the experience gained with baseline measurement and in linking performance levels to resourcing levels. For FY 2003, the performance target is being raised to 85 percent as a stretch goal. It is a stretch goal because of the level of funding proposed for FY 2003 relative to FY 2001 and 2002 appropriated funds.

Table 47. Civil Works-Administered Mitigation Land

	FY 2000	FY 2001	FY 2002
Total acreage designated as Civil Works-administered mitigation land	712,933	713,374	713,909
Mitigation land for which requirements were met (acres)	552,441	554,880	564,025
Percentage of Civil Works-administered mitigation lands for which mitigation requirements were met	77%	78%	79%

Performance Measure 2: The percentage in which Civil Works Stewardship should be engaged in opportunities to participate in Recovery Plan efforts for federally listed species. The performance target was raised in FY 2002 to not less than 95 percent, based upon experience gained with baseline performance measurement and the level of funding appropriated between FY 2001 and FY 2002.

Performance Result 2: The performance target was exceeded. During FY 2002, the Corps participated in recovery programs for 80 federally listed species, engaging in 496 separate opportunities to benefit these species or their habitat. A total of 288 Corps projects were involved.

Table 48. Recovery Plan Projects

	FY 2000	FY 2001	FY 2002
Number of opportunities to participate in recovery of federally listed species	503	505	509
Number of opportunities taken	470	491	496
Percentage of opportunities taken to assist in the recovery of federally listed species	93%	97%	97%

Performance Measure 3: To correct 100 percent of all significant findings and 70 percent of all major findings annually. A significant finding is a determination that we are not meeting an environmental requirement and that the concern poses, or has a high likelihood of posing, a direct and immediate threat to human health, safety, the environment, or the Civil Works mission. The success rate of correcting significant and major findings is calculated annually.

Performance Result 3: During FY 2002, we corrected 7 of 10, or 70 percent, of the significant findings, and 57 percent of major findings. The three remaining significant findings have been corrected partially to eliminate the immediate threat to the environment. The Corps anticipates total correction of the three open significant finding in FY 2003 subject to funding availability. The correction rate for major findings was lower than in the prior fiscal year. The actual number of major findings increased because several large-scale Corps facilities were inspected during FY 2002. The Corps continues to place a high priority on achieving both performance goals in FY 2003.

Civil Works operates a comprehensive regulatory program to protect the navigability of waterways and the aquatic environment.

Table 49. Correction of Significant and Major Environmental Findings

	FY 2000	FY 2001	FY 2002
Number of significant findings	5	3	10
Percentage corrected	80%	67%	70%
Number of major findings	555	400	502
Percentage corrected	70%	62%	57%

Regulatory

Civil Works operates a comprehensive regulatory program to protect the aquatic environment, primarily, but also the navigability of waterways from overdevelopment. Management of this program has a related objective of minimizing the time taken to process decisions on requests for permits to work in the waters of the United States. The following program objectives have been established to support the pursuit of the strategic goals of the Civil Works mission:

- Administer the regulatory program in a manner that protects the aquatic environment.
- Administer the regulatory program in a manner that renders fair and reasonable decisions for applicants.
- Administer the regulatory program in a manner that enables efficient decision-making.

Performance Measure 1: Administer the regulatory program in a manner that protects the aquatic environment. The performance target of Civil Works is to realize no net loss of wetlands.

Performance Result 1: The performance target was met. During FY 2002, 57,821 acres of wetlands were restored, created, enhanced, or preserved, offsetting the 24,651 acres that were lost to permitted development.

Table 50. Development and Mitigation of Wetlands

	FY 2000	FY 2001	FY 2002
Wetland acres permitted for development	18,900	24,073	24,651
Wetland acres mitigated	44,757	43,832	57,821

Performance Measure 2: The number of all permit decisions completed within 60 days, expressed as a percentage of all permit decisions. The target is to complete 85 to 95 percent of all actions within 60 days.

Performance Result 2: During FY 2002, 71,652 permit actions, or 88 percent of all permit actions, were completed in 60 days or less. While this figure exceeds the performance target of 85 percent, it remains unchanged from last year's performance and is below that of FY 2000, when 90 percent of all permit actions were completed in 60 days. The districts are concentrating on getting the Nationwide and General Permits authorized; this has helped to stabilize overall processing times but is the cause of the downward trend in enforcement and compliance efforts seen since FY 2000.

Table 51. Permit Actions Completed within 60 Days

	FY 2000	FY 2001	FY 2002
Number of permit actions completed within 60 days	80,035	73,415	71,652
Percentage of actions completed within 60 days	90%	88%	88%

Performance Measure 3: The number of standard permit decisions completed within 120 days, expressed as a percentage of all standard permit decisions. Standard permits are those for larger projects that require extensive review. The performance target is to complete 70 to 80 percent of decisions on standard permits within 120 days.

Performance Result 3: The performance target was not met. During FY 2002, 61 percent of all standard permit actions were completed in less than 120 days. Performance has remained relatively steady over the last three years at between 60 percent and 62 percent. The districts are contending with permit applications that are significantly more complex than in past years and that involve lengthy analysis of their potential environmental impacts. Issues related to endangered species, historic properties, water quality, and coastal resources also are adding to permit delays. Furthermore, the general public and the environmental community are becoming much more aware of and involved with the permit process, leading to increased numbers of comments raised in response to every Public Notice and to a rising trend in legal challenges.

Table 52. Standard Permit Actions Completed within 120 Days

	FY 2000	FY 2001	FY 2002
Number of standard permit actions completed within 120 days	2,521	2,600	2,536
Percentage of actions completed within 120 days	62%	60%	61%

The Civil Works Program goal is to meet or exceed customer expectations.

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

Civil Works customers, partners, and stakeholders expect delivery of the level of service that is designed into a project, and expect that high quality of service to continue even with changing demands on the project. This third strategic goal was developed to ensure that the Civil Works Program continues to meet or exceed customer expectations. This requires particular attention to the quality and performance of our projects, early recognition and analysis of problems, and identification of cost-effective ways to prevent, lessen, or correct any deficiencies.

In addition, Civil Works recognizes that it must continue to provide facilities that meet the needs of diverse and changing user groups. For projects to deliver the requisite performance and service levels, they must serve the needs of their users. Projects typically are designed to accomplish a particular purpose for a specified life span. In order that they continue to meet the changing needs of users, they may have to undergo design changes or may need even to be rehabilitated or reconstructed in order to modernize their functions.

The performances of the Navigation, Flood and Coastal Storm Damage Prevention, Hydropower, Recreation, and Water Supply business programs reflect the overall success of the Civil Works Program in achieving this strategic goal. The performance of each business program is outlined in the following sections.

Navigation

The responsibilities of the Navigation program include the improvement and maintenance of port and harbor channels and of the inland waterways that handle the nation's maritime commerce. The objective of the program is to operate and manage the navigation infrastructure as to maintain consistent, acceptable levels of service. One performance measure and two performance indicators are used to gauge the successful pursuit of this objective. These are as follows:

- The availability to commercial traffic of high use of navigation infrastructure (waterways, harbors, and channels).
- The volume of commerce and the operational cost of the fuel-taxed waterways component of the navigation system.
- The maintenance, through dredging, of safe and reliable harbors and channels.

Performance Measure: Percentage of time program facilities are open to commercial traffic. The performance target is 90 percent availability.

Performance Result: During FY 2001, the availability of inland navigational infrastructure decreased slightly by 2.5 percent to 93.5 percent. The availability of the nations navigational infrastructure continues to exceed the required availability of 90 percent.

Table 53. Availability of Navigational Infrastructure

Performance Achieved	FY 2000	FY 2001	FY 2002[1]
Actual availability	96.0%	93.5%	N/A

[1]Data not available at time of printing.

Performance Indicator 1: Monitor the volume of commerce and the operational cost of the fuel-taxed waterways component of the navigation system.

Performance Result 1: Data for calendar years 2000 and 2001 were not available at the time of printing.

Table 54. Volume of Commerce and Operational Cost

	FY 2000	FY 2001[2]	FY 2002[2]
Ton-miles of commerce carried (billions)[1]	276	N/A	N/A
Cost per ton-mile	$0.0018	N/A	N/A

[1] Ton-mile data are reported on a calendar basis. Costs are on a fiscal year basis.
[2] Data was not available at time of printing.

Performance Indicator 2: The need for dredging of harbors and channels is dependent largely upon acts of nature and factors beyond the control of man. Therefore, no performance target for the volume of material to be dredged has been established. The depth of material to be dredged and the disposal of dredged material are the two main factors influencing the cost of dredging.

Performance Result 2: Based upon preliminary information, 218 million cubic yards of dredged material were removed for maintenance dredging during FY 2001 at a cost of $ 2.56 per cubic yard.

Table 55. Volume and Cost of Material Dredged

	FY 2000	FY 2001	FY 2002[1]
Cubic yards removed (millions)	243	218	N/A
Cost per cubic yard	$2.42	$2.56	N/A

[1] Data not available at time of printing.

Flood and Coastal Storm Damage Reduction

There are two ways to reduce flood damage. The first calls for the use of large-scale engineering projects to prevent floodwaters from inundating property, and the second for the modification of property susceptible to flooding, to minimize the risk of damage. Civil Works projects usually use a combination of approaches. The program objective is to operate and maintain existing Federal infrastructure to ensure that designed levels of protection are realized. A single measure is used to gauge performance in this respect.

Arial view of the Dworshak Dam on the North Fork of the Clearwater River in northern Idaho.

Performance Indicator: The performance of Civil Works facilities in reducing damage where flooding otherwise would have been experienced.

Performance Result: During FY 2002, the Corps prevented $23.1 billion in flood damage (preliminary estimate). This can be compared to the 10-year rolling average of $22.8 billion that is used to smooth out the significant fluctuations in year-to-year flood damage prevented that are associated with variations in meteorological events.

Table 56. Flood Damages Prevented

(Dollars in billions)	FY 2000	FY 2001	FY 2002[1]
Flood damage prevented	$2.8	$21	$23.1
10-year rolling average	$20.8	$21.3	$22.8

[1] Preliminary estimate.

Hydropower

The Civil Works Program operates 345 hydroelectric power-generating units at 75 multipurpose reservoirs, providing nearly a quarter of the nation's total hydropower needs, enough energy to serve about ten million households. Hydropower units can start quickly and adjust rapidly allowing them to serve a primary role in meeting peak energy demands and energy reserve needs to protect the national power system's reliability and stability. The electricity is distributed by Federal power marketing agencies. To ensure that the Corps of Engineers continues to serve this role, it has established an overall program objective.

- Maintain reliable hydroelectric generation availability at Corps multipurpose reservoir projects.

Performance Measure: Maintain a high availability of hydroelectric power generated at multipurpose reservoir projects. Our goal is to keep the forced (unplanned) outage rate at less than 4.5 percent. The lower the forced outage rate, the more reliable and the less expensive is the electricity service we provide to our customers.

Performance Result: Data by calendar year is provided in Table 57.

Table 57. Hydroelectric Power Availability

	FY 2000	FY 2001	FY 2002
Performance Target (% outage)	4.5	4.5	4.5
Actual availability (% outage)	3.7	2.3	3.7

Value to the Nation Performance Indicators: In addition to measuring system reliability, we also track operation system indicators that provide valuable information and trends on system performance. The following indicators are monitored: (1) kilowatt-hours generated to measure total power generation and (2) cost per kilowatt-hour to measure generating efficiency. Annual goals are not set for these indicators because power production is dependent largely upon hydrologic conditions that cannot be managed.

Performance Result: During FY 2002, the Civil Works Program generated 68.1 billion kilowatt-hours, representing an increase of 17 percent from FY 2001 (within normal annual variations).

Table 58. Kilowatt Hours Generated

	FY 2000	FY 2001	FY 2002
Kilowatt-hours generated (billions)	74.1	57.9	68.1
Cost per kilowatt-hour	$0.0030	$0.0038	$0.0034

Recreation

Most Federal lakes were built with a single primary purpose, and benefited mainly the local population. Public needs and values have changed, however, Civil Works has sought to serve the evolving public interest by adapting reservoirs for multiple uses, provided there is sufficient legislative authority to do so. To support the broader strategic goals of the Civil Works Program and to achieve maximum cost effectiveness in the provision of outdoor recreation services, we have established the following program objectives:

- Provide outdoor recreation opportunities in an effective and efficient manner at Civil Works-operated water resource projects
- Provide outdoor recreation opportunities to meet the needs of present and future generations

Performance Indicator: Cost per visitor-day of providing outdoor recreation facilities. The cost per visitor-day is determined by a number of variables. While Civil Works is able to manage the cost of providing recreation facilities, the number of visitors who use these facilities is governed in large part by external factors, such as the weather and prevailing economic conditions. Therefore, historically, no management performance target has been specified.

Performance Result: Preliminary estimates indicate the number of visitor-days at outdoor recreation areas decreased from 217 million in FY 2001 to 210 million in FY 2002. This reduction was likely the result of prolonged drought in the Southeastern region, where many lake projects had low water levels the entire year. There was also flooding in the early spring in the Southwestern region, resulting in facility damage and closure. Many of these closed facilities remained unavailable for public use most of the summer because funds were not available to repair or replace them. Preliminary estimates indicate that cost per visitor-day increased to $1.37 due to reduced visitation.

Table 59. Recreation Usage

	FY 2000	FY 2001	FY 2002
Visitor-days (millions)	212	217	210
Cost per visitor-day	$1.24	$1.24	$1.37

Water Supply

Performance measures for this business program have not been fielded.

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

By developing and implementing new ways to reduce the risk of flood and storm damage losses, the Civil Works Program is able to reduce potential flood damage, saving our nation billions of dollars. Every year it strives to reduce further the risks associated with flooding and to increase its responsiveness to natural disasters. The Emergency Management business program supports this strategic goal.

Every year Civil Works strives to further reduce the risks associated with flooding and to increase its responsiveness to natural disasters.

The Civil Works Program includes a disaster response and recovery program, maintained by the Corps of Engineers under Public Law 84-99 and under the Federal Response Plan in coordination with FEMA and others. Civil Works response activities are intended to supplement state and local efforts. Disaster preparedness and response capabilities are not limited to water-related disasters, but draw on the engineering skills and management capabilities of the Corps to encompass a broad range of natural disasters and national emergencies.

Through its emergency preparedness planning and disaster response capability

Civil Works can make a significant and direct contribution to national security objectives. Four program strategies support this fourth strategic goal. They are as follows:

- Attain and maintain a high and consistent state of preparedness
- Provide a rapid, effective, and efficient all-hazards response capability, prepared for deployment anywhere worldwide
- Provide the leadership to ensure effective and efficient long-term crisis recovery, emphasizing recovery of the nation's water resources infrastructure
- Provide professional emergency management program services to international customers

Strategic Goal 5: Be a World-Class Public Engineering Organization

A priority of the Corps of Engineers is to maintain a leading-edge technical capability today and into the future. Ensuring the delivery of high-quality and responsive engineering services to America and others requires a solid foundation in a core set of technical skills. To that end, and in anticipation of future requirements, Civil Works has begun to identify the range of expertise within the Corps; it has begun also to identify those critical functions where reserves of talent may be depleted through retirement and attrition. Civil Works maintains the world-class capabilities inherent in its laboratories through capital investment, and it is engaging in research and development to improve operational processes in order to better address the nation's water resource problems and opportunities.

Civil Works will leverage core technical capabilities as appropriate by providing engineering-related services to the Department of Defense agencies, other federal agencies, and to other authorized entities through the Support for Others business program. Overseas, it helps countries enhance their public sector capacities, especially in the management of water to assist economic development and protect their environments and ecosystems. By assisting legitimate authorities to improve their infrastructure and environments and to ease conditions that potentially can lead to conflict, Civil Works serves to promote democracy, peace, and stability.

To be a world-class technical leader, it is imperative to seek continuous improvement in the processes used to meet the customer, partner, and stakeholder needs. The feedback provided by customers and project sponsors is the best indication of how effective Civil Works is in meeting the expectations for the quality, timeliness, and cost-effectiveness of its services. Civil Works will continue to seek that feedback in order to strengthen overall performance and to raise customers' satisfaction.

Analysis of Financial Statements

Fiscal year (FY) 2002 witnessed another year of progress for the United States Army Corps of Engineers (USACE) Civil Works Fund, as the Corps continued to improve upon the myriad processes linked to producing auditable financial statements in compliance with the Chief Financial Officers Act of 1990. Within the Department of Defense, the USACE Civil Works Fund has been at the forefront in implementing Federal financial management reform.

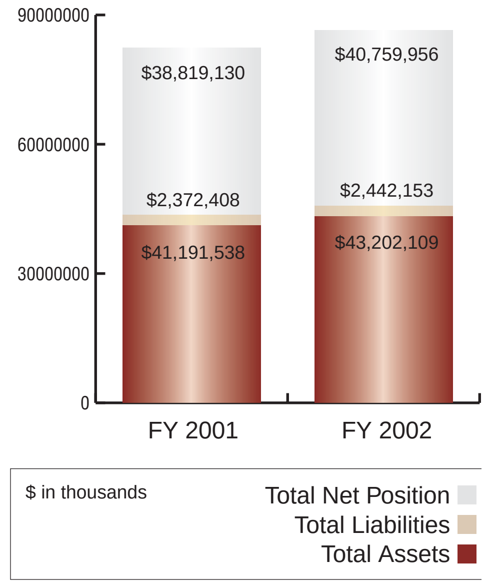
The financial statements were compiled in accordance with guidance issued by the Office of Management and Budget and supplementary guidance provided by DoD. The DoD Office of the Inspector General audited the FY 2002 Consolidated Balance Sheet. The Civil Works Fund received a disclaimer of opinion on the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. In his letter to the Chief Financial Officer, the DoD Inspector General made recommendations for improving internal controls and promoting operating efficiencies. USACE management has initiated actions to implement these recommendations.

The financial statements for the Civil Works Fund are presented in a comparative format, providing financial information for FY 2001 and FY 2002. While comparative statements are not required until the agency receives an unqualified audit opinion on its financial statements, we opted for early implementation of the requirement as is encouraged by the Office of Management and Budget.

Below are the financial highlights of each statement. These highlights focus on significant balances or conditions to help clarify the Civil Works Fund's operations. Additional explanatory information may be found also in the notes that accompany these statements.

Balance Sheet

This statement presents the assets, liabilities, and net position of the Civil Works Fund as of September 30, 2001 and 2002. Civil Works assets amounted to $43.2 billion at FY 2002 year-end, nearly a 5 percent increase over the previous year. Of the total assets, 85 percent of the dollar value resides in the property, plant, and equipment accounts. Relative to its total assets, the Civil Works liabilities are quite low and amounted to $2.4 billion. The liabilities are related primarily to $882 million in non-current liabilities, $680 million in accounts payable, and $388 million in accrued payroll. The $882 million in non-current liabilities is part of $895.6 that was reclassified from deferred credits to other liabilities for long-term water storage contracts in accordance with DoD regulations.



The third major component of the balance sheet is net position. In aggregate, the various elements of the net position section on the balance sheet also are referred to as "equity." Equity is the residual interest in the assets of the entity that remains after deducting its liabilities. For FY 2002, the Civil Works Fund net position amounted to $40.8 billion, representing almost a $2 billion, or 5 percent, increase over FY 2001.

Statement of Net Cost

This statement presents the annual cost of operating the various Civil Works programs. To the extent a program generates revenues, these amounts offset gross costs to arrive at the net cost of operations. For FY 2002, program costs amounted to $4.4 billion, representing a 9 percent reduction from the previous year. Conversely, program revenues increased 26 percent from FY 2001, climbing to $738 million. Overall for FY 2002, the Civil Works Fund achieved a 14 percent decrease in the net cost of operations, reducing net costs to $3.7 billion — a $595 million reduction from the previous year.

Statement of Changes in Net Position

This statement presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. The Civil Works Fund enjoyed a positive $2.1 billion net result of operations. Contributing to this positive result was the $595 million reduction in costs noted above. The Net Position at year-end was $39.7 billion, nearly a 6 percent increase from the previous year.

Statement of Budgetary Resources

This statement provides information on the Civil Works Fund's budgetary financing accounts and the status or remaining balances of those accounts at year-end. This includes information on obligation and outlays or actual cash disbursements for the year.

Total budgetary resources increased by nearly 3 percent for FY 2002 to $11.9 billion. This increase was due primarily to a $351 million, or 9 percent, increase in appropriations received. The Civil Works Fund incurred $10.2 billion in obligations during the year. Net outlays, actual cash disbursements less any collections or offsetting receipts, amounted to $4.5 billion for the year.

Statement of Financing

This is a reconciling statement that tracks the relationship between the proprietary accounts and the budgetary accounts of the Civil Works Fund. The Statement of Financing provides data on the total resources provided to the Civil Works Fund during the fiscal year and how those resources were used.

The first section of the statement, Resources Used to Finance Activities, shows a total of $4.7 billion. This is the amount for which the Civil Works Fund may have a future liability that eventually would require cash payments. The second section, Resources Used to Finance Items Not Part of the Net Costs of Operations, identifies and adjusts budgetary transactions recorded by the Civil Works Fund for changes in the amount of goods, services and benefits ordered but not received, the costs capitalized on the balance sheet, and financing sources that fund costs of prior periods. For FY 2002, the fund had a negative $1.5 billion in adjustments.

The first two sections are netted together to yield the total resources used to finance the net cost of operations. For FY 2002, total resources used increased 3 percent over the previous year and amounted to approximately $3.2 billion.

Finally, the third section, Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period, is used to adjust the total resources used to finance the net cost of operations (the net amount of the first and second sections) in order to determine the net cost of operations. Thus, sections one and two are reconciled with section three to yield a net cost of operations of $3.7 billion. This amount ties back to the Statement of Net Cost.

Management Integrity

The Civil Works Program has instituted the use of controls to assure the integrity of its management systems. Two areas in which Civil Works leaders continue to seek greater assurance of management integrity are:

Computer System Controls

In October 2000, the General Accounting Office identified a number of systems control weaknesses at the data processing centers. These weaknesses could allow either hackers or authorized users to modify, disclose, or destroy financial data improperly. Corrective actions to support the assurance of data security, including the reorganization of the Corps of Engineers and funding increases, have been taken to correct these deficiencies. The corrections are pending validation by the DoD Inspector General before this weakness can be cleared.

Information Technology Capital Planning and Investment Decision Process

The Clinger-Cohen Act of 1996 requires the institutionalization of an information technology (IT) capital planning and investment process. This process should integrate the methods for selecting, controlling, and evaluating IT investments. The current process is fragmented, but the cornerstone policy was put into effect on August 1, 2002, to establish a more integrated IT investment management business process. During FY 2002, the Corps also increased from 3 to 11 the number of its major IT business cases that are visible to the Office of Management and Budget.

Future Effects of Existing Conditions

The Marine Transportation System

The Marine Transportation System (MTS) consists of 1,000 harbor channels, 25,000 miles of inland, intra-coastal, and coastal waterways, and 235 lock chambers. Work done to improve the inland waterways is estimated to yield $5.5 billion in cost savings per year, and improvements to the deep-draft navigation system are estimated to save a further $1.5 billion in transportation costs annually.

The MTS is nearing capacity, however, and demands on it will grow substantially with the projected growth of international and domestic trade (trade is expected to double by 2020 to more than 4 billion tons of cargo annually). This will put great pressure on the system. It also should be noted that few American ports provide the 50-55 feet of depth needed by the latest containerships. Many international ports, including Halifax and Vancouver in Canada and Freeport in the Bahamas, already can accommodate such ships, and it is essential that America match them. In preparing the necessary deep-draft channels, Civil Works over the past decade has dredged an average of 275 million cubic yards of material per year. This work creates the additional challenge of how to dispose of the dredged material in an economically and environmentally acceptable manner.

Aging Infrastructure

More than 44 percent of America's locks and dams are at least 50 years old and many locks are now too small to accommodate comfortably modern commercial barges. They already are carrying more tonnage than they were designed to handle, and traffic is forecast to increase 30 percent by 2020. Delays attributable to aged locks already amount to 550,000 hours per annum, representing $385 million in increased operating costs. This is eroding America's share of international markets— American farmers already have lost 30 percent of their share of the European market for soybeans to Brazil and Argentina, both of which have invested heavily in inland waterways to reduce costs.

A lock modernization program has been underway since 1986, with $1.7 billion invested to date and an additional $3.4 billion programmed for construction. This, however, is insufficient to support optimum construction schedules, and completion dates for these projects have been set back by between one and five years, considerably increasing costs.

These increasing costs come at a time when investment in water resources is in sharp decline. In 1960, investments in all public infrastructure was 3.9 percent of the Federal budget. Today, that figure is 2.6 percent. Furthermore, in 1960 water resources received 1.1 percent of all public infrastructure investment; today, they receive 0.2 percent. This failure to adequately invest in water infrastructure could pose a serious constraint to America's economic development and competitive advantage in international trade.

Responding to Terrorist Threats

The events of September 11, 2001, changed the thinking about threat management. Everything from drinking water sources to reservoirs and dams now is viewed as a potential target for terrorists. Since the attacks on New York and Washington, D.C., Civil Works has maintained a heightened state of alertness as we seek to protect the nation's critical infrastructure of water supply, waterborne commerce, and electric power generation.

Ensuring the security of this infrastructure will require investment in warning and alert systems, in systems to detect and respond to chemical and biological agents, in intelligence gathering and counter-terrorism measures, and in emergency management systems. This requires investment in both technology and people. It is essential to institute a program that will protect comprehensively our water supply systems. Current estimates are that this will cost $267 million for immediate improvements in the first year and $65 million annually thereafter.

Advancing the President's Management Agenda

Strategic Management of Human Capital

It is essential that Civil Works develop world-class technical expertise and make the best possible use of its human resources. The Corps of Engineers long has recognized the importance to its mission of its people, and as a result the Civil Works Program always, through training and sustaining its workforce, has sought to ensure that all mission-essential occupations are staffed appropriately with skilled people.

Aligning the Workforce and Mission

All Civil Works employees must understand the mission of the program and must understand how their work contributes to that mission. Each employee, as part of the larger Corps of Engineers, receives a CD-ROM called the CorpsPath. This provides an overview of the history, mission, and strategic goals of the Corps and provides detailed information on Civil Works business processes and on its strategy of knowledge management.

A Mission Essential Task List (METL) links the Civil Works mission to performance measurement and enables identification of skill gaps in the workforce. The Corps of Engineers is automating this process and is producing a list of individual and organizational training requirements that, through training, will align the workforce and mission. One Engineer Division has developed an Automated Training Management Program that is being tested by two divisions to determine its feasibility for use as a corporate system.

The Civil Works Program has a customer focus and has allocated its personnel accordingly. As the program is in contact with its customers primarily at the Engineer District level, 95 percent of the workforce is concentrated at district, field office and resident offices. As part of an effort to improve service to the public, 50 percent of supervisory positions have been eliminated since 1994 in an effort to flatten the organization and increase the percentage of employees directly engaging the customer.

Recruiting

The Corps of Engineers has more than 600 college students enrolled in various intern programs, representing an increase from 1989 to 2001 of 400 percent. The Corps recognizes the need to develop a source of skilled young people to replace an aging workforce. By exposing college students to the work done by the Corps, it is believed that such a source can be developed and thus address anticipated shortages in the workforce as baby boomers reach retirement.

Training and Learning

To fill and also to limit the occurrence of future skill gaps, the Civil Works Program must be a learning organization. Technology and business practices are evolving continuously; the Corps of Engineers therefore has decided to establish a learning network addressing the three areas of technical excellence, business and communications, and leadership. This program will create a vibrant knowledge management platform that will bring together discussion of lessons learned, best practices, and knowledge management with training; that will enable students to meet with subject matter experts; and that will enable the development of communities of practice.

Competitive Sourcing

In concordance with the President's Management Agenda, Civil Works recognizes that some of its employees likely are performing tasks that can be outsourced readily to the commercial marketplace. Civil Works accordingly has a plan to study 5,700 positions for possible outsourcing between FY 2003 and FY 2008. While this represents 37 percent of authorized Civil Works commercial positions, it falls short of the President's goal of 50 percent. This shortfall is explained partially by the fact that 58 percent of the Civil Works workload already is accomplished by its industry partners.

A number of factors need to be considered when identifying the positions that will be opened up for competition. Realization of the full value of outsourcing requires that there be a large number of positions for conversion, that they be of a notably commercial nature, and that they be geographically concentrated. In addition, there is a need to keep a minimum number of Federal positions for each staff function in order that oversight be retained in areas such as financial management, public affairs, and others.

The cost of these studies is not insignificant. As such, some studies have been postponed to the out-years to ensure that they can be funded properly and to gain experience before conducting the more problematic studies. The plan and estimated costs are shown in Table 60.

Table 60. Competitive Sourcing Plan

	FY03	FY04	FY05	FY06	FY07	FY08	Total
Authorizations to be studied	1,022	356	1,137	1,790	1,035	371	5,711
Cost (in millions)	$2.6	$0.9	$2.8	$4.5	$2.6	$0.9	$14.3

Improved Financial Performance

The U.S. Army Corps of Engineers is recognized as a leader in the Department of Defense in the area of financial management, and continues to upgrade its financial management systems and tools. For example, the Corps has developed a proprietary financial tool known as the Corps of Engineers Financial Management System (CEFMS). Designed and built by the Corps with the aid of external contractors, the system delivers a broad range of functionality. It integrates financial management processes with internal program and project management processes and provides automated linkage to the Department of the Army, DoD, and the Office of Management and Budget.

The Corps invested approximately $76 million in the development of CEFMS. The process of implementing the system and gaining its acceptance among the Corps family required a major cultural adjustment, but efforts in this regard have proven extremely successful and CEFMS is a key component of successful program execution and customer care. The system now serves as a measuring stick for new DoD financial management systems, and provided the basis for development of the Defense Joint Accounting System.

In addition to implementing CEFMS, the Corps has undertaken the challenge of complying with the full requirements of the Chief Financial Officers Act of 1990. With a fully integrated CEFMS and sound business practices, the Corps is positioning itself to be one the first Army components to receive an unqualified audit opinion.

Expanded Electronic Government

Rapidly advancing information technology has brought major changes to the Civil Works Program's business processes, and in particular, has improved vastly the program's internal and external communications.

Government to Citizen

Civil Works is an active proponent of the government's drive to reach out to the public through the Internet. Using initiatives such as Recreation One-Stop and Geospatial Information One-Stop, it is making access to information about Civil Works services and programs easier for more Americans. In partnership with the U.S. Forest Service, Civil Works also supports the National Recreation Reservation System for the use of public lands and facilities.

To simplify access to the rules governing use of Civil Works lands and waterways, it has eliminated all hard-copy directives and publications (approximately 1,000), placing them instead online in formats suitable for viewing, downloading, and printing. Civil Works is responsible also for nine public reports: an Internet capability for all public reporting transactions will be in place by October 2003.

Under the Operations and Maintenance Business Information Link (OMBIL), the regulatory permit process is being streamlined and integrated into a transaction-based Web environment. Civil Works also is evaluating other means for integrating various types of authorizations and licenses, with the view to improving public access to them and reducing waiting times.

Government to Business

Civil Works is working to make it easier to do business with the federal government. In partnership with the National Institute of Standards and Technology and the General Accounting Office, it is working to define the requirements for a public key-based electronic signature capability to replace the proprietary electronic signature capability that currently is used.

As a long-time promoter of electronic bid set capability, Civil Works is a full participant in the Web-based Tri-Service Solicitation Network, which links the public to a full array of bid solicitations. Civil Works is DoD's Executive Agent for the Architect-Engineer (A-E) Contractor Administrative Support System and the Construction Contractor Appraisal Support System. These systems manage A-E and construction contractor performance evaluations.

Government to Government (G2G)

The sharing of information among Federal, state, local, and tribal governments and the full integration of that information will contribute to better government for all Americans. The Comprehensive Everglades Restoration

Program, a partnership of the Civil Works Program with the South Florida Water Management District, is a prime example of interagency and special interest group electronic data sharing through a significant Internet presence (www.evergladesplan.org). Another example, the ENGLink automated system, is the primary integrator of multi-jurisdictional (local, state, and Federal) data for the support of emergency operations. ENGLink provides real-time, accurate information in the event of a disaster, helping to support collaborative response planning among what may be widely dispersed assets.

OMBIL and the Corps Water Management System aggregate, integrate, and disseminate multiple sources of data in support of hydropower, navigation, environmental stewardship, and flood reduction missions that impact local, regional, state, and national interests. The Project Management Business Process (PMBP) Program, which will see the development of a one-stop portal enabling customers and stakeholders to access project status information, additionally is significant in terms of advancing the Corps' G2G services.

Internal Efficiency and Effectiveness

The PMBP program is a significant initiative to streamline the business processes associated with program and project management. It also will support the adoption of best business practices in the delivery of projects to local, state, regional, Federal, and international customers and will facilitate agency budget and performance integration. At the heart of this business reengineering effort are the adoption of commercial-off-the-shelf software, the integration and streamlining of legacy automated systems, and the termination of several stand-alone applications.

The PMBP program also will impact the restructuring of CorpsWeb, the Corps' Internet and intranet presence. The objective of this restructuring is to improve usability and access to information; to develop further functionally driven, electronic data marts and information repositories; to enhance electronic document and records management capabilities; to establish common scientific and research technology development and delivery strategies, based on product lines and supported by a Web-based delivery framework; and to enhance a common electronic workplace environment that promotes Regional Business Centers, virtual teaming, personalization, and the strategic management of human capital.

Budget and Performance Integration

The President's objective to link performance and budget builds on the Government Performance and Results Act of 1993 and earlier efforts to identify program goals and performance measures and to link them to the budget. The FY 2003 President's Budget was the first to include explicit assessments of program performance and a performance-linked budget assessment of three Civil Works business programs: Navigation, Flood and Coastal Storm Damage Reduction, and Environmental Restoration. For the FY 2004 budget, Civil Works is working to link more of its budget development to performance measures and is developing new performance measures to further this linkage. Progress in implementing this initiative will be reported in the FY 2003 and FY 2004 financial statements.

“Imagination • Innovation • Initiative”

Principal Statements and Notes

Limitations

Limitations of the Financial Statements

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

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

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 comply fully 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.

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	FY 2002	FY 2001	Restated FY 2001
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	$39,510,523	$37,351,036	$37,351,036
2. Investments (Note 4)	5,240	3,193	3,193
3. Accounts Receivable (Note 5)	452,597	727,509	727,509
4. Other Assets (Note 6)	209,114	61,560	61,560
5. Total Intragovernmental Assets	$40,177,474	$38,143,298	$38,143,298
B. Cash and Other Monetary Assets (Note 7)	$301,747	$168,401	168,401
C. Accounts Receivable (Note 5)	568,088	362,702	362,702
D. Loans Receivable (Note 8)	0	0	0
E. Inventory and Related Property (Note 9)	27,259,422	34,543,535	27,429,322
F. General Property, Plant and Equipment (Note 10)	18,700,626	17,621,538	17,621,538
G. Other Assets (Note 6)	3,582,796	3,726,647	3,726,647
2. TOTAL ASSETS	$90,590,153	$94,566,121	$87,451,908
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$774,545	$874,432	$874,432
2. Debt (Note 13)	157	108	108
3. Environmental Liabilities (Note 14)	0	0	0
4. Other Liabilities (Notes 15 and 16)	876,404	658,664	658,664
5. Total Intragovernmental Liabilities	$1,651,106	$1,533,204	$1,533,204
B. Accounts Payable (Note 12)	$5,967,178	$6,698,778	$6,698,778
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,624,557	1,646,526	1,646,526
D. Environmental Liabilities (Note 14)	35,078,280	40,071,084	40,071,084
E. Loan Guarantee Liability (Note 8)	730	0	0
F. Other Liabilities (Notes 15 and 16)	9,008,744	6,944,358	6,944,358
4. TOTAL LIABILITIES	$53,330,595	$56,893,950	$56,893,950
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$31,468,721	$28,895,571	$28,895,571
B. Cumulative Results of Operations	5,790,837	8,776,600	1,662,387
6. TOTAL NET POSITION	$37,259,558	$37,672,171	$30,557,958
7. TOTAL LIABILITIES AND NET POSITION	$90,590,153	$94,566,121	$87,451,908

See Note 1 and Note 2.

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		FY 2002	FY 2001
1.	**Program Costs**		
	A. Intragovernmental Gross Costs	$19,042,297	$13,453,124
	B. (Less: Intragovernmental Earned Revenue)	(5,531,194)	(5,310,110)
	C. Intragovernmental Net Costs	$13,511,103	$8,143,014
	D. Gross Costs With the Public	$67,293,314	$70,311,934
	E. (Less: Earned Revenue From the Public)	(784,708)	(1,028,865)
	F. Net Costs With the Public	$66,508,606	$69,283,069
	G. Total Net Cost	$80,019,709	$77,426,083
2.	**Cost Not Assigned to Programs**	0	0
3.	**(Less:Earned Revenue Not Attributable to Programs)**	0	0
4.	**Net Cost of Operations**	$80,019,709	$77,426,083

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001
1.	**Beginning Balances**	$8,776,600	$28,895,571	$628,191
2.	**Prior period adjustments (+/-)**	(7,114,213)	0	(6,556,243)
3.	**Beginning Balances, as adjusted**	$1,662,387	$28,895,571	($5,928,052)
4.	**Budgetary Financing Sources:**			
	4.A. Appropriations received	0	80,338,428	0
	4.B. Appropriations transferred-in/out (+/-)	0	4,903,508	0
	4.C. Other adjustments (rescissions, etc) (+/-)	0	(114,845)	0
	4.D. Appropriations used	82,553,941	(82,553,941)	73,855,867
	4.E. Nonexchange revenue	205,583	0	209,595
	4.F. Donations and forfeitures of cash and cash equivalents	0	0	0
	4.G. Transfers-in/out without reimbursement (+/-)	0	0	0
	4.H. Other budgetary financing sources (+/-)	743,531	0	17,161,699
5.	**Other Financing Sources:**			
	5.A. Donations and forfeitures of property	0	0	0
	5.B. Transfers-in/out without reimbursement (+/-)	(43,155)	0	161,985
	5.C. Imputed financing from costs absorbed by others	688,259	0	741,589
	5.D. Other (+/-)	0	0	0
6.	**Total Financing Sources**	$84,148,159	$2,573,150	$92,130,735
7	**Net Cost of Operations (+/-)**	80,019,709	0	77,426,083
8.	**Ending Balances**	$5,790,837	$31,468,721	$8,776,600

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Unexpended Appropriations 2001	Restated Cumulative Results of Operations 2001	Restated Unexpended Appropriations 2001
1. Beginning Balances	$25,887,329	$628,191	$25,887,329
2. Prior period adjustments (+/-)	0	(13,670,456)	0
3. Beginning Balances, as adjusted	$25,887,329	($13,042,262)	$25,887,329
4. Budgetary Financing Sources:			
4.A. Appropriations received	3,008,242	0	3,008,242
4.B. Appropriations transferred-in/out (+/-)	0	0	0
4.C. Other adjustments (rescissions, etc) (+/-)	0	0	0
4.D. Appropriations used	0	73,855,867	0
4.E. Nonexchange revenue	0	209,595	0
4.F. Donations and forfeitures of cash and cash equivalents	0	0	0
4.G. Transfers-in/out without reimbursement (+/-)	0	17,161,699	0
4.H. Other budgetary financing sources (+/-)	0	17,161,699	0
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0	0	0
5.B. Transfers-in/out without reimbursement (+/-)	0	161,985	0
5.C. Imputed financing from costs absorbed by others	0	741,589	0
5.D. Other (+/-)	0	0	0
6. Total Financing Sources	$3,008,242	$92,130,735	$3,008,242
7 Net Cost of Operations (+/-)	0	77,426,083	0
8. Ending Balances	$28,895,571	$1,662,387	$28,895,571

The accompanying notes are an integral part of these statements.

See Note 1 and Note 20.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

BUDGETARY RESOURCES	2002 Budgetary Financing Accounts	2002 Non-Budgetary Financing Accounts	2001 Budgetary Financing Accounts	2001 Non-Budgetary Financing Accounts
1. Budget Authority:				
1a. Appropriations received	$81,067,276	$0	$74,232,106	$0
1b. Borrowing authority	0	0	0	0
1c. Contract authority	0	0	0	0
1d. Net transfers (+/-)	5,290,599	0	2,112,116	0
1e. Other	0	0	0	0
2. Unobligated balance:				
2a. Beginning of period	5,701,789	691	5,970,023	0
2b. Net transfers, actual (+/-)	408,970	0	869,646	0
2c. Anticipated Transfers Balance	0	0	0	0
3. Spending authority from offsetting collections:				
3a. Earned				
1. Collected	12,012,602	39	11,631,079	0
2. Receivable from Federal sources	(146,322)	0	(125,384)	0
3b. Change in unfilled customer orders				
1. Advance received	87,119	0	(106,160)	0
2. Without advance from Federal sources	1,164,785	0	(183,369)	0
3c. Anticipated for the rest of year, without advances	0	0	0	0
3d. Transfers from trust funds	0	0	0	0
3e. Subtotal	$13,118,184	$39	$11,216,166	$0
4. Recoveries of prior year obligations	8,287,368	0	10,706,763	0
5. Temporarily not available pursuant to Public Law	0	0	0	0
6. Permanently not available	(1,569,179)	0	(1,039,579)	0
7. Total Budgetary Resources	$112,305,007	$730	$104,067,241	$0

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

STATUS OF BUDGETARY RESOURCES	2002 Budgetary Financing Accounts	2002 Non-Budgetary Financing Accounts	2001 Budgetary Financing Accounts	2001 Non-Budgetary Financing Accounts
8. Obligations incurred:				
8a. Direct	$91,731,863	$0	$84,262,609	$0
8b. Reimbursable	14,715,031	0	14,102,151	0
8c. Subtotal	$106,446,894	$0	$98,364,760	$0
9. Unobligated balance:				
9a. Apportioned	4,788,478	730	4,494,010	0
9b. Exempt from apportionment	0	0	0	0
9c. Other available	2	0	1	0
10. Unobligated Balances Not Available	1,069,633	0	1,208,470	0
11. Total, Status of Budgetary Resources	$112,305,007	$730	$104,067,241	$0
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
12. Obligated Balance, Net – beginning of period	$31,626,562	$0	$28,485,816	$0
13. Obligated Balance transferred, net (+/-)	0	0	0	0
14. Obligated Balance, Net – end of period:				
14a. Accounts receivable	(1,467,731)	0	(1,614,053)	0
14b. Unfilled customer order from Federal sources	(7,161,002)	0	(5,996,218)	0
14c. Undelivered orders	30,611,343	0	28,696,740	0
14d. Accounts payable	11,679,657	0	10,540,092	0
15. Outlays:				
15a. Disbursements	95,105,359	0	84,826,003	0
15b. Collections	(12,099,721)	(39)	(11,524,919)	0
15c. Subtotal	$83,005,638	($39)	$73,301,084	$0
16. Less: Offsetting receipts	(184,839)	0	0	0
17. Net Outlays	$82,820,799	($39)	$73,301,084	$0

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	2002	2001
Budgetary Resources Obligated		
1. Obligations incurred	$106,446,894	98,364,761
2. Less: Spending authority from offsetting collections and recoveries (-)	(21,405,591)	(21,922,930)
3. Obligations net of offsetting collections and recoveries	$85,041,303	$76,441,831
4. Less: Offsetting receipts (-)	(184,839)	0
5. Net obligations	$84,856,464	$76,441,831
Other Resources		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	0	0
8. Imputed financing from costs absorbed by others	688,259	741,589
9. Other (+/-)	0	0
10. Net other resources used to finance activities	$688,259	$741,589
11. Total resources used to finance activities	$85,544,723	$77,183,420
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	(2,138,888)	(1,693,599)
Unfilled Customer Orders	1,251,904	(289,528)
13. Resources that fund expenses recognized in prior periods	(5,656,745)	(103,514)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
15. Resources that finance the acquisition of assets	(152,239)	(3,730,946)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	0	0
17. Total resources used to finance items not part of the net cost of operations	($6,695,968)	($5,817,587)
18. Total resources used to finance the net cost of operations	$78,848,755	$71,365,833

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Combined Statement of Financing

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	2002	2001
Components Requiring or Generating Resources in Future Periods:		
19. Increase in annual leave liability	$276,719	$0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	1,486,858	2,961,119
24. Total components of Net Cost of Operations that will require or generate resources in future periods	$1,763,577	$2,961,119
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	596,779	782,618
26. Revaluation of assets or liabilities (+/-)	(1,793,293)	0
27. Other (+/-)	603,891	(1,901)
28. Total components of Net Cost of Operations that will not require or generate resources	($592,623)	$780,717
29. Total components of net cost of operations that will not require or generate resources in the current period	$1,170,954	$3,741,836
30. Net Cost of Operations	$80,019,709	$75,107,669

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Army, as required by the "Chief Financial Officers Act of 1990," expanded by the "Government Management Reform Act of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the Army in accordance with the "DoD Financial Management Regulation," OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible Federal GAAP. The accompanying financial statements account for all resources for which the Army is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The Army's financial statements are in addition to the financial reports also prepared by the DoD pursuant to OMB directives that are used to monitor and control the Army's use of budgetary resources.

The Army is unable to fully implement all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial and nonfinancial management processes and systems. The Army derives its reported values and information for major asset and liability categories largely from non-financial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the Army currently cannot implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The Army continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems. Further explanation of these financial statement elements is included in the applicable footnote.

B. Mission of the Army

The overall mission of the Army is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. It is no longer a world in which two hostile superpowers face each other. It is our nation's force of decision-a full spectrum force-trained and ready to respond to a wide range of crises, from fighting and winning major theater wars, to peacekeeping, to humanitarian relief missions and to disaster relief in communities as home.

The primary mission of the Army remains constant: to fight and win the nation's wars. In an uncertain world, the Army performs a wide variety of other missions around the world and at home including deterring potential adversaries, reassuring and lending stability to allies and supporting our communities in times of emergency; preserving the peace and security, supporting national policies, and implementing national objects. In addition to its military operations, the Army is deployed frequently, both at home and abroad, in response to natural disasters. Nationally, the Army provides substantial support to relief operations associated with storms, tornados, and hurricanes. The Army also provides support and relief assistance abroad. Whatever the mission, committing the Army commits the Nation.

Fiscal Year (FY) 2003 is the seventh year that the Army has prepared audited Financial Statements required by the Chief Financial Officers (CFO) Act of 1990, Government Management Reform Act (GMRA) of 1994, and Federal Financial Management Improvement Act of 1996. The purpose of the CFO Act was to bring more effective general and financial management practices to the Federal Government through statutory provisions; provide for improvement of systems of accounting, financial management, and internal controls; and provide for the production of complete, reliable, timely, and consistent financial information. The GMRA Act extended the CFO Act to all activities of all Executive Branch agencies. The FFMIA Act expanded report requirements under the CFO Act. The reporting entities within the Army changed to facilitate these reporting requirements.

C. Appropriations and Funds

The Army receives its appropriations as general, working capital (revolving funds), trust, special, and deposit funds. The Army uses these appropriations and funds to execute their missions and report resource usage.

- General funds are used for financial transactions that arise under congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.
- Special funds account for government receipts earmarked for a specific purpose.
- Deposit funds generally are used to: (1) hold assets for which the Army is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

D. Basis of Accounting

The Army generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2002, the Army's financial management systems were unable to meet all of the requirements for full accrual accounting. Many of the Army's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. The Army has undertaken efforts to determine the actions required for bringing its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the Army's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the Army's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. The financial statements are presented on the accrual basis of accounting. One example of information presented on the budgetary basis is the data on the Statement of Net Cost, which is based on obligations and disbursements and may not always represent accrued costs.

In addition, the Army identifies programs based upon the major appropriation groups provided by Congress. The Army is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

E. Revenues and other Financing Sources

The Army receives congressional appropriations as financing sources for general funds (annual and a multiyear basis). When authorized, they supplement these appropriations with revenues generated by sales of goods or services through the reimbursable order process. The Army recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. The reimbursable order process allows the Army to recognize revenue when earned.

Other financing sources reported by the Army do not include non-monetary support provided by U.S. Allies for common defense and mutual security. The U.S. has agreements with foreign countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is serviced in a port. The Army is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the Army's financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations, would affect both financing sources and recognition of expenses.

F. Recognition of Expenses

For financial reporting purposes, the Army policy requires the recognition of operating expenses in the period incurred. However, because the Army's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. The Army's expenditures for capital and other long-term assets are not recognized as operating expenses until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). 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 in which payment is made.

The Army adjusted operating expenses as a result of the elimination of balances between DoD Components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

G. Accounting for Intragovernmental Activities

The Army, 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 Army as though the agency was a stand-alone entity.

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

The Army obtains financing for construction of DoD facilities through budget appropriations. The Department of Treasury does not allocate such interest costs to the benefiting agencies. The Army does not capitalize interest costs obtained through the issuance of public debt.

The Army's 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 Army funds a portion of the civilian and military pensions. Reporting civilian pensions under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Army 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 Army reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel retirement system in the Military Retirement Fund (MRF) financial statements. The Army recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the Army Agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within the Army must be eliminated. However, the Army, as well as the rest of the federal government, cannot identify accurately all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the Army. For FY 1999 and beyond seller entities within the Department provided summary seller-side balances for revenue, accounts receivable and unearned revenue to the buyer-side internal Army accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Army 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 FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The Army, however, was able to implement 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 the 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.

H. Transactions with Foreign Governments and International Organizations

Each year, the Army 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 Army has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

I. Funds with the U.S. Treasury

The Defense Finance and Accounting Service (DFAS), Military Services, U.S. Army Corp of Engineers, disbursing stations, and the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the 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 Army's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are reconciled subsequently. See Note 3, Fund Balance With Treasury for material disclosure. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

J. Foreign Currency

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

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. The Army bases the allowances for uncollectible accounts that are due from the public upon analysis of collection experience by fund type. The Army 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. See Note 5, Accounts Receivable, for material disclosures.

L. Loans Receivable

Not Applicable

M. Inventories and Related Property

Inventories are reported at approximate historical cost using Latest Acquisition Cost (LAC) adjusted for holding gains and losses.

The Army uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they produce directly financial transactions using the United States Government Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).

The SFFAS No. 3 distinguishes between "Inventory Held for Sale" and "Inventory Held in Reserve for Future Sale." There is no management or valuation difference between the two USSGL accounts. Further, the Army manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the Army material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Army holds material based on military need and support for contingencies. Therefore, the Army does not attempt to account separately for items held for "current" or "future" sale.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. For the most part the Army uses the consumption method of accounting for OM&S by expensing material when issued to the end user. Where current systems cannot fully support the consumption method, the Army uses the purchase method - that is, expensed when purchased. For FY 2002, the Army reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

The Army implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided in Note 9.

N. Investments in U.S. Treasury Securities

The Army reports investments in U.S. Treasury securities at cost, net of un-amortized premiums or discounts. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Army's intent is to hold investments until maturity, unless the Army needs the investments to finance claims or otherwise sustain operations. Consequently, the Army does not make a provision for unrealized gains or losses on these securities. Material disclosures related to Investments in U.S. Treasury Securities are provided in Note 4.

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 or exceeds the Army capitalization threshold of $100,000. Also, the Army requires capitalization of improvement costs over the Army capitalization threshold of $100,000 for General PP&E. The Army depreciates all General PP&E, other than land, on a straight-line basis. The Army does not depreciate its lands.

Contractor Provided

When it is in the best interest of the government, the Army provides to contractors government property necessary to complete contract work. The Army either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the Army's Balance Sheet. The Army completed a study that indicates that the value of General PP&E above the Army capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation and that are presently in the possession of contractors, is immaterial to the Army's financial statements. Regardless, the Army 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 Army currently reports only government property, maintained in the Army's property systems, in the possession of contractors.

The Army issues new property accountability and reporting regulations that require the components in property systems to maintain information on all property furnished to contractors to bring the Army into fuller compliance with federal accounting standards. This action and other Army proposed actions capture and report the information necessary for compliance with federal accounting standards.

Material disclosures related to General PP&E are provided in Note 10.

P. Advances and Prepayments

The Army records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. In addition, when the department receives the related goods and services, it recognizes advances and prepayments as expenditures and expenses.

Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities. Their classification is either capital or operating leases. For a lease that is essentially equivalent to an installment purchase of property (a capital lease) and equals or exceeds the current Army capitalization threshold, the Army records the applicable asset and liability. The Army records the lesser amount 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. The Army deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and are recorded as expenses as payments are made over the lease term.

R. Other Assets

The Army 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 Army provides financing payments. For Real Property, the Army makes one type of financing payment based upon a percentage of completion. In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments require treatment as construction in process. The Army reports these treatments on the General PP&E line and in Note 10, General PP&E, Net. In addition, provision of the Federal Acquisition Regulation allows the Army to make financing payments under fixed price contracts that are not based on a percentage of completion. The Army reports these financing payments as advances or prepayments in the "Other Assets" line item. The Army treats these payments as advances or prepayments because the Army 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 Army is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Army for the full amount of the advance. The Army has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." The Army has concluded that SFFAS No. 1 does not address fully or adequately the subject of progress payment accounting and is considering what further action is appropriate.

S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines contingencies to be an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Army. The uncertainty will be resolved when one or more future events occur or fail to occur. Contingencies are recognized as liabilities when past events or exchange transactions have occurred, a future loss is probable, and the amount of loss can be estimated reasonably.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Army's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Army's assets. This type of liability has two components: non-environmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment" recognition of an anticipated environmental disposal liability commences when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon the Army's policy, consistent with SFFAS No.5 "Accounting for Liabilities of Federal Government." The Army agrees to the recognition of non-environmental disposal liability for National Defense PP&E nuclear powered assets when placed into service. Such amounts are developed in conjunction with, and not easily separately identifiable from, environmental disposal costs. See Notes 14 and 15 for material disclosures.

T. Accrued Leave

The Army reports civilian annual leave and military leave that has been accrued and not used as of the balance sheet date as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.

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 represent the balances that result from subtracting expenses and losses from financing sources including appropriations, revenue, and gains since the inception of the activity. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, the title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. The fixed assets are subject to loss in the event treaties are not renewed or the Department does not reach other agreements. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is allowed no longer, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount paid to the U.S. for such capital investments.

W. Comparative Data

In FY 2002, the Army modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, the Army's statements during this reporting period may not always lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

X. Unexpended Obligations

The Army records obligations for goods and services ordered but not yet received. A payment liability is not established in the financial statements because goods and services have not been delivered.

Note 2. Nonentity and Entity Assets

As of September 30,
(Amounts in thousands)

		2002			2001
1. Intragovernmental Assets:		Nonentity	Entity	Total	
A.	Fund Balance with Treasury	($5,382)	$39,515,905	$39,510,523	$37,351,036
B.	Investments	0	5,240	5,240	3,193
C.	Accounts Receivable	0	452,597	452,597	727,509
D.	Other Assets	0	209,114	209,114	61,560
E.	Total Intragovernmental Assets	($5,382)	$40,182,856	$40,177,474	$38,143,298
2. Non-Federal Assets:					
A.	Cash and Other Monetary Assets	$301,747	$0	$301,747	$168,401
B.	Accounts Receivable	24,415	543,673	568,088	362,702
C.	Loans Receivable	0	0	0	0
D.	Inventory & Related Property	0	27,259,422	27,259,422	34,543,535
E.	General Property, Plant and Equipment	0	18,700,626	18,700,626	17,621,538
F	Other Assets	(89)	3,582,885	3,582,796	3,726,647
G.	Total Non-Federal Assets	$326,073	$50,086,606	$50,412,679	$56,422,823
3. Total Assets:		$320,691	$90,269,462	$90,590,153	$94,566,121

4. Other Information:

Relevant Information For Comprehension

Entity assets of $90,269,462 thousand consist of resources that the Army has the authority to use, or where management is obligated legally to use funds to meet their obligations. The $320,691 thousand in nonentity asset are assets held by the Army, but are not available for use in the operations. The abnormal balance of $5,382 thousand shown for Nonentity Intragovernmental Fund Balance with Treasury is attributable to a collection recorded in the Military Pay account instead of Servicemen's Group Life Insurance account where funds were disbursed. Corrective action has been taken to eliminate the abnormal balance. The abnormal condition for Non-Federal Other Assets occurred due to deferred voucher conditions for amounts paid by tactical contingency disbursing offices in Bosnia that will be reported to the 266th Finance Command in Germany.

Note Reference

For Additional Line Item discussion, see:
Note 4, Investments
Note 5, Accounts Receivable
Note 6, Other Assets
Note 7, Cash and Other Monetary Assets

Note 3. Fund Balance with Treasury

As of September 30,
(Amounts in thousands)

	2002	2001
1. Fund Balances:		
A. Appropriated Funds	$39,407,718	$37,099,685
B. Revolving Funds	79,199	136,412
C. Trust Funds	1,537	931
D. Other Fund Types	22,069	114,008
E. Total Fund Balances	$39,510,523	$37,351,036
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$39,510,523	$37,351,035
B. Fund Balance per DoD	39,510,523	37,351,036
C. Reconciling Amount	$0	($1)

3. Explanation of Reconciliation Amount:

4. Other Information:

Intragovernmental Paying and Collecting (IPAC)

The Intragovernmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. As of September 30, 2002 there were $6 thousand of IPAC differences greater than 180 days old. However, for September 30, 2001, there were no dollars reported in the greater than 180 days old category. Automated reconciliation tools implemented during fiscal year 2001 and used throughout fiscal year 2002 virtually eliminated all existing differences for the Department of the Army. The only reason for an IPAC difference to exist today would relate to field sites requiring additional backup to record the transaction in their accounting system, or timing differences between disbursing and Treasury cut-off dates.

Check Issue Discrepancy

The Department of the Army is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices, (2) the Department of the Treasury may not assist in research efforts for transactions over 1-year old, or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the Department of the Army and the Department of the Treasury for processing checks. The Department currently is not requesting the Department of the Treasury to remove any dollars from the check issue comparison report.

Aged	September 30, 2002 (Amounts in Thousands)	September 30, 2001 (Amounts in Thousands)
0-60 days	$302,541	$246,088
61-180 days	(14)	2,596
>180 days	(6)	(2,021)
Total	**$302, 521**	**$246,663**

Check issue differences in the 0-60 days category are considered timing differences due to intransit time between reporting check issues by the field and processing into the Treasury Check Payments and Reconciliation System. These differences include Army's disbursing stations on the Army 2100 Comparison of Checks Issued Report received from Treasury; however, $42,114 thousand of the difference represents reported amounts under DFAS Columbus Performance Measurement Indicator (PMI) Reports.

The total difference in the 61-180 days category is $2,000 thousand less than September 30, 2001 and expected to clear in the next reporting cycle.

The Department of the Army's over 180 days category decreased $2,104 thousand from fiscal year 2001. The remaining difference represents small dollar amounts spread among various disbursing stations, dating from Fiscal Year 1991 through Fiscal Year 1998. Since the stations lack the supporting documentation, these amounts have been provided to DFAS Arlington for inclusion in a package submitted to the Office of the Secretary of Defense (OSD) for resolution.

Deposit Differences

The Deposit differences are reconcilable differences that represent deposit amounts reported by the Department of the Treasury or the organization. As of September 30, 2002 and 2001, there was $5,871 thousand and $932 thousand, respectively, of deposit differences greater than 180 days old.

The Fiscal Year 2002 difference is due to the Federal Reserve Bank of Atlanta reporting an EFT Debit Voucher as September 9, 2000 instead of September 9, 2002 for Disbursing Station 6944, MACOM 16. Corrective action took place in October's (Fiscal Year 2003) business.

Other Disclosures

Other Fund Types

The Other Fund Types includes a balance of ($10,333) thousand in Deposit Funds, $27,450 thousand in Special Fund and Receipt accounts, and a balance remaining in two suspense accounts: (1) 21 F 3882 - ($739) thousand and (2) 21 F 3886 $5,690 thousand. Please refer to Footnote 2 for further analysis.

Undisbursed Appropriation Account

The Department of the Army's Undisbursed Appropriation Account Trial Balance (TFS 6654) reflected a Condition One negative closing balance during reporting period ending September 30, 2002 for the Account: Chemical Agents and Munitions Destruction, Defense (21 99 0390). The cause of this condition resulted from the Defense Civilian Pay System (DCPS) transactions being processed with incorrect fiscal years. Corrective action took place during October's business at Treasury.

Canceling Appropriated Funds

As of September 30, 2002, $554,483 thousand of the Army's canceling Appropriated Funds were withdrawn in accordance with Treasury's policy.

Suspense/Budget Clearing Accounts

Department of Treasury's year-end guidance directs the Department of the Army, on September 30 of each fiscal year, to reduce uncleared suspense/budget clearing account balances to zero by transferring their balances to the Army's Operation and Maintenance account (21 2020). Please refer to Footnote 21 B for further analysis on these accounts for fiscal year 2002.

In conjunction with the Army's fiscal year 2002 year-end process, we also transferred out the Foreign Currency Fluctuation Accounts to the Army's Operation and Maintenance account (21 2020). The following amounts ($ in thousands) were transferred:

Accounts	Amounts
21 2 6763	($ 231)
21 1 6763	($ 1,653)
21 9 6763	($ 1)

Note Reference

See Note Disclosure 1. I. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

Note 4. Investments

As of September 30,
(Amounts in thousands)

	2002					2001
1. Intragovernmental Securities:	Cost	Amor-zation Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
A. Marketable	$0		$0	$0	$0	$0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	5,241		(7)	5,234	0	3,174
D. Subtotal	$5,241		($7)	$5,234	$0	$3,174
E. Accrued Interest	6		0	6	6	19
F. Total Intragovernmental Securities	$5,247		($7)	$5,240	$6	$3,193
2. Other Investments:	$0		$0	$0	$0	$0

3. Other Information:

Fluctuations and/or Abnormalities

Non-Marketable Market-Based Investments for the Army increased $2,047 thousand (64%) due to the receipt of several large bequests to support various programs at the U.S. Military Academy at West Point, N.Y.

Other Information Related to Investments

Army Disclosures

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

Note Reference

See Note Disclosure 1.N. - Investments in U.S. Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.

Note 5. Accounts Receivable

As of September 30,
(Amounts in thousands)

	2002			2001
	Gross Amount Due	Allowance For Estimated Collectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables:	$452,597	N/A	$452,597	$727,509
2. Non-Federal Receivables the Public):	616,419	($48,331)	568,088	362,702
3. Total Accounts Receivable:	$1,069,016	($48,331)	$1,020,685	$1,090,211

4. Allowance method:

The allowance for estimated uncollectible accounts was calculated by using the three-year average of FY 00 to FY 02 actual out of service debt write-offs. This allowance method was implemented in FY 00.

5. Other information:

Fluctuations and/or Abnormalities

Accounts Receivable

Total accounts receivable dropped $69,526 thousand or 6.4% between FY 01 and FY 02. Intragovernmental accounts receivables decreased $274,912 thousand or 37.8% with several factors contributing to the reduction. Improvements in collection methods under the Intragovernmental Payment and Collections (IPAC) system, more aggressive management of intragovernmental receivables by accounting offices, more comprehensive employee training, and an increase in customer involvement are all factors that improved the efficiency in managing the balance. Non-federal Receivables (From the Public) increased $205,386 thousand, or 56.6%. The increase primarily resulted from recording Foreign Military Sales public receivables for $138,773 thousand, and realignment with DFAS Denver in the reporting of contractor debt and out of service debt.

On a related issue, the allowance for estimated uncollectibles for FY 01 was understated by $30,462 thousand. The understating of the allowance for estimated uncollectibles had the effect of overstating FY 01 Non-federal Receivables (From the Public), Net by that amount.

Other Information Related to Accounts Receivables

Relevant Information For Comprehension

Elimination Adjustments

The Army General Fund's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army General Fund was unable to reconcile intragovernmental accounts receivable balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

Intragovernmental Receivables Over 180 Days

The Army General Fund had $35,306 thousand of aged intragovernmental receivables over 180 days. Of this amount, $22,384 thousand was due from other DoD activities and $12,922 thousand was due from other Federal Activities.

Non-federal Refunds Receivable

(Amounts in thousands)

FY 2002 Non-Federal Refunds Receivable	FY 2002 Non-Federal Accounts Receivable (Net)	% of Net Amount
$203,302	$568,088	35.8%

Note Reference

See Note Disclosure 1.K. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

Note 6. Other Assets

As of September 30,2002
(Amounts in thousands)

		2002	2001
1.	**Intragovernmental Other Assets:**		
	A. Advances and Prepayments	$209,114	$61,560
	B. Other Assets	0	0
	C. Total Intragovernmental Other Assets	$209,114	$61,560
2.	**Non-Federal Other Assets:**		
	A. Outstanding Contract Financing Payments	$3,109,569	$3,272,775
	B. Other Assets (With the Public)	473,227	453,872
	C. Total Non-Federal Other Assets	$3,582,796	$3,726,647
3.	**Total Other Assets:**	$3,791,910	$3,788,207

4. Other Information:

Fluctuation and/or Abnormalities

Intragovernmental Advances and Prepayments

There is a $147,553 thousand, or 240%, increase in the Intragovernmental Advances and Prepayments. It increased from $61,560 thousand in FY 2001 to $209,114 thousand in FY 2002. These changes consists of a decrease of $16,378 thousand for the Operation and Maintenance appropriation, a decrease of $27,421 thousand for the Conventional Ammunition Working Capital Fund (CAWCF), and a $189,445 thousand increase for the Procurement appropriations. These three changes accounted for 99% of the $147,553 thousand net increase.

Active Army's Procurement

The majority of the Active Army's Procurement increase of $189,445 thousand can be attributed to the cash advances made to the Army Working Capital Fund (AWCF). By June of 2002, fund balances available for the operation of the AWCF fell to a level that posed the possibility of an anti-deficiency act violation. To alleviate this problem, the Under Secretary of Defense issued a directive for the AWCF to begin advance billing of unfilled project orders. Compliance with this directive resulted in a major portion of the 240% increase in intragovernmental advances to Other Federal Agencies.

Other Information Related to Other Assets

Other Assets

Other Assets (with the Public), which represents a material amount (more than 10 percent of the value of the line) is:

Type of Assets	Amounts (in thousands)
Non-Federal	
Other Assets (With the Public):	
Advances to Others	$418,726
Other Assets	54,501
Totals	$473,227

There was an $8,529 thousand, or 19%, increase in the amount of Other Assets, $45,972 thousand in FY 2001 to $54,501 thousand in FY 2002.

- The FY 2002 Other Assets amount of $54,501 thousand is a combination of $10,747 thousand increase for two Military Construction (MILCON) projects currently under development at White Sands Missile Range, NM, and Firm Fixed Price adjustments, as directed by the Army's General Business Rules. These Firm Fixed Price adjustments consist of $4,920 thousand in the Missile Procurement Appropriation, $37,409 thousand in the Ammunition Procurement Appropriation, $1,350 thousand in the Research Development, Testing and Evaluation Appropriation, and $75 thousand in the Army's Military Construction/Family Housing Appropriation.

- The overall $8,529 thousand increase from FY 2001 to FY 2002 comes from an increase of $10,747 thousand for the White Sands Missile Range MILCON projects; a decrease in the Firm Fixed Price Adjustments of $3,564 thousand for the Missile Procurement and the Army's Ammunition Procurement Appropriations; and an increase of $1,346 thousand in the Research, Development, Testing and Evaluation Appropriation.

Outstanding Contract Financing Payments

The Army has reported outstanding financing payments for fixed price contracts as an advance and prepayment because under the terms of the fixed price contracts, the Army 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 Army is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Army for the full amount of the outstanding contract financing payments. The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 48, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The Department has concluded that the SFFAS No. 1, Accounting for Selected Assets and Liabilities does not address fully or adequately the subject of progress payment accounting and is considering what further action is appropriate.

Advances and Prepayments

The buyer-side advances to others balances were adjusted upward $84,311 thousand to agree with seller-side advances from others on the books or other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of other DoD reporting entities.

Note Reference

See Note Disclosure 1. R. - Other Assets, Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

Note 7. Cash and Other Monetary Assets

As of September 30,
(Amounts in thousands)

	2002	2001
1. Cash	$178,149	$125,789
2. Foreign Currency (non-purchased)	123,598	42,612
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$301,747	$168,401

5. Other Information:

Definitions

Cash - The total of cash resources under the control of the Army, which includes coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include petty cash funds and cash held in revolving funds that will not be transferred into the U.S. Government General Fund.

Foreign Currency - consists of the total U.S. dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

Other Monetary Assets - includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

Fluctuation and/or Abnormalities

Army cash and foreign currency increased 79% primarily in support of contingency mission Operation Enduring Freedom. Overall foreign currency increased approximately $80,986 thousand which includes currency to pay foreign vendors and cash in the custody of foreign agents increase of $38,000 thousand primarily in support of the Army's forward deployed tactical units.

Other Information Related to Cash and Other Monetary Assets

Cash and foreign currency reported consists primarily of cash held by Disbursing Officers to carry out their paying, collecting and foreign currency accommodation exchange mission. Foreign currency is valued using the Department of 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.

Note Reference

See Note Disclosure 1. J. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

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

1. **Direct Loan and/or Loan Guarantee Programs:**
   The entity operates the following direct loan and/or Loan guarantee program(s):
   Military Housing Privatization Initiative
   Armament Retooling and Manufacturing Support Initiative

2. **Other Information:**

Other Information Related to Direct Loan and/or Loan Guarantee Programs

Relevant Information For Comprehension

Armament Retooling and Manufacturing Support Initiative

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 USC 4551-4555, is designed to encourage commercial use of the Army's Inactive Ammunition Plants through many incentives for businesses willing to locate to a government ammunition production facility. These facilities' production capacity is greater than the current military requirements, however this capacity could be needed in the event of another major war. The revenues from the property rental are used to pay for the operation, maintenance and environmental clean up at the facilities. This savings in overhead cost lowers the production cost of the goods manufactured, and funds the environmental clean up at no cost to the government.

The U.S. Department of Agriculture Rural Business-Cooperative Service (RBS) and the United States Army established a Memorandum of Understanding (MOU) to furnish services to the Army in connection with the ARMS Initiative Loan Guarantee Program (AILG) pursuant to section 195 of the Armament Retooling and Manufacturing Support Act of 1992, as amended (10 U.S.C. 2501 note). The MOU is entered into pursuant to section 195 and 31 U.S.C. 1535.

The Army, by means of the ARMS Initiative legislation, has been authorized to establish a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army is authorized by Public Law 103-337, the National Defense Authorization Act for Fiscal Year 1995, to enter into this agreement with the RBS. The RBS has the needed programmatic and administrative services necessary and convenient to provide other services required to administer the AILG Program. Therefore, in order to ensure service to the public and for protection of the federal interests and rights, it is necessary for the Army to obtain services from the RBS.

Note 8.B. Direct Loans Obligated After FY 1991

Not Applicable

Note 8.C. Total Amount of Direct Loans Disbursed

Not Applicable

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

Not Applicable

Note 8.E. Subsidy Rate for Direct Loans

Not Applicable

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

Not Applicable

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

Not Applicable

Note 8.H. Guaranteed Loans Outstanding

As of September 30,
(Amounts in thousands)

Loan Guarantee Program Title	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
2002		
1. Military Housing Privatization Initiative	$0	$0
2. Armament Retooling and Mfg. Support Initiative	8,553	7,698
3. Total	$8,553	$7,698
2001		
1. Military Housing Privatization Initiative	$0	$0
2. Armament Retooling and Mfg. Support Initiative	0	0
3. Total	$0	$0

4. Other Information:

Relevant Information For Comprehension

This is a joint program with the USDA. Prior to FY 2002 the USDA was required to include this program in the USDA's financial statements. In FY 2002, the USDA is not required to include this program in its financial statements. Therefore, the Army is required to include it in the Department's financial statements. This is in compliance with Note 36 in the Office of Management and Budget (OMB) Form and Content, OMB Bulletin No. 01-09.

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

As of September 30,
(Amounts in thousands)

Loan Guarantee Program Title	2002	2001
1. Military Housing Privatization Initiative	$0	$0
2. Armament Retooling and Mfg. Support Initiative	730	0
3. Total	$730	$0

4. Other Information:

None.

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

As of September 30,
(Amounts in Thousands)

2002	Interest Differential	Defaults	Fees	Other	Total
1. Subsidy Expense for New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling and Mfg. Initiative	0	(11)	8	5	2
Total	$0	($11)	$8	$5	$2

2001	Interest Differential	Defaults	Fees	Other	Total
2. Subsidy Expense for New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling and Mfg. Initiative	0	0	0	0	0
Total	$0	$0	$0	$0	$0

2002	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling and Mfg. Initiative	0	0	0	0	0
Total	$0	$0	$0	$0	$0

2001	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling and Mfg. Initiative	0	0	0	0	0
Total	$0	$0	$0	$0	$0

	2002	2001
5. Total Direct Loan Subsidy Expense:		
Military Housing Privatization Initiative	$0	$0
Armament Retooling and Mfg. Initiative	2	0
Total	$2	$0

6. Other Information:

Other information consists of prepayments, losses other than default, and outflow other than disbursements.

Note 8.K. Subsidy Rate for Loan Guarantees

Not Applicable

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

Beginning Balance, Changes and Ending Balance (Amounts in Thousands)	2002
1. Beginning balance of the loan guarantee liability	$0
2. Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:	
A. Interest supplement costs	$0
B. Default costs (net of recoveries)	(10)
C. Fees and other collections	7
D. Other subsidy costs	5
E. Total of the above subsidy expense components	$2
3. Adjustments:	
A. Loan guarantee modifications	$0
B. Fees received	0
C. Interest supplements paid	0
D. Foreclosed property and loans acquired	0
E. Interest accumulation on the liability balance	37
F. Other	691
G. Total of the above adjustment	$728
4. Ending balance of the loan guarantee liability before reestimates	$730
5. Add or subtract subsidy reestimates by component:	
A. Interest rate reestimate	$0
B. Technical/default reestimate	0
C. Total of the above reestimate components	$0
6. Ending balance of the loan guarantee liability	$730

7. Other Information:

Relevant Information for Comprehension

This is a joint program with the USDA. Prior to FY 2002 the USDA was required to include this program in USDA's financial statements. In FY 2002, the USDA is not required to include this program in its financial statements. Therefore, the Army is required to include it in the Department's financial statements. This is in compliance with Note 36 in the Office of Management and Budget (OMB) Form and Content, OMB Bulletin No. 01-09.

"Note 36 Description of Transfers that Appear as a Reconciling Item on the Statement of Financing:

When budget authority and other resources are allocated to another agency or bureau (allocation transfer of appropriation- see OMB Circular A-11, sections 20.4 (1) and 71.5), the following guidance applies.

The parent (transferor of the appropriation) should report the activity in its financial statements, unless the allocation transfer is material to the child's (recipient of the transfer) financial statements. If the allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation in all of its financial statements, except the Statement of Budgetary Resources. In this case, the parent should continue to report the appropriation and the related budgetary activity in its Statements of Budgetary Resources. It is the responsibility of the parent to ensure that the reporting to treasury, through FACTS I, is consistent with the presentation in the financial statements.

When the child reports material allocation transfers in its Statement of Net Cost, both the parent and the child should report a reconciling item on their respective Statements of Financing. In their footnotes, the parent and child should provide a general description of the funds transferred to or the funds received from another entity, including the nature and purpose of the transfer. Agencies are encouraged to add more detail (e.g., their trading partner/agency, bureau, and account title for each parent appropriation) as they deem necessary.

Note 8.M. Administrative Expense

As of September 30, (Amount in thousands)	2002	2001
1. Direct Loans:		
Military Housing Privatization Initiative	$0	$0
Armament Retooling and Mfg. Support Initiative	0	0
Total	$0	$0
2. Loan Guarantees:		
Military Housing Privatization Initiative	$0	$0
Armament Retooling and Mfg. Support Initiative	36	0
Total	$36	$0

Note 9. Inventory and Related Property

As of September 30, (Amounts in thousands)	2002	2001
1. Inventory, Net (Note 9.A.)	$294,480	$337,525
2. Operating Materials & Supplies, Net (Note 9.B.)	26,964,942	27,091,796
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	$27,259,422	$27,429,322

Note 9.A. Inventory, Net

As of September 30
(Amounts in thousands)

1. Inventory Categories:	2002 Inventory, Gross Value	2002 Revaluation Allowance	2002 Inventory, Net	2001 Inventory, Net	2001 Valuation Method
A. Available and Purchased for Resale	$57,377	($12,958)	44,419	$80,734	LAC
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	0	
D. Raw Materials	0	0	0	0	
E. Work in Process	250,061	0	250,061	256,791	SP
F. Total	$307,438	($12,958)	294,480	$337,525	

Legend for Valuation Methods:

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

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

3. Other Information:

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, fuels, and ammunition. Inventory is tangible personal property that is

1) Held for sale, or held for repair for eventual 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 repair" is damaged material that requires repair to make it usable. "Excess inventory" is condemned material that must be retained for management purposes. "Work in process" includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The USSGL does not include a separate work in process account unrelated to sales.

Restrictions of Inventory Use, Sale or Disposition

There are no restrictions on the use, sale, or disposition of inventory except in the following situations:
1) distributions without reimbursement are made when authorized by DoD directives;
2) War Reserve Material includes fuels and subsistence items that are considered restricted; and
3) Inventory, with the exception of safety stocks, 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 President.

Decision Criteria for Identifying the Category to Which Operating Materials and Supplies are Assigned
Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded "condemned." The net value of these items is zero, and is shown as "Excess, Obsolete, and Unserviceable."

Changes in the Criteria for Identifying the Category to Which Inventory is Assigned
The category "Held for Sale" includes all issuable material. The category "Held for Repair" includes all economically reparable material. Before FY 2002, the Department showed "Potentially re-distributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

Other information Related to Inventory, Net

Fluctuations and/or Abnormalities

Army Conventional Ammunition Working Capital Fund (CAWF)
The CAWF appropriation contains the Inventory "Available and Purchased for Resale and Work in Progress." There is a 45% decrease in the Inventory, Gross Value/Available and Purchased for Resale, Inventory, Net of $36,315 thousand, from $80,734 thousand in FY 2001 to $44,419 thousand in FY 2002. The CAWF inventory will continue to drop because the CAWF is in the process of closing out. The projected date for the CAWF to complete production and delivery of all CAWF orders is set for June 2004. The CAWF orders are projected to be final billed by October 2004 and the financial close-out of CAWF contracts is set for June 2005. The final CAWF financial position then will be determined and the CAWF will close on 31 October 2005. Of course these dates are not firm and most likely will change. Any slip in production, the ability to award a contract in a timely manner, or a host of other variables could cause these dates to slip.

The majority of the CAWF work in process is being performed at the Government Owned Contractor Operated (GOCO) plants. Also, the CAWF stopped accepting new customer orders in July 1998 at which time Procurement Appropriation took over the acceptance of any new orders for ammunition.

Note Reference

See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property.

Note 9.B. Operating Materials and Supplies, Net

As of September 30,
(Amounts in thousands)

1. OM&S Categories:	2002 OM&S Gross Value	2002 Revaluation Allowance	2002 OM&S, Net	2001 OM&S, Net	Valuation Method
A. Held for Use	$26,964,942	$0	$26,964,942	$27,078,918	LAC
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	568,040	(568,040)	0	12,879	SP
D. Total	$27,532,982	($568,040)	$26,964,942	$27,091,797	

Legend for Valuation Methods:

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

2. Restrictions on OM&S:

The total tonnage of munitions stock, to include chemical stocks, awaiting destruction for FY 2002 and out years is 439,384.

Army owns $5,000,000 thousand in ammunition that is under treaty agreements and is not intended for use by U.S. Forces. This ammunition is intended for use in defense of the host nation by the host nation.

3. Other Information:

Adjustment for National Defense Property, Plant, and Equipment

In accordance with the Department of Defense Inspector General (DoDIG) directive to remove FY 2001 OM&S balances on the Balance Sheet for retail and wholesale guided missiles, a Prior Period Adjustment was prepared to remove $7,114,213 thousand in FY 2001 OM&S, and $6,747,585 thousand in FY 2002. The DoDIG's opinion is that these items should not have been reclassified as O&MS from ND PP&E on the FY 2001 financial statements, but should continue to be reported as National Defense Property, Plant, and Equipment. This restatement of FY 2001 numbers brings the Army's report in line with what was reported on the FY 2001 Government-wide financial statements

General Composition of Operating Materials and Supplies

Operating Materials and Supplies includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines.

Changes In The Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned

The category "Held for Use" includes all issuable material. The category "Held for Repair" includes all economically reparable material. Before FY 2002, the Department showed "Potentially re-distributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

Decision Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned
Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded "condemned." The net value of these items is zero, and is shown as "Excess, Obsolete, and Unserviceable."

Other Information Related to Operating Material and Supplies, Net

Fluctuations and/or Abnormalities

Total Excess, Obsolete and Unserviceable
In FY 2001, the Office of the Under Secretary of Defense provided us with a 1.9% figure we were to report in the OM&S, Net column. The financial statements of the Department of Defense reflected values of excess, obsolete, and unserviceable inventory and operating materials and supplies that were derived from the Supply System Inventory Report (SSIR). In FY 2002, the Office of the Under Secretary of Defense advised the Services that they will no longer use the SSIR as the basis for its financial presentation of excess, obsolete, and unserviceable inventory. The account "Excess, Obsolete and Unserviceable" will be populated as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DoD 4000.25-2-M). The disposal facilities will also record 100% revaluation allowance, which produces an inventory value of zero.

Relevant Information for Comprehension

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

Note Reference

See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

Note 9.C. Stockpile Materials, Net

Not Applicable

Note 10. General PP&E, Net

As of September 30,
(Amounts in thousands)

1. Major Asset Classes:	Depreciation/ Amortization Method	Service Life	2002 Acquisition Value	2002 (Accumulated Depreciation/ Amortization)	2002 Net Book Value	2001 Prior FY Net Book Value
A. Land	N/A	N/A	$423,884	N/A	$423,884	$389,471
B. Buildings, Structures and Facilities	S/L	20 Or 40	35,376,259	($22,393,721)	12,982,538	12,220,845
C. Leasehold Improvements	S/L	lease term	8,731	(7,398)	1,333	554
D. Software	S/L	2-5 Or 10	942	(574)	368	671
E. Equipment	S/L	5 Or 10	2,260,798	(1,512,977)	747,821	690,381
F. Assets Under Capital Lease[1]	S/L	lease term	166,069	(110,513)	55,556	63,859
G. Construction-in-Progress	N/A	N/A	4,471,634	N/A	4,471,634	4,237,160
H. Other			17,492	0	17,492	18,597
I. Total General PP&E			$42,725,809	($24,025,183)	$18,700,626	$17,621,538

[1]Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

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

2. Other Information:

Relevant Information for Comprehension

- The increase in Buildings, Structures, and Facilities is due to a review of the National Guard's property system. During the review, the National Guard discovered that property items were coded as state owned rather than federal owned. These corrections are reflected in the current year increase. The National Guard also included cost for structures not included previously in their property system.
- In fiscal year 2002, the Army is reporting $8,251 thousand of land previously reported by Nonappropriated Funds and Defense Logistics Agency.
- The Army implemented the Defense Property Accountability System (DPAS) for Table of Distribution and Allowances (TDA) property books to account for personal property. DPAS is an automated CFO-compliant system. Notably, it captures accounting and depreciation data, and provides greater visibility of the Army's capital assets.
- The $17,492 thousand for Other represents Natural Resources (Value of Timber Reserves).

Military Equipment (Unaudited Supplementary Information)

In June 2002, the Federal Accounting Standards Advisory Board issued in draft a standard entitled Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E). In addition to eliminating the category ND PP&E, this standard would rescind Statement of Federal Financial Accounting Standards (SFFAS) No. 11, Amendment to Property, Plant, and Equipment - Definitional Changes; amends SFFAS No. 8, Supplementary Stewardship Reporting; and amends SFFAS No. 6, Accounting for Property, Plant, and Equipment. This standard is effective for years ending after September 30, 2002. The standard currently is sitting before Congress for a 45-day period in accordance with provisions of the Chief Financial Officers Act of 1990.

Prior standards provide for the expensing of ND PP&E when costs are incurred and the reporting of such costs as supplementary stewardship information. The Department of Defense has not reported the cost of ND PP&E in accordance with existing standards due to an absence of detailed cost information for property acquired over many decades.

The standard on eliminating the category of ND PP&E provides for the capitalization of property previously defined as ND PP&E and the reporting of such property as General Property, Plant, and Equipment. In recognition of the absence of detailed historical cost information, this standard provides that, "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

Capitalization of property previously defined as ND PP&E will require extensive research to develop cost estimates for the property inventory. The Department initiated the valuation process this fiscal year by conducting detailed reviews of three selected "pilot" programs including the Paladin Mobile Howitzer. The objective of this effort was the development of a valuation methodology and associated business rules, which the Department could use to value the balance of its military equipment. The accompanying information summarizes the results of the review of the Paladin program.

Valuation basis

The valuation is based on information derived from reports reflecting amounts expended on this program.

Included costs - The estimated total program costs include funds expended for procurement, research, development, test and evaluation, trainers and simulators, government furnished equipment, and other items included in the cost of the acquisition programs. The estimated portion of total program cost attributable to equipment under construction is reported as "work-in-process."

Useful life and depreciation - The estimated useful life used for the Paladin Howitzer is 20 years. Depreciation is calculated on a group basis whereby the depreciation rate is applied to the estimated cumulative cost of the equipment "placed in service."

Estimated program cost, accumulated depreciation, and net book value for the Paladin Howitzer are presented in the following table for disclosure purposes only. The balances have not been recorded in Army's Balance Sheet.

(Dollars in Thousands)

Paladin Mobile Howitzer	**Program Cost**	**Accumulated Depreciation**	**Net Book Value**
Placed in service	$ 1,802,420	($541,660)	$ 1,260,760
Work in process	17,429	0	17,429

Note Reference

<u>See Note Disclosure 1. N.</u> - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment (PP&E).

Note 10.A. Assets Under Capital Lease

As of September 30,
(Amounts in thousands)

		2002	2001
1.	**Entity as Lessee, Assets Under Capital Lease:**		
A.	Land and Buildings	$166,069	$166,069
B.	Equipment	0	0
C.	Other	0	0
D.	Accumulated Amortization	(110,513)	(102,210)
E.	Total Capital Leases	$55,556	$63,859

2. Description of Lease Arrangements:

The current portion of the liability, as shown on Note 15.A., is $10,800 thousand and the noncurrent portion is $71,139 thousand. Future executory costs of $21,826 thousand are estimates based on historical data. The use of estimates for these costs has been deemed adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to the present value calculated at the incremental borrowing rate at the inception of the leases.

3. Other Information:

Relevant Information for Comprehension

Assets Under Capital Lease decreased by $8,303 thousand due to straight-line depreciation of Leased Assets.

Note Reference

<u>See Note Disclosure 1. Q.</u> - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

Note 11. Liabilities Not Covered and Covered by Budgetary Resources

As of September 30,
(Amounts in thousands)

		2002			2001
1.	**Intragovernmental Liabilities:**	Covered by Budgetary Resources	Not Covered By by Budgetary	Total	
A.	Accounts Payable	$774,545	$0	$774,545	$874,432
B.	Debt	0	157	157	108
C.	Environmental Liabilities	0	0	0	0
D.	Other	531,533	344,871	876,404	658,664
E.	Total Intragovernmental Liabilities	$1,306,078	$345,028	$1,651,106	$1,533,204

As of September 30, (Amounts in thousands)	2002 Covered by Budgetary Resources	2002 Not Covered By by Budgetary	2002 Total	2001
2. Non-federal Liabilities:				
A. Accounts Payable	$5,967,178	$0	$5,967,178	$6,698,778
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,624,557	1,624,557	1,646,526
C. Environmental Liabilities	0	35,078,280	35,078,280	40,071,084
D. Loan Guarantee Liability	730	0	730	0
E. Other Liabilities	3,843,568	5,165,176	9,008,744	6,944,358
F. Total Non-Federal Liabilities	$9,811,476	$41,868,013	$51,679,489	$55,360,746
3. Total Liabilities:	$11,117,554	$42,213,041	$53,330,595	$56,893,950

4. Other Information:

Liabilities Not Covered and Covered by Budgetary Resources

- Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

- Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity that are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), 3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, 4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and 5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

- A schedule is presented below to identify Army's Other Intragovernmental and Non-Federal liabilities.

Intragovernmental Liabilities-Other		Amounts (in thousands)
Funded	Disbursing Officer Cash	$ 300,378
	Unemployment Comp	89,210
	Advances from Others	65,329
	Employer Contributions	52,758
	FECA (delinquencies)	23,985
	VSIP	1,034
	Deposit Fund Liability	(1,161)
Total Funded		$531,533
Unfunded	FECA	$269,625
	Judgment Fund	75,246
Total Unfunded		$344,871
Total Intragovernmental Liabilities - Other		$876,404

Non-Federal Liabilities-Other Liabilities		**Amounts (in thousands)**
Funded	Accrued Payroll	$2,111,116
	Contract Holdbacks	617,351
	Advances	476,385
	Contingent Liabilities	303,781
	Employer Contributions	242,389
	Capital Leases	81,939
	TERA	9,952
	Nonenvironmental - Other	627
	Deposit Fund Liability	28
Total Funded		$3,843,568
Unfunded	Annual Leave	$2,712,350
	Nonenvironmental -Disposal	1,424,298
	Contingent Liabilities	960,000
	Cancelled Appropriations	68,528
Total Unfunded		$5,165,176
Total Non-Federal Liabilities - Other		$9,008,744

Note Reference

For Additional Line Item discussion, see:

Note 8, Direct Loan and/or Loan Guarantee Programs

Note 12, Accounts Payable

Note 13, Debt

Note 14, Environmental Liabilities and Disposal Liabilities

Note 15, Other Liabilities

Note 16, Commitments and Contingencies

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

Note 12. Accounts Payable

As of September 30,
(Amounts in thousands)

	2002			2001
	Accounts Payable	**Interest, Penalties, and Administrative Fees**	**Total**	**Total**
1. Intragovernmental Payables:	$774,545	N/A	$774,545	$874,432
2. Non-Federal Payables (to the Public):	$5,967,178	$0	5,967,178	6,698,778
3. Total	6,741,723	$0	$6,741,723	$7,573,210

4. Other Information:

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Payables (to the Public) are payments to non-federal government entities.

Fluctuation and/or Abnormality

Total Account Payable decreased $831,487 thousand (11%) between current year and prior year. The majority of this decrease is attributable to a re-classification of liabilities in FY 2002 from Accounts Payable to Accrued Funded Payroll and Benefits for the Active Army; Military Personnel appropriation.

Other Information Related to Accounts Payable

Relevant Information for Comprehension

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329 and DD 1400. This should agree with the undistributed disbursements reported on accounting reports (SF 133/ (M) 1002/ (M) 1307). Intransit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities outstanding accounts payable balance at year-end. Accounts payable were adjusted downward in the amount of $449,173 thousand for these payments.

Intragovernmental Eliminations

The majority of intra-agency sales Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable.

The DoD summary level seller accounts receivables were compared to the Army accounts payable. An adjustment was posted to the Army accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to the Army. Positive differences were treated as unrecognized accounts payable and in the case of the Army, accounts payable were adjusted upwards in the amount of $839,063 thousand.

The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

Note Reference

See Note Disclosure 1. G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

Note 13. Debt

As of September 30,
(Amounts in thousands)

	2002			2001
1. Public Debt:	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
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	$0	$0	$0	$0
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	108	49	157	108
D. Total Agency Debt	$108	$49	$157	$108
3. Total Debt:	$108	$49	$157	$108
4. Classification of Debt:				
A. Intragovernmental Debt			$157	$108
B. Non-Federal Debt			N/A	N/A
C. Total Debt			$157	$108

5. Other Information:

Relevant Information For Comprehension

Debt to Other Federal Agencies represents the unfunded interest payable on reimbursements to the DoD Education Benefits Trust Fund for education benefits paid on behalf of separated Army personnel. The DoD Board of Actuaries determined the amount of accumulated interest to be $157 thousand for FY 2002.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30,
(Amounts in thousands)

	2002			2001
1. Environmental Liabilities:	Current Liability	Noncurrent Liability	Total	Total
A. Intragovernmental:				
1. Accrued Environmental Restoration (Defense Environmental Restoration Program (DERP) funded) Costs:				
a. Active Installations-Environmental Restoration (ER)	$0	$0	$0	$0
b. Active Installations—ER for Closed Ranges	0	0	0	0
c. Formerly Used Defense Sites (FUDS) —ER	0	0	0	0
d. FUDS—ER for Transferred Ranges	0	0	0	0
2. Other Accrued Environmental Costs (Non-DERP funds)				
a. Active Installations—Environmental Corrective Action	0	0	0	0
b. Active Installations—Environmental Closure Requirements	0	0	0	0
c. Active Installations—Environ. Response at Active Ranges	0	0	0	0
d. Other	0	0	0	0

As of September 30,
(Amounts in thousands)

	2002			2001
1. Environmental Liabilities:	Current Liability	Noncurrent Liability	Total	Total
A. Intragovernmental:				
3. Base Realignment and Closure (BRAC)				
a. BRAC Installations--Environmental Restoration (ER)	0	0	0	0
b. BRAC Installations--ER for Transferring Ranges	0	0	0	0
c. BRAC Installations--Environmental Corrective Action	0	0	0	0
d. Other	0	0	0	0
4. Environmental Disposal for Weapon Systems Programs				
a. Nuclear Powered Aircraft Carriers	0	0	0	0
b. Nuclear Powered Submarines	0	0	0	0
c. Other Nuclear Powered Ships	0	0	0	0
d. Other National Defense Weapon Systems	0	0	0	0
e. Chemical Weapons Disposal Program	0	0	0	0
f. Other	0	0	0	0
5. Total Intragovernmental Environmental Liabilities:	$0	$0	$0	$0
B. Non-Federal:				
1. Accrued Environmental Restoration (DERP funded) Costs:				
a. Active Installations--Environmental Restoration (ER)	$791,062	$3,377,471	$4,168,533	$4,207,241
b. Active Installations--ER for Closed Ranges	24,514	624,922	649,436	1,812,297
c. Formerly Used Defense Sites (FUDS) -- ER	281,411	4,023,445	4,304,856	3,170,282
d. FUDS--ER for Transferred Ranges	114,139	11,106,176	11,220,315	14,473,400
2. Other Accrued Environmental Costs (Non-DERP funds)				
a. Active Installations--Environmental Corrective Action	68,127	213,114	281,241	366,528
b. Active Installations--Environmental Closure Requirements	10,609	33,956	44,565	53,098
c. Active Installations--Environ.Response at Active Ranges	38,900	253,300	292,200	277,700
d. Other	15,160	0	15,160	0
3. Base Realignment and Closure (BRAC)				
a. BRAC Installations--Environmental Restoration (ER)	116,978	458,173	575,151	607,508
b. BRAC Installations--ER for Transferring Ranges	11,178	356,339	367,517	398,557
c. BRAC Installations--Environmental Corrective Action	22,500	49,806	72,306	71,127
d. Other	269,696	0	269,696	380,839
4. Environmental Disposal for Weapons Systems Programs				
a. Nuclear Powered Aircraft Carriers	0	0	0	0
b. Nuclear Powered Submarines	0	0	0	0
c. Other Nuclear Powered Ships	0	0	0	0
d. Other National Defense Weapons Systems	0	0	0	0
e. Chemical Weapons Disposal Program	2,168,524	10,648,780	12,817,304	14,252,507
f. Other	0	0	0	0
5. Total Non-Federal Environmental Liabilities:	$3,932,798	$31,145,482	$35,078,280	$40,071,084
2. Total Environmental Liabilities:	$3,932,798	$31,145,482	$35,078,280	$40,071,084

3. Other Information:

Relevant Information For Comprehension

Environmental Cost Liabilities

The Defense Environmental Restoration Program (DERP) was established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code, Section 2701. Related sections in Title 10 of the United States Code, 2701-2706 and 2810-2811, further define the program. The DERP is implemented in accordance with the Department of Defense (DoD) Directive 4715.1, Environmental Security, February 24, 1996; DoD Instruction 4715.7, Environmental Restoration Program, April 22, 1996; and the Management Guidance for the Defense Environmental Restoration Program, September 28, 2001. Environmental liabilities for the Army DERP and the Base Realignment and Closure (BRAC) are prepared in accordance with the Management Guidance for the Defense Environmental Restoration Program and the DoD Financial Management Regulation (FMR) 7000.14.

The assigned estimated total cleanup cost for the current operating period is the amount of the current year appropriation. The assigned total cleanup liability cost includes the current year budget and the total prior year un-liquidated obligations.

There is no unrecognized portion of the estimated total cleanup cost associated with general PP&E and there are no material changes in the total estimated liability due to changes in laws, technology, or plans. The major change in technology affecting the liability estimate was standardizing use of the estimating tools consistently across the Army programs.

The estimates used for environmental liability calculations are estimates of the cost to complete all activities at a site of environmental concern. The cost estimates are calculated at the site-level using a validated cost-estimating model or an engineered cost and entered into a database. There were no changes to the total liability cost due to inflation, deflation, technology, or applicable laws and regulations.

Environmental Disposal Cost Liabilities:

No Liabilities for Environmental Disposal for Weapon Systems Programs were reported by ACSIM.

Range Characteristics

For FY2001 and FY2002, the Army estimated that its environmental liability at closed, transferred and transferring ranges was $16,684,254 thousand and $12,237,268 thousand respectively. Currently, the Army is inventorying closed ranges at 430 sites, transferred ranges at 1,650 properties, and transferring ranges at 63 sites.

- Closed Ranges. $649,436 thousand must be expended to characterize and investigate closed ranges. Until such characterization is completed, total environmental liabilities cannot be estimated. Closed ranges have been taken out of service as a range and put to new use (incompatible with range activities) or are not considered by the military to be a potential range area. A closed range is still under the control of a DoD Component.

- Transferring Ranges. Site level investigations reveal that the total environmental liability for these types of ranges is $367,517 thousand. Transferring ranges are proposed for transfer or will be returned from

DoD to another entity, including other federal entities.

- Transferred Ranges. 1,549 out of 1,650 properties have completed range inventories and the estimated liability for those ranges is $11,220,315 thousand. These are properties formerly used as a military range that are no longer under military control and have been leased by DoD, transferred, or returned from the DoD to another entity, including federal entities.

- Active Ranges. At this time, the Army is conducting only one active range investigation and characterization, that being for the Massachusetts Military Reservation. The cost of the characterization and investigation is $292,200 thousand. This pays for sampling and analysis, groundwater monitoring, feasibility studies, soil and groundwater cleanup, and the Unexploded Ordnance (UXO) investigation and response. Active ranges include military ranges that are currently in service and are being used regularly, but that are considered still by the cognizant Military Service to be a potential range area, and that have not been put to a new use that is incompatible with range activities.

Methodology Used to Estimate Environmental Liabilities

The Army uses the annual cost-to-complete estimate as the basis for the environmental liability calculation. The cost-to-complete estimate is prepared for each site in the DERP in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

<u>Accrued Environmental Restoration (DERP Funded) Costs:</u>
For Active installations the cost-to-complete estimate is collected in the Defense Site Environmental Restoration Tracking System (DSERTS). The current liability number is based on FY 2003 allocation and unliquidated obligations (ULOs). The ULO data are pulled from preliminary FY 2002 year-end reports provided by DFAS. Noncurrent liabilities include the cost-to-complete estimates from FY 2004 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

At Formerly Used Defense Site (FUDS) properties, the cost-to-complete estimate is collected in the FUDS Management Information System (FUDMIS). The current liability number also is based on FY 2003 allocation and the ULOs. The ULO data are obtained from the Corps of Engineers Financial Management System (CEFMS) for existing FUDS ULOs as of September 30. Noncurrent liabilities include the cost-to-complete estimates from FY 2004 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

<u>Active Installations - Environmental Restoration for Closed Ranges.</u> Noncurrent liability for Environmental Restoration (ER) for closed ranges, is a developing requirement based on the results of an Army-wide inventory of all ranges. The inventory for closed ranges is 30% complete. The $624,922 thousand noncurrent liability estimate for ER at closed ranges is the most probable cost and is based on site-level data. Estimates for closed ranges that have not been inventoried are disclosed as a possible contingent liability in Note 16.

<u>FUDS - Environmental Restoration for Transferred Ranges.</u> The noncurrent liability for ER for transferred ranges is also based on results of an inventory of transferred ranges at 1,650 properties. The inventory of transferred ranges is 94% complete with site-level cost data collected from 1,549 properties.

Other Accrued Environmental Costs (Non-DERP Funds):

Active Installations - Environmental Corrective Action. Reflects the total of active projects in the Fall 01 Environmental Program Requirements (EPR) data base which are reported under 1) the Law/Reg RCRA-C with Environmental Category (ECAT) CORA (Corrective Action), 2) the Law/Reg RCRA-D with ECAT CORA, 3) the Law/Reg RCRA-I with ECAT USTR (Underground Storage Tanks) and the Law/Reg SFND/CLNP (Superfund/Cleanup) with all ECATs (including those for Preliminary Assessments/Site Investigations, Remedial Action (CONUS Cleanup), and Removal Actions (Overseas Cleanup). The Current Liability total reflects costs recorded in the EPR for FY 2003, while the Noncurrent Liability total reflects total estimated costs for FY 2004 through FY 2015.

Active Installations - Environmental Closure Requirements. Reflects the total of active projects in the Fall 01 EPR database which are reported under 1) the Law/Reg RCRA-C with ECAT CPLN (Closure Plan) and 2) RCRA-D with ECAT CPLN. The Current Liability total reflects costs recorded in the EPR for FY 2003, while the Noncurrent Liability total reflects total estimated costs for FY 2004 through FY 2015.

Active installations - Environmental Response at Active Ranges. The estimated total Non-DERP liability for Environmental Response at Active Ranges reflects costs for the Massachusetts Military Reservation, broken out into current and noncurrent liabilities. This includes soils and groundwater cleanup and UXO detection and removal.

Base Realignment and Closure (BRAC):
For BRAC installations the cost-to-complete estimate is collected in the Defense Sites Environmental Restoration Tracking System (DSERTS). Because BRAC installations are funded separately using the Base Closure Account, restoration liabilities are reported as Environmental Restoration; unexploded ordnance liabilities are reported as Environmental Restoration for Transferring Ranges; and compliance liabilities are reported as Environmental Corrective Action. For current liabilities, the number is based on FY 2003 allocation and the ULOs. Because prior year BRAC ULOs are not identified by individual program, BRAC ULOs for non-Federal liabilities are provided as "BRAC-Other." Noncurrent liabilities include the cost-to-complete estimates from FY 2004 through program completion (collected in DSERTS) in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

BRAC - Environmental Restoration for Transferring Ranges. The noncurrent liability for ER for transferring ranges is based on results of an inventory of transferring ranges at 63 properties. The inventory of transferring ranges is 99% complete with site-level cost data available for 62 of 63 properties.

Environmental Disposal for Weapons Systems Programs:

Chemical Weapons Disposal Program: The total $12,817,304 thousand for FY 2002 is based on the probable costs for the Program Manager for Chemical Demilitarization, the Chemical Stockpile Emergency Preparedness Project, and the Project Manager for the Assembled Chemical Weapons, compared to the $14,252,507 thousand for FY 2001.

Year-to-Year Changes in the Liability Estimate

The estimated total Active Installations - Environmental Restoration (ER and ER for Closed Ranges) liability is $6,019,538 thousand and $4,817,969 thousand for FY 2001 and FY 2002 respectively. The current estimate is a decrease from the liability reported in the most recent prior fiscal year. The major factor contributing to change includes increased QA/QC of program requirements. Noncurrent liability for ER for closed ranges is a developing requirement based on the results of an Army-wide inventory of all ranges.

The estimated total FUDS - Environmental Restoration (ER and ER for Transferred Ranges) liability is $17,643,682 thousand and $15,525,171 thousand for FY 2001 and FY 2002 respectively. The current estimate is a significant decrease from the liability reported in the most recent prior fiscal year. Major factors contributing to the change include modifications to Remedial Action Cost Engineering Requirements (RACER) to account for varying ordnance densities at range areas (which decreased FUDS-ER Transferred Range estimate), increase in the number of Hazardous, Toxic, and Radioactive Waste (HTRW) projects, and review of all future cost-to-complete estimates (which increased FUDS-ER estimate).

The estimated BRAC Installation - Environmental Corrective Action (current plus noncurrent) liability is $72,306 thousand for FY2002 and $71,127 thousand for FY2001. The current estimate is an increase from the liability reported in the most recent prior fiscal year. Major factors contributing to the change include refinement of cost estimates and identification of new requirements due to new characterization data and regulatory negotiations.

Other Information

Others Category Disclosure Comparative Table

Types	FY2002 Amounts in Thousands	FY2001 Amounts in Thousands
Non-Derp - Other		
Low Level Radioactive Waste Clean up	$ 15,160	$ 0
BRAC - Other		
Prior Year BRAC ULOs That Cannot Be Identified To A Specific Program	$269,417	$380,839
Low Level Radioactive Waste Clean up	$ 279	$ 0

Note 15.A. Other Liabilities

As of September 30,
(Amounts in thousands)

	2002			2001
1. Intragovernmental:	**Current Liability**	**Noncurrent Liability**	**Total**	**Total**
A. Advances from Others	$65,329	$0	$65,329	$41,444
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	(1,161)	0	(1,161)	65,779
D. Resources Payable to Treasury	0	0	0	6,002
E. Disbursing Officer Cash	300,377	0	300,377	171,320
F. Non-environmental Disposal Liabilities:				
(1) National Defense PP&E (Non-nuclear)	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

As of September 30, (Amounts in thousands)		2002			2001
1.	**Intragovernmental:**	**Current Liability**	**Noncurrent Liability**	**Total**	**Total**
G.	Accounts Payable-- Cancelled Appropriations	0	0	0	924
H.	Judgment Fund Liabilities	0	75,246	75,246	70,878
I.	FECA Reimbursement to the Department of Labor	116,127	153,499	269,626	260,841
J.	Capital Lease Liability	0	0	0	0
K.	Other Liabilities	166,987	0	166,987	41,476
L.	Total Intragovernmental Other Liabilities	$647,659	$228,745	$876,404	$658,664
2.	**Non-Federal:**				
A.	Accrued Funded Payroll and Benefits	$2,111,116	$0	$2,111,116	$1,500,967
B.	Advances from Others	476,385	0	476,385	432,835
C.	Deferred Credits	0	0	0	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	0	28	28	0
G.	Temporary Early Retirement Authority	9,952	0	9,952	19,525
H.	Non-environmental Disposal Liabilities:				
	(1) National Defense PP&E (Non-nuclear)	0	0	0	0
(2)	Excess/Obsolete Structures	0	0	0	0
(3)	Conventional Munitions Disposal	0	1,424,298	1,424,298	0
(4)	Other	627	0	627	0
I.	Accounts Payable--Cancelled Appropriations	0	68,528	68,528	43,357
J.	Accrued Unfunded Annual Leave	2,712,350	0	2,712,350	2,435,630
K.	Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L.	Capital Lease Liability	10,800	71,139	81,939	91,874
M.	Other Liabilities	1,665,611	457,910	2,123,521	2,420,170
N.	Total Non-Federal Other Liabilities	$ 6,986,841	$2,021,903	$9,008,744	$6,944,358
3.	**Total Other Liabilities:**	$7,634,500	$2,250,648	$9,885,148	$7,603,022

4. Other Information:

Fluctuations and/or Abnormalities

The (Intragovernmental) Deposit Funds abnormal balance of $1,161 thousand shown for FY 2002 is attributable to a collection recorded in the Military Pay Account instead of Servicemen's Group Life Insurance account where funds were disbursed. Corrective action has been taken to eliminate the abnormal balance.

Other Information Related to Other Liabilities

Relevant Information for Comprehension

Intragovernmental Liabilities

- Total Intragovernmental Other Liabilities has an increase of $217,741 thousand (33%). The majority is attributable to Advances from Others, Disbursing Officer Cash, Federal Employees Compensation Act Reimbursement to the Department of Labor and Other Liabilities.
- Advances from Others has an increase of $23,885 thousand (58%). This increase is reported by the Army's Research, Development, Test and Evaluation (RDTE) appropriation.
- Disbursing Officer Cash has an increase of $129,058 thousand (75%) due primarily to the Army's support of Operation Enduring Freedom during FY 2002.
- Other Liabilities has an increase of $125,511 thousand (303%). This is attributable to Employer contributions (CSRS, FERS, FEGLI and FEHB) and VISP in FY 2002. In addition, $89,210 thousand in Unemployment Compensation was never reported in the statement until FY 2002.

Non-Federal Liabilities

- Total Non-Federal Other Liabilities has an increase of $2,064,386 thousand (30%). The majority is attributable to Accrued Funded Payroll and Benefits, Non-environmental Disposal Liabilities for Conventional Munitions Disposal, Accounts Payable--Cancelled appropriation and Accrued Unfunded Annual Leave.
- Accrued Funded Payroll and Benefits has an increase of $610,149 thousand (41%). The majority is attributable to a reclassification between Non-Federal Accounts Payable in 2001 and Accrued Funded Payroll and Benefits in 2002.
- Non-environmental Disposal Liabilities for Conventional Munitions Disposal has an increase of $1,424 thousand (100%) resulting from OSDC concurring with the USD (AT&L) response to a "April 2001 General Accounting Office report to Senate Armed Services Committee" review directing the Army to report this liability in FY 2002.
- Accounts Payable--Cancelled Appropriation has an increase of $25,170 thousand (58%) due to a reclassification from Intragovernmental to Non-Federal.
- Temporary Early Retirement Authority (TERA) has a decrease of $9,573 thousand (-49%). It continues to decrease due to the Army's downsizing prior to FY 2001.
- Capital Lease Liability has a decrease of $9,935 thousand (-11%) resulting from annual straight-line amortization.

Other (Non-Federal) Liabilities:

- Other Current Liabilities consist of $502,090 thousand for Chemical Demilitarization Non-stockpile, $617,351 thousand for Contract Holdbacks, $242,389 thousand for Employer Contributions and $303,781 thousand for Contingent Liabilities.
- Noncurrent Liability in the amount of $457,910 thousand is represented by Chemical Demilitarization Non-stockpile.

Conventional Munitions Disposal

FY 2002 is the first year conventional munitions are reported in the financial statements. The Army classified the total amount of Conventional Munitions Disposal as noncurrent. The current portion of Conventional Munitions Disposal was not available readily. Army is in the process of identifying the current portion of conventional munitions disposal. The current amount will be reported in the first quarterly financial statements.

Note 15.B. Capital Lease Liability

As of September 30,
(Amounts in Thousands)

		2002				2001
		Asset Category				
1.	**Future Payments Due:**	Land and Buildings	Equipment	Other	Total	Total
A.	2003	$20,785	$0	$0	$20,785	$20,785
B.	2004	20,785	0	0	20,785	20,785
C.	2005	20,785	0	0	20,785	20,785
D.	2006	20,785	0	0	20,785	20,785
E.	2007	18,009	0	0	18,009	20,785
F.	After 5 Years	27,743	0	0	27,743	46,678
G.	Total Future Lease Payments Due	$128,892	$0	$0	$128,892	$150,603
H.	Less: Imputed Interest Executory Costs	46,953	0	0	46,953	58,728
I.	Net Capital Lease Liability	$81,939	$0	$0	$81,939	$91,875
2.	**Capital Lease Liabilities Covered by Budgetary Resources:**				$10,800	$9,935
3.	**Capital Lease Liabilities Not Covered by Budgetary Resources:**				$71,139	$81,939

4. Other Information:

Capital Lease Liabilities Not Covered by Budgetary Resources

The Army is the lessee in eight capital leases for military family housing. All leases prior to FY 1992 are funded on a fiscal year basis causing the noncurrent amounts to be shown as Not Covered by Budgetary Resources.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Relevant Information for Comprehension

Nature of Contingency

The Army General Fund is subject to various claims that represent contingent liabilities for the United States Government. While no opinion has been expressed regarding the likely outcome or possible loss associated with specific claims, experience indicates that many claims are settled for less than sought, dismissed altogether, or the possibility of loss is remote. These liabilities are not accrued in the Army's financial statements.

In addition, the Army General Fund has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army's financial statements. As of September 30, 2002, the Army General Fund has approximately $10,154,727 thousand in claims considered reasonably possible. These contingent liabilities and estimates are presented next.

Estimate of the Possible Liability

Title of Contingent Liabilities	**Estimate (Amounts in thousands)**
Environmental Restoration -FUDS & Active Installations	$1,070,078
Non-Stockpile Chemical Materiel Demilitarization	8,900,000
Stockpile Chemical Demilitarization Disposal	85,600
Judgment Fund Liabilities	48,000
European Environmental Claims (NATO SOFA)	40,000
Other Claims	11,049
Total	$10,154,727

Note Reference

See Note Disclosure 1. S. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

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

As of September 30,
(Amounts in Thousands)

	2002				2001
	Actuarial Present Value of Projected Plan Benefits	**Assumed Interest Rate (%)**	**Less:Assets Available to Pay Benefits**	**Unfunded Actuarial Liability**	**Unfunded Actuarial Liability**
1. Pension and Health Benefits:					
A. Military Retirement Pensions	$0		$0	$0	$0
B. Military Retirement Health Benefits	0		0	0	0
C. Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Benefits	$0		$0	$0	$0
2. Other:					
A. FECA	$1,624,557		$0	$1,624,557	$1,646,526
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. [Enter Program Name}	0		0	0	0
E. Total Other	$1,624,557		$0	$1,624,557	$1,646,526
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$1,624,557		$0	$1,624,557	$1,646,526

4. Other Information:

Actuarial Cost Method Used:

Assumptions:
Market Value of Investments in Market-based and Marketable Securities:

Military Retirement Pensions:
The portion of the military retirement benefits actuarial liability applicable to the Army is reported on the financial statements of the Military Retirement Fund.

Military Retirement Health Benefits:
Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to the Army is reported only on the DoD Agency-wide financial statements.

Medicare-Eligible Retiree Benefits:
Not reported by Military Retirement Systems.

FECA:

- Actuarial Cost Method Used: The Army's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments.
- Assumptions: The projected annual benefit payments then are discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors also are applied to the calculation of projected future benefits.

Note 18. Unexpended Appropriations

As of September 30,
(Amounts in Thousands)

	2002	2001
1. Unexpended Appropriations:		
A. Unobligated, Available	$4,551,201	$4,333,679
B. Unobligated, Unavailable	1,069,634	1,208,470
C. Unexpended Obligations	25,847,886	23,353,422
D. Total Unexpended Appropriations	$31,468,721	$28,895,571

2. Other Information:

Relevant Information For Comprehension

Unexpended Appropriations
Beginning Fiscal Year 2002, the Unexpended Appropriations displayed on the Balance Sheet is broken out into further subcategories such as Cumulative, Appropriations Received, Transfers-In, Transfers-Out, Used, Prior-Period Adjustments - Restated, Prior-Period Adjustments - Not Restated, and Adjustments. Due to

system constraints, the 3100 account is still used to post undelivered orders and any residual value not included in the subcategories, as the appropriated attribute is not available for the other subcategories.

Unexpended Obligations

Unexpended Obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Provided of the Statement of Financing, which includes the change during the fiscal year in Unexpended Obligations against budget authority from all services.

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

Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity. The amounts presented in the Statement of Net Cost (SoNC) are based on funding, obligation, accrual and disbursing transactions, which are not recorded always using accrual accounting. Army systems do not record always the transactions on an accrual basis as is required by the generally accepted accounting principles. The information presented also includes data from non-financial feeder systems to capture all cost and financing sources for the Army.

The Statement of Net Cost is unable to report earned revenues and costs consistent with performance goals and measures in accordance with Federal accounting standards. The Army is unable to capture cost accounting information because of inadequate cost accounting systems; as a result, the Army reports earned revenues and costs by nine major appropriation categories.

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

Not Applicable

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

Note 19.D. Imputed Expenses

As of September 30,
(Amount in thousands)

	2002	2001
1. Civilian (e.g., CSRS/FERS) Retirement	$261,042	$263,410
2. Civilian Health	330,812	408,191
3. Civilian Life Insurance	1,425	1,340
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	94,980	68,649
7. Total Imputed Expenses	$688,259	$741,590

Note 19.E. Benefit Program Expenses

Not Applicable

Note 19. F. Exchange Revenue

Disclosures Related to the Exchange Revenue:

Not Applicable

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

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

Not Applicable

Note 19.H. Stewardship Assets

Disclosures Related to Stewardship Assets:

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, Investments in Research and Development, and Military Equipment Deferred Maintenance. The current year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost. Material yearly investment amounts related to stewardship assets are provided in the Required Supplemental Stewardship Information section of this financial statement.

Note 19.I. Intragovernmental Revenue and Expense

Disclosures Related to Intragovernmental Revenue and Expense:

Intragovernmental Revenue. The Army's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army was unable to reconcile intragovernmental revenue balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

The Army's operating expenses were adjusted based on a comparison between the Army accounts payable and the DoD summary level seller accounts receivables. An adjustment was posted to accounts payable and operating expenses to reflect unrecognized accounts payable and operating expenses. The operating expenses of the Army were adjusted upwards in the amount of $532,858 thousand.

Note 19.J. Suborganization Program Costs

Not Applicable

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

As of September 30,
(Amounts in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
1. Prior Period Adjustments Increases Decreases) to Net Position Beginning Balance:				
A. Changes in Accounting Standards	$0	$0	($6,740,191)	$0
B. Errors and Omissions in Prior Year Accounting Reports	(7,114,213)	0	180,413	0
C. Other Prior Period Adjustments	0	0	3,535	0
D. Total Prior Period Adjustments	($7,114,213)	$0	($6,556,243)	$0
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$261,042	$0	$263,410	$0
B. Civilian Health	330,812	0	408,191	0
C. Civilian Life Insurance	1,425	0	1,340	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	94,980	0	68,649	0
G. Total Imputed Financing	$688,259	$0	$741,590	$0

3. Other Information:

Fluctuations and/or Abnormalities

Statement of Changes in Net Position

Budgetary financing sources for unexpended appropriations decreased between FY 2001 and FY 2002 by $435,091 thousand or 14.5%. However, due to formatting modifications, the cause of the decrease could not be determined. During FY 2002 the Department of the Treasury added several new accounts, replacing the former USSGL 3100 Unexpended Appropriations with the five new accounts, USSGL 3101 Unexpended Appropriations - Appropriations Received, USSGL 3102 Unexpended Appropriations - Transfers-In, USSGL 3103 Unexpended Appropriations - Transfers-Out, USSGL 3106 Unexpended Appropriations - Adjustments, and USSGL 3107 Unexpended Appropriations - Used. The replacement of USSGL 3100 with the new accounts made year-to-year tracing unattainable.

Other Information Related to Statement of Changes in Net Position

Relevant Information for Comprehension

Other Prior Period Adjustments

- In the FY 2002 "Errors and Omissions in Prior Years Accounting Reports" line, the DoDIG is directing that a Prior Period Adjustment be made to remove the $7,114,213 thousand from OM&S from the FY 2001 Balance Sheet as well as remove $6,747,585 thousand from the FY 2002 OM&S value. This adjustment removes all retail and wholesale guided missiles previously included as OM&S on the FY 2001 Financial Statements. These missiles are now classified as ND PP&E. The FY 2001 inclusion of these balances as OM&S was directed by OSD. This restatement of FY 2001 numbers brings the Army's report in line with what was reported on the FY 2001 Government-wide financial statements.

- During preparation of the FY 2001 Army financial statements, the Prior Period Adjustment to post previously reported National Defense Property Plant and Equipment guided missiles as Operating Materials and Supplies was input in error. The journal voucher prepared posted the Prior Period Adjustment as a decrease to cumulative results, with the offset to other gains. The proper entry should have been a Prior Period Adjustment increase to cumulative results, with an offsetting other loss. DFAS-IN prepared a correcting journal voucher for FACTS I reporting to Treasury that was not entered into the Defense Departmental Reporting System (DDRS). As such, the FY 2001 consolidated numbers reflected in the DDRS do not agree with the balances reported to Treasury or with numbers on the Government-Wide financial statements. The effect of the error on the financial statements in FY 2001 is $13,400,000 thousand. The table below displays amounts reported in Army financial statements, balances reported in the FACTS I submission, and restated Statement of Changes in Net Position with the FY 2002 Prior Period Adjustment included.

	Reported DDRS FY 2001	Reported FACTS I FY 2001	Restated to include FY 202 Prior Period OM&S FY 2001
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$628,191	$628,191	$628,191
Prior period adjustments (+/-)	(6,556,243)	6,924,139	(190,074)
Beginning Balances, as adjusted	($5,928,052)	$7,552,330	$438,117
Budgetary Financing Sources:			
Appropriations received			
Appropriations transferred-in/out (+/-)			
Other adjustments (rescissions, etc) (+/-)			
Appropriations used	73,855,867	73,855,867	73,855,867
Nonexchange revenue	209,595	209,595	209,595
Donations and forfeitures of cash and cash equivalents			
Transfers-in/out without reimbursement (+/-)			
Other budgetary financing sources (+/-)	17,161,699	3,681,317	3,681,317
Other Financing Sources:			
Donations and forfeitures of property			
Transfers-in/out without reimbursement (+/-)	161,985	161,985	161,985
Imputed financing from costs absorbed by others	741,589	741,589	741,589
Other (+/-)			

	Reported DDRS FY 2001	Reported FACTS I FY 2001	Restated to include FY 202 Prior Period OM&S FY 2001
CUMULATIVE RESULTS OF OPERATIONS			
Total Financing Sources	$92,130,735	$78,650,353	$78,650,353
Net Cost of Operations (+/-)	77,426,083	77,426,083	77,426,083
Ending Balances	$8,776,600	$8,776,600	$1,662,387

Other Army General Fund Disclosures

Imputed Financing:

- Civilian Health decreased by $77,379 thousand or 19% between FY 2001 and FY 2002. The decrease was attributable to a decrease in Federal Employee Health Benefit enrollment of 40,957 enrollees.
- Judgment Fund increased by $26,331 thousand or 38% between FY 2001 and FY 2002. The increase was attributable largely to a $31,169 thousand or 33% increase in payments to settle tort claims.

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

As of September 30,
(Amounts in thousands)

	2002	2001
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$31,241,578	$29,084,306
2. Available Borrowing and Contract Authority at the End of the Period	$0	$0

3. Other Information:

Statement Presentation

In fiscal year 2002, the following two enhancements were made to the Statement of Budgetary Resources to facilitate the reconciliation of information between the Statement of Budgetary Resources, the budget execution reports (SF 133) and the Budget of the United States Government:

Separate Column for Non-budgetary Credit Program Financing Accounts. This change allows for a clear distinction between budgetary and non-budgetary credit program financing account information. Non-budgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the United States Government. Separate reporting on the Statement of Budgetary Resources enhances the reconciliation of the two sets of information.

Offsetting Receipts Line. Offsetting Receipts are introduced as a new line item in the Statement of Budgetary Resources. These receipts are collections that are credited to the general, special or trust funds receipt accounts. In addition, they represents offsetting receipts distributed to the Department of the Army. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of United States Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the United States Government.

Intra-entity Transactions

The Statement of Budgetary Resources does not include intra-entity transactions because the statements are presented as combined and combining. A Disaggregated Statement of Budgetary Resources is presented in the Required Supplementary Information section of the financial statements. Additionally, Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds.

Fluctuations and/or Abnormalities

Statement of Budgetary Resources

In fiscal year 2002, the Statement of Budgetary Resources presentation changed to closely follow the Report on Budget Execution (SF 133). Balances increased primarily as a result of additional funding for fighting terrorism throughout the World. During fiscal year 2002, the Army received supplemental funding from the Emergency Response Fund for $3,842,000 thousand and the Counter-Terrorism & Operational Response Transfer Fund for $47,665 thousand to aid in their efforts. In addition, the Department of the Army received a new treasury appropriation warrant in Fiscal Year 2002 of $194,400 thousand for further recovery from and response to the terrorist attacks on the United States. This recovery and effort increased Army's funding considerably from fiscal year 2001.

Accounting Standard U.S. Standard General Ledger

The Department has not implemented fully the U.S. Standard General Ledger (USSGL) in all operational accounting systems. The Department of the Army uses the Federal Agencies' Centralized Trial Balance System II (FACTS II) to populate their Statement of Budgetary Resources. FACTS II collects pre-closing, adjusted trial balance (ATB) data by U.S. Standard General Ledger (SGL) accounts and SGL attributes for each fund symbol. The SGL accounts reported by FACTS II are budgetary, 4000 series SGL accounts.

Beginning Balance Adjustments

The Department of the Army's beginning balances for Fiscal Year 2002 FACTS II submission were adjusted between reimbursable and direct for Undelivered Orders - Unpaid and Accounts Payable because accounting transactions such as MOCAS accruals and Undistributed, do not include direct or reimbursable codes. The adjustments were prorated in FACTS II with a zero affect to the bottom-line general ledger account to keep the Statement of Budgetary Resources and the Report of Execution (SF 133) in agreement between direct and reimbursable.

Ending Balance Adjustments

The ending balances for Undelivered Orders - Unpaid and Accounts Payable reported in the Statement of Budgetary Resources varied from the FACTS II submission because of the "Elimination process" and the "Data Call" information reported for the Voluntary Early Retirement Authority and the Voluntary Separation Incentive Pay (VERA/VSIP), Unemployment Compensation, Civil Service Retirement System (CSRS) /Federal Employee Retirement System (FERS)/Federal Employee Group Life Insurance (FEGLI) /Federal Employee Health Benefits (FEHB) and Worker's Compensation. The effect of these adjustments on the Army's books amounted to $545,625 thousand for eliminations, $1,033 thousand for VERA/VSIP, $89,210 thousand for Unemployment Compensation, $52,758 thousand for CSRS/FERS/FEGLI/FEHB and $23,984 thousand for Worker's Compensation. In addition, the ending balances for Undelivered Orders - Paid and

Expended Authority reported in the Statement of Budgetary Resources were changed by $36,132 thousand for the elimination process. The accounting adjustments are deemed necessary since the elimination process directs "seller-side rule" which forces the Army to modify their accounting records to agree with the seller's books and the booking of data call information not found in the FACTS II submission. Overall, the adjustments do not affect bottom-line totals.

Other Information Related to the Statement of Budgetary Resources

Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available are not included in the "Spending Authority From Offsetting Collections" line on the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Recoveries" line on the Statement of Financing.

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

As of September 30,
(Amounts in thousands)

	Sep 2000	Sep 2001	Sep 2002	(Decrease)/Increase from 2001 to 2002
1. Total Problem Disbursement				
A. Absolute Unmatched Disbursements	$261,092	$228,878	$160,726	($68,152)
B. Negative Unliquidated Obligations	133,477	34,245	20,985	(13,260)
2. Total In-transit Disbursements, Net	$968,596	$910,960	$710,194	($200,766)

3. Other Information Related to Problem Disbursements and In-transit Disbursements

Fluctuations and /or Abnormalities

Beginning in fiscal year 2002, the presentation for Total Problem Disbursements changed to breakout Unmatched Disbursement (UMDs) and Negative Unliquidated Obligations (NULOs) and report them as absolute value. In previous years, Problem Disbursements displayed as a single "net" total. Due to this change in presentation, the Department of the Army reinstated amounts displayed in fiscal year 2000 and 2001 to represent "absolute value." In addition, the following schedule is included to show further analysis by "net" value.

	Sep 2000	Sep 2001	Sep 2002
		Amounts in Thousands (Net)	
UMDs	$149,897	$111,738	$133,251
NULOs	$133,477	$34,244	$20,985
In-transit	$968,596	$910,960	$710,194

The elimination of both problem and aged in-transit disbursements is a high financial management priority for the Army. The balances represent a financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the ages of the problem disbursements increase. Performance metrics have been established and the Army has exceeded consistently the goals as each entity continues to strive towards minimizing these problems.

Other Information Related to Problem Disbursements and In-transit Disbursement

Relevant Information for Comprehension

Problem Disbursements

Problem disbursements are classified in three major categories - unmatched disbursements (UMDs), negative unliquidated obligations (NULOs) and intransit disbursements. A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. A NULO occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. In-transit disbursements generally represent payments made by a disbursing activity on behalf of an accountable activity that has not attempted to post the disbursement to the accounting system.

For Fiscal Year 2002, the Department of the Army has $160 thousand in aged UMDs, $20 thousand in aged NULOs, and $710 thousand in aged in-transit disbursements that represent disbursements of Department of the Army's funds that have been reported by a disbursing station to the Department of the Treasury, but have yet to be matched precisely against the specific source obligation giving rise to the disbursements.

4. Suspense/Budget Clearing Accounts, Net

	Sep 2000	Sep 2001	Sep 2002	(Decrease)/Increase from 2001 to 2002
F3875	$0	$0	$0	$0
F3880	2,600	1,994	0	(1,994)
F3882	0	0	(739)	(739)
F3885	0	0	0	0
F3886	0	5,162	5,690	528
Total	$2,600	$7,156	$4,951	$(2,205)

5. Other Information Related to Suspense/Budget Clearing Accounts:

Fluctuations and/or Abnormalities

The Department of the Army has made a concerted effort to reduce balances in the suspense and budget/clearing accounts related to disbursements. Additionally, the Department of the Army established policies and procedures to ensure accurate and consistent use of these accounts. The information presented indicates a significant reduction from fiscal year 2001 of $1,994 thousand in the Army's suspense account F3880, Unavailable Check Cancellation.

On 30 September of each fiscal year, most of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts. On 1 October of the following year, the uncleared suspense/clearing account balances are reestablished. The Department of the Army transferred the following accounts to their Operation and Maintenance account (21 2020) for fiscal year 2002:

Account	Amount
Amounts in Thousands	
21 F3875	$56, 091
21 F3880	$4,376
21 F3885	$16,494

In addition, Budget Clearing Accounts such as the Uniformed Service TSP (F3882) and Federal Employees Retirement System (F3886) remain open at fiscal year end.

The Army shows an abnormal Budget Clearing balance in their Uniformed Service account, which means that more money was disbursed (invested) than collected from military service members. The Federal Thrift Retirement Board contracts with the Department of Agriculture National Finance Center (NFC) to manage the disbursements for investment. The Department of the Army is making every effort to reconcile this account and establish a proper audit trail to ensure that variances do not exist between collections and disbursements.

Other Information Related to Suspense Budget Clearing Accounts

Deposit Fund

Deposit fund accounts hold non-government monies for individual statutory authorizations or programs. On 30 September, the Department of the Army's net amount in the deposit fund accounts was ($10,333) thousand. Please refer to Footnote 2, Intragovernmental Assets - Fund Balance with Treasury for further explanation on deposits and suspense/budgetary clearing accounts.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

The statement of financing was expanded to further articulate and detail the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to identify separately and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

"Net Cost of Operations" in the 2001 column of the Statement of Financing shows $75,107,669 thousand, compared to $77,426,083 thousand in the Statement of Net Cost, and the amount reflected on the FY 2001 financial statements. Improper posting of the change in unfunded liability during preparation of the FY 2001 financial statements created a $2,250,468 thousand difference. Incorrectly posting the change in FY 2001 of the actuarial liability contributed $72,124 thousand to the difference. The remaining $-4,178 thousand difference was caused by other account mapping differences.

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. A $1,876,534 thousand correcting entry was made to "Revaluation of assets or liabilities" to bring the Statement of Financing into balance with the Statement of Net Cost. Differences between budgetary and proprietary data for the Army are a previously identified deficiency.

Intra-entity transactions have not been eliminated because the statements are presented as combined and combining.

Note 23. Disclosures Related to the Statement of Custodial Activity

Disclosures Related to the Statement of Custodial Activity:

Not Applicable

Note 24.A. Other Disclosures

1. ENTITY AS LESSEE-Operating Leases

A. Description of lease arrangements:

Other Information Related to Entity as Lessee - Operating Leases

Relevant Information for Comprehension

- **Description** - Operating lease amounts are for Section 801 Family Housing.
- **Lease Period** - The lease periods vary.
- **Lease Terms** - Leases are not expected to be renewed at the end of the lease term. There are no material escalation clauses or contingent rental restrictions.

Other Information

Definitions

Lessee - A person or entity that receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease - A lease that does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

As of September 30,
(Amounts in thousands)

B. Future Payments Due: Fiscal Year	2002 Category 1	2002 Asset Category 2	2002 Asset Category 3	2002 Asset Total	2001 Total
2003	$0	$8,917	$0	$8,917	$13,695
2004	0	7,610	0	7,610	11,186
2005	0	6,613	0	6,613	8,917
2006	0	6,303	0	6,303	7,610
2007	0	6,298	0	6,298	6,613
After 5 Years	0	24,910	0	24,910	37,509
Total Future Lease Payments Due	$0	$60,651	$0	$60,651	$85,530

2. ENTITY AS LESSOR:

A. Capital Leases:

1. Description of lease arrangements:

As of September 30,
(Amounts in thousands)

2. Future Projected Receipts, Capital Leases	2002				2001
	Category 1	Asset **Category 2**	Asset **Category 3**	Asset **Total**	**Total**
Fiscal Year					
2003	$0	$0	$0	$0	$0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
2007	0	0	0	0	0
After 5 Years	0	0	0	0	0
Total Future Capital Lease Receivables	$0	$0	$0	$0	$0

B. Operating Leases:

1. Description of lease arrangements:

As of September 30,
(Amounts in thousands)

2. Future Projected Receipts:	2002				2001
	Category 1	Asset **Category 2**	Asset **Category 3**	Asset **Total**	**Total**
Fiscal Year					
2003	$0	$0	$0	$0	$0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
2007	0	0	0	0	0
After 5 Years	0	0	0	0	0
Total Future Operating Lease Receivables	$0	$0	$0	$0	$0

Note 24.B. Other Disclosures

Not Applicable

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Active Army	Army Reserve	Army National Guard	Combined Total
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$35,589,866	$1,346,258	$2,574,399	$39,510,523
2. Investments (Note 4)	5,240	0	0	5,240
3. Accounts Receivable (Note 5)	423,834	17,103	60,749	501,686
4. Other Assets (Note 6)	207,289	848	982	209,119
5. Total Intragovernmental Assets	$36,226,229	$1,364,209	$2,636,130	$40,226,568
B. Cash and Other Monetary Assets (Note 7)	$301,747	$0	$0	$301,747
C. Accounts Receivable (Note 5)	512,502	19,273	36,313	568,088
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	27,259,422	0	0	27,259,422
F. General Property, Plant and Equipment (Note 10)	16,872,144	1,206,710	621,772	18,700,626
	3,458,037	4,178	120,581	3,582,796
G. Other Assets (Note 6)				
	$84,630,081	$2,594,370	$3,414,796	$90,639,247
2. TOTAL ASSETS				
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$715,168	$27,003	$81,463	$823,634
2. Debt (Note 13)	157	0	0	157
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Notes 15 and 16)	824,437	8,562	43,410	876,409
5. Total Intragovernmental Liabilities	$1,539,762	$35,565	$124,873	$1,700,200
B. Accounts Payable (Note 12)	$5,275,478	$362,541	$329,159	$5,967,178
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,312,467	52,147	259,943	1,624,557
D. Environmental Liabilities (Note 14)	35,078,280	0	0	35,078,280
E. Loan Guarantee Liability (Note 8)	730	0	0	730
F. Other Liabilities (Notes 15 and 16)	8,347,691	205,691	455,362	9,008,744
4. TOTAL LIABILITIES	$51,554,408	$655,944	$1,169,337	$53,379,689
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$28,543,070	$683,764	$2,241,887	$31,468,721
B. Cumulative Results of Operations	4,532,603	1,254,662	3,572	5,790,837
6. TOTAL NET POSITION	$33,075,673	$1,938,426	$2,245,459	$37,259,558
7. TOTAL LIABILITIES AND NET POSITION	$84,630,081	$2,594,370	$3,414,796	$90,639,247

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Eliminations	FY 2002 Consolidated	FY 2001 Consolidated	Restated FY 2001Consolidated
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$0	$39,510,523	$37,351,036	$37,351,036
2. Investments (Note 4)	0	5,240	3,193	$37,351,036
3. Accounts Receivable (Note 5)	49,089	452,597	727,509	3,193
4. Other Assets (Note 6)	5	209,114	61,560	727,509
5. Total Intragovernmental Assets	$49,094	$40,177,474	$38,143,298	61,560
B. Cash and Other Monetary Assets	$0	$301,747	$168,401	$38,143,298
(Note 7)				
C. Accounts Receivable (Note 5)	0	568,088	362,702	$168,401
D. Loans Receivable (Note 8)	0	0	0	362,702
E. Inventory and Related Property (Note 9)	0	27,259,422	34,543,535	0
F. General Property, Plant and Equipment	0	18,700,626	17,621,538	27,429,322
(Note 10)				17,621,538
G. Other Assets (Note 6)	0	3,582,796	3,726,647	3,726,647
2. TOTAL ASSETS	$49,094	$90,590,153	$94,566,121	$87,451,908
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$49,089	$774,545	$874,432	$874,432
2. Debt (Note 13)	0	157	108	108
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Notes 15 and 16)	5	876,404	658,664	658,664
5. Total Intragovernmental Liabilities	$49,094	$1,651,106	$1,533,204	$1,533,204
B. Accounts Payable (Note 12)	$0	$5,967,178	$6,698,778	$6,698,778
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	1,624,557	1,646,526	1,646,526
D. Environmental Liabilities (Note 14)	0	35,078,280	40,071,084	40,071,084
E. Loan Guarantee Liability (Note 8)	0	730	0	0
F. Other Liabilities (Notes 15 and 16)	0	9,008,744	6,944,358	6,944,358
4. TOTAL LIABILITIES	$49,094	$53,330,595	$56,893,950	$56,893,950
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$0	$31,468,721	$28,895,571	$28,895,571
B. Cumulative Results of Operations	-	5,790,837	8,776,600	1,662,387
6. TOTAL NET POSITION	$0	$37,259,558	$37,672,171	$30,557,958
7. TOTAL LIABILITIES AND NET POSITION	$49,094	$90,590,153	$94,566,121	$87,451,908

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Active Army	Army Reserve	Army National Guard
1. Program Costs			
A. Military Personnel			
1. Intragovernmental Gross Costs	$4,967,982	$379,041	$565,466
2. (Less: Intragovernmental Earned Revenue)	(91,890)	(19,387)	(29,667)
3. Intragovernmental Net Costs	$4,876,092	$359,654	$535,799
4. Gross Costs With the Public	$20,688,735	$2,135,154	$3,756,856
5. (Less: Earned Revenue From the Public)	(19,381)	823	(723)
6. Net Costs With the Public	$20,669,354	$2,135,977	$3,756,133
7. Total Net Cost	$25,545,446	$2,495,631	$4,291,932
B. Operation and Maintenance			
1. Intragovernmental Gross Costs	$11,098,932	$494,660	$574,548
2. (Less: Intragovernmental Earned Revenue)	(3,135,132)	(44,434)	(96,423)
3. Intragovernmental Net Costs	$7,963,800	$450,226	$478,125
4. Gross Costs With the Public	$14,395,436	$1,246,563	$3,171,805
5. (Less: Earned Revenue From the Public)	(638,103)	(2,909)	(9,516)
6. Net Costs With the Public	$13,757,333	$1,243,654	$3,162,289
7. Total Net Cost	$21,721,133	$1,693,880	$3,640,414
C. Procurement			
1. Intragovernmental Gross Costs	$764,156	$0	$0
2. (Less: Intragovernmental Earned Revenue)	(427,714)	0	0
3. Intragovernmental Net Costs	$336,442	$0	$0
4. Gross Costs With the Public	$10,981,576	$0	$0
5. (Less: Earned Revenue From the Public)	(25,271)	0	0
6. Net Costs With the Public	$10,956,305	$0	$0
7. Total Net Cost	$11,292,747	$0	$0
D. Research, Development, Test & Evaluation			
1. Intragovernmental Gross Costs	$221,620	$0	$0
2. (Less: Intragovernmental Earned Revenue)	(905,828)	0	0
3. Intragovernmental Net Costs	($684,208)	$0	$0
4. Gross Costs With the Public	$7,292,395	$0	$0
5. (Less: Earned Revenue From the Public)	(126,198)	0	0
6. Net Costs With the Public	$7,166,197	$0	$0
7. Total Net Cost	$6,481,989	$0	$0
E. Military Construction/Family Housing			
1. Intragovernmental Gross Costs	$18,807	$4,278	$2,245
2. (Less: Intragovernmental Earned Revenue)	(1,067,330)	0	0
3. Intragovernmental Net Costs	($1,048,523)	$4,278	$2,245
4. Gross Costs With the Public	$2,787,731	$41,319	$164,565
5. (Less: Earned Revenue From the Public)	(175,714)	0	0
6. Net Costs With the Public	$2,612,017	$41,319	$164,565
7. Total Net Cost	$1,563,494	$45,597	$166,810

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Active Army	Army Reserve	Army National Guard
F. Other			
1. Intragovernmental Gross Costs	$259,584	$0	$0
2. (Less: Intragovernmental Earned Revenue)	(22,411)	0	0
3. Intragovernmental Net Costs	$237,173	$0	$0
4. Gross Costs With the Public	$631,179	$0	$0
5. (Less: Earned Revenue From the Public)	212,284	0	0
6. Net Costs With the Public	$843,463	$0	$0
7. Total Net Cost	$1,080,636	$0	$0
G. Total Program Costs			
1. Intragovernmental Gross Costs	$17,331,081	$877,979	$1,142,259
2. (Less: Intragovernmental Earned Revenue)	(5,650,305)	(63,821)	(126,090)
3. Intragovernmental Net Costs	$11,680,776	$814,158	$1,016,169
4. Gross Costs With the Public	$56,777,052	$3,423,036	$7,093,226
5. (Less: Earned Revenue From the Public)	(772,383)	(2,086)	($10,239)
6. Net Costs With the Public	$56,004,669	$3,420,950	$7,082,987
7. Total Net Cost	$67,685,445	$4,235,108	$8,099,156
2. Cost Not Assigned to Programs	$0	$0	$0
3. (Less:Earned Revenue Not Attributable to Programs)	0	0	0
4. Net Cost of Operations	$67,685,445	$4,235,108	$8,099,156

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Combined Total	Eliminations	FY 2002	FY 2001
1. Program Costs				
A. Military Personnel				
1. Intrag-overnmental Gross Costs	$5,912,489	($31,544)	$5,944,033	$5,110,569
2. (Less: Intragovernmental Earned Revenue)	(140,944)	29,591	(170,535)	(70,982)
3. Intragovernmental Net Costs	$5,771,545	($1,953)	$5,773,498	$5,039,587
4. Gross Costs With the Public	$26,580,745	$0	$26,580,745	$23,783,686
5. (Less: Earned Revenue From the Public)	(19,281)	0	(19,281)	(38,166)
6. Net Costs With the Public	$26,561,464	$0	$26,561,464	$23,745,520
7. Total Net Cost	$32,333,009	($1,953)	$32,334,962	$28,785,107
B. Operation and Maintenance				
1. Intragovernmental Gross Costs	$12,168,140	$328,295	$11,839,845	$5,490,066
2. (Less: Intragovernmental Earned Revenue)	(3,275,989)	(273,239)	(3,002,750)	(2,428,730)
3. Intragovernmental Net Costs	$8,892,151	$55,056	$8,837,095	$3,061,336
4. Gross Costs With the Public	$18,813,804	$0	$18,813,804	$27,115,225
5. (Less: Earned Revenue From the Public)	(650,528)	0	(650,528)	(636,042)
6. Net Costs With the Public	$18,163,276	$0	$18,163,276	$26,479,183
7. Total Net Cost	$27,055,427	$55,056	$27,000,371	$29,540,519
C. Procurement				
1. Intragovernmental Gross Costs	$764,156	$4,676	$759,480	$221,260
2. (Less: Intragovernmental Earned Revenue)	(427,714)	(162)	(427,552)	(342,183)
3. Intragovernmental Net Costs	$336,442	$4,514	$331,928	($120,923)
4. Gross Costs With the Public	$10,981,576	$0	$10,981,576	$11,428,009
5. (Less: Earned Revenue From the Public)	(25,271)	0	(25,271)	(79,034)
6. Net Costs With the Public	$10,956,305	0	$10,956,305	$11,348,975
7. Total Net Cost	$11,292,747	$4,514	$11,288,233	$11,228,052
D. Research, Development, Test & Evaluation				
1. Intragovernmental Gross Costs	$221,620	$3,071	$218,549	$91,224
2. (Less: Intragovernmental Earned Revenue)	(905,828)	(7,913)	(897,915)	(1,636,206)
3. Intragovernmental Net Costs	($684,208)	($4,842)	($679,366)	($1,544,982)
4. Gross Costs With the Public	$7,292,395	$0	$7,292,395	$7,367,211
5. (Less: Earned Revenue From the Public)	(126,198)	0	(126,198)	(107,598)
6. Net Costs With the Public	$7,166,197	$0	$7,166,197	$7,259,613
7. Total Net Cost	$6,481,989	($4,842)	$6,486,831	$5,714,631

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Combined Total	Eliminations	FY 2002	FY 2001
E. Military Construction/Family Housing				
1. Intragovernmental Gross Costs	$25,330	$4,524	$20,806	$1,957,834
2. (Less: Intragovernmental Earned Revenue)	(1,067,330)	(57,299)	(1,010,031)	(798,350)
3. Intragovernmental Net Costs	($1,042,000)	($52,775)	($989,225)	$1,159,484
4. Gross Costs With the Public	$2,993,615	$0	$2,993,615	$295,951
5. (Less: Earned Revenue From the Public)	(175,714)	0	(175,714)	(132,504)
6. Net Costs With the Public	$2,817,901	$0	$2,817,901	$163,447
7. Total Net Cost	$1,775,901	($52,775)	$1,828,676	$1,322,931
F. Other				
1. Intragovernmental Gross Costs	$259,584	$0	$259,584	$582,171
2. (Less: Intragovernmental Earned Revenue)	(22,411)	0	(22,411)	(33,659)
3. Intragovernmental Net Costs	$237,173	$0	$237,173	$548,512
4. Gross Costs With the Public	$631,179	$0	$631,179	$321,852
5. (Less: Earned Revenue From the Public)	212,284	0	212,284	(35,521)
6. Net Costs With the Public	$843,463	$0	$843,463	$286,331
7. Total Net Cost	$1,080,636	$0	$1,080,636	$834,843
G. Total Program Costs				
1. Intragovernmental Gross Costs	$19,351,319	$309,022	$19,042,297	$13,453,124
2. (Less: Intragovernmental Earned Revenue)	(5,840,216)	(309,022)	(5,531,194)	(5,310,110)
3. Intragovernmental Net Costs	$13,511,103	$0	$13,511,103	$8,143,014
4. Gross Costs With the Public	$67,293,314	$0	$67,293,314	$70,311,934
5. (Less: Earned Revenue From the Public)	(784,708)	0	(784,708)	(1,028,865)
6. Net Costs With the Public	$66,508,606	$0	$66,508,606	$69,283,069
7. Total Net Cost	$80,019,709	$0	$80,019,709	$77,426,083
2. Cost Not Assigned to Programs	$0	$0	$0	$0
3. (Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
4. Net Cost of Operations	$80,019,709	$0	$80,019,709	$77,426,083

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Active Army Cumulative Results of Operations	Active Army Unexpended Appropriations	Army Reserve Cumulative Results of Operations	Army Reserve Unexpended Appropriations
Beginning Balances	$7,839,828	$26,353,479	$960,606	$609,947
Prior period adjustments (+/-)	(7,114,213)	0	0	0
Beginning Balances, as adjusted	$725,615	$26,353,479	$960,606	$609,947
Budgetary Financing Sources:				
Appropriations received	0	67,592,802	0	4,581,360
Appropriations transferred-in/out (+/-)	0	4,606,408	0	25,513
Other adjustments (rescissions, etc) (+/-)	0	(114,845)	0	0
Appropriations used	69,894,774	(69,894,774)	4,533,056	(4,533,056)
Nonexchange revenue	205,583	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	742,113	0	(3,828)	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(38,295)	0	(64)	0
Imputed financing from costs absorbed by others	688,259	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$71,492,434	$2,189,591	$4,529,164	$73,817
Net Cost of Operations (+/-)	67,685,445	0	4,235,108	0
Ending Balances	$4,532,604	$28,543,070	$1,254,662	$683,764

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Army National Guard Cumulative Results of Operations	Army National Guard Unexpended Appropriations	Combined Total Cumulative Results of Operations	Combined Total Unexpended Appropriations
Beginning Balances	($23,834)	$1,932,145	$8,776,600	$28,895,571
Prior period adjustments (+/-)	0	0	(7,114,213)	0
Beginning Balances, as adjusted	($23,834)	$1,932,145	$1,662,387	$28,895,571
Budgetary Financing Sources:				
Appropriations received	0	8,164,266	0	80,338,428
Appropriations transferred-in/out (+/-)	0	271,587	0	4,903,508
Other adjustments (rescissions, etc) (+/-)	0	0	0	(114,845)
Appropriations used	8,126,111	(8,126,111)	82,553,941	(82,553,941)
Nonexchange revenue	0	0	205,583	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	5,246	0	743,531	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(4,796)	0	(43,155)	0
Imputed financing from costs absorbed by others	0	0	688,259	0
Other (+/-)	0	0	0	0
Total Financing Sources	$8,126,561	$309,742	$84,148,159	$2,573,150
Net Cost of Operations (+/-)	8,099,156	0	80,019,709	0
Ending Balances	$3,571	$2,241,887	$5,790,837	$31,468,721

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Eliminations	FY 2002 Consolidated Cumulative Results of Operations	FY 2002 Consolidated Unexpended Appropriations
Beginning Balances	$0	$8,776,600	$28,895,571
Prior period adjustments (+/-)	0	(7,114,213)	0
Beginning Balances, as adjusted	$0	$1,662,387	$28,895,571
Budgetary Financing Sources:			
Appropriations received	0	0	80,338,428
Appropriations transferred-in/out (+/-)	0	0	4,903,508
Other adjustments (rescissions, etc) (+/-)	0	0	(114,845)
Appropriations used	0	82,553,941	(82,553,941)
Nonexchange revenue	0	205,583	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	743,531	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	(43,155)	0
Imputed financing from costs absorbed by others	0	688,259	0
Other (+/-)	0	0	0
Total Financing Sources	$0	$84,148,159	$2,573,150
Net Cost of Operations (+/-)	0	80,019,709	0
Ending Balances	$0	$5,790,837	$31,468,721

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	FY 2001 Consolidated Cumulative Results of Operations	FY 2001 Consolidated Unexpended Appropriations	FY 2001 Restated Consolidated Cumulative Results of Operations	FY 2001 Restated Consolidated Unexpended Appropriations
Beginning Balances	$628,191	$25,887,329	$628,191	$25,887,329
Prior period adjustments (+/-)	(6,556,243)	0	(13,670,456)	0
Beginning Balances, as adjusted	($5,928,052)	$25,887,329	($13,042,265)	$25,887,329
Budgetary Financing Sources:				
Appropriations received	0	3,008,242	0	3,008,242
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	73,855,867	0	73,855,867	0
Nonexchange revenue	209,595	0	209,595	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	17,161,699	0	17,161,699	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	161,985	0	161,985	0
Imputed financing from costs absorbed by others	741,589	0	741,589	0
Other (+/-)	0	0	0	0
Total Financing Sources	$92,130,735	$3,008,242	$92,130,735	$3,008,242
Net Cost of Operations (+/-)	77,426,083	0	77,426,083	0
Ending Balances	$8,776,600	$28,895,571	$1,662,387	$28,895,571

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		Active Army Budgetary	Active Army Non-Budgetary Credit Program Financing Accounts	Army Reserve Budgetary	Army Reserve Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:					
A.	Budget Authority:				
	Appropriations received	$68,250,796	$0	$4,607,062	$0
	Borrowing authority	0	0	0	0
	Contract authority	0	0	0	0
	Net transfers (+/-)	4,993,499	0	25,513	0
	Other	0	0	0	0
B.	Unobligated balance:				
	Beginning of period	4,951,901	691	170,289	0
	Net transfers, actual (+/-)	394,593	0	0	0
	Anticipated Transfers Balances	0	0	0	0
C.	Spending authority from offsetting collections:				
	Earned				
	Collected	11,786,245	39	68,436	0
	Receivable from Federal sources	(163,751)	0	(293)	0
	Change in unfilled customer orders				
	Advance received	87,072	0	50	0
	Without advance from Federal sources	1,117,961	0	4,567	0
	Anticipated for the rest of year, without advances	0	0	0	0
	Transfers from trust funds	0	0	0	0
	Subtotal	$12,827,527	$39	$72,760	$0
D.	Recoveries of prior year obligations	7,123,438	0	423,674	0
E.	Temporarily not available pursuant to Public Law	0	0	0	0
F	Permanently not available	(1,361,042)	0	(69,749)	0
G	Total Budgetary Resources	$97,180,712	$730	$5,229,549	$0
Status of Budgetary Resources:					
H.	Obligations incurred:				
	Direct	$77,734,700	$0	$4,974,362	$0
	Reimbursable	14,387,306	0	79,968	0
	Subtotal	92,122,006	0	5,054,330	0
I.	Unobligated balance:				
	Apportioned	4,448,253	730	41,739	0
	Exempt from apportionment	0	0	0	0
	Other available	1	0	0	0
J.	Unobligated Balances Not Available	610,452	0	133,480	0
K.	Total, Status of Budgetary Resources	$97,180,712	$730	$5,229,549	$0
Relationship of Obligations to Outlays:					
L.	Obligated Balance, Net - beginning of period	$28,889,558	$0	$1,014,143	$0
M.	Obligated Balance transferred, net (+/-)	0	0	0	0
N.	Obligated Balance, Net - end of period:				
	Accounts receivable	(1,359,126)	0	(19,451)	0
	Unfilled customer order from Federal sources	(7,097,227)	0	(10,987)	0
	Undelivered orders	28,625,607	0	509,651	0
	Accounts payable	10,371,762	0	691,826	0
O.	Outlays:				
	Disbursements	82,392,899	0	4,469,487	0
	Collections	(11,873,317)	(39)	(68,486)	0
	Subtotal	$70,519,582	($39)	$4,401,001	$0
P.	Less: Offsetting receipts	(184,839)	0	0	0
Q.	Net Outlays	$70,334,743	($39)	$4,401,001	$0

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		Army National Guard Budgetary	Army National Guard Non-Budgetary Credit Program Financing Accounts	2002 Combined Budgetary
Budgetary Resources:				
A.	Budget Authority:			
	Appropriations received	$8,209,418	$0	$81,067,276
	Borrowing authority	0	0	0
	Contract authority	0	0	0
	Net transfers (+/-)	271,587	0	5,290,599
	Other	0	0	0
B.	Unobligated balance:			
	Beginning of period	579,599	0	5,701,789
	Net transfers, actual (+/-)	14,377	0	408,970
	Anticipated Transfers Balances	0	0	0
C.	Spending authority from offsetting collections:			
	Earned			
	Collected	157,921	0	12,012,602
	Receivable from Federal sources	17,722	0	(146,322)
	Change in unfilled customer orders			
	Advance received	(3)	0	87,119
	Without advance from Federal sources	42,257	0	1,164,785
	Anticipated for the rest of year, without advances	0	0	0
	Transfers from trust funds	0	0	0
	Subtotal	217,897	0	13,118,184
D.	Recoveries of prior year obligations	740,256	0	8,287,368
E.	Temporarily not available pursuant to Public Law	0	0	0
F	Permanently not available	(138,388)	0	(1,569,179)
G	Total Budgetary Resources	$9,894,746	$0	$112,305,007
Status of Budgetary Resources:				
H.	Obligations incurred:			
	Direct	$9,022,801	$0	$91,731,863
	Reimbursable	247,757	0	14,715,031
	Subtotal	9,270,558	0	106,446,894
I.	Unobligated balance:			
	Apportioned	298,486	0	4,788,478
	Exempt from apportionment	0	0	0
	Other available	1	0	2
J.	Unobligated Balances Not Available	325,701	0	1,069,633
K.	Total, Status of Budgetary Resources	$9,894,746	$0	$112,305,007
Relationship of Obligations to Outlays:				
L.	Obligated Balance, Net - beginning of period	1,722,861	0	31,626,562
M.	Obligated Balance transferred, net (+/-)	0	0	0
N.	Obligated Balance, Net - end of period:			
	Accounts receivable	(89,154)	0	(1,467,731)
	Unfilled customer order from Federal sources	(52,788)	0	(7,161,002)
	Undelivered orders	1,476,085	0	30,611,343
	Accounts payable	616,069	0	11,679,657
O.	Outlays:			
	Disbursements	8,242,973	0	95,105,359
	Collections	(157,918)	0	(12,099,721)
	Subtotal	$8,085,055	$0	$83,005,638
P.	Less: Offsetting receipts	0	0	(184,839)
Q.	Net Outlays	$8,085,055	$0	$82,820,799

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		FY 2002 Combined Non-Budgetary Credit Program Financing Accounts	2001 Combined Budgetary	FY 2001 Combined Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
A.	Budget Authority:			
	Appropriations received	$0	$74,232,106	$0
	Borrowing authority	0	0	0
	Contract authority	0	0	0
	Net transfers (+/-)	0	2,112,116	0
	Other	0	0	0
B.	Unobligated balance:			
	Beginning of period	691	5,970,023	0
	Net transfers, actual (+/-)	0	869,646	0
	Anticipated Transfers Balances	0	0	0
C.	Spending authority from offsetting collections:			
	Earned			
	Collected	39	11,631,079	0
	Receivable from Federal sources	0	(125,384)	0
	Change in unfilled customer orders			
	Advance received	0	(106,160)	0
	Without advance from Federal sources	0	(183,369)	0
	Anticipated for the rest of year, without advances	0	0	0
	Transfers from trust funds	0	0	0
	Subtotal	$39	$11,216,166	$0
D.	Recoveries of prior year obligations	0	10,706,763	0
E.	Temporarily not available pursuant to Public Law	0	0	0
F	Permanently not available	0	(1,039,579)	0
G	Total Budgetary Resources	$730	$104,067,241	$0
Status of Budgetary Resources:				
H.	Obligations incurred:			
	Direct	$0	$84,262,609	$0
	Reimbursable	0	14,102,151	0
	Subtotal	$0	$98,364,760	$0
I.	Unobligated balance:			
	Apportioned	730	4,494,010	0
	Exempt from apportionment	0	0	0
	Other available	730	1	0
J.	Unobligated Balances Not Available	0	1,208,470	0
K.	Total, Status of Budgetary Resources	$1,460	$104,067,241	$0
Relationship of Obligations to Outlays:				
L.	Obligated Balance, Net - beginning of period	$0	$28,485,816	$0
M.	Obligated Balance transferred, net (+/-)	0	0	0
N.	Obligated Balance, Net - end of period:			
	Accounts receivable	0	(1,614,053)	0
	Unfilled customer order from Federal sources	0	(5,996,218)	0
	Undelivered orders	0	28,696,740	0
	Accounts payable	0	10,540,092	0
O.	Outlays:			
	Disbursements	0	84,826,003	0
	Collections	(39)	(11,524,919)	0
	Subtotal	($39)	$73,301,084	$0
P.	Less: Offsetting receipts	0	0	0
Q.	Net Outlays	($39)	$73,301,084	$0

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	Active Army	Army Reserve	Army National Guard
Budgetary Resources Obligated			
1. Obligations incurred	$92,122,006	$5,054,330	$9,270,558
2. Less: Spending authority from offsetting collections and recoveries (-)	(19,951,004)	(496,434)	(958,153)
3. Obligations net of offsetting collections and recoveries	$72,171,002	$4,557,896	$8,312,405
4. Less: Offsetting receipts (-)	(184,839)	0	0
5. Net obligations	$71,986,163	$4,557,896	$8,312,405
Other Resources			
6. Donations and forfeitures of property	0	0	0
7. Transfers in/out without reimbursement (+/-)	0	0	0
8. Imputed financing from costs absorbed by others	688,259	0	0
9. Other (+/-)	0	0	0
10. Net other resources used to finance activities	$688,259	$0	$0
11. Total resources used to finance activities	$72,674,422	$4,557,896	$8,312,405
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	(1,836,682)	(65,030)	(237,176)
Unfilled Customer Orders	1,205,033	4,617	42,254
13. Resources that fund expenses recognized in prior periods	(5,656,730)	(15)	0
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0
15. Resources that finance the acquisition of assets	(41,072)	(111,167)	0
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
17. Total resources used to finance items not part of the net cost of operations	($6,329,451)	($171,595)	($194,922)
18. Total resources used to finance the net cost of operations	$66,344,971	$4,386,301	$8,117,483

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Active Army	Army Reserve	Army National Guard
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	$250,513	$10,221	$15,985
20. Increase in environmental and disposal liability	0	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0	0
23. Other (+/-)	$1,439,747	$7,321	$39,790
24. Total components of Net Cost of Operations that will require or generate resources in future periods	1,690,260	17,542	55,775
Components not Requiring or Generating Resources:			
25. Depreciation and amortization	556,357	21,666	18,756
26. Revaluation of assets or liabilities (+/-)	(1,510,031)	(190,403)	(92,859)
27. Other (+/-)	603,891	0	0
28. Total components of Net Cost of Operations that will not require or generate resources	($349,783)	($168,737)	($74,103)
29. Total components of net cost of operations that will not require or generate resources in the current period	$1,340,477	($151,195)	($18,328)
30. Net Cost of Operations	$67,685,448	$4,235,106	$8,099,155

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	2002 Combined	2001 Combined
Budgetary Resources Obligated		
1. Obligations incurred	$106,446,894	$98,364,761
2. Less: Spending authority from offsetting collections and recoveries (-)	(21,405,591)	(21,922,930)
3. Obligations net of offsetting collections and recoveries	$85,041,303	$76,441,831
4. Less: Offsetting receipts (-)	(184,839)	0
5. Net obligations	$84,856,464	$76,441,831
Other Resources		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	0	0
8. Imputed financing from costs absorbed by others	688,259	741,589
9. Other (+/-)	0	0
10. Net other resources used to finance activities	$ 688,259	$741,589
11. Total resources used to finance activities	$85,544,723	$77,183,420
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	(2,138,888)	(1,693,599)
Unfilled Customer Orders	1,251,904	(289,528)
13. Resources that fund expenses recognized in prior periods	(5,656,745)	(103,514)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
15. Resources that finance the acquisition of assets	(152,239)	(3,730,946)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	0	0
17. Total resources used to finance items not part of the net cost of operations	($6,695,968)	($5,817,587)
18. Total resources used to finance the net cost of operations	$78,848,755	$71,365,833

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**2002 Combined**	**2001 Combined**
Components Requiring or Generating Resources in Future Periods:		
19. Increase in annual leave liability	$276,719	$0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	$1,486,858	$2,961,119
24. Total components of Net Cost of Operations that will require or generate resources in future periods	1,763,577	2,961,119
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	596,779	782,618
26. Revaluation of assets or liabilities (+/-)	(1,793,293)	0
27. Other (+/-)	603,891	(1,901)
28. Total components of Net Cost of Operations that will not require or generate resources	($592,623)	$780,717
29. Total components of net cost of operations that will not require or generate resources in the current period	$1,170,954	$3,741,836
30. Net Cost of Operations	$80,019,709	$75,107,669

The accompanying notes are an integral part of these statements.

NATIONAL DEFENSE PLANT, PROPERTY, AND EQUIPMENT

The Federal Accounting Standards Advisory Board (FASAB) amended the Statement of Federal Financial Accounting Standard No. 6 to require the capitalization and depreciation of military equipment (formerly known as National Defense Property, Plant and Equipment) for fiscal years (FY) 2003 and beyond, and encouraged early implementation. Accordingly, the Department began the process of developing and reporting values for these assets in notes to the Balance Sheet, beginning in FY 2002.

HERITAGE ASSETS

For Fiscal Year Ended September 30, 2002

(a)	(b)	(c)	(d)	(e)	(f)
	Measure-ment/Quantity	As Of10/01/01	Additions	Deletions	As Of9/30/02
Museums (Note 4)	Each	217	15	11	221
Monuments & Memorials (Note 5)	Each	655	198	23	830
Cemeteries (Note 6)	Sites	521	18	9	530
Buildings (Note 2)	Each	5,687	119	128	5,678
Structures (Note 3)	Each	87	1	10	78
Major Collections (Note 8)	Each	6	0	0	6

Narrative Statement:

In most cases, the additions/deletions are a result of installations defining cemeteries and historical facilities located on their installations as a result of CFO audits. Some deletions are a result of disposing of BRAC'd property.

Notes:

1. Includes government-owned (ownership code (OC) 1), in-leases (OC2 and 6), military permits (OC4), other permits (OC3), NATO (OC5), and agreements (OC7).
2. Historical Buildings: buildings designated as historical (excludes museums).
3. Historical Structures: structures designated as historical; excludes monuments and memorials.
4. Museums: includes category code 76010.
5. Memorial/Monuments: only Monuments and Memorials are included (76020).
6. Cemeteries: includes category code 76030.
7. Exclusions/Inclusions: With the exception of Active Historical Buildings and Structures, Heritage Assets are excluded from the General PP&E Report.
8. The U.S. Army Tank-automotive & Armaments Command is reporting two (2) major collections under the Donation Program; Ceremonial Rifles and Monuments/Static. The U.S. Army Center of Military History is the proponent for all Army Historical property. Currently, there are four (4) major or significant collections that are maintained outside the definition of an Army museum and museum activity. The

collections consist of the U.S. Army Center of Military History, Museum Division, Collections Branch, the Anniston Historical Clearinghouse, and the Maple Leaf and Benton Small Arms collections. The general condition of the historical collection is stable. Multi-year conservation contracts have been let with certified conservators, who are members in good standing with the American Institute of Conservators. The ongoing effort ensures that the historical collection is preserved in accordance with statutory requirements, Army regulations, and professional museum standards, and is interpreted in the interest of history, the U.S. Army, and the American people. Furthermore, the historical collection actively supports training and development, and serves as a bridge for common interest between the military and civilian communities.

STEWARDSHIP LAND

For Fiscal Year Ended September 30, 2002
(Thousand Acres)

(a)	(b)	(c)	(d	(e)
	As Of 10/01/01	Additions	As Of Deletions	Land Use 09/30/02
1. Mission (Note 1)	7,089.6	37.6	129.0	6,998.2
2. Parks & Historic Sites (Note 2)	.9	.02	.002	.91

Narrative Statement:

Additions/deletions are the result of: (a) acquiring additional land through donation or withdrawal from public domain; (b) identification of missing land records; and, (c) disposal of BRAC'd property.

Notes:

1. Mission Land: includes the following category codes: 91120, 91131, 91141, 91210, 91310, 91320, 91330, 91410, 92111, 92121, 92131, and 92190. These category codes represent land that was not purchased, but was donated or withdrawn from public domain.

2. Parks/Historic Sites: Includes all cemeteries (category code 76030). Unable to determine if cemeteries are purchased, donated or transferred property. This value could be double reported within Mission Related, therefore, this report should not be totaled.

NON-FEDERAL PHYSICAL PROPERTY

Yearly Investment in State and Local Governments
For Fiscal Years FY 1998 through FY 2002
(In Millions of Dollars)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**	**FY2002**
Transferred Assets:					
1. National Defense Mission Related	$34.4	$20.2	$4.7	$94.8	$7.4
Total					
Funded Assets:					
1. National Defense Mission Related	0	0	0	0	0
2. Environmental Improvement	0	0	0	0	0
3. Base Closure and Realignment	0	0	0	0	0
4. Other	0	0	0	0	0
Grand Total	$34.4	$20.2	$4.7	$94.8	$7.4

Narrative Statement:

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

Notes:

1. Investment values included in this report are based on outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the accounting standards.

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

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

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

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development
For Fiscal Years FY 1998 through FY 2002
(In Millions of Dollars)

(a) Categories	(b) FY 1998	(c) FY 1999	(d) FY 2000	(e) FY 2001	(f) FY 2002
1. Basic Research	178.3	175.4	187.1	209.2	206.4
2. Applied Research	540.2	574.3	677.6	806.6	864.13
3. Development:Advanced Technology Development	635.8	685.8	701.2	821.9	863.1
Demonstration and Validation	515.5	498.6	476.5	622.6	897.7
Engineering and Manufacturing Development	1,094.5	1,221.1	1,326.4	1,653.0	1,954.9
Research, Development, Test and Evaluation Management Support	1,171.5	1,192.9	961.9	888.8	880.9
Operational Systems Development	657.2	656.2	605.4	849.3	970.4
Total	$4,792.9	$5,004.2	$4,936.1	$5,851.3	$6,637.5

NARRATIVE STATEMENT:

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

Basic Research:

Defense Research Sciences: This program sustains scientific and technological superiority in U.S. Army land war fighting capability, providing new concepts and technologies for the Army's Objective Force, the means to exploit scientific breakthroughs and avoid technological surprise. This program responds to the scientific and technological requirements of the Department of Defense Basic Research Plan, the Army Science and Technology Master Plan, and the Army Modernization Plan, enabling technologies that can improve significantly joint war fighting capabilities. The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to transition expeditiously knowledge and technology into the appropriate developmental activities. The program leverages the research efforts of other government agencies, academia, and industry. This translates to a coherent, well-integrated program executed by the five primary contributors: 1) the Army Research Laboratory (ARL), 2) the Army Materiel Command Research, Development and Engineering Centers (RDECs); 3) the Army Corps of Engineers Research and Development Center (ERDC); 4) the Army Medical Research and Materiel Command laboratories; and 5) the Army Research Institute. The Army's research program promotes quality through in-depth reviews of the entire basic research program and the establishment of Strategic Research Objectives. The Army broadened its research base, expanding its basic research investments at Historically Black Colleges and Universities and Minority Institutions (HBCU/MIs). The basic research program coordinates with the other Services via the Joint Directors of Laboratories panels, Project Reliance, and other inter-service working groups. Projects involve basic research efforts providing fundamental knowledge for the solution of military problems related to long-term national security needs. The program contains no duplication with any effort within the other Military Departments.

University and Industry Research Centers: This program leverages research in the private sector through Federated Laboratories, Collaborative Technology Alliances (CTA), Centers of Excellence, and the University Affiliated Research Centers. A significant portion of the work performed within this program directly supports Objective Force requirements, providing the enabling technologies which will make Objective Force equipment development possible. Collaborative Technology Alliances (CTA) are innovative alliances among government, industry and academic organizations, built to exploit scientific and technological breakthroughs and to transition them to exploratory development and applied research. CTAs will be established competitively in the areas of Advanced Sensors, Advanced Decision Architecture, Communications and Networks, Power and Energy, and Robotics. This program includes the Army's Centers of Excellence, which couple state-of-the-art research programs at academic institutions with broad-based graduate education programs, increasing the supply of scientists and engineers in materials science, electronics and rotary wing technology. The Army's Institute of Creative Technologies (ICT) is included also in this program. The ICT is a partnership with academia and the entertainment industry, leveraging innovative research and concepts for training and design. Specific research of mutual interest to the entertainment industry and the Army are technologies for realistic immersion in synthetic environments, networked simulation, standards for interoperability, and tools for creating simulated environments. Work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and Project Reliance. The program contains no duplication with any effort within the Military Departments.

Applied Research:

Combat Vehicle and Automotive Technology: This program develops component technology to improve automotive and survivability capabilities of Army ground vehicle systems for the Objective Force. It provides a portion of the Army's share of the Army/Defense Advanced Research Projects Agency (DARPA) collaborative Future Combat Systems (FCS) program. This funding supports both the FCS design and demonstration activities, and critical enabling technologies at DARPA. To achieve the Army vision, it must be more strategically deployable and agile, with a smaller logistical footprint. Additionally, these lighter ground vehicle systems must be more lethal, survivable, and tactically mobile. Other major projects within this area include the development of critical automotive enabling component technologies, such as active protection defeat mechanisms, advanced, lighter armor technology, and support for the National Automotive Center (NAC). The NAC leverages the large commercial investments in automotive technology research and development, and it pursues shared technology programs that focus on military ground vehicles. This program adheres to Tri-Service Reliance Agreements on advanced materials, fuels, lubricants, and ground vehicles, with oversight and coordination provided by the Joint Directors of Laboratories. The project is coordinated with the Marine Corps through the Naval Surface Warfare Center, and with other ground vehicle developers within the Departments of Energy, Commerce and Transportation and DARPA. The work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan and Project Reliance. The program contains no duplication with any effort within the Military Departments.

Medical Technology: This program supports focused research for healthy, medically protected soldiers, and research consistent with the "Medical," "Survivability," and "Future Warrior" technology areas of the Objective Force. The primary goal is to sustain medical technology superiority, and improve the protection and survivability of U.S. forces. This program funds applied research in the Department of Defense (DoD) medical protection against naturally occurring diseases, combat dentistry, and in the Department of Army care of combat casualties, health hazard assessments, and medical factors enhancing soldier effectiveness. This program is the core DoD technology base to develop methods and materials for infectious disease prevention and treatment, including vaccines, prophylactic and therapeutic drugs, insect repellents, methods of diagnosis and identification, prevention and treatment of combat maxillofacial (face and neck) injuries, essential dental treatment on the battlefield, combat casualty care of trauma and burns, organ system survival, blood loss and infection shock, blood preservation, potential blood substitutes for battlefield care, and the sustainment or enhancement of soldier performance. The cited work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and Project Reliance. The program contains no duplication with any effort within the Military Departments. The U.S. Army Medical Research and Materiel Command manage this program.

Advanced Technology Development:

Medical Advanced Technology: This program supports focused research for healthy, medically protected soldiers, and research consistent with the "Medical" and "Survivability" technology areas of the Objective Force. The primary goal of this program is to provide, with minimum adverse effects, maximum soldier survivability and sustainability on the integrated battlefield, as well as in military operations other than war. This program funds advanced technology development for the Department of Defense (DoD) core Vaccine and Drug Program, field medical protective devices, and combat injury management. The DoD core Vaccine and Drug Program provides, in accordance with Food and Drug Administration (FDA) regulations, drugs and vaccines for development that effectively protect, treat, and act as antidotes against military disease threats. It produces pilot and standard lots of candidate pharmaceutical-grade drugs, antidotes, and vaccines. The cited work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and Project Reliance. The program contains no duplication with any effort within the Military Departments. The U.S. Army Medical Research and Materiel Command manage this program.

Combat Vehicle and Automotive Advanced Technology: The goal of this program is to mature and demonstrate new and improved combat vehicle and automotive technologies, enabling the transformation of the Army to the Objective Force. Future Combat Systems (FCS), the Army's top priority program, is the primary emphasis of work funded here in support of Army Transformation. A large portion of the funds support the collaborative Army/Defense Advanced Research Projects Agency (DARPA) FCS program and provide support for the FCS analysis function of the Objective Force Task Force. The Army vision calls for strategic dominance across the spectrum of operations. This demands a force that is deployable, agile, versatile, lethal, survivable and sustainable. In addition, this program supports enabling component technology areas, such as survivability (e.g., Full Spectrum Active Protection (FSAP)), mobility (including a new engine demonstration initiative with a goal to double the power density of a comparable commercial engine to meet FCS power, size, and weight constraints), and intra-vehicular digital electronics. It also integrates diverse vehicle technologies developed by the Army, other DoD agencies and industry. These technologies are demonstrated in coordination with Army war fighter organizations through vehicle component and system level technology demonstrations. Aside from FCS, an Advanced Technology Demonstration (ATD) will be conducted on the Future Scout and Cavalry System (FSCS), the Crew Integration & Automation Testbed (CAT), and the Robotic Follower. The CAT ATD will demonstrate multi-mission capable crew stations required for the versatility of the Objective Force. The Robotic Follower ATD will demonstrate an unmanned system capability for initial FCS systems, increasing survivability and reducing logistics for the FCS system. The U.S. Army Tank-Automotive Research, Development and Engineering Center (TARDEC), a subordinate organization of the Tank-Automotive and Armaments Command (TACOM), located in Warren, MI, manages this program. It is coordinated with the Marine Corps office through the Naval Surface Warfare Center; the Naval Research Lab; Air Force Armaments Command; and with other ground vehicle developers within the Departments of Energy, Commerce, Transportation, and DARPA. The cited work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan and Project Reliance. The program contains no duplication with any effort within the Military Departments.

Demonstration and Validation:

Artillery Systems: This program supports efforts for the Crusader Advanced Development Program. The Crusader system is the Army's next generation self-propelled howitzer (SPH) and Artillery Resupply Vehicle (RSV) and is the first installment of the Objective Force in the Army Transformation. Crusader has increased significantly capabilities in the areas of lethality, mobility, survivability, resupply, command and control, and sustainability, capitalizing on mature, state-of-the-art technologies. The combination of Crusader's unique capabilities, including vehicle speed, rate of fire, range, and exploitation of computers and communications yield unparalleled fire support capabilities for US forces. The Crusader vehicles have been designed specifically to facilitate air transportability, using a minimum combination of any two vehicles transportable in either a C5 or C17 aircraft. The mix of resupply vehicles (tracked and wheeled) also gives the Commander in theater additional flexibility to respond to threats, adapting his Tactics, Techniques and Procedures with the most appropriate utilization and interaction of tracked and wheeled resupply vehicles.

Advanced Tank Armament System: This program looks at promising tank and medium caliber technologies, assessing advantages and disadvantages of each technology, as well as costs and implementation impacts. It also supports the International Quadripartite Agreement among the U.S., France, Germany and the United Kingdom for cooperative development/interoperability efforts to reduce risks on Tank and Medium Caliber Ammunition Systems. An immediate need exists for an Interim Armored Vehicle (IAV) equipped, C-130 transportable Brigade Combat Team (BCT), capable of deployment anywhere on the globe in a combat ready configuration. The IAV family is the force and it consists of an Infantry Carrier (ICV), Reconnaissance Vehicle (RV), Mobile Gun System (MGS), Mortar Carrier (MC), Commander's Vehicle (CV), Fire Support Vehicle (FSV), Engineer Squad Vehicle (ESV), Medical Evacuation Vehicle (MEV), Anti-Tank Guided Missile Vehicle (ATGM), and NBC Reconnaissance Vehicle (NBC RV).

Engineering and Manufacturing Development:

Comanche: This program provides for the development, operational testing and evaluation of the RAH-66 Comanche and the T800-801 growth engine. The Comanche is a multi-mission aircraft optimized for the critical battlefield mission of tactical armed reconnaissance. It provides a globally self-deployable attack platform for light/contingency forces. Comanche provides the solution to reconnaissance deficiencies (i.e. no night/adverse weather/high/hot/stand-off capability) and is a key component on the digitized battlefield in winning the information war. The Comanche is the Army's technology leader and provides significant horizontal technology transfer within the Army and DoD. This program also provides for the continued development and qualification of the T800-801 growth engine and air vehicle support for integration into the Comanche aircraft. It includes funding for the operational testing of Comanche, as well as modeling and simulation accreditation for Early User Test, Limited User Test and Initial Operational Test and Evaluation. The program also provides for development of the airframe, mission equipment package, integration and qualification of the complete system, including logistic support, training, and training devices.

Information Technology Development: Supports efforts to plan, design, develop, and test information technology solutions, fulfilling the Army's Warfighter Support Mission and future needs while accommodating changing requirements. Provides for development and acquisition of Combat Service Support (CSS) and business information technology solutions to help arm, sustain, fix, move, train and man the force. Completes development/acquisition efforts enhancing sustaining base functions, power projection capabilities and facilitating global messaging and electronic data interchange (EDI). Ongoing development efforts support multiple functional areas including logistics, personnel, transportation, training, medical/health protection, and sustaining base.

Research, Development, Test and Evaluation Management Support:

Army Test Ranges and Facilities: This program provides the institutional funding required to assure a developmental test capability is available for the Department of Defense (DoD) Program Executive Officers, Program and Product Managers, and Research, Development, and Engineering Centers. Funds operation of the Army's Major Range and Test Facility Bases, such as Yuma Proving Ground (YPG), Arizona (to include management of Army natural environmental testing), Aberdeen Test Center, Aberdeen Proving Ground, Maryland; White Sands Missile Range, New Mexico (including the Electronic Proving Ground (EPG) at Fort Huachuca, Arizona); and Dugway Proving Ground, Utah (not test mission operations). This program also provides the Army's developmental test capability at the Aviation Technical Test Center, Fort Rucker, Alabama; Redstone Technical Test Center, Redstone Arsenal, Alabama; Cold Regions Test Center, Fort Greely and Fort Wainwright, Alaska; and the Tropic Test Site at Schofield Barracks, Hawaii. In addition, it provides for the capability for test planning plus safety verification/confirmation at HQ, the Developmental Test Command (DTC) located at Aberdeen Proving Ground, Maryland. Developmental test capabilities at each test range have been established uniquely to support test and evaluation (T&E) requirements of funded weapons programs, assure technical performance, adherence to safety requirements, reliability, logistics supportability, and quality materiel in the development and production stages. Program funding includes efforts leveraging technologies to include the procurement of essential equipment, personnel training and test facility modernization in support of the war fighter's weapons and equipment. These current testing capabilities are not duplicated within DoD and they represent test capabilities needed to assure minimal risk to the soldier as new technologies emerge into fielded weapons systems. This program also finances indirect test operating costs, replacement of test equipment, and test facility modernization projects necessary to maintain current testing capabilities, improve safety, environmental protection, efficiency of test operations, and technological advances. The developmental test capability provided primarily supports Joint Service or Other Service systems, hardware, and technologies, and not just Army unique systems. Some of the major systems tested include: Joint Services Lightweight Howitzer, ABRAMS, BRADLEY, PATRIOT, PAC3, JAVELIN, LONGBOW HELLFIRE, Interim Armored Vehicle, COMANCHE, ATACMS/BAT, as well as other service systems such as Navy STANDARD missile and the Air Force AMRAAM missile.

Army Kwajalein Atoll: The U.S. Army Kwajalein Atoll/Ronald Reagan Ballistic Missile Defense Site (USAKA/RTS), located in the Republic of the Marshall Islands, is a remote, secure activity of the Major Range and Test Facility Base as constituted by DoD Directive 3200.11. Its function is to support test and evaluation of major Army and DoD missile systems, Army Space surveillance and object identification, and National Aeronautics and Space Administration (NASA) scientific and space programs. Programs supported include Army missile defense, Ballistic Missile Defense Organization (BMDO) demonstration/validation tests, Air Force Intercontinental Ballistic Missile (ICBM) development and operational tests, U.S. Space Surveillance Network, and NASA Space Transportation System (Shuttle) and orbital debris experiments. USAKA/RTS supports the Missile Defense Act of 1991 to put in place a Ground Based Defense System by 2006 or the earliest date possible. The technical element of USAKA/RTS is the RTS, which consists of a number of sophisticated, one-of-a-kind, radar, optical, telemetry, command/control/ communications, and data reduction systems. These systems include the four unique radars of the Kiernan Reentry Measurement Site (KREMS); Super Recording Automatic Digital Optical Tracker (SRADOT) long range video-metric tracking systems; high density data recorders for high data-rate telemetry collected by nine antennas; and underwater acoustic impact location system data analysis/reduction hardware/software. Funds also support the Kwajalein Modernization and Remoting (KMAR) Program, a concurrent, range-wide modernization effort to maximize the use of common, standardized commercial off-the-shelf (COTS) technology to replace obsolete components; implement common hardware/software architectures and automation; and "remote" the operation of range sensors and instrumentation to the island of Kwajalein. This effort will upgrade range capabilities that are critical to the success of upcoming Theater Missile Defense (TMD) and National Missile Defense (NMD) test missions. The Army, Air Force, Navy and BMDO have significant test and data gathering requirements at USAKA/RTS. Air Force programs require firing from Vandenberg AFB, CA with complete data collection during late mid-course and terminal trajectory. BMDO programs require range sensors to collect technical data in support of the National Missile and Theater Missile Defense programs. This test data cannot be obtained except through the use of technical facilities available on and in the vicinity of USAKA/RTS. Program also supports CINCSPACE requirements for data collection on objects in space. The Advanced Research Project Agency (ARPA) Long-Range Tracking and Instrumentation Radar (ALTAIR), and the Target Resolution Discrimination Experiment (TRADEX) radar located at USAKA/RTS, are two of only three radars world-wide that have deep-space tracking capability. Some of the supported programs are Air Force's Peacekeeper, Minuteman III, and Delta; Army/BMDO's NMD (Ground Based Interceptor (GBI), Ground Based Radar (GBR), Battle Management/Command, Control and Communications (BMC3), In-Flight Interceptor Communication System (IFICS), TMD, (PAC-3, System Integration of Tests, Family of Systems, Critical Measurements Program, Theater High Altitude Air Defense (THAAD), Patriot, and ground-based radar); NASA's Space Transportation System (STS), Orbital Debris Measurement Program, Small Expendable Deployer System and Orbital Debris Measurement Program, and associated programs at the Air Force Space and Missile Center.

Operational Systems Development:

Aircraft Modifications/Product Improvement Program: This program develops modifications and improvements for the Guardrail Common Sensor/Aerial Common Sensor, the Improved Cargo Helicopter (ICH), the UH-60A/L Black Hawk Recapitalization/Modernization, and the Apache 2nd Generation Forward Looking Infrared (FLIR). Improved Cargo Helicopter (ICH) is a recapitalization program, extending the useful life of the CH-47D Cargo helicopter. This funding will assure heavy lift capability into the 21st century. This is the basis for establishing remanufacture, modernization, and upgrades to meet the future readiness needs and required heavy lift capability. The UH-60 Black Hawk will serve as the Army's utility helicopter in the Objective Force. It is used for air assault, general support, aeromedical evacuation (MEDEVAC), and command and control in the active and reserve component theater, corps, division, and table of distribution and allowance units. The UH-60A entered service in fiscal year 1978, and the newer model UH-60L in 1989. The Army continues to procure UH-60L helicopters today. The Army has established a recapitalization goal for its systems, maintaining the fleet's average age at the design half-life or less. The UH-60 was designed for a 20-year service life. The oldest UH-60As are now over 23 years old, and the average age of the UH-60A fleet is 18 years old. The increased operational tempo, coupled with the technological age of the basic airframe, components, and systems, is having an adverse impact on the operational readiness (OR) and operating and support (O&S) costs of the over 1500 UH-60 fleet. In addition, the UH-60A/L helicopters lack the necessary digital avionics architecture to meet current and future Army and Joint Service interoperability communication requirements. The plan is to use an evolutionary, block approach to transform the utility helicopter force to one that is more deployable, responsive, and less expensive to operate. It will recapitalize the oldest UH-60A Black Hawks to the UH-60M configuration. The UH-60M selected upgrade includes airframe service life extension, structural improvements, upgrade of the propulsion system (UH-60A T700-GE-700 engine and drive train to UH-60L T700-GE-701C engine and drive train), and a digital cockpit. The UH-60M provides a common platform for the modernized air ambulance MEDEVAC medical mission equipment package (MEP).

<u>Combat Vehicle Improvement Programs</u>: This program responds to vehicle deficiencies identified during Desert Storm, continues technical system upgrades, and addresses needed evolutionary enhancements to tracked combat (Abrams and Bradley) and tactical (Bradley Fire Support (FIST)) vehicles. It provides combat effectiveness and enhancements for the Abrams Tank through a series of product improvements to the current M1A1 and M1A2 vehicles. Additional improvements allow the M1A2 System Enhancement Package (SEP) tank to operate effectively with the M2A3 Bradley. This program also addresses future product improvements to the M2A3, and the Abrams tank fleet. Common Digitization (CD) efforts will work towards the resolution of common digitization concerns impacting all current and future Ground Combat Support Systems (GCSS). Included are Real Time Common Operating Environment (RTCOE) Expansion, and the Abrams/Bradley Objective IC3 Program.

Department of the Army

General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 2002

Narrative Statement:

FY 2002 sustainment requirements for the Army are from version 2.0 of the DoD Facilities Sustainment Model (FSM). The requirements and funding represent facilities funded from Operations & Maintenance (O&M), Army Family Housing (AFH), and Working Capital Fund (WCF) appropriations, and from Non-Appropriated Funds (NAF). Army sustainment data includes facilities that are multi-use heritage assets. Sustainment funding contributions from host nation funding (Japan) and military pay are included. The sustainment data excludes facilities funded from Research, Development, Test and Evaluation (RDTE), and Procurement appropriations, and Chemical Depots, because we lack separately identifiable sustainment funding for these locations.

Annual Sustainment FY 2002

Property Type	1. Required	2. Actual	3. Difference
Buildings, Structures, and Utilities	$3,122.2M	$2,208.8M	$913.4M

Annual Deferred Sustainment Trend

Property Type	FY 2000	FY 2001	FY 2002
Buildings, Structures, and Utilities	$629.4M	$1,167M	$913.4M

Army Restoration & Modernization (R&M) requirements are modeled in the annual Installation Status Report (ISR). During ISR data collection, facility occupants evaluate the condition of each facility against published standards. Facilities are rated Green (complies with standards), Amber (does not fully meet standards), or Red (dysfunctional or substandard). ISR establishes a C-rating for groups of facilities, based on the proportion of facilities rated Green, Amber, and Red. Facility groups are rated C-1 (facilities fully support the mission), C-2 (facilities support the majority of assigned missions), C-3 (facilities impair mission performance), or C-4 (facilities significantly impair mission performance).

ISR develops cost estimates to improve groups of facilities to higher C-ratings. Using industry based improvement cost factors for each facility type, ISR builds the cost to improve Red and Amber facilities to Green in order to achieve higher C-ratings. The requirement reported for General PP&E R&M is the cost to improve the quality of facilities to C-1. For FY 2002, these requirements address facility types funded from Army appropriated O&M, WCF, and AFH funds. The Army's R&M requirement does not include requirements for facilities funded by Department of Defense (hospitals, clinics), NAF (recreation, sports), Army Air Force Exchange Service, Defense Commissary Agency, and private funding. The R&M requirement also excludes costs for utilities planned for privatization, BRAC closures, ammunition plants and chemical depots.

Army facilities are predominantly C-3, due to years of underfunding sustainment. The Army's estimate to return these facilities to a C-1 status for FY 2002 is $20.2B, based on the FY 2002 ISR. The reduction of

$8.4B in the R&M requirement is the result of a change in the Army's facility evaluation methodology to prevent overstating restoration cost estimates for facilities. As a result of a recommendation from the U.S. Army Audit Agency (AAA), ISR facility standards were adjusted to remove "critical components" from the evaluation methodology. In past years, a low rating for a single facility component, if from a "critical component", would cause the facility to receive a low rating. For FY 2002, each facility received a rating representing the majority of the component ratings. The overall ratings collected for FY 2002 are higher than those of FY 2001 due to this change in standards. The higher ratings and the corresponding reduction in R&M requirements do not reflect an actual improvement in Army facilities from FY 2001 to FY 2002, but rather a recalibration of facility ratings.

Restoration & Modernization Requirements

Property Type	End FY 2001	End FY 2002	Change
Buildings, Structures, and Utilities	$28.6B	$20.2B	-$8.4B

National Defense Property, Plant and Equipment

Deferred Maintenance Amounts
As of September 30, 2002
($ in Thousands)

Major Type	Army Reserve	Army National Guard	Active Army	Total
1. Aircraft	$3.1	$35.5	$101.6	$140.2
2. Ships				
3. Missiles		0.9	18.2	19.1
4. Combat Vehicles	3.3	8.1	80.3	91.7
5. Other Weapons Systems	7.9	5.7	117.5	131.1
Total	$14.3	$50.2	$317.6	$382.1

Statement of Disaggregated Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Budgetary Financing Accounts

BUDGETARY RESOURCES	Other	Research, Development, Test & Evaluation	Operation and Maintenance	Procurement
A. Budget Authority:				
1. Appropriations received	$1,137,125	$7,114,274	$28,976,751	$10,721,868
2. Borrowing authority	0	0	0	0
3. Contract authority	0	0	0	0
4. Net transfers (+/-)	16,665	3,613	3,466,418	(19,528)
5. Other	0	0	0	0
B. Unobligated balance:				
4. Beginning of period	147,543	1,064,942	878,473	2,196,519
5. Net transfers, actual (+/-)	(12,776)	3,000	263,409	9,776
6. Anticipated Transfers Balances	0	0	0	0
C. Spending authority from offsetting collections:				
7. Earned	7,648	2,142,650	6,954,019	490,709
8. Collected	1,628	61,656	(106,947)	3,218
9. Receivable from Federal sources	0	0	0	0
10. Change in unfilled customer orders	(16,793)	53,327	(24,429)	(5,933)
11. Advance received	(9,102)	229,319	614,736	236,560
12. Anticipated for the rest of year, without advances	0	0	0	0
13. Transfers from trust funds	0	0	0	0
14. Subtotal	($16,619)	$2,486,952	$7,437,379	$724,554
D. Recoveries of prior year obligations	64,721	659,107	5,173,159	466,115
E. Temporarily not available pursuant to Public Law	0	0	0	0
F. Permanently not available	(8,379)	(116,370)	(834,179)	(241,371)
G. Total Budgetary Resources	$1,328,280	$11,215,518	$45,361,410	$13,857,933
STATUS OF BUDGETARY RESOURCES				
A. Obligations incurred:				
15. Direct	$1,205,614	$7,358,954	$36,029,929	$11,235,484
16. Reimbursable	12,996	2,707,188	8,549,714	666,775
17. Subtotal	$1,218,610	$10,066,142	$44,579,643	$11,902,259
B. Unobligated balance:				
18. Apportioned	105,885	1,100,730	107,117	1,852,434
19. Exempt from apportionment	0	0	0	0
20. Other available	0	0	0	0
C. Unobligated Balances Not Available	3,785	48,645	674,651	103,240
D. Total, Status of Budgetary Resources	$1,328,280	$11,215,517	$45,361,411	$13,857,933
Relationship of Obligations to Outlays:				
A. Obligated Balance, Net - beginning of period	$549,719	$3,101,066	$12,117,902	$11,301,834
B. Obligated Balance transferred, net (+/-)	0	0	0	0
C. Obligated Balance, Net - end of period:				
21. Accounts receivable	(12,346)	(302,463)	(750,052)	(60,616)
22. Unfilled customer order from Federal sources	(37,031)	(1,210,061)	(2,541,047)	(1,001,775)
23. Undelivered orders	453,207	4,450,570	9,983,300	11,583,072
24. Accounts payable	72,909	513,858	6,514,756	1,086,394
D. Outlays:				
25. Disbursements	$1,234,343	$8,765,222	$37,809,638	$10,891,125
26. Collections	9,145	(2,195,977)	(6,929,590)	(484,776)
27. Subtotal	$1,243,488	$6,569,245	$30,880,048	$10,406,349
E. Less: Offsetting receipts	(184,839)	0	0	0
F. Net Outlays	$1,058,649	$6,569,245	$30,880,048	$10,406,349

The accompanying notes are an integral part of these statements.

Budgetary Financing Accounts

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

BUDGETARY RESOURCES	Military Personnel	Military Construction / Family Housing	2002 Combined	2001 Combined
A. Budget Authority:				
1. Appropriations received	$30,432,976	$2,684,282	$81,067,276	$74,232,106
2. Borrowing authority	0	0	0	0
3. Contract authority	0	0	0	0
4. Net transfers (+/-)	1,808,816	14,615	5,290,599	2,112,116
5. Other	0	0	0	0
B. Unobligated balance:				
4. Beginning of period	214,684	1,199,628	5,701,789	5,970,023
5. Net transfers, actual (+/-)	127,343	18,218	408,970	869,646
6. Anticipated Transfers Balances	0	0	0	0
C. Spending authority from offsetting collections:				
7. Earned	140,777	2,276,798	12,012,602	11,631,079
8. Collected	(87,180)	(18,697)	(146,322)	(125,384)
9. Receivable from Federal sources	0	0	0	0
10. Change in unfilled customer orders	0	80,948	87,119	(106,160)
11. Advance received	46,218	47,053	1,164,785	(183,369)
12. Anticipated for the rest of year, without advances	0	0	0	0
13. Transfers from trust funds	0	0	0	0
14. Subtotal	$99,815	$2,386,102	$13,118,184	$11,216,166
D. Recoveries of prior year obligations	1,504,144	420,122	8,287,368	10,706,763
E. Temporarily not available pursuant to Public Law	0	0	0	0
F. Permanently not available	(292,128)	(76,753)	(1,569,179)	(1,039,579)
G. Total Budgetary Resources	$33,895,650	$6,646,214	$112,305,007	$104,067,241

STATUS OF BUDGETARY RESOURCES	Military Personnel	Military Construction / Family Housing	2002 Combined	2001 Combined
A. Obligations incurred:				
15. Direct	$33,341,023	$2,560,859	$91,731,863	$84,262,609
16. Reimbursable	328,581	2,449,777	14,715,031	14,102,151
17. Subtotal	$33,669,604	$5,010,636	$106,446,894	$98,364,760
B. Unobligated balance:				
18. Apportioned	3,957	1,618,357	4,788,478	4,494,010
19. Exempt from apportionment	0	0	0	0
20. Other available	0	0	2	1
C. Unobligated Balances Not Available	222,090	17,221	1,069,633	1,208,470
D. Total, Status of Budgetary Resources	$33,895,651	$6,646,214	$112,305,007	$104,067,241

Relationship of Obligations to Outlays:	Military Personnel	Military Construction / Family Housing	2002 Combined	2001 Combined
A. Obligated Balance, Net - beginning of period	$2,679,468	$1,876,574	$31,626,562	$28,485,816
B. Obligated Balance transferred, net (+/-)	0	0	0	0
C. Obligated Balance, Net - end of period:				
21. Accounts receivable	(296,052)	(46,204)	(1,467,731)	(1,614,053)
22. Unfilled customer order from Federal sources	(54,231)	(2,316,857)	(7,161,002)	(5,996,218)
23. Undelivered orders	(170,422)	4,311,616	30,611,343	28,696,740
24. Accounts payable	2,732,973	758,767	11,679,657	10,540,092
D. Outlays:				
25. Disbursements	$32,673,621	$3,731,410	$95,105,359	$84,826,003
26. Collections	(140,777)	(2,357,746)	(12,099,721)	(11,524,919)
27. Subtotal	$32,532,844	$1,373,664	$83,005,638	$73,301,084
E. Less: Offsetting receipts	0	0	(184,839)	0
F. Net Outlays	$32,532,844	$1,373,664	$82,820,799	$73,301,084

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Non-Budgetary Financing Accounts

BUDGETARY RESOURCES	Other	Research, Development, Test & Evaluation	Operation and Maintenance	Procurement
A. Budget Authority:				
1. Appropriations received	$0	$0	$0	$0
2. Borrowing authority	0	0	0	0
3. Contract authority	0	0	0	0
4. Net transfers (+/-)	0	0	0	0
5. Other	0	0	0	0
B. Unobligated balance:				
4. Beginning of period	$691	$0	$0	$0
5. Net transfers, actual (+/-)	0	0	0	0
6. Anticipated Transfers Balances	0	0	0	0
C. Spending authority from offsetting collections:				
7. Earned	39	0	0	0
8. Collected	0	0	0	0
9. Receivable from Federal sources	0	0	0	0
10. Change in unfilled customer orders	0	0	0	0
11. Advance received	0	0	0	0
12. Anticipated for the rest of year, without advances	0	0	0	0
13. Transfers from trust funds	0	0	0	0
14. Subtotal	$39	$0	$0	$0
D. Recoveries of prior year obligations	0	0	0	0
E. Temporarily not available pursuant to Public Law	0	0	0	0
F. Permanently not available	0	0	0	0
G. Total Budgetary Resources	$730	$0	$0	$0
STATUS OF BUDGETARY RESOURCES				
A. Obligations incurred:				
15. Direct	$0	$0	$0	$0
16. Reimbursable	0	0	0	0
17. Subtotal	$0	$0	$0	$0
B. Unobligated balance:				
18. Apportioned	$730	$0	$0	$0
19. Exempt from apportionment	0	0	0	0
20. Other available	0	0	0	0
C. Unobligated Balances Not Available	0	0	0	0
D. Total, Status of Budgetary Resources	$730	$0	$0	$0
Relationship of Obligations to Outlays:				
A. Obligated Balance, Net - beginning of period	$0	$0	$0	$0
B. Obligated Balance transferred, net (+/-)	0	0	0	0
C. Obligated Balance, Net - end of period:				
21. Accounts receivable	0	0	0	0
22. Unfilled customer order from Federal sources	0	0	0	0
23. Undelivered orders	0	0	0	0
24. Accounts payable	0	0	0	0
D. Outlays:				
25. Disbursements	0	0	0	0
26. Collections	(39)	0	0	0
27. Subtotal	($39)	$0	$0	$0
E. Less: Offsetting receipts	0	0	0	0
F. Net Outlays	($39)	$0	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Non-Budgetary Financing Accounts

	Military Personnel	Military Construction / Family Housing	2002 Combined	2001 Combined
BUDGETARY RESOURCES				
A. Budget Authority:				
1. Appropriations received	$0	$0	$0	$0
2. Borrowing authority	0	0	0	0
3. Contract authority	0	0	0	0
4. Net transfers (+/-)	0	0	0	0
5. Other	0	0	0	0
B. Unobligated balance:				
4. Beginning of period	$0	$0	$691	$0
5. Net transfers, actual (+/-)	0	0	0	0
6. Anticipated Transfers Balances	0	0	0	0
C. Spending authority from offsetting collections:				
7. Earned	0	0	39	0
8. Collected	0	0	0	0
9. Receivable from Federal sources	0	0	0	0
10. Change in unfilled customer orders	0	0	0	0
11. Advance received	0	0	0	0
12. Anticipated for the rest of year, without advances	0	0	0	0
13. Transfers from trust funds	0	0	0	0
14. Subtotal	$0	$0	$39	$0
D. Recoveries of prior year obligations	0	0	0	0
E. Temporarily not available pursuant to Public Law	0	0	0	0
F. Permanently not available	0	0	0	0
G. Total Budgetary Resources	$0	$0	$730	$0
STATUS OF BUDGETARY RESOURCES				
A. Obligations incurred:				
15. Direct	$0	$0	$0	$0
16. Reimbursable	0	0	0	0
17. Subtotal	$0	$0	$0	$0
B. Unobligated balance:				
18. Apportioned	$0	$0	$730	$0
19. Exempt from apportionment	0	0	0	0
20. Other available	0	0	730	0
C. Unobligated Balances Not Available	0	0	0	0
D. Total, Status of Budgetary Resources	$0	$0	$1,460	$0
Relationship of Obligations to Outlays:				
A. Obligated Balance, Net - beginning of period	$0	$0	$0	$0
B. Obligated Balance transferred, net (+/-)	0	0	0	0
C. Obligated Balance, Net - end of period:				
21. Accounts receivable	0	0	0	0
22. Unfilled customer order from Federal sources	0	0	0	0
23. Undelivered orders	0	0	0	0
24. Accounts payable	0	0	0	0
D. Outlays:				
25. Disbursements	0	0	0	0
26. Collections	0	0	(39)	0
27. Subtotal	$0	$0	($39)	$0
E. Less: Offsetting receipts	0	0	0	0
F. Net Outlays	$0	$0	($39)	$0

The accompanying notes are an integral part of these statements.

Schedule, Part A DoD Intra-governmental Asset Balances ($ Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		$833			
Department of Agriculture	12		$1,332			
Department of Commerce	13		$91			
Department of the Interior	14		$1,037			
Department of Justice	15		$20,554			
Department of Labor	16		$0			
Navy General Fund	17		$53,822			
Department of State	19		$22,371			
Department of the Treasury	20	$39,510,523	$19,206		$5,240	
Army General Fund	21					
Department of Veterans Affairs	36		$506			
General Service Administration	47		$3,444			
Air Force General Fund	57		$44,640			$5,673
Federal Emergency Management Agency	58		$3,223			
Environmental Protection Agency	68		$585			
Department of Transportation	69		$33,141			
Department of Health and Human Services	75		$776			
National Aeronautics and Space Administration	80		$3,357			
Department of Housing and Urban Development	86		$92			
Department of Energy	89		$3,238			
Other Legislative Branch Agencies	9		($16)			
Selective Service System	90		$10,574			
US Army Corps of Engineers	96		$5,616			$118
Other Defense Organizations General Funds	97		$161,841			$581
Other Defense Organizations Working Capital Funds	97-4930		$21,187			
Army Working Capital Fund	97-4930.001		$30,466			$202,742
Navy Working Capital Fund	97-4930.002		$9,680			
Air Force Working Capital Fund	97-4930.003		$999			$0
Total		$39,510,523	$452,595		$5,240	$209,114

Schedule, Part B DoD Intra-governmental Entity Liabilities ($ Amounts in Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Executive Office of the President	11			$33,545
Department of Agriculture	12			($4)
Department of the Interior	14			$2
Department of Justice	15			$114
Department of Labor	16			$382,820
Navy General Fund	17	$13,283		
Department of State	19			$993
Department of the Treasury	20			$376,147
Office of Personnel Management	24			$53,792
Department of Veterans Affairs	36			$270
Air Force General Fund	57	$28,109		$2,032
Department of Transportation	69			$343
Department of Health and Human Services	75			$25,119
National Aeronautics and Space Administration	80			$684
Department of Energy	89			$127
US Army Corps of Engineers	96	$1,077		
Other Defense Organizations General Funds	97	$80,852	$157	$372
Other Defense Organizations Working Capital Funds	97-4930	$430,651		
Army Working Capital Fund	97-4930.001	$197,098		$48
Navy Working Capital Fund	97-4930.002	$14,247		
Air Force Working Capital Fund	97-4930.003	$9,226		
Total		$774,543	$157	$876,404

Schedule, Part C DoD Intra-governmental Revenue and Related Costs ($ Amounts in Thousands)	Treasury Index	Earned Revenue
The Judiciary	10	$3
Executive Office of the President	11	$30,801
Department of Agriculture	12	$2,688
Department of Commerce	13	$2,523
Department of the Interior	14	$1,918
Department of Justice	15	$55,057
Department of Labor	16	$96
Navy General Fund	17	$508,496
Department of State	19	$40,522
Department of the Treasury	20	$49,819
Nuclear Regulatory Commission	31	$0
Department of Veterans Affairs	36	$2,490
General Service Administration	47	$9,422
Air Force General Fund	57	$779,697
Federal Emergency Management Agency	58	$3,098
Environmental Protection Agency	68	$1,801
Department of Transportation	69	$39,893
Department of Health and Human Services	75	$7,883
National Aeronautics and Space Administration	80	$22,176
Department of Housing and Urban Development	86	$452
Department of Energy	89	$8,642
Other Legislative Branch Agencies	9	$93
Selective Service System	90	$4,314
US Army Corps of Engineers	96	$42,951
Other Defense Organizations General Funds	97	$3,271,819
Other Defense Organizations Working Capital Funds	97-4930	$324,769
Army Working Capital Fund	97-4930.001	$247,517
Navy Working Capital Fund	97-4930.002	$66,952
Air Force Working Capital Fund	97-4930.003	$5,300
Total		$5,531,192

Schedule, Part E DoD Intra-governmental Non-exchange Revenues ($ Amounts in Thousands)	Treasury Index	Transfers In	Transfers Out
Air Force General Fund	57	$9,055	
US Army Corps of Engineers	96	$0	
Other Defense Organizations General Funds	97	$22,140	
Army Working Capital Fund	97-4930.001		$74,349
Total		$31,195	$74,349

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

January 8, 2003

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

SUBJECT: Independent Auditor's Report on the Army General Fund Fiscal Year 2002 Principal Financial Statements (Report No. D-2003-0047)

The Chief Financial Officers (CFO) Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Army General Fund as of September 30, 2002, and the related Consolidated Statements of Net Cost and Changes in Net Position and the Combined Statements of Financing and Budgetary Resources for the fiscal years then ended. These financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations. In addition to our disclaimer of opinion on the financial statements, we are including the required reports on internal control and compliance with laws and regulations. The Army did not prepare FY 2001 General Fund Financial Statements due to the loss of financial management personnel during the September 11, 2001, terrorist attack. Because the Army did not prepare FY 2001 financial statements, an audit was not performed.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) has acknowledged that (1) Army General Fund financial management systems do not substantially comply with Federal financial management systems requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level and (2) Army General Fund financial management and feeder systems cannot currently provide adequate evidence supporting various material amounts on the financial statements. Therefore, we did not perform auditing procedures to support material amounts on the financial statements. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards consistent with representations made by management. These material deficiencies also affected the reliability of certain financial information contained in the accompanying Management's Discussion and Analysis and certain other information-much of which was taken from the same data sources as the principal financial statements.[1] These deficiencies would have precluded an audit opinion. Therefore, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

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[1] Other information includes the Supporting Consolidating and Combining Financial Statements, the Required Supplementary Stewardship Information, and Required Supplementary Information.

A Regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States Article I, Section 9

Summary of Internal Control

In planning and performing our audit, we considered Army internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions,[2] all of which are material, continue to exist in the following areas:

- financial management systems
- accounting adjustments;
- intragovernmental transactions and eliminations;
- Fund Balance with Treasury;
- Accounts Receivable;
- Inventory and Related Property;
- General Property, Plant, and Equipment;
- Accounts Payable;
- Other Liabilities;
- National Defense Property, Plant, and Equipment;
- problem disbursements;
- Statement of Net Cost;
- Statement of Financing; and
- Statement of Budgetary Resources.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

[2] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

Summary of Compliance With Laws and Regulations

Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. The Army was unable to comply with the requirements of the CFO Act of 1990, as amended. The Army has acknowledged that many of its financial management and feeder systems did not comply with the requirements of the Federal Financial Management Improvement Act of 1996. The Army was also unable to comply with Government Performance and Results Act requirements because it did not have cost accounting systems in place to collect, process, and report operating costs. Therefore, we did not determine whether the Army was in compliance with all other applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

In order for DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing the DoD-wide financial management enterprise architecture. DoD anticipates developing and implementing the enterprise architecture by 2007. Until the enterprise architecture is developed and implemented, the Army will be unable to fully comply with statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met;
- ensuring that the Army financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 requirements; and
- complying with applicable laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Reports on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We performed reviews of the Army strategic plan for correcting accounting and reporting deficiencies, and followed up on selected deficiencies in internal control over financial reporting identified in prior audit reports. We did not obtain sufficient evidence to support or express an opinion on internal control because previously identified reportable conditions, all of which are material, continue to exist. The following material internal control weaknesses precluded an audit opinion of the Army General Fund financial statements and significantly impaired the ability of DoD to detect and investigate fraud or theft of assets. A high risk of material misstatements will continue to exist until the internal control deficiencies are corrected.

Financial Management Systems. Army accounting systems lacked a single standard transaction-driven general ledger. In addition, the accounting systems did not produce account-oriented subsidiary ledgers, data for physical assets were compiled using "work-around" procedures, and data from management systems were not intended and not suitable for financial reporting. Consequently, the audit trails necessary to verify and reconcile account balances were inadequate. The Army also needed to upgrade or replace many of its feeder systems so that the requirements of financial statement reporting could be met. The lack of integrated, transaction-driven, financial management systems will continue to prevent the Army from preparing auditable financial statements until such time as they are corrected.

The Army has disclosed its financial management system deficiencies in the footnotes to the Army General Fund financial statements. The Army stated that elements of Federal generally accepted accounting principles were not met due to limitations of its financial and non-financial management processes and systems. The Army derives its reported values and information for major asset and liability accounts from non-financial feeder systems, such as inventory and logistics systems. Major assets include Property, Plant, and Equipment (PP&E), and Inventory and Related Property. The Army generally records transactions on a budgetary basis, similar to a cash basis, and not an accrual accounting basis. Budgetary transactions were recorded, for example, in Fund Balance with Treasury, accounts receivable, accounts payable, gross costs, and earned revenues. Until the Army systems are updated, Army financial data will be based on budgetary transactions (obligations, disbursements, and collections).

Accounting Adjustments. Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army financial statements. The Defense Finance and Accounting Service (DFAS) did not adequately support $500.1 billion in journal voucher adjustments to the general ledger accounts that were used to prepare the Army General Fund financial statements. Journal vouchers were not properly prepared, reviewed, and approved. These unsupported adjustments presented a material uncertainty regarding the line item balances on the FY 2002 Army General Fund financial statements. DFAS Indianapolis made:

- $319.1 billion in unsupported adjustments to force general ledger accounts to agree with budgetary data, without reconciling the differences or determining which data source was correct;
- $80.4 billion in unsupported adjustments to correct errors and reclassify amounts to other accounts;
- $48.2 billion in unsupported adjustments to force amounts to agree with other sources of information and records or financial statement lines;
- $27.1 billion in adjustments to intragovernmental accounts to force the accounts to agree with the records of Army's trading partners; and
- $25.3 billion in unsupported adjustments to record financial information from data calls.

Intragovernmental Transactions and Eliminations. DoD and Army accounting systems did not capture trading partner data at the transaction level in a manner that facilitated trading partner reconciliations, and DoD guidance did not require adequate support for eliminations. In addition, DoD procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. DFAS Indianapolis made $27.1 billion in unsupported adjustments to intragovernmental accounts to force the accounts to agree with the records of Army's trading partners. These adjustments caused both accounts receivable and accounts payable on the Balance Sheet and the breakout between intragovernmental and public costs on the Statement of Net Cost to be unsupported.

Fund Balance with Treasury. Cash balances between installation, headquarters, and U.S. Treasury records could not be reconciled. DoD financial systems were not integrated; errors in preparation and perpetuation of financial information occurred; and the DoD collection and payment process had weaknesses. DFAS Indianapolis increased Fund Balance with Treasury by $4.6 billion in unsupported adjustments through the ending balance adjustment for FY 2002.

Accounts Receivable. DFAS made $125.7 million in unsupported adjustments to increase accounts receivable balance because of the ending balance adjustment for FY 2002. Also, the Army disclosed in its financial statement footnotes that it could not reconcile its $452.6 million intragovernmental accounts receivable, or make proper eliminations.

Inventory and Related Property. Statements of Federal Financial Accounting Standards (SFFAS) No. 3 requires the use of the consumption method of accounting for Operating Materials and Supplies; however, DoD has acknowledged that its entities use the purchase method of accounting for a significant amount of Operating Materials and Supplies. Operating Materials and Supplies in-transit records were not properly closed out and Operating Materials and Supplies were reported using the purchase method of accounting, instead of the consumption method. Inventories were reported at latest acquisition cost because Army systems do not maintain historical data. An unsupported adjustment for $590 million was used to correct an abnormal balance in the Conventional Ammunition Working Capital Fund allowance account. In addition, the Army disclosed that audit results have identified uncertainties about the completeness and existence of quantities reported.

General Property, Plant, and Equipment. SFFAS No. 6 requires that all PP&E be recorded at cost. It also requires that depreciation expense be recognized on all general PP&E. Depreciation is to be calculated through the systematic and rational allocation of the cost of general PP&E, less the estimated salvage or residual value, over the estimated useful life. Army systems were unable to capture the correct acquisition date and cost and could not provide reliable information for reporting account balances and computing depreciation.

Accounts Payable. DFAS made $713.5 million in unsupported adjustments that increased accounts payable balances through the FY 2002 ending balance adjustment. The Army disclosed that it could not reconcile its $775 million intragovernmental accounts payable, or make proper eliminations. As a result, DFAS Indianapolis made $1.3 billion in unsupported adjustments to increase accounts payable with the public and made $697.6 million in unsupported adjustments to decrease intragovernmental accounts payable in order to force the amounts to agree with Army's trading partners.

Other Liabilities. The Army was working on determining what actions are needed to improve accountability over environmental liabilities. Also, accrued funded payroll included an unsupported adjustment of $3.4 billion made to the general ledger data. The Army had not established controls and procedures to express an opinion in its legal representation letter on the likely outcome of 220 pending legal cases or to estimate value of the Government's potential monetary loss as required by Office of Management and Budget Bulletin No. 01-02, "Audit Requirement for Federal Financial Statements," October 16, 2002. However, some case narratives showed that the Government is seeking settlement or settlement is pending. As a result, contingent liabilities on the Balance Sheet or the footnotes are probably understated.

National Defense Property, Plant, and Equipment. SSFAS No. 8 requires reporting the value of National Defense PP&E using the total cost or the latest acquisition cost method. The Army did not include National Defense PP&E in its Required Supplementary Stewardship Information. Processes and procedures to capture and report that material did not provide reasonable assurance that the data were accurate and complete.

Problem Disbursements. Problem disbursements occurred because accounting and finance systems were not integrated and disbursements were made by organizations that were not collocated with the accounting stations. Therefore, errors and delays occurred in posting disbursement data to accounting records. As of September 30, 2002, the Army General Fund reported $160.7 million (absolute value) of unmatched disbursements, $21 million (absolute value) of negative unliquidated obligations and $710.2 million (net value) of in-transit disbursements. These payments and collections have been reported to the Treasury, but have not been recorded in the Department's accounting records. This adversely affects expenditure rates and revenue recognition, and distorts financial statements.

Statement of Net Cost. SFFAS No. 4 requires that Federal agencies provide reliable and timely information on the full cost of Federal programs, activities, and outputs. DoD entities use the major appropriation categories, as set forth by the Congress, instead of program-level information. This approach does not meet the intent of SFFAS No. 4. Appropriation categories are not consistent with DoD performance goals and measures and are inappropriate for the preparation of the Statement of Net Cost, which is intended to show the full net cost for entity programs. An appropriation is a funding mechanism that does not record accrued expenses, and a program may use more than one appropriation and include non-productive costs allocated to entity programs, such as accrued expenses. The Army also used budgetary data to record expenses. Specifically, DFAS made $10.9 billion in unsupported adjustments to force costs to agree with obligation information. In addition, Army intragovernmental transactions were not properly accounted for, reported, and appropriately eliminated, because DoD did not require trading partner reconciliations and DFAS Indianapolis was unable to reconcile Army intragovernmental transactions with its trading partners. As a result, DFAS Indianapolis made $13.8 billion in unsupported adjustments to decrease intragovernmental costs and $14.3 billion in unsupported adjustments to increase cost with the public in order to force buyer-side transaction data to agree with seller-side transaction data.

Statement of Financing. The Statement of Financing was prepared on a combined basis, whereas, the Statement of Net Cost was prepared on a consolidated basis. Also, DFAS Indianapolis made $3.7 billion in unsupported adjustments to force the Statement of Financing to match similar information on the Statement of Net Cost.

Statement of Budgetary Resources. DFAS was unable to provide a single database supporting the summary transactions used to prepare the Army Reports on Budget Execution and the Army financial statements. In addition, DFAS Indianapolis made $8.4 billion in unsupported adjustments to general ledger data used to prepare the Statement of Budgetary Resources.

Compliance with Laws and Regulations

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

Statutory Financial Management Systems Reporting Requirements. The Army is required to comply with the following financial management systems reporting requirements.

The Federal Financial Management Improvement Act of 1996 requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires DoD to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. The CFO Act requires that each agency develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control. The system should comply with internal control standards, applicable accounting principles, standards, and requirements, and provide for complete, reliable, consistent, and timely information.

The Army acknowledged that many of its critical financial management and feeder systems do not comply substantially with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The Army was also unable to comply with the CFO Act because its financial management systems were not integrated and it has acknowledged that many of its financial management and feeder systems did not comply with applicable Federal accounting standards.

In an attempt to comply with statutory reporting requirements and applicable financial systems requirements in the future, DoD plans to develop a DoD-wide financial management enterprise architecture. The enterprise architecture is intended to provide a "blueprint" of DoD financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is developed, the Army will be unable to fully comply with the statutory reporting requirements. Therefore, we did not perform tests of compliance for these requirements.

Government Performance and Results Act (GPRA). The GPRA requires that each Federal agency prepare a strategic plan and annual performance plans and reports. Until the DoD-wide financial management enterprise architecture is developed, DoD will be unable to fully measure its performance goals related to financial and information management. The Army did not comply with GPRA because it did not have cost accounting systems in place to collect, process, and report operating costs. This resulted in the Army Statement of Net Cost being unable to provide cost-of-operations data that were consistent with GPRA performance goals and measures.

Audit Disclosures

We recognize that there were additional laws and regulations pertinent to Army General Fund financial operations during FY 2002. However, in accordance with Public Law 107-107, the "National Defense Authorization Act for Fiscal Year 2002," we limited our audit scope and performed only audit procedures required by generally accepted government auditing standards consistent with the representations made by the Assistant Secretary of the Army (Financial Management and Comptroller) in the engagement memorandum signed on August 21, 2002. Therefore, we did not perform tests of compliance for these requirements.

- Anti-Deficiency Act.
- Provisions Governing Claims of the United States Government.
- Federal Credit Reform Act of 1990.
- Pay and Allowance System for Civilian Employees.
- Prompt Pay Act.

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged in the Engagement Memorandum signed on August 21, 2002, that the Army financial management systems could not provide adequate evidence supporting various material amounts on the financial statements. As a result, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal control, and compliance with laws and regulations.

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	FY 2002	FY 2001
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	$251,030	$325,682
2. Investments (Note 4)	0	0
3. Accounts Receivable (Note 5)	221,978	276,355
4. Other Assets (Note 6)	48	27,006
5. Total Intragovernmental Assets	$473,056	$629,043
B. Cash and Other Monetary Assets (Note 7)	$0	$0
C. Accounts Receivable (Note 5)	16,419	22,622
D. Loans Receivable (Note 8)	0	0
E. Inventory and Related Property (Note 9)	11,319,284	10,791,280
F. General Property, Plant and Equipment (Note 10)	1,250,240	1,149,629
G. Other Assets (Note 6)	251,298	274,330
2. TOTAL ASSETS	$13,310,297	$12,866,904
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$77,257	$67,184
2. Debt (Note 13)	0	0
3. Environmental Liabilities (Note 14)	0	0
4. Other Liabilities (Notes 15 and 16)	262,039	118,906
5. Total Intragovernmental Liabilities	$339,566	$186,090
B. Accounts Payable (Note 12)	$511,007	$355,452
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	304,524	308,657
D. Environmental Liabilities (Note 14)	0	0
E. Loan Guarantee Liability (Note 8)	0	0
F. Other Liabilities (Notes 15 and 16)	212,055	209,928
4. TOTAL LIABILITIES	$1,367,152	$1,060,127
5. NET POSITION		
A. Unexpended Appropriations (Note 18)	$30,043	$38,860
B. Cumulative Results of Operations	11,913,102	11,767,917
6. TOTAL NET POSITION	$11,943,145	$11,806,777
7. TOTAL LIABILITIES AND NET POSITION	$13,310,297	$12,866,904

See Note 1 and Note 2.

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	FY 2002	FY 2001
1. Program Costs		
A. Intragovernmental Gross Costs	$1,424,466	$1,921,908
B. (Less: Intragovernmental Earned Revenue)	(6,849,906)	(5,740,467)
C. Intragovernmental Net Costs	($5,425,440)	($3,818,559)
D. Gross Costs With the Public	$6,358,713	$4,304,235
E. (Less: Earned Revenue From the Public)	(345,171)	(359,202)
F. Net Costs With the Public	$6,013,542	$3,945,033
G. Total Net Cost	$588,102	$126,474
2. Cost Not Assigned to Programs	0	0
3. (Less:Earned Revenue Not Attributable to Programs)	0	0
4. Net Cost of Operations	$588,102	$126,474

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	FY 2002	FY 2001
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$11,767,917	$11,849,314
Prior period adjustments (+/-)	0	1,463,816
Beginning Balances, as adjusted	$11,767,917	$13,313,130
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	176,217	29,082
Nonexchange revenue	170,039	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	202,799	(1,558,924)
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	74,348	6,073
Imputed financing from costs absorbed by others	109,884	105,030
Other (+/-)	0	0
Total Financing Sources	$733,287	($1,418,739)
Net Cost of Operations (+/-)	588,102	126,474
Ending Balances	$11,913,102	$11,767,917
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$38,860	$55,990
Prior period adjustments (+/-)	0	0
Beginning Balances, as adjusted	$38,860	$55,990
Budgetary Financing Sources:		
Appropriations received	167,400	(17,130)
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	(176,217)	0
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-) total Financing Sources	0	0
Total Financing Sources	($8,817)	($17,130)
Net Cost of Operations (+/-)	0	0
Ending Balances	$30,043	$38,860

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Budgetary Resources:		FY 2002	FY 2001
A.	Budget Authority:		
	Appropriations received	$167,400	$11,952
	Borrowing authority	0	0
	Contract authority	66,607	809,853
	Net transfers (+/-)	0	0
	Other	0	0
B.	Unobligated balance:		
	Beginning of period	1,505,447	1,352,632
	Net transfers, actual (+/-)	0	6,100
	Anticipated Transfers Balances	0	0
C.	Spending authority from offsetting collections:		
	Earned	0	0
	Collected	6,145,494	5,920,104
	Receivable from Federal sources	(55,125)	(88,265)
	Change in unfilled customer orders	0	0
	Advance received	128,906	24,505
	Without advance from Federal sources	177,233	(721,912)
	Anticipated for the rest of year, without advances	0	0
	Transfers from trust funds	0	0
	Subtotal	$6,396,508	$5,134,432
D.	Recoveries of prior year obligations	403,899	196,090
E.	Temporarily not available pursuant to Public Law	0	0
F	Permanently not available	0	0
G	Total Budgetary Resources	$8,539,861	$7,511,059
Status of Budgetary Resources:			
H.	Obligations incurred:		
	Direct	$171,652	$(717,549)
	Reimbursable	6,659,961	6,723,163
	Subtotal	$6,831,613	$6,005,614
I.	Unobligated balance:		
	Apportioned	1,708,248	1,505,447
	Exempt from apportionment	0	0
	Other available	0	(2)
J.	Unobligated Balances Not Available	0	0
K.	Total, Status of Budgetary Resources	$8,539,861	$7,511,059
Relationship of Obligations to Outlays:			
L.	Obligated Balance, Net - beginning of period	$1,129,489	$821,673
M.	Obligated Balance transferred, net (+/-)	0	0
N.	Obligated Balance, Net - end of period:		
	Accounts receivable	(280,204)	(335,328)
	Unfilled customer order from Federal sources	(2,300,462)	(2,123,227)
	Undelivered orders	2,770,002	2,995,646
	Accounts payable	729,331	592,401
O.	Outlays:	-	
	Disbursements	6,516,428	6,311,883
	Collections	(6,274,399)	(5,944,608)
	Subtotal	$242,029	$367,275
P.	Less: Offsetting receipts	0	0
Q.	Net Outlays	$242,029	$367,275

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	2002 Combined	2001 Combined
Budgetary Resources Obligated		
1. Obligations incurred	$6,831,613	$6,005,613
2. Less: Spending authority from offsetting collections and recoveries (-)	(6,800,407)	(5,330,521)
3. Obligations net of offsetting collections and recoveries	$31,206	$675,092
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	$31,206	$675,092
Other Resources		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	0	0
8. Imputed financing from costs absorbed by others	109,884	105,030
9. Other (+/-)	0	0
10. Net other resources used to finance activities	$109,844	$105,030
11. Total resources used to finance activities	$141,090	$780,122
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	259,206	365,539
Unfilled Customer Orders	306,139	(697,406)
13. Resources that fund expenses recognized in prior periods	(4,133)	(4,377)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
15. Resources that finance the acquisition of assets	(338,258)	(2,660,662)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	0	(71,152)
17. Total resources used to finance items not part of the net cost of operations	222,954	(3,068,058)
18. Total resources used to finance the net cost of operations	$364,044	$(2,287,936)

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**2002 Combined**	**2001 Combined**
Components Requiring or Generating Resources in Future Periods:		
19. Increase in annual leave liability	$2,211	$0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0
23. Other (+/-)	1,128	16,675
24. Total components of Net Cost of Operations that will require or generate resources in future periods	$3,339	$16,675
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	105,065	85,460
26. Revaluation of assets or liabilities (+/-)	107,703	1,588,075
27. Other (+/-)	7,951	484,690
28. Total components of Net Cost of Operations that will not require or generate resources	$220,719	$2,158,225
29. Total components of net cost of operations that will not require or generate resources in the current period	$224,058	$2,174,900
30. Net Cost of Operations	$588,102	($113,036)

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the AWCF, as required by the "Chief Financial Officers Act of 1990," expanded by the "Government Management Reform Act of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the AWCF in accordance with the "DoD Financial Management Regulation," OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible Federal GAAP. The accompanying financial statements account for all resources for which the AWCF is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The AWCF's financial statements are in addition to the financial reports also prepared by the DoD pursuant to OMB directives that are used to monitor and control the AWCF' use of budgetary resources.

The AWCF is unable to implement fully all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial and nonfinancial management processes and systems. The AWCF derives its reported values and information for major assets and liability categories largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements according to Federal GAAP. As a result, the AWCF currently cannot implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The AWCF continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems. The AWCF provides a more detailed explanation of these financial statement elements in the applicable footnote.

B. Mission of the Army Working Capital Fund (AWCF)

Four separate activity groups make-up the AWCF: Supply Management, Depot Maintenance, Ordnance, and Information Services. These separate activities ensure delivery, as needed, of critical items such as fuel, repair parts, consumable supplies, depot maintenance services and information services to the Department's war fighters in the most efficient and cost-effective means available.

C. Appropriations and Funds

The Working Capital Fund (WCF) primarily operates through the use of revolving funds, however, they may be supplemented by appropriated funding. They receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. The AWCF generates financial resources by accepting customer's orders, which replenish the initial working capital and permit continuing operations. The Army Working Capital Fund operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

D. Basis of Accounting

The AWCF generally records transactions on an accrual accounting basis as required by Federal GAAP. For FY 2002, the AWCF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the AWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

The AWCF has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the processes are updated to collect and report financial information as required by Federal GAAP, some of the AWCF's financial data will be based on budgetary transactions (obligations, disbursements, collections), and nonfinancial feeder systems. For example, most information presented on the Statement of Net Cost is based on accrued costs, however, some of the information is based on obligations and disbursements.

In addition, the AWCF is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

E. Revenues and other Financing Sources

Depot Maintenance and Ordnance Working Capital Funds (WCF) recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items and Information Services recognizes revenue at the time the expense is incurred.

Other financing sources reported by the Department do not include non-monetary support provided by U.S. Allies for common defense and mutual security. The U.S. has agreements with foreign countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is serviced in a port. The DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the Department's financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses

F. Recognition of Expenses

For financial reporting purposes, the AWCF policy requires the recognition of operating expenses in the period incurred. The AWCF's expenditures for capital and other long-term assets are not recognized as operating expenses until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). 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 in which payment is made.

The AWCF adjusts operating expenses as a result of the elimination of balances between DoD Components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

G. Accounting for Intragovernmental Activities

The AWCF, 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 AWCF as though the agency was a stand-alone entity.

Public Debt

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

Civilian Retirement Systems

The AWCF's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS). Additionally, employees and personnel covered by FERS also have varying coverage under Social Security. The AWCF funds a portion of the civilian and military pensions. Reporting civilian pensions under the CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The AWCF 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.

Inter/Intragovernmental Elimination

Preparation of reliable financial statements requires transactions occurring between components or activities of the AWCF be eliminated. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the AWCF. However, the AWCF, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999 and beyond seller entities within the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal AWCF accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-AWCF intragovernmental balances then are 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 FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department was not able to implement fully the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The AWCF, however, was able to implement 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 the 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.

H. Transactions with Foreign Governments and International Organizations

Each year, the AWCF 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 loss to the U.S. Government. Customers may be required to make payments in advance.

I. Funds with the U.S. Treasury

The AWCF's financial resources are maintained in U.S. Treasury accounts. DFAS, Military Services, U.S. Army Corp of Engineers disbursing stations, and the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the 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 AWCF's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are reconciled subsequently. See Note 3, Fund Balance with Treasury for material disclosure. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

J. Foreign Currency

Not Applicable

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. The AWCF bases the allowances for uncollectible accounts that are due from the public upon analysis of collection experience. The AWCF does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are resolved between the agencies. See Note 5, Accounts Receivable for material disclosure.

L. Loans Receivable

Not Applicable

M. Inventories and Related Property

Inventories are reported at approximate historical cost using Latest Acquisition Cost (LAC) adjusted for holding gains and losses.

The AWCF uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Further, they cannot produce directly financial transactions using the United States Government Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).

The law distinguishes between "Inventory Held for Sale" and "Inventory Held in Reserve for Future Sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The AWCF holds material based on military need and support for contingencies. Therefore, the AWCF does not attempt to account separately for items held for "current" or "future" sale.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. Prior to FY 2002, the AWCF reported stocks on hand held for repair or consumed in production as OM&S. Beginning in FY 2002, all stock on hand not expensed is reported as inventory. Where current systems cannot support fully the consumption method, the AWCF uses the purchase method - that is, expensed when purchased.

The AWCF implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided in Note 9.

N. Investments in U.S. Treasury Securities

Not Applicable

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 or exceeds the DoD capitalization threshold of $100,000. Also, the AWCF requires capitalization of improvement costs over the DoD capitalization threshold of $100,000 for General PP&E. The AWCF depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on WCF financial statements.

Government Equipment in the Hands of Contractors

When it is in the best interest of the government, the AWCF provides to contractors government property necessary to complete contract work. The AWCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the AWCF's Balance Sheet. The AWCF completed a study that indicates that the value of General PP&E above the DoD capitalization threshold, not older than the DoD Standard Recovery Periods for depreciation and that are presently in the possession of contractors, is immaterial to the AWCF's financial statements. Regardless, the AWCF 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 AWCF currently reports only government property, maintained in the AWCF's property systems, in the possession of contractors.

To bring the AWCF into fuller compliance with federal accounting standards, the DoD has issued new property accountability and reporting regulations that require the AWCF to maintain, in DoD 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.

AWCF activities categorize all PP&E used in the performance of their mission as General PP&E, whether or not it meets the definition of any other PP&E categories. The AWCF is currently reporting no Heritage Assets or Stewardship Land. See Note 10, General PP&E, Net for material disclosures.

P. Advances and Prepayments

The AWCF records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. In addition, when the AWCF receives the related goods and services it recognizes advances and prepayments as expenditures and expenses.

Q. Leases

Not Applicable

R. Other Assets

The AWCF conducts business with commercial contractors under two primary types of contracts--fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the AWCF provides financing payments. In addition, provisions of the Federal Acquisition Regulations allow the AWCF to make financing payments under fixed price contracts that are not based on a percentage of completion. The AWCF reports these financing payments as advances or prepayments in the "Other Assets" line item. The AWCF treats these payments as advances or prepayments because the AWCF 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 AWCF is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the AWCF for the full amount of the advance.

The AWCF has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 Code of

Federal Regulations Part 1315, "Prompt Payment." The AWCF has concluded that SFFAS No. 1 does not address fully or adequately the subject of progress payment accounting and is considering appropriate action.

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 AWCF. 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 estimated reasonably. 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.

T. Accrued Leave

The AWCF reports civilian annual leave that has been accrued and not used as of the balance sheet date as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.

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 for the AWCF represent the excess of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception.

V. Treaties for Use of Foreign Bases

Not Applicable

W. Comparative Data

Beginning in FY 2001, the AWCF presents for comparative purposes the current and previous year's financial data in the financial statements, as well as in the notes to the principal statements.

In FY 2002, the Department modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, the Department's statements during this reporting period may not lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

X. Unexpended Obligations

The AWCF obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods/services not yet delivered.

Note 2. Nonentity and Entity Assets

As of September 30,
(Amounts in thousands)

	2002			2001
1. Intragovernmental Assets:	Nonentity	Entity	Total	
A. Fund Balance with Treasury	$0	$251,030	$251,030	$325,682
B. Investments	0	0	0	0
C. Accounts Receivable	0	221,978	221,978	276,355
D. Other Assets	0	48	48	27,007
E. Total Intragovernmental Assets	$0	$473,056	$473,056	$629,044
2. Non-Federal Assets:				
A. Cash and Other Monetary Assets	$0	$0	$0	$0
B. Accounts Receivable	0	16,419	16,419	22,622
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	11,319,284	11,319,284	10,791,279
E. General Property, Plant and Equipment	0	1,250,240	1,250,240	1,149,629
F Other Assets	0	251,298	251,298	274,330
G. Total Non-Federal Assets	0	$12,837,241	$12,837,241	$12,237,860
3. Total Assets:	$0	$13,310,297	$13,310,297	$12,866,904

4. Other Information:

Relevant Information for Comprehension

Assets are categorized as:

- Entity assets consist of resources that the AWCF has the authority to use, or where management is legally obligated to use funds to meet entity obligations.
- Nonentity asset are assets held by an entity, but are not available for use in the operations of the entity.

Note Reference

For Additional Line Item discussion, see:
Note 3, Fund Balance with Treasury
Note 4, Investments
Note 5, Accounts Receivable
Note 6, Other Assets

Note 3. Fund Balance with Treasury

As of September 30,
(Amounts in thousands)

	2002	2001
1. Fund Balances:		
A. Appropriated Funds	$0	$0
B. Revolving Funds	251,030	325,682
C. Trust Funds	0	0
D. Other Fund Types	0	0
E. Total Fund Balances	$251,030	$325,682
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$251,030	$325,682
B. Fund Balance per DoD	251,030	325,682
C. Reconciling Amount	$0	$0

3. Explanation of Reconciliation Amount:

4. Other Information:

Fluctuations and/or Abnormalities

Compared to the FY 2001 balance, the fund balance available for the AWCF decreased by $74,652 thousand (22.9%) as of September 30, 2002. By June of 2002 fund balance available for the operations of the AWCF fell to a level that posed the possibility of an anti-deficiency act violation. To alleviate this problem, the Under Secretary of Defense authorized the AWCF to advance bill unfilled project orders. Included in the fund balance is $200,000 thousand in advance billings against unfilled project orders in the Depot Maintenance and Ordnance activity groups. Also during FY 2002 the AWCF received cash infusions of $170,000 thousand. The cash infusion represents funds provided by the appropriated funds for under assessment of surcharges by the AWCF for services/goods provided in prior fiscal years.

Other Information Related to Fund Balance with Treasury

Relevant Information for Comprehension

Fund Balance Transfer

During the course of the fiscal year the AWCF maintains the net of reimbursements and disbursements of funds at the business area level. On September 30, 2002, the net of these figures is transferred to the component level that maintains the fund balance for the entire AWCF.

Intragovernmental Paying and Collecting (IPAC).

The Intragovernmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. IPAC difference figures reported for the Army include both Army General Fund Balance and AWCF balances. Efforts to separate the balances for the individual components have not been successful. Therefore, the Army General Fund statements include the amount applicable to the AWCF. A majority of the differences represent internal DoD transactions and, therefore, do not affect the FBWT at the DoD consolidated level. For individual entity level statements, however, these differences would affect the amount reported for the FBWT. The Department is working with the DFAS sites, the Department of the Treasury, and a Treasury Department contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2001. These actions will aid the AWCF in clearing many of the old balances and establishing better internal controls over the IPAC process. The Army reported IPAC difference greater than 180 days old as of September 30, 2002 was $6 thousand.

Check Issue Discrepancy.
The Army is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices, (2) the Department of the Treasury may not assist in research efforts for transactions over 1-year old, or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the AWCF and the Department of the Treasury for processing checks. The amount applicable to the AWCF cannot be identified separately. The Army currently is not requesting the Department of Treasury to remove any dollars from the check issue comparison report.

Deposit Differences.
The Deposit differences are reconcilable differences that represent deposit amounts reported by the Department of the Treasury or the organization. The amount applicable to the AWCF cannot be identified separately.

Note Reference
See Note Disclosure 1. I. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

Note 4. Investments

Not Applicable

Note 5. Accounts Receivable

As of September 30,
(Amounts in thousands)

	2002			2001
	Gross Amount Due	Allowance For Estimated Collectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables:	$221,978	N/A	$221,978	$276,355
2. Non-Federal Receivables the Public):	$16,419	$0	$16,419	$22,622
3. Total Accounts Receivable:	$238,397	$0	$238,397	$298,977

4. Allowance method:

5. Other information:

Fluctuations and/or Abnormalities

More emphasis on liquidating accounts receivable and more timely billings has resulted in a decrease of $54,375 thousand (20%) in federal accounts receivable and $6,203 thousand (27%) in non-federal accounts receivable. A change in revenue recognition by the depots and arsenals also contributed to this decrease. Prior to FY 2002 the AWCF set their billings equal to budgeted costs. During FY 2002 procedures were changed to bill for costs incurred. This resulted in a decrease in both accounts receivable and revenue.

Other Information Related to Accounts Receivables

Relevant Information for Comprehension

Allowance Method - The AWCF used the actual uncollectible written off over the last five years to establish an estimated allowance for uncollectibles. A review of accounting data accumulated over this period of time found that in FY 1999 $14.6 thousand had been charged to bad debts expense for an uncollectible accounts receivable, but nothing had been recorded in any of the other four years. Based on this data it was determined that any amounts that could be considered as uncollectible would be immaterial.

Intragovernmental Account Receivable Adjustments

Allocation of Undistributed Collections - As of September 30, 2002 accounting data for the AWCF reflect a balance of $36,744 thousand in undistributed collections. Reported intragovernmental accounts receivable includes this balance which is transparent to the reader of the statements as the balance was eliminated using the reporting entity as the "buyer side" trading partner.

Elimination Adjustments - The AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile intragovernmental accounts receivable balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

Intragovernmental Receivables Over 180 Days - Intragovernmental accounts receivable include $2,239 thousand in receivables over 180 days old.

Nonfederal Refunds Receivable

FY 2002 Non-Federal Refunds Receivable	FY 2002 Non-Federal Accounts Receivable (Net)	% of Net Amount
$5,325	$16,419	32%

Note Reference

See Note Disclosure 1.K. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

Note 6. Other Assets

As of September 30,2002
(Amounts in thousands)

		2002	2001
1.	**Intragovernmental Other Assets:**		
	A. Advances and Prepayments	$48	$27,007
	B. Other Assets	0	0
	C. Total Intragovernmental Other Assets	$48	$27,007
2.	**Non-Federal Other Assets:**		
	A. Outstanding Contract Financing Payments	$232,513	$252,714
	B. Other Assets (With the Public)	18,785	21,616
	C. Total Non-Federal Other Assets	$251,298	$274,330
3.	**Total Other Assets:**	$251,346	$301,337

4. Other Information Related to Other Assets:

Fluctuations and/or Abnormalities

Intragovernmental advances and prepayments decreased by $26,959 thousand (99.8%) from the reported 2001 balance. During any fiscal year the AWCF trading partners determine the balance shown in advances and prepayments based on their reported unearned revenue. In FY 2001, AWCF partners reported $27,007 thousand in unearned revenue and in FY 2002 they only reported $48 thousand. Of the balance reported in FY 2001, DLA Supply Management Material reported unearned revenue received from the AWCF of $26,986 thousand and in FY 2002 they reported no unearned revenue applicable to the AWCF.

Other Information Related to Other Assets

Relevant Information for Comprehension

Other Assets Non-Federal

Type of Assets		Amounts
Advances to Others		
Contractor Advance	$18,372	
Travel Advances	17	$18,389
Prepayments		396
Totals		**$18,785**

Outstanding Contract Financing Payments

The AWCF has reported outstanding financing payments for fixed price contracts as an advance and prepayment because, under the terms of the fixed price contracts, the AWCF 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 AWCF is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the AWCF for the full amount of the outstanding contract financing payments. The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 48, and 52; and the OMB guidance in 5 CFR

Part 1315, "Prompt Payment." The Department has concluded that the SFFAS No. 1, Accounting for Selected Assets and Liabilities does not address fully or adequately the subject of progress payment accounting and is considering what further action is appropriate.

Advances and Prepayments
In accordance with elimination guidance, the AWCF advances to others balances were adjusted to agree with seller-side advances from others on the books of other DoD reporting entities. Additionally, the AWCF buyer-side prepayment balances were adjusted to agree with deferred credits reported on the books of other DoD reporting entities. This resulted in an increase of reported advances and prepayments of $9,355 thousand.

Note Reference
See Note Disclosure 1. R. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

Note 7. Cash and Other Monetary Assets

Not Applicable

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

1. **Direct Loan and/or Loan Guarantee Programs: The entity operates the following direct loan and/or Loan guarantee program(s):**
   Military Housing Privatization Initiative
   Direct Loan Or Loan Guarantee Program Title

2. **Other Information:** None

Note 8.B. Direct Loans Obligated After FY 1991

Not Applicable

Note 8.C. Total Amount of Direct Loans Disbursed

Not Applicable

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

Not Applicable

Note 8.E. Subsidy Rate for Direct Loans

Not Applicable

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

Not Applicable

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

Not Applicable

Note 8.H. Guaranteed Loans Outstanding

Not Applicable

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

Not Applicable

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

Not Applicable

Note 8.K. Subsidy Rate for Loan Guarantees

Not Applicable

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

Not Applicable

Note 8.M. Administrative Expense

Not Applicable

Note 9. Inventory and Related Property

As of September 30,
(Amounts in thousands)

	2002	2001
1. Inventory, Net (Note 9.A.)	$11,319,284	$10,708,913
2. Operating Materials & Supplies, Net (Note 9.B.)	0	82,366
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	$11,319,284	10,791,279

Note 9.A. Inventory, Net

As of September 30
(Amounts in thousands)

	2002			2001	
1. Inventory Categories:	**Inventory, Gross Value**	**Revaluation Allowance**	**Inventory, Net**	**Inventory, Net**	**Valuation Method**
A. Available and Purchased for Resale	$10,458,038	($297,734)	10,160,304	$9,288,643	LAC
B. Held for Repair	2,135,597	(981,417)	1,154,180	1,375,105	LAC
C. Excess, Obsolete, and Unserviceable	359,309	(359,309)	0	5,841	LAC
D. Raw Materials	0	0	0	0	
E. Work in Process	4,800	0	4,800	39,324	SP
F. Total	$12,957,744	($1,638,460)	11,319,284	$10,708,913	

Legend for Valuation Methods:

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

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

3. Other Information:

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, fuels, and ammunition. Inventory is tangible personal property that is:

1) Held for sale, or held for repair for eventual 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 repair" is damaged material that requires repair to make it usable. "Excess inventory" is condemned material that must be retained for management purposes. "Work in process" includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The USSGL does not include a separate work in process account unrelated to sales.

Balances

In addition to the account balances shown in Table 9.A., the Federal Accounting Standard requires disclosure of the amount of inventory held for "future sale." The AWCF estimates that $73,400 thousand of the Inventory held for sale will be sold more than 24 months after the end of FY 2002.

Restrictions of Inventory Use, Sale or Disposition

There are no restrictions on the use, sale, or disposition of inventory except in the following situations:

1) Distributions without reimbursement are made when authorized by DoD directives;

2) War Reserve Material includes fuels and subsistence items that are considered restricted; and

3) Inventory, with the exception of safety stocks, 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 President.

Decision Criteria for Identifying the Category to Which Operating Materials and Supplies are Assigned

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

Changes in the Criteria for Identifying the Category to Which Inventory is Assigned

The category "Held for Sale" includes all issuable material. The category "Held for Repair" includes all economically reparable material. Before FY 2002, the Department showed "Potentially redistributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

Other information Related to Inventory, Net

<u>Other AWCF Disclosures</u>

The Office of the Undersecretary of Defense Comptroller issued guidance during FY 2002 directing the reported balance of material held by Depot Maintenance and Ordnance to be reported as Inventory. In previous years this material was reported as Operating Materials and Supplies. This change resulted in an increase in inventory of $139,718 thousand. The 2001 Inventory Value shown above of $10,708,913 thousand was not restated to include the FY 2001 Operating Material & Supplies (see footnote 9.B.). A direct appropriation of $163,600 thousand issued for the purpose of procuring additional inventory and a transfer-in of inventory from the Army General Fund of $74,349 thousand also contributed to the increase.

Note 9.B. Operating Materials and Supplies, Net

(Amounts in thousands)

1. OM&S Categories:	2002 OM&S Gross Value	2002 Revaluation Allowance	2002 OM&S, Net	2001 OM&S, Net	2001 Valuation Method
A. Held for Use	$0	$0	$0	$81,982	
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	384	
D. Total	$0	$0	$0	$82,366	

Legend for Valuation Methods:

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

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

2. Restrictions on OM&S:

3. Other Information:

Fluctuations and/or Abnormalities

Reported OM&S decreased to zero in FY 2002. See footnote 9.A. Other AWCF Disclosures for further discussion.

Note 9.C. Stockpile Materials, Net

Not Applicable

Note 10. General PP&E, Net

As of September 30,
(Amounts in thousands)

1. Major Asset Classes:	Depreciation/ Amortization Method	Service Life	2002 Acquisition Value	2002 (Accumulated Depreciation/ Amortization)	2002 Net Book Value	2001 Prior FY Net Book Value
A. Land	N/A	N/A	$10,254	N/A	$10,254	$10,270
B. Buildings, Structures and Facilities	S/L	20 Or 40	1,721,880	($1,130,232)	591,648	424,803
C. Leasehold Improvements	S/L	lease term	95,320	(67,926)	27,394	30,460
D. Software	S/L	2-5 Or 10	198,092	(60,725)	137,367	44,530
E. Equipment	S/L	5 Or 10	1,477,632	(1,031,364)	446,268	583,336
F. Assets Under Capital Lease[1]	S/L	lease term	0	0	0	0
G. Construction-in-Progress	N/A	N/A	37,299	N/A	37,299	37,188
H. Other			10	0	10	19,042
I. Total General PP&E			$3,540,487	($2,290,247)	$1,250,240	$1,149,629

[1]Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

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

2. **Other Information:**

Other Information Related to General PP&E, Net

Other AWCF Disclosures

Leasehold Improvements - The entire amount shown on this line is for improvements being made to facilities at Corpus Christi Army Depot (CCAD). CCAD uses facilities on a Navy installation as a tenant with an ownership code on the real property records of Permit, Military. Improvements made on these facilities are recorded as leasehold improvements.

Buildings, Structures and Facilities increased due to an addition of $155,000 thousand for a chemical burn incinerator at Anniston Army Depot.

Note Reference

See Note Disclosure 1. N. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment (PP&E).

Note 10.A. Assets Under Capital Lease

Not Applicable

Note 11. Liabilities Not Covered and Covered by Budgetary Resources

As of September 30,
(Amounts in thousands)

	2002			2001
1. Intragovernmental Liabilities:	Covered by Budgetary Resources	Not Covered By by Budgetary	Total	
A. Accounts Payable	$77,527	$0	$77,527	$67,186
B. Debt	0	0	0	0
C. Environmental Liabilities	0	0	0	0
D. Other	211,913	50,126	262,039	118,905
E. Total Intragovernmental Liabilities	$289,440	$50,126	$339,566	$186,091

As of September 30,
(Amounts in thousands)

	2002			2001
2. Non-Federal Liabilities:	Covered by Budgetary Resources	Not Covered By by Budgetary	Total	
A. Accounts Payable	$511,007	$0	$511,007	$355,450
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	304,524	304,524	308,657
C. Environmental Liabilities	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	138,693	73,362	212,055	209,928
F. Total Non-Federal Liabilities	$649,700	$377,886	$1,027,586	$874,035
3. Total Liabilities:	$939,140	$428,012	$1,367,152	$1,060,126

4. **Other Information:**

Liabilities Not Covered and Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity that are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

Other Information Related to Liabilities Not Covered by Budgetary Resources

Other Liabilities consists of the following, in thousands of dollars:

Types

Intragovernmental - Other Liabilities	**Covered**	**Not Covered**
Advances From Others	$204,747.7	$0.0
FECA Reimbursement to the Dept of Labor	0.0	50,125.9
Employers share of VSIP	30.5	0.0
Employers share of CSRS/FERS, FEGLI, and FEHB	7,134.4	0.0
Total	$211,912.6	$50,125.9

Non-Federal -Other Liabilities	**Covered**	**Not Covered**
Accrued Funded Payroll and Benefits	$71,913.9	$0
Advances From Others	31,278.7	0
Accrued Unfunded Annual Leave	0.0	73,362.3
Contract Holdbacks	20,911.7	0
Employers Contribution to Thrift Savings Plan	2,814.1	0
Taxes payable (payroll withholding)	11,774.1	0
Total	$138,692.5	$73,362.3
Total Other Liabilities	$350,605.2	$123,488.2

<u>Non-Federal Liabilities - Accounts Payable</u>: The increase in Non-Federal Payables is due to an increase of $108,036.8 thousand in accounts payable and a decrease of $47,519.2 thousand in undistributed disbursements in-transit and unmatched disbursements. The balances are applied to reduce Nonfederal Payables. This decrease in Unmatched Disbursements caused a related increase in Nonfederal payables.

<u>Intragovernmental Liabilities - Other</u>: During FY 2002 Other Intragovernmental Liabilities increased by $143,134 thousand (120 percent). This resulted from advance billing authority that was granted to the depots

and arsenals to avoid an Anti-deficiency Act violation. As of the end of FY 2002, the AWCF advance billing ran in the $200 million range.

Note Reference

For Additional Line Item discussion, see:
Note 12, Accounts Payable
Note 15, Other Liabilities
Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

Note 12. Accounts Payable

As of September 30,
(Amounts in thousands)

	2002			2001
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables:	$77,527	N/A	$77,527	$67,186
2. Non-Federal Payables (to the Public):	511,007	0	511,007	355,450
3. Total	$588,534	$0	$588,534	$422,636

4. Other Information:

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Payables (to the Public) are payables for debts owed to individuals and entities outside the federal government.

Other Information Related to Accounts Payable

Relevant Information for Comprehension

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329 and DD 1400. This should agree with the undistributed disbursements reported on accounting reports (SF 133/ (M) 1002/ (M) 1307). Intransit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities outstanding accounts payable balance at year-end. Accounts payable were adjusted downward in the amount of $124,716.4 thousand for these payments.

Intragovernmental Eliminations

For the majority of intra-agency sales the Army WCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army WCF was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable.

The DoD summary level seller accounts receivables were compared to the Army WCF's accounts payable. An adjustment was posted to the Army WCF's accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to the Army WCF. Positive differences were treated as unrecognized accounts payable and in the case of the Army WCF, accounts payable were adjusted upwards in the amount of $61,717.1 thousand.

The Department [DoD] intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Other Disclosures

The increase in Non-Federal Payables of $155,557 thousand is due to an increase of $108,036.8 thousand in accounts payable over FY 2001. This increase in accounts payable is a result of the increased acquisitions in the Supply Management Activity Group to support the War on Terrorism. Also impacting the increase in accounts payable is a decrease in Disbursements In Transit (Unmatched Disbursements) of $47,519.2 thousand. Unmatched Disbursements are applied to reduce Nonfederal Payables. Therefore, this decrease in Unmatched Disbursements caused a related increase in Nonfederal payables.

Note Reference

See Note Disclosure 1. G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

Note 13. Debt

Not Applicable

Note 14. Environmental Liabilities and Disposal Liabilities

Not Applicable

Note 15.A. Other Liabilities

As of September 30,
(Amounts in thousands)

		2002			2001
1. Intragovernmental:		Current Liability	Noncurrent Liability	Total	Total
A.	Advances from Others	$204,748	$0	$204,748	$46,442
B.	Deferred Credits	0	0	0	0
C.	Deposit Funds and Suspense Account Liabilities	0	0	0	0
D.	Resources Payable to Treasury	0	0	0	0
E.	Disbursing Officer Cash	0	0	0	0
F.	Non-environmental Disposal Liabilities:				
	(1) National Defense PP&E (Non-nuclear)	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.	Judgment Fund Liabilities	0	0	0	0
I.	FECA Reimbursement to the Department of Labor	21,789	28,337	50,126	48,998
J.	Capital Lease Liability	0	0	0	0
K.	Other Liabilities	7,165	0	7,165	23,464
L.	Total Intragovernmental Other Liabilities	$233,702	$28,337	$262,039	$118,904
2. Non-Federal:					
A.	Accrued Funded Payroll and Benefits	$71,914	$0	$71,914	$68,578
B.	Advances from Others	31,279	0	31,279	41,547
C.	Deferred Credits	0	0	0	1,897
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	0	0	0	0
G.	Temporary Early Retirement Authority	0	0	0	0
H.	Non-environmental Disposal Liabilities:				
	(1) National Defense PP&E (Non-nuclear)	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	73,362	0	73,362	71,152
K.	Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L.	Capital Lease Liability	0	0	0	0
M.	Other Liabilities	35,500	0	35,500	26,754
N.	Total Non-Federal Other Liabilities	$212,055	$0	$212,055	$209,928
3. Total Other Liabilities:		$445,757	$28,337	$474,094	$328,832

4. Other Information:

Relevant Information for Comprehension

Advances from Others

Advances from Others increased by $158,305.4 thousand or 340.86%. This increase is due to advance billings that were authorized for the Army Depot Maintenance and Army Ordnance activities. See Note 21, Disclosures Related to the Statement of Budgetary Resources, for further disclosures related to the advance billing authorization.

Federal Employment Compensation Act (FECA)

The FECA is administered by the Department of Labor (DoL), Office of Workers' Compensation Programs (OWCP). Workman's Compensation claims are submitted to and approved by the Department of Labor (DoL). DoL pays the claim holders. DoL then prepares a chargeback billing to the responsible Agencies. P.L. 93-416, Section 8147 (the FECA law) essentially gives Agencies two years to pay the chargeback bill; thereby allowing time for the applicable amount to be included in budget submissions. Pursuant to the FECA law, once funding is received, it should be paid within 30 days. The current liability shown is the amount payable during FY 2003, while the noncurrent liability shown is the amount payable during FY 2004.

Other Liabilities consists, in thousands of dollars, of the following:

Types	FY 2002	FY 2001
Intragovernmental - Other Liabilities		
Employers share of VSIP	$30.5	$668.4
Employers share of CSRS, FERS, FEGLI, and FEHB	$7,134.4	4,765.9
Taxes Payable	$0.0	$18,030.0
Total	$7,164.9	$23,464.3
Non-Federal -Other Liabilities		
Contract Holdbacks	$20,911.7	$23,965.2
Employers Contributions to Thrift Savings Plan and Taxes Payable	14,588.2	2,788.6
Total	$35,499.9	$26,753.8
Total	$42,664.8	$50,218.1

Taxes Payable were reported as Intragovernmental Other Liabilities in FY 2001. In FY 2002, a decision was made to report these instead as part of Non-Federal Other Liabilities. The basis of this decision was the fact that, while the taxes payable will be remitted to the Department of the Treasury, they are not actually a debt to the Treasury, but to the individual from whose pay the taxes were withheld. In thousands of dollars, the FY 2002 accrued taxes payable total $11,774.1 thousand and the Employer Contributions to Thrift Savings Plan total $2,814.1 thousand.

Note Reference

See Note Disclosure 1. S. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

Note 15.B. Capital Lease Liability

Not applicable.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

As of September 30, 2002, the Army Working Capital Fund was awaiting an arbitration hearing date for claims for Hazardous Duty Pay by GS Employees at Corpus Christi Army Depot with possible damages of $20 million. We are unable to express an opinion about the likely outcome of this case.

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

As of September 30,
(Amounts in Thousands)

	2002				2001
1. Pension and Health Benefits:	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	Less:Assets Available to Pay Benefits	Unfunded Actuarial Liability	Unfunded Actuarial Liability
A. Military Retirement Pensions	$0		$0	$0	$0
B. Military Retirement Health Benefits	0		0	0	0
C. Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Benefits	$0		$0	$0	$0
2. Other					
A. FECA	$304,524		$0	$304,524	$308,657
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. [Enter Program Name}	0		0	0	0
E. Total Other	$304,524		$0	$304,524	$308,657
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$304,524		$0	$304,524	$308,657

4. Other Information:

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

Federal Employment Compensation Act (FECA)

The Army's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments then are discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits.

The Army Working Capital Fund (AWCF) computes its portion of the total Army actuarial liability based on the percentage of total Army current and noncurrent FECA liability accrued by the AWCF. The decrease between Fiscal Years (FYs) 2001 and 2002 shown above is due to a decrease in AWCF current and noncurrent liability during FY 2002. See Note 15A, Other Liabilities, for information on the FECA current and noncurrent liability.

Note 18. Unexpended Appropriations

As of September 30,
(Amounts in Thousands)

	2002	2001
1. Unexpended Appropriations:		
A. Unobligated, Available	$25	$25
B. Unobligated, Unavailable	0	0
C. Unexpended Obligations	30,018	38,835
D. Total Unexpended Appropriations	$30,043	$38,860

2. Other Information:

Relevant Information For Comprehension

During FY 2002, the AWCF received, obligated, and expended, $167,400.0 thousand of Appropriated Funds. See Note 21A, Disclosures Related to the Statement of Budgetary Resources, for further details.

AWCF Supply Management

The AWCF Supply Management business area received during FY 2000 a $62,000 thousand appropriation for the procurement of war reserve material. The following events have occurred since FY 2000:

During FY 2000 - $321 thousand of this appropriation was rescinded, $55,964.9 thousand was obligated, and $25.0 thousand remained available for use in FY 2001.

During FY 2001 - $15,461.6 thousand of downward adjustments were made to the obligations recorded in FY 2000 and $1,668.0 thousand of the FY 2000 obligations were expended.

During FY 2002 - $9.1 thousand of downward adjustments were made to the obligations recorded in FY 2000 and $8,826.7 thousand of the FY 2000 obligations were expended. On September 30, 2002, $25.0 thousand remained available for use in FY 2003 and $30,017.7 thousand remained obligated, but unexpended.

Unexpended Obligations

Unexpended obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated funds. This amount is distinct from Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet

Received (Line 12) of the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

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

Disclosures Related to the Statement of Net Cost

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

Working Capital Fund

While the Army Working Capital Funds (WCFs) generally record transactions on an accrual basis as is required by generally accepted accounting principles, the systems do not capture always actual costs. Information presented on the Statement of Net Cost (SoNC) is based primarily on budgetary obligation, disbursements, or collection transactions, as well as information from nonfinancial feeder systems.

Other Information Related to Gross Cost to Generate Intragovernmental Revenue and Earned Revenue (Note 19C)

Relevant Information for Comprehension

The Department's accounting systems do not capture cost data in a manner that enables the Department to determine if the cost was incurred to generate intragovernmental revenue. Therefore, the Department was unable to complete this note. The Department is in the process of upgrading its financial and feeder systems and will be addressing this issue. Additionally, the identification of intragovernmental revenue and expenses is a government-wide problem. The OMB and the Department of the Treasury have efforts underway to develop government-wide guidance to enable accurate reporting of intragovernmental transactions. The primary cause of the fluctuations in the Statement of Net Cost is the increase of Army activities during FY 2002. However, two other items also affected the gross and net balances. Elimination balancing entries to bring our buyer-side costs into agreement with the seller-side revenues caused a shift of $5,689,625.9 thousand in Intragovernmental Gross and Net Costs to Public Gross and Net Costs. This explains the decrease of 25.9% in Intragovernmental Gross Costs and the increase of 47.7% in Gross Costs With the Public. These entries are further explained in Note 19I. The other factor influencing the costs and revenues is a policy change in recording Prior Period Adjustments. As of FY 2002, Prior Period Adjustments are to be recorded only if material. If not material, the adjustments are to be applied as current year activity. AWCF Prior Period Adjustments were deemed to be immaterial, and therefore a $289,555.8 thousand decrease was applied to Gross Costs With the Public, with a $30,845.5 thousand increase applied to Earned Revenue From the Public.

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

Not Applicable

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

Note 19.D. Imputed Expenses

As of September 30,
(Amount in thousands)

	2002	2001
1. Civilian (e.g.,CSRS/FERS) Retirement	$49,291	$46,012
2. Civilian Health	60,422	58,857
3. Civilian Life Insurance	171	162
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	$109,884	$105,031

Note 19.E. Benefit Program Expenses

Not Applicable

Note 19. F. Exchange Revenue

Disclosures Related to the Exchange Revenue:

Exchange Revenue - arises when a Government entity provides goods and services to the public or to another Government entity for a price, - "earned revenue." Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges.

Depot Maintenance and Ordnance Working Capital Funds (WCF) recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

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

Not Applicable

Note 19.H. Stewardship Assets

Not Applicable

Note 19.I. Intragovernmental Revenue and Expense

Disclosures Related to Intragovernmental Revenue and Expense:

Intragovernmental Revenue

For the majority of buyer-side transactions, the Army Working Capital Fund's (WCF) accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the WCF was unable to reconcile intragovernmental accounts payable balances with its trading partners. The Department intends to develop long-term system improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished with the existing or foreseeable resources.

Operating Expenses

The Army WCF's operating expenses were adjusted based on a comparison between the Army WCF's accounts payable and the DoD summary level seller accounts receivables. In addition, the Army WCF's operating expenses also were adjusted based on a comparison between the Army WCF's expenses and the DoD summary level seller revenues. The adjustments posted were an upward adjustment of $61,717.1 thousand to accounts payable and a downward adjustment of $5,689,625.9 thousand to operating expenses.

Note 19.J. Suborganization Program Costs

Not Applicable

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

As of September 30,
(Amounts in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
1. Prior Period Adjustments Increases Decreases) to Net Position Beginning Balance:				
A. Changes in Accounting Standards	$0	$0	$0	$0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	1,463,817	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	0	$0	$1,463,817	$0
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$49,291	$0	$46,012	$0
B. Civilian Health	60,422	0	58,857	0
C. Civilian Life Insurance	171	0	162	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	0	0	0	0
G. Total Imputed Financing	$109,884	$0	$105,031	$0

3. Other Information:

Relevant Information for Comprehension

Prior Period Adjustments

Errors and Omissions in Prior Year Accounting Practices have decreased $1,463,816.6 thousand (100%). As of Fiscal Year (FY) 2002, The Department of the Treasury has emphasized the usage of USSGL accounts 7400 and 7401 for material changes only. Use of these accounts should be infrequent. Prior Period Adjustments for Army Working Capital Fund (WCF) for FY 2002 were not considered to be material amounts. Transactions that would have been classified as Prior Period Adjustments were recorded instead to expense and revenue accounts as if they had occurred during the current fiscal year. The net amount of Prior Period Adjustments, in thousands of dollars, that were reclassified as current year activity is as follows:

Depot Maintenance	$23,793.9	Ordnance	$158,182.8
Information Services	$6,510.7	Supply Management	$321,857.2

The Nonexchange Revenue reported on the Statement of Changes in Net Position represents cash infusions relating to prior period earnings. Cash infusions are movements of prior year Army Operations and Maintenance funds into the proper Army Working Capital Fund General Ledger accounts. These were reported as Prior Period Adjustments during FYs 2001 and previous. Depot Maintenance reported $7,793.4 thousand and Ordnance reported $162,242.8 thousand during FY 2002.

Other Budgetary Financing Sources

Other Budgetary Financing Sources represents:

- A decrease in Material Returns Liability for 63,902.7 thousand and
- Transfers In/Out Without Reimbursement for $70,619.5 thousand for which a trading partner could not be identified and $68,276.2 thousand due to Single Stock Fund M-3 Capitalized VIOC items received from the Army General Funds.
- The increase between FY 2001 and FY 2002 is due to $1,953.3 thousand transferred out without a trading partner in FY 2001 compared to $139.0 thousand transferred in without trading partner information during FY 2002 and a decrease in Material Returns Liability from $394.4 thousand in FY 2001 to $63.9 thousand in FY 2002.

Appropriations Used

The increase is due to $163,300 thousand Direct Appropriations received for Spare Parts and War Reserves and $4,100 thousand in current year funding to offset utility expense. All Direct Appropriations received during FY 2002 were used during FY 2002, as well as additional Expended Appropriation of $7,000 thousand from Unexpended Funds Obligated in Prior Fiscal Years.

Other Financing Sources

The increase in Transfers In/Out Without Reimbursement is due to the transfer in of $74,000 thousand in inventory from Milestone 3 of Single Stock Fund, transferred in from Army General Fund.

Note Reference

For Additional Line Item discussion, see:
Note 19, General Disclosures Relating to the Statement of Net Cost
Note 21, Disclosures Related to the Statement of Budgetary Resources

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

As of September 30,
(Amounts in thousands)

	2002	2001
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$2,801,419	$3,060,625
2. Available Borrowing and Contract Authority at the End of the Period	$2,375,862	$2,309,254

3. Other Information:

Other Information Related to the Statement of Budgetary Resources

Relevant Information for Comprehension

Apportionment Categories

Net amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period consists of $30,017.7 thousand Direct Obligations and $2,771,401.5 thousand Reimbursable Obligations. Please see Note 18, Unexpended Appropriations, for details on the Direct Obligations.

During Fiscal Year (FY) 2002, the Army Working Capital Fund (WCF) incurred Direct Obligations of $171,651.9 thousand and Reimbursable Obligations of $6,659,960.8 thousand as shown on the Statement of Budgetary Resources "Obligations Incurred."

Primary funding for the Army WCF is earned through customer orders, as described in Note 1C. In addition to revenues earned, Direct Appropriations, in thousands of dollars, were received by the following business areas during FY 2002:

Ordnance	$1,400.0	Depot Maintenance	$2,300.0
Supply Management	$163,600.0	Information Service	$100.0

These appropriations are permanent, indefinite appropriations, available for obligation until exhausted, for the purpose of continuing business operations and maintenance of the corpus. The unobligated balance of these appropriated funds as of September 30, 2002 is $25.0 thousand (Supply Management business area). The obligated balance is $30,017.7 thousand (Supply Management business area).

Unobligated balances from Spending Authority from offsetting collections (revenues earned) as of September 30, 2002, in thousands of dollars, by business areas are:

Ordnance	$583,260.2	Depot Maintenance	$983,9163.1
Supply Management	$1,105.9	Information Service	$39,966.1
Component	$100,00.0		

Available borrowing and contract authority as of September 30, 2002, in thousands of dollars, is as follows:

Type	New Contract Authority For FY 2002	Unobligated Balance Beginning of Period	Contract Authority Available 9/30/2002
Ordnance	$2,212.2	$2,842.4	$5,054.6
Depot Maintenance	704.4	7,269.5	7,973.9
Supply Management	63,691.4	2,299,141.7	2,362,833.1
Total AWCF	$66,608.0	$2,309,253.6	$2,375,861.6

Other Army WCF Disclosures:

- The Army WCF was unable to make eliminating entries in the Statement of Budgetary Resources and therefore presented a Disaggregated Statement of Budgetary Resources in the Required Supplementary Information section of the financial statements.

- Transfers In and Out of property for the Army WCF and transfers of collections and disbursements to the Component level for applicable Defense WCFs, which are reflected on the Statement of Changes in Net Position, are not included in Transfers In/Out Without Reimbursement on the Statement of Budgetary Resources. The Transfers In reflected in the FY 2001 column for $6,100 thousand was a Consumable Item Transfer (CIT) between the AWCF and the Defense Logistics Agency (DLA), in which the AWCF gave up title to inventory to the DLA, who transferred unobligated authority to the AWCF in return. This type of transfer did not occur during FY 2002, so Net Transfers decreased 100% to $0.

- Advance billings were authorized for the Army Depot Maintenance and Army Ordnance activities, up to $200,000.0 thousand. This step was taken to maintain the minimum corpus requirement of $297,000.0 thousand. This action was primarily necessary due to excessive credit being provided to Supply Management customers. The Army has taken action to restrict their credit percentage to the approved budget ratio of 39.2 percent of sales. These advance billings are the primary cause of the decrease in Receivables From Federal Sources of $33,140.7 thousand, or 37.55%, and the increase in Unfilled Orders With Advance of $104,400.1 thousand, or 426%. These advance billings, along with an increase in Earned collections, also contributed to the decrease in Net Outlays of $125,246.4 thousand, or 34.10%.

- Change in unfilled customer orders without advance from federal sources increased by $899,145 thousand (125%) primarily because of the increase in backorders in the Supply Management activity group due to the non-availability of spares.

- Direct Obligations increased by $889,201.5 thousand (123.92%). This is due to the fact that $740,669.1 thousand in Reimbursable Obligations were crosswalked incorrectly to Direct on the FY 2000 reports. A crosswalk correction was made during FY 2001 to correct these balances, which caused the FY 2001

Direct Obligations Incurred to appear to be negative $717,549.6 thousand. The true Direct Obligations Incurred during FY 2001 was $23,199.6 thousand. Therefore, the true change between Direct Obligations Incurred in FY 2002 and Direct Obligations Incurred in FY 2001 is an increase of $148,532.4 thousand.

- Unobligated Balance Apportioned increased by $202,802.0 thousand (13%) due to the receipt of and obligation of direct appropriations. Appropriations received by business area are noted above.
- The increase in accounts payable is commensurate with the increase in acquisition within the Supply Management activity group.
- The AWCF is unable to implement fully all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial and nonfinancial management processes and systems. See Note 1, Significant Accounting Policies, for a full disclosure of accounting policies not in compliance with these standards.

Undelivered Orders

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds. The AWCF has not implemented fully the U.S. Standard General Ledger (USSGL) in all operational accounting systems.

Spending Authority from Offsetting Collections

Adjustments in funds that temporarily are not available pursuant to Public Law, and those that permanently are not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in the "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Adjustments" line on the Statement of Financing.

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

As of September 30,
(Amounts in thousands)

	Sep 2000	Sep 2001	Sep 2002	(Decrease)/Increase from 2001 to 2002
1. Total Problem Disbursement				
A. Absolute Unmatched Disbursements	$36,757	$7,241	$17,301	$10,060
B. Negative Unliquidated Obligations	34,859	11,708	4,477	(7,231)
2. Total In-transit Disbursements, Net	$220,448	$83,580	$65,368	$(18,212)

3. Other Information Related to Problem Disbursements and In-transit Disbursements:

Relevant Information for Comprehension

Definitions

Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.

UMDs occur when payments do not match to a corresponding obligation in the accounting system.

NULOs occur when payments have a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

In-Transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not posted yet in an accounting system.

Aged UMDs and NULOs

The Army WCF has $17,301.3 thousand in absolute value aged UMDs, $4,476.6 thousand in aged NULOs, and $65,367.6 thousand in aged in-transit disbursements that represent disbursements of Army WCF funds that have been reported by a disbursing station to the Department of the Treasury but have not been matched precisely yet against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the Army WCF's various contracting, disbursing, and accounting systems fail to match the data necessary to account properly for the disbursement transactions in all applicable accounting systems. The Army WCF has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements.

The Problem Disbursement Reduction Goal is stated in Absolute Value UMDs, NULOs, and Net Intransits. Therefore, the UMDs presented above are shown in absolute value for comparison to the official Reduction Goal. However, in prior years, Net UMDs and NULOs were reported together on the "Problem Disbursements" line of Note 21. In order to facilitate comparability with prior years and comprehension of the net dollar amounts, the Net UMDs and NULOs, in thousands of dollars, are shown in the table below.

Problem Disbursement Type	FY 2000	FY 2001	FY 2002
Net UMDs	$22,089.4	$3,355.0	$6,346.5
NULOs	34,858.7	11,707.7	4,476.6
Total Net Problem Disbursements	$56,948.1	$15,062.7	$10,823.1

4. Suspense/Budget Clearing Accounts, Net

Account	Sep 2000	Sep 2001	Sep 2002	(Decrease)/Increase
F3875	$0	$0	$0	$0
F3880	0	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
Total	$0	$0	$0	$0

5. **Other Information Related to Suspense/Budget Clearing Accounts:**
The Suspense/Budget Clearing Accounts shown above are maintained and reported by the Army General Funds. Some transactions relating to the Army WCF may be in suspense accounts, but these transactions are not identifiable. When they are identified to the Army WCF, they will be transferred from the suspense/clearing account to the correct Treasury appropriation of 97X4930.1.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing

The objective of the Statement of Financing is to make users understand the difference between budgetary and net cost of operations reported. The statement provides this understanding through a comprehensive reconciliation process.

Other Information Related to the Statement of Financing

Statement of Financing

The statement of financing was expanded to further articulate and detail the relationship between net obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect their components. Several new line items were added to identify separately and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

"Net Cost of Operation" in the 2001 column of the Statement of Financing shows ($113,036) thousand compared to $126,474 thousand in the Statement of Net Cost, and the amount reflected on the FY 2001 statements. This is due to a change in DoD policy for mapping USSGLs to this statement. In FY 2001 and prior years, the unfunded liabilities were posted based on the change in the liability accounts. In FY 2002, this was changed to map liabilities based on the expense accounts. Both mapping policies are approved by Treasury.

The AWCF had been instructed in FY 2001 and prior years to post all expenses to USSGL 6500, Cost of Goods Sold, which does not crosswalk to the Statement of Financing under the new mapping policy. As of FY 2002, this policy was changed to promote posting of expenses to the relevant expense accounts for Benefits, Unfunded Expenses, and Future Funded Expenses, which do crosswalk to the Statement of Financing.

Posting of the expense related to unfunded liabilities during preparation of the FY 2001 financial statements created a $239,508 thousand decrease in Financing Sources, creating the apparent decrease in Net Cost compared to the Statement of Changes in Net Position and the Statement of Net Cost. Specifically, differences related to the unfunded annual leave were in the amount of $65,072 thousand, Unfunded FECA liability were $35,353 thousand, and $139,083 thousand for the FECA Actuarial liability. These decreases affect the following three lines: Resources that fund expenses recognized in prior periods, Other resources or adjustments to net obligated resources that do not affect net cost of operations (Other), and Other components of the net cost of operations that will not require or generate resources in the current period. DoD policy on this change was to footnote the differences rather than to correct the comparative statements.

Budgetary data is not in agreement with Proprietary Expenses and Asset Capitalized. This causes a difference in Net Cost between the Statement of Net Cost and the Statement of Financing. "Resources that Finance the Acquisition of Assets" was adjusted by negative $338,260.1 thousand in order to bring the statements into balance. Differences between budgetary and proprietary data for the AWCF are a previously identified deficiency.

Other Material Changes

Other Resources Used to Finance Items not Part of the Net Cost of Operations has decreased from $71,151.6 thousand to $0, or 100%. This is due to the fact that, in FY 2001, Accrued Annual Leave was reclassified as Unfunded. In prior years, it had been classified as funded. In FY 2001, this reclassification was accomplished by use of a Prior Period Adjustment. In FY 2002, no such adjustment was required.

Other Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period has decreased by $15,547.1 thousand, or 93.24%. This is due to the recording of FECA Actuarial Liability. The Actuarial Liability is computed based on the FECA current and noncurrent liability. In FY 2001, the FECA current and noncurrent liability had increased from FY 2000. Therefore, the FECA Actuarial Liability booked for FY 2001 $12,297.9 thousand was an increase from the preceding balance. In FY 2002, the FECA current and noncurrent liability had decreased from FY 2001. Therefore, the Actuarial Liability to be booked in FY 2002 (negative $4,132.9 thousand) was a reduction from the preceding balance.

Other Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period have decreased by $481,284.4 thousand, or 93.24%. This is due to the fact that the Supply Management business area had recorded $484,560.3 thousand of Gains on Dispositions of Assets during FY 2001. During FY 2002, the Supply Management business area booked no Gains on Disposal of Assets. Instead, a Loss on Disposal of Assets of $432,613.6 thousand was incurred.

Liabilities Not Covered by Budgetary Resources

The Army Working Capital Fund (WCF) has a NonCurrent Unfunded FECA Liability of $28,336.5 thousand. This is for FECA bills due in FY 2004. The Army WCF also has an Unfunded FECA Actuarial Liability of $304,523.9 thousand. Both liabilities will be obligated when due and funded with future revenues. Both liabilities relate to the Depot Maintenance and Ordnance business areas only.

Intra-entity Transaction

Intra-entity transactions have not been eliminated because the statements are presented as combined and combining.

Note 23. Disclosures Related to the Statement of Custodial Activity

Not applicable

Note 24.A. Other Disclosures

Not Applicable

Note 24.B. Other Disclosures

Not Applicable

Consolidating Balance Sheet

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Depot Maintenance	Supply Management	Information Services
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	$0	$0	$0
2. Investments (Note 4)	0	0	0
3. Accounts Receivable (Note 5)	53,588	108,047	5,294
4. Other Assets (Note 6)	10,843	9,276	0
5. Total Intragovernmental Assets	$64,431	$117,323	$5,294
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0
C. Accounts Receivable (Note 5)	$2,381	12,441	0
D. Loans Receivable (Note 8)	0	0	0
E. Inventory and Related Property (Note 9)	102,730	11,175,765	0
F. General Property, Plant and Equipment (Note 10)	623,970	135,531	150
G. Other Assets (Note 6)	972	249,921	0
2. TOTAL ASSETS	$794,484	$11,690,981	$5,444
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$15,832	$79,558	$472
2. Debt (Note 13)	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0
4. Other Liabilities (Notes 15 and 16)	91,079	13,449	142
5. Total Intragovernmental Liabilities	$106,911	$93,207	$614
B. Accounts Payable (Note 12)	$62,760	$489,744	$10,308
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	181,582	0	0
D. Environmental Liabilities (Note 14)	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0
F. Other Liabilities (Notes 15 and 16)	93,311	65,440	3,492
4. TOTAL LIABILITIES	$444,564	$648,391	$14,414
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$0	$30,043	$0
B. Cumulative Results of Operations	349,920	11,012,547	(8,970)
6. TOTAL NET POSITION	$349,920	$11,042,590	($8,970)
7. TOTAL LIABILITIES AND NET POSITION	$794,484	$11,690,981	$5,444

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Ordnance	Component Level	Combined Total
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	$0	$251,030	$251,030
2. Investments (Note 4)	0	0	0
3. Accounts Receivable (Note 5)	37,398	37,287	241,614
4. Other Assets (Note 6)	1,888	0	22,007
5. Total Intragovernmental Assets	$39,286	$288,317	$514,651
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0
C. Accounts Receivable (Note 5)	1,597	0	16,419
D. Loans Receivable (Note 8)	0	0	0
E. Inventory and Related Property (Note 9)	40,798	0	11,319,284
F. General Property, Plant and Equipment (Note 10)	490,589	0	1,250,240
G. Other Assets (Note 6)	405	0	251,298
2. TOTAL ASSETS	$572,666	$288,317	$13,351,892
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$1,300	$1	$97,163
2. Debt (Note 13)	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0
4. Other Liabilities (Notes 15 and 16)	179,128	0	283,998
5. Total Intragovernmental Liabilities	$180,428	$1	$381,161
B. Accounts Payable (Note 12)	$17,789	($69,954)	$511,007
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	122,942	0	304,524
D. Environmental Liabilities (Note 14)	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0
F. Other Liabilities (Notes 15 and 16)	49,812	0	212,055
4. TOTAL LIABILITIES	$370,971	($69,953)	$1,408,747
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$0	$0	$30,043
B. Cumulative Results of Operations	201,695	357,910	11,913,102
6. TOTAL NET POSITION	$201,695	$357,910	$11,943,145
7. TOTAL LIABILITIES AND NET POSITION	$572,666	$288,317	$13,351,892

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Eliminations	FY 2002 Consolidated	FY 2001 Consolidated
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	$0	$251,030	$325,682
2. Investments (Note 4)	0	0	0
3. Accounts Receivable (Note 5)	19,636	221,978	276,355
4. Other Assets (Note 6)	21,959	48	27,006
5. Total Intragovernmental Assets	$41,595	$473,056	$629,043
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0
C. Accounts Receivable (Note 5)	0	16,419	22,622
D. Loans Receivable (Note 8)	0	0	0
E. Inventory and Related Property (Note 9)	0	11,319,284	10,791,280
F. General Property, Plant and Equipment (Note 10)	0	1,250,240	1,149,629
G. Other Assets (Note 6)	0	251,298	274,330
2. TOTAL ASSETS	$41,595	$13,310,297	$12,866,904
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$19,636	$77,527	$67,184
2. Debt (Note 13)	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0
4. Other Liabilities (Notes 15 and 16)	21,959	262,039	118,906
5. Total Intragovernmental Liabilities	$41,595	$339,566	$186,090
B. Accounts Payable (Note 12)	$0	$511,007	$355,452
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	304,524	308,657
D. Environmental Liabilities (Note 14)	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0
F. Other Liabilities (Notes 15 and 16)	0	212,055	209,928
4. TOTAL LIABILITIES	$41,595	$1,367,152	$1,060,127
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$0	$30,043	$38,860
B. Cumulative Results of Operations	0	11,913,102	11,767,917
6. TOTAL NET POSITION	$0	$11,943,145	$11,806,777
7. TOTAL LIABILITIES AND NET POSITION	$41,595	$13,310,297	$12,866,904

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

1. Program Costs	Component Level	Depot Maintenance	Information Service	Ordnance
A. Component Level				
1. Intragovernmental Gross Costs	$0	$0	$0	$0
2. (Less: Intragovernmental Earned Revenue)	0	0	0	0
3. Intragovernmental Net Costs	$0	$0	$0	$0
4. Gross Costs With the Public	$506	$0	$506	($362)
5. (Less: Earned Revenue From the Public)	0	0	0	0
6. Net Costs With the Public	$506	$0	$506	($362)
7. Total Net Cost	$506	$0	$506	($362)
B. Depot Maintenance				
1. Intragovernmental Gross Costs	$1,026,249	$460,142	$566,107	$614,832
2. (Less: Intragovernmental Earned Revenue)	(1,610,727)	(629,911)	(980,816)	(853,853)
3. Intragovernmental Net Costs	($584,478)	($169,769)	($414,709)	($239,021)
4. Gross Costs With the Public	$856,033	$0	$856,033	$232,887
5. (Less: Earned Revenue From the Public)	(41,331)	0	(41,331)	(33,745)
6. Net Costs With the Public	$814,702	$0	$814,702	$199,142
7. Total Net Cost	$230,224	($169,769)	$399,993	($39,879)
C. Information Service				
1. Intragovernmental Gross Costs	$11,243	$717	$10,526	$16,857
2. (Less: Intragovernmental Earned Revenue)	(97,003)	(52,803)	(44,200)	(57,075)
3. Intragovernmental Net Costs	($85,760)	($52,086)	($33,674)	($40,218)
4. Gross Costs With the Public	$80,279	$0	$80,279	$84,180
5. (Less: Earned Revenue From the Public)	(1,675)	0	(1,675)	3,224
6. Net Costs With the Public	$78,604	$0	$78,604	$80,956
7. Total Net Cost	($7,156)	($52,086)	$44,930	$40,738
D. Ordnance				
1. Intragovernmental Gross Costs	$110,002	$23,663	$86,339	$188,675
2. (Less: Intragovernmental Earned Revenue)	(581,305)	(66,480)	(514,825)	(502,785)
3. Intragovernmental Net Costs	($471,303)	($42,817)	($428,488)	($314,110)
4. Gross Costs With the Public	613,539	0	613,539	462,950
5. (Less: Earned Revenue From the Public)	(82,203)	0	(82,203)	(105,090)
6. Net Costs With the Public	$531,336	$0	$531,336	$357,880
7. Total Net Cost	$60,033	($42,817)	$102,850	$43,750

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Combined Total	Eliminations	FY 2002	FY 2001
1. Program Costs				
E. Supply Management				
1. Intragovernmental Gross Costs	$1,464,865	$703,371	$761,494	$1,101,544
2. (Less: Intragovernmental Earned Revenue)	(5,748,765)	(438,700)	(5,310,065)	(4,326,754)
3. Intragovernmental Net Costs	($4,283,900)	$264,671	($4,548,571)	($3,225,210)
4. Gross Costs With the Public	$4,808,356	$0	$4,808,356	$3,524,580
5. (Less: Earned Revenue From the Public)	(219,962)	0	(219,962)	(217,143)
6. Net Costs With the Public	$4,588,394	$0	$4,588,394	$3,307,437
7. Total Net Cost	$304,494	$264,671	$39,823	$82,227
F. Total Program Costs				
1. Intragovernmental Gross Costs	$2,612,359	$1,187,893	$1,424,466	$1,921,908
2. (Less: Intragovernmental Earned Revenue)	(8,037,800)	(1,187,894)	(6,849,906)	(5,740,467)
3. Intragovernmental Net Costs	($5,425,441)	($1)	($5,425,440)	($3,818,559)
4. Gross Costs With the Public	$6,358,713	$0	$6,358,713	$4,304,235
5. (Less: Earned Revenue From the Public)	(345,171)	0	($345,171)	(359,202)
6. Net Costs With the Public	$6,013,542	$0	$6,013,542	$3,945,033
7. Total Net Cost	$588,101	($1)	$588,102	$126,474
2. Cost Not Assigned to Programs	0	0	0	0
3. (Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
4. Net Cost of Operations	$588,101	($1)	$588,102	$126,474

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Depot Maintenance	Supply Management	Information Service
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$330,901	$10,615,159	($19,545)
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	$330,901	$10,615,159	($19,545)
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	2,300	172,417	100
Nonexchange revenue	7,793	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	143,937	113,295	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	25,942	400,902	625
Imputed financing from costs absorbed by others	69,270	15,268	2,694
Other (+/-)	0	0	0
Total Financing Sources	$249,242	$701,882	$3,419
Net Cost of Operations (+/-)	230,224	304,494	(7,156)
Ending Balances	$349,919	$11,012,547	($8,970)
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$0	$38,860	$0
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	$0	$38,860	$0
Budgetary Financing Sources:			
Appropriations received	2,300	163,600	100
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	(2,300)	(172,417)	(100)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-) total Financing Sources	0	0	0
Total Financing Sources	$0	($8,817)	$0
Net Cost of Operations (+/-)	0	0	0
Ending Balances	$0	$30,043	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Ordnance	Component Level	Combined Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$405,745	$435,657	$11,767,917
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	$405,745	$435,657	$11,767,917
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	1,400	0	176,217
Nonexchange revenue	162,246	0	170,039
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	(54,433)	0	202,799
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	(275,880)	(77,241)	74,348
Imputed financing from costs absorbed by others	22,652	0	109,884
Other (+/-)	0	0	0
Total Financing Sources	($144,015)	($77,241)	$733,287
Net Cost of Operations (+/-)	60,033	506	588,101
Ending Balances	$201,697	$357,910	$11,913,103
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$0	$0	$38,860
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	$0	$0	$38,860
Budgetary Financing Sources:			
Appropriations received	1,400	0	167,400
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	(1,400)	0	(176,217)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-) total Financing Sources	0	0	0
Total Financing Sources	$0	$0	($8,817)
Net Cost of Operations (+/-)	0	0	0
Ending Balances	$0	$0	$30,043

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	Eliminations	2002 Consolidated	2001 Consolidated
Beginning Balances	$0	$11,767,917	$11,849,314
Prior period adjustments (+/-)	0	0	1,463,816
Beginning Balances, as adjusted	$0	$11,767,917	$13,313,130
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	176,217	29,082
Nonexchange revenue	0	170,039	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	202,799	(1,558,924)
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	74,348	6,073
Imputed financing from costs absorbed by others	0	109,884	105,030
Other (+/-)	0	0	0
Total Financing Sources	$0	$733,287	($1,418,739)
Net Cost of Operations (+/-)	(1)	588,102	126,474
Ending Balances	$1	$11,913,102	$11,767,917
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$0	$38,860	$55,990
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	$0	$38,860	$55,990
Budgetary Financing Sources:			
Appropriations received	0	167,400	(17,130)
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	(176,217)	0
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-) total Financing Sources	0	0	0
Total Financing Sources	$0	($8,817)	($17,130)
Net Cost of Operations (+/-)	0	0	0
Ending Balances	$0	$30,043	$38,860

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		Depot Maintenance Budgetary	Depot Maintenance Non-Budgetary Credit Program Financing Accounts	Supply Management Budgetary	Supply Management Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:					
A.	Budget Authority:				
	Appropriations received	$2,300	$0	$163,600	$0
	Borrowing authority	0	0	0	0
	Contract authority	704	0	63,691	0
	Net transfers (+/-)	0	0	0	0
	Other	0	0	0	0
B.	Unobligated balance:				
	Beginning of period	1,029,150	0	6,765	0
	Net transfers, actual (+/-)	0	0	0	0
	Anticipated Transfers Balances	0	0	0	0
C.	Spending authority from offsetting collections:				
	Earned				
	Collected	1,743,501	0	3,465,603	0
	Receivable from Federal sources	(69,580)	0	14,913	0
	Change in unfilled customer orders				
	Advance received	(8,915)	0	(980)	0
	Without advance from Federal sources	22,674	0	214,571	0
	Anticipated for the rest of year, without advances	0	0	0	0
	Transfers from trust funds	0	0	0	0
	Subtotal	$1,687,680	$0	$3,694,107	$0
D.	Recoveries of prior year obligations	5,539	0	389,249	0
E.	Temporarily not available pursuant to Public Law	0	0	0	0
F	Permanently not available	0	0	0	0
G	Total Budgetary Resources	$2,725,373	$0	$4,317,412	$0
Status of Budgetary Resources:					
H.	Obligations incurred:				
	Direct	$2,300	$0	$167,852	$0
	Reimbursable	1,739,157	0	4,148,454	0
	Subtotal	1,741,457	0	4,316,306	0
I.	Unobligated balance:				
	Apportioned	983,916	0	1,106	0
	Exempt from apportionment	0	0	0	0
	Other available	0	0	0	0
J.	Unobligated Balances Not Available	0	0	0	0
K.	Total, Status of Budgetary Resources	$2,725,373	$0	$4,317,412	$0
Relationship of Obligations to Outlays:					
L.	Obligated Balance, Net - beginning of period	($317,292)	$0	$1,805,600	$0
M.	Obligated Balance transferred, net (+/-)	0	0	0	0
N.	Obligated Balance, Net - end of period:				
	Accounts receivable	(61,487)	0	(133,787)	0
	Unfilled customer order from Federal sources	(640,470)	0	(1,297,222)	0
	Undelivered orders	268,603	0	2,375,733	0
	Accounts payable	136,057	0	603,675	0
O.	Outlays:				
	Disbursements	1,762,828	0	3,954,775	0
	Collections	(1,734,586)	0	(3,464,623)	0
	Subtotal	$28,242	$0	$490,152	$0
P.	Less: Offsetting receipts	0	0	0	0
Q.	Net Outlays	$28,242	$0	$490,152	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Information Service Guard Budgetary	Information Service Guard Non-Budgetary Credit Program Financing Accounts	Ordnance Budgetary	Ordnance Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
A. Budget Authority:				
Appropriations received	$100	$0	$1,400	$0
Borrowing authority	0	0	0	0
Contract authority	0	0	2,212	0
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
B. Unobligated balance:				
Beginning of period	5,454	0	364,078	0
Net transfers, actual (+/-)	0	0	0	0
Anticipated Transfers Balances	0	0	0	0
C. Spending authority from offsetting collections:				
Earned				
Collected	100,908	0	835,668	0
Receivable from Federal sources	4,339	0	(4,983)	0
Change in unfilled customer orders				
Advance received	24	0	138,777	0
Without advance from Federal sources	(5,326)	0	(54,686)	0
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	99,945	0	914,776	0
D. Recoveries of prior year obligations	0	0	9,111	0
E. Temporarily not available pursuant to Public Law	0	0	0	0
F Permanently not available	0	0	0	0
G Total Budgetary Resources	$105,499	$0	$1,291,577	$0
Status of Budgetary Resources:				
H. Obligations incurred:				
Direct	$100	$0	$1,400	$0
Reimbursable	65,433	0	706,917	0
Subtotal	$65,533	$0	$708,317	$0
I. Unobligated balance:				
Apportioned	39,966	0	583,260	0
Exempt from apportionment	0	0	0	0
Other available	0	0	0	0
J. Unobligated Balances Not Available	0	0	0	0
K. Total, Status of Budgetary Resources	$105,499	$0	$1,291,577	$0
Relationship of Obligations to Outlays:				
L. Obligated Balance, Net - beginning of period	$6,291	$0	($255,641)	$0
M. Obligated Balance transferred, net (+/-)	0	0	0	0
N. Obligated Balance, Net - end of period:				
Accounts receivable	(9,234)	0	(38,410)	0
Unfilled customer order from Federal sources	(37,885)	0	(324,885)	0
Undelivered orders	2,260	0	123,406	0
Accounts payable	16,035	0	43,158	0
O. Outlays:				
Disbursements	101,633	0	699,966	0
Collections	(100,931)	0	(974,445)	0
Subtotal	$702	$0	($274,479)	$0
P. Less: Offsetting receipts	0	0	0	0
Q. Net Outlays	$702	$0	($274,479)	$0

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		Component Level Budgetary	Component Level Non-Budgetary Credit Program Financing Accounts	FY 2002 Combined Budgetary
Budgetary Resources:				
A.	Budget Authority:			
	Appropriations received	$0	$0	$167,400
	Borrowing authority	0	0	0
	Contract authority	0	0	66,607
	Net transfers (+/-)	0	0	0
	Other	0	0	0
B.	Unobligated balance:			
	Beginning of period	100,000	0	1,505,447
	Net transfers, actual (+/-)	0	0	0
	Anticipated Transfers Balances	0	0	0
C.	Spending authority from offsetting collections:			
	Earned			
	Collected	(186)	0	6,145,494
	Receivable from Federal sources	186	0	(55,125)
	Change in unfilled customer orders			
	Advance received	0	0	128,906
	Without advance from Federal sources	0	0	177,233
	Anticipated for the rest of year, without advances	0	0	0
	Transfers from trust funds	0	0	0
	Subtotal	$0	$0	$6,396,508
D.	Recoveries of prior year obligations	0	0	403,899
E.	Temporarily not available pursuant to Public Law	0	0	0
F	Permanently not available	0	0	0
G	Total Budgetary Resources	$100,000	$0	$8,539,861
Status of Budgetary Resources:				
H.	Obligations incurred:			
	Direct	$0	$0	$171,652
	Reimbursable	0	0	6,659,961
	Subtotal	$0	$0	$6,831,613
I.	Unobligated balance:			
	Apportioned	100,000	0	1,708,248
	Exempt from apportionment	0	0	0
	Other available	0	0	0
J.	Unobligated Balances Not Available	0	0	0
K.	Total, Status of Budgetary Resources	$100,000	$0	$8,539,861
Relationship of Obligations to Outlays:				
L.	Obligated Balance, Net - beginning of period	($109,469)	$0	$1,129,489
M.	Obligated Balance transferred, net (+/-)	0	0	0
N.	Obligated Balance, Net - end of period:			
	Accounts receivable	(37,286)	0	(280,204)
	Unfilled customer order from Federal sources	0	0	(2,300,462)
	Undelivered orders	0	0	2,770,002
	Accounts payable	(69,594)	0	729,331
O.	Outlays:			
	Disbursements	(2,774)	0	6,516,428
	Collections	186	0	(6,274,399)
	Subtotal	($2,588)	$0	$242,029
P.	Less: Offsetting receipts	0	0	0
Q.	Net Outlays	($2,588)	$0	$242,029

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Budgetary Resources:	FY 2002 Combined Non-Budgetary Credit Program Financing Accounts	FY 2001 Combined Budgetary	FY 2001 Combined Non-Budgetary Credit Program Financing Accounts
A. Budget Authority:			
Appropriations received	$0	$11,952	$0
Borrowing authority	0	0	0
Contract authority	0	809,853	0
Net transfers (+/-)	0	0	0
Other	0	0	0
B. Unobligated balance:			
Beginning of period	0	1,352,632	0
Net transfers, actual (+/-)	0	6,100	0
Anticipated Transfers Balances	0	0	0
C. Spending authority from offsetting collections:			
Earned			
Collected	0	5,920,104	0
Receivable from Federal sources	0	(88,265)	0
Change in unfilled customer orders			
Advance received	0	24,505	0
Without advance from Federal sources	0	(721,912)	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	0	5,134,432	0
D. Recoveries of prior year obligations	0	196,060	0
E. Temporarily not available pursuant to Public Law	0	0	0
F Permanently not available	0	0	0
G Total Budgetary Resources	$0	$7,511,059	$0
Status of Budgetary Resources:			
H. Obligations incurred:			
Direct	$0	($717,549)	$0
Reimbursable	0	6,723,163	0
Subtotal	$0	$6,005,614	$0
I. Unobligated balance:			
Apportioned	0	1,505,447	0
Exempt from apportionment	0	0	0
Other available	0	(2)	0
J. Unobligated Balances Not Available	0	0	0
K. Total, Status of Budgetary Resources	$0	$7,511,059	$0
Relationship of Obligations to Outlays:			
L. Obligated Balance, Net - beginning of period	0	821,673	0
M. Obligated Balance transferred, net (+/-)	0	0	0
N. Obligated Balance, Net - end of period:			
Accounts receivable	0	(335,328)	0
Unfilled customer order from Federal sources	0	(2,123,227)	0
Undelivered orders	0	2,995,646	0
Accounts payable	0	592,401	0
O. Outlays:			
Disbursements	0	6,311,883	0
Collections	0	(5,944,608)	0
Subtotal	$0	$367,275	$0
P. Less: Offsetting receipts	0	0	0
Q. Net Outlays	$0	$367,275	$0

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	Depot Maintenance	Supply Management	Information Service	Ordnance
Budgetary Resources Obligated				
1. Obligations incurred	$1,741,457	$4,316,306	$65,533	$708,317
2. Less: Spending authority from offsetting collections and recoveries (-)	(1,693,220)	(4,083,355)	(99,945)	(923,887)
3. Obligations net of offsetting collections and recoveries	$48,237	$232,951	($34,412)	($215,570)
4. Less: Offsetting receipts (-)	0	0	0	0
5. Net obligations	$48,237	$232,951	($34,412)	($215,570)
Other Resources				
6. Donations and forfeitures of property	0	0	0	0
7. Transfers in/out without reimbursement (+/-)	0	0	0	0
8. Imputed financing from costs absorbed	69,270	15,268	2,694	22,652
by others	$0	$0	$0	$0
9. Other (+/-)	$69,270	$15,268	$2,694	$22,652
10. Net other resources used to finance activities				
11. Total resources used to finance activities	$117,507	$248,219	($31,718)	($192,918)
Resources Used to Finance Items not Part of the Net Cost of Operations				
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered Orders (-)	33,920	201,079	26,895	(2,688)
Unfilled Customer Orders	13,760	213,590	(5,302)	84,091
13. Resources that fund expenses recognized in		0	0	(1,649)
prior periods	(2,484)			
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0	0
15. Resources that finance the acquisition of assets	157,287	(686,348)	0	190,803
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations				
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0	0
Other (+/-)	0	0	0	0
17. Total resources used to finance items not part of the net cost of operations	$202,483	($271,629)	$21,593	$270,557
18. Total resources used to finance the net cost of operations	$319,990	($23,460)	($10,125)	$77,639

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**Depot Maintenance**	**Supply Management**	**Information Service**	**Ordnance**
Components Requiring or Generating Resources in Future Periods:				
19. Increase in annual leave liability	1,420	0	(57)	848
20. Increase in environmental and disposal liability	0	0	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0	0	0
23. Other (+/-)	910	0	0	218
24. Total components of Net Cost of Operations that will require or generate resources in future periods	$2,330	$0	($57)	$1,066
Components not Requiring or Generating Resources:				
25. Depreciation and amortization	54,332	25,808	127	24,798
26. Revaluation of assets or liabilities (+/-)	(150,973)	302,148	0	(43,472)
27. Other (+/-)	4,546	0	2,899	0
28. Total components of Net Cost of Operations that will not require or generate resources	($92,095)	$327,956	$3,026	($18,674)
29. Total components of net cost of operations that will not require or generate resources in the current period	($89,765)	$327,956	$2,969	($17,608)
30. Net Cost of Operations	$230,225	$304,496	($7,156)	$60,031

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	Component Level	FY 2002 Combined	FY 2001 Combined
Budgetary Resources Obligated			
1. Obligations incurred	$0	$6,831,613	$6,005,613
2. Less: Spending authority from offsetting collections and recoveries (-)	0	(6,800,407)	(5,330,521)
3. Obligations net of offsetting collections and recoveries	$0	$31,206	$675,092
4. Less: Offsetting receipts (-)	0	0	0
5. Net obligations	$0	$31,206	$675,092
Other Resources			
6. Donations and forfeitures of property	0	0	0
7. Transfers in/out without reimbursement (+/-)	0	0	0
8. Imputed financing from costs absorbed by others	0	109,884	105,030
9. Other (+/-)	0	0	0
10. Net other resources used to finance activities	$0	$109,884	$105,030
11. Total resources used to finance activities	$0	$141,090	$780,122
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	0	259,206	365,539
Unfilled Customer Orders	0	306,139	(697,406)
13. Resources that fund expenses recognized in prior periods	0	(4,133)	(4,377)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0
15. Resources that finance the acquisition of assets	0	(338,258)	(2,660,662)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	(71,152)
17. Total resources used to finance items not part of the net cost of operations	$0	$222,954	($3,068,058)
18. Total resources used to finance the net cost of operations	$0	$364,044	($2,287,936)

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Component Level	FY 2002 Combined	FY 2001 Combined
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	0	2,211	0
20. Increase in environmental and disposal liability	0	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0	0
23. Other (+/-)	0	1,128	16,675
24. Total components of Net Cost of Operations that will require or generate resources in future periods	$0	$3,339	$16,675
Components not Requiring or Generating Resources:	$0	$105,065	$85,460
25. Depreciation and amortization	0	107,703	1,588,075
26. Revaluation of assets or liabilities (+/-)	506	7,951	484,690
27. Other (+/-)			
28. Total components of Net Cost of Operations that will not require or generate resources	$506	$220,719	$2,158,225
29. Total components of net cost of operations that will not require or generate resources in the current period	$506	$224,058	$2,174,900
30. Net Cost of Operations	$506	$588,102	($113,036)

The accompanying notes are an integral part of these statements.

Statement of Disaggregated Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Budgetary Financing Accounts

BUDGETARY RESOURCES	Working Capital Funds	FY 2002 Combined	FY 2001 Combined
A. Budget Authority:			
1. Appropriations received	$167,400	$167,400	$11,952
2. Borrowing authority	0	0	0
3. Contract authority	66,608	66,608	809,853
4. Net transfers (+/-)	0	0	0
5. Other	0	0	0
B. Unobligated balance:	1,505,446	1,505,446	1,352,634
4. Beginning of period	0	0	6,100
5. Net transfers, actual (+/-)	0	0	0
6. Anticipated Transfers Balances	0	0	0
C. Spending authority from offsetting collections:	0	0	0
7. Earned	6,145,494	6,145,494	5,920,103
8. Collected	(55,125)	(55,125)	(88,266)
9. Receivable from Federal sources	0	0	0
10. Change in unfilled customer orders	128,906	128,906	24,506
11. Advance received	177,233	177,233	(721,912)
12. Anticipated for the rest of year, without advances	0	0	0
13. Transfers from trust funds	0	0	0
14. Subtotal	$6,396,508	$6,396,508	$5,134,431
D. Recoveries of prior year obligations	403,899	403,899	196,089
E. Temporarily not available pursuant to Public Law	0	0	0
F. Permanently not available	0	0	0
G. Total Budgetary Resources	$8,539,861	$8,539,861	$7,511,059
STATUS OF BUDGETARY RESOURCES			
A. Obligations incurred:			
15. Direct	$171,652	$171,652	($717,550)
16. Reimbursable	6,659,961	6,659,961	6,723,162
17 Subtotal	$6,831,613	$6,831,613	$6,005,613
B. Unobligated balance:			
18. Apportioned	1,708,248	1,708,248	1,505,446
19. Exempt from apportionment	0	0	0
20. Other available	0	0	0
C. Unobligated Balances Not Available	0	0	0
D. Total, Status of Budgetary Resources	$8,539,861	$8,539,861	$7,511,059

The accompanying notes are an integral part of these statements.

Budgetary Financing Accounts

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Relationship of Obligations to Outlays:	Working Capital Funds	FY 2002 Combined	FY 2001 Combined
A. Obligated Balance, Net beginning of period	$1,129,490	$1,129,490	$821,672
B. Obligated Balance transferred, net (+/-)	0	0	0
C. Obligated Balance, Net end of period:			
21. Accounts receivable	(280,204)	(280,204)	(335,329)
22. Unfilled customer order from Federal sources	(2,300,462)	(2,300,462)	(2,123,229)
23. Undelivered orders	2,770,002	2,770,002	2,995,646
24. Accounts payable	729,330	729,330	592,4001
D. Outlays:			
25. Disbursements	6,516,428	6,516,428	6,311,883
26. Collections	(6,274,400)	(6,274,400)	(5,944,609)
27. Subtotal	$242,028	$242,028	$367,275
E. Less: Offsetting receipts	0	0	0
F. Net Outlays	$242,028	$242,028	$367,275

The accompanying notes are an integral part of these statements.

Statement of Disaggregated Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)
Non-Budgetary Financing Accounts

BUDGETARY RESOURCES	Working Capital Funds	FY 2002 Combined	FY 2001 Combined
A. Budget Authority:			
1. Appropriations received	$0	$0	$0
2. Borrowing authority	0	0	0
3. Contract authority	0	0	0
4. Net transfers (+/-)	0	0	0
5. Other	0	0	0
B. Unobligated balance:	0	0	0
4. Beginning of period	0	0	0
5. Net transfers, actual (+/-)	0	0	0
6. Anticipated Transfers Balances	0	0	0
C. Spending authority from offsetting collections:	0	0	0
7. Earned	0	0	0
8. Collected	0	0	0
9. Receivable from Federal sources	0	0	0
10. Change in unfilled customer orders	0	0	0
11. Advance received	0	0	0
12. Anticipated for the rest of year, without advances	0	0	0
13. Transfers from trust funds	0	0	0
14. Subtotal	$0	$0	$0
D. Recoveries of prior year obligations	0	0	0
E. Temporarily not available pursuant to Public Law	0	0	0
F. Permanently not available	0	0	0
G. Total Budgetary Resources	$0	$0	$0
STATUS OF BUDGETARY RESOURCES			
A. Obligations incurred:			
15. Direct	$0	$0	$0
16. Reimbursable	0	0	0
17 Subtotal	$0	$0	$0
B. Unobligated balance:			
18. Apportioned	0	0	0
19. Exempt from apportionment	0	0	0
20. Other available	0	0	0
C. Unobligated Balances Not Available	0	0	0
D. Total, Status of Budgetary Resources	$0	$0	$0

The accompanying notes are an integral part of these statements.

Non-Budgetary Financing Accounts

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Relationship of Obligations to Outlays:	Working Capital Funds	FY 2002 Combined	FY 2001 Combined
A. Obligated Balance, Net beginning of period	$0	$0	$0
B. Obligated Balance transferred, net (+/-)	0	0	0
C. Obligated Balance, Net end of period:			
21. Accounts receivable	0	0	0
22. Unfilled customer order from Federal sources	0	0	0
23. Undelivered orders	0	0	0
24. Accounts payable	0	0	0
D. Outlays:			
25. Disbursements	0	0	0
26. Collections	0	0	0
27. Subtotal	$0	$0	$0
E. Less: Offsetting receipts	0	0	0
F. Net Outlays	$0	$0	$0

The accompanying notes are an integral part of these statements.

Schedule, Part A DoD Intra-governmental Asset Balances ($ Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Department of Agriculture	12		$200			
Department of the Interior	14		$12			
Department of Justice	15		$69			
Navy General Fund	17		$4,802			
US Postal Service	18		$1			
Department of State	19		$102			
Department of the Treasury	20	$251,030	$14			
Army General Fund	21		$197,098			$48
General Service Administration	47		$1,423			
Air Force General Fund	57		$1,004			
Federal Emergency Management Agency	58		$1,156			
Department of Transportation	69		$97			
Department of Health and Human Services	75		$98			
National Aeronautics and Space Administration	80		$167			
Department of Energy	89		$29			
US Army Corps of Engineers	96		$80			
Other Defense Organizations General Funds	97		$8,425			
Other Defense Organizations Working Capital Funds	97-4930		$1,111			
Army Working Capital Fund	97-4930.001					
Navy Working Capital Fund	97-4930.002		$1,823			
Air Force Working Capital Fund	97-4930.003		$4,269			
Total		$251,030	$221,980			$48

Schedule, Part B DoD Intra-governmental Entity Liabilities ($ Amounts in Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Labor	16			$50,126
Navy General Fund	17	$5,158		$576
Department of the Treasury	20			$1
Army General Fund	21	$30,466		$202,742
Office of Personnel Management	24			$7,165
General Service Administration	47			$5
Air Force General Fund	57	$833		$45
US Army Corps of Engineers	96	$38		
Other Defense Organizations General Funds	97	$6,352		$1,229
Other Defense Organizations Working Capital Funds	97-4930	$33,784		$8
Navy Working Capital Fund	97-4930.002	$843		$142
Air Force Working Capital Fund	97-4930.003	$53		
Total		$77,527		$262,029

Schedule, Part C DoD Intra-governmental Revenue and Related Costs ($ Amounts in Thousands)	Treasury Index	Earned Revenue
Department of Agriculture	12	$43
Department of the Interior	14	$40
Department of Justice	15	$3,607
Navy General Fund	17	$231,020
US Postal Service	18	$13
Department of State	19	$125
Department of the Treasury	20	$973
Army General Fund	21	$5,333,409
Department of Veterans Affairs	36	$13
General Service Administration	47	$2,319
Air Force General Fund	57	$449,064
Department of Transportation	69	$1,037
Department of Health and Human Services	75	$259
National Aeronautics and Space Administration	80	$192
Department of Energy	89	$28
US Army Corps of Engineers	96	$835
Other Defense Organizations General Funds	97	$216,376
Other Defense Organizations Working Capital Funds	97-4930	$36,391
Navy Working Capital Fund	97-4930.002	$157,642
Air Force Working Capital Fund	97-4930.003	$416,518
Total		$6,849,904

Schedule, Part E DoD Intra-governmental Non-exchange Revenues ($ Amounts in Thousands)	Treasury Index	Transfers In	Transfers Out
Army General Fund	21	$74,349	
Total		$74,349	

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

January 8, 2003

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

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund Fiscal Year 2002 Principal Financial Statements (Report No. D-2003-0046)

The Chief Financial Officers (CFO) Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Army Working Capital Fund as of September 30, 2002, and the related Consolidated Statements of Net Cost and Changes in Net Position and the Combined Statements of Financing and Budgetary Resources for the fiscal years then ended. These financial statements are the responsibility of Army Working Capital Fund management. The Army Working Capital Fund is also responsible for implementing effective internal control and for complying with laws and regulations. In addition to our disclaimer of opinion on the financial statements, we are including the required reports on internal control and compliance with laws and regulations. The Army did not prepare FY 2001 Army Working Capital Fund Financial Statements due to the loss of financial management personnel during the September 11, 2001, terrorist attack. Because the Army did not prepare FY 2001 financial statements, an audit was not performed.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the financial management and feeder systems that DoD relies on to provide evidence supporting the Army Working Capital Fund financial statements do not comply with Federal financial management system requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. The Army also acknowledged that the previously reported material weaknesses related to financial management systems and inventories were applicable to the FY 2002 Army Working Capital Fund Financial Statements. Therefore, we did not perform auditing procedures to support material amounts on the financial statements. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. These material deficiencies also affect the reliability of certain information contained in the accompanying Management's Discussion and Analysis and certain other information-much of which is taken from the same data sources as the principal financial statements.[1]

[1] Other information includes the Supporting Consolidating and Combining Financial Statements and Required Supplementary Information.

A Regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States Article I, Section 9

These deficiencies would have precluded an audit opinion. As described above, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

Summary of Internal Control

In planning and performing our audit, we considered the Army Working Capital Fund's internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions,[2] all of which are material, continue to exist in the following areas:

- financial management systems and processes;
- Inventory and Related Property;
- General Property, Plant, and Equipment;
- Accounts Payable;
- intragovernmental eliminations;
- Statement of Net Cost; and
- Statement of Financing.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. The Army was unable to comply with the requirements of the CFO Act of 1990 as amended. The Assistant Secretary of the Army (Financial Management and Comptroller)

[2] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

acknowledged that many of its critical financial management and feeder systems did not comply with the requirements of the Federal Financial Management Information Act of 1996 (the FFMIA). Therefore, we did not determine whether the Army Working Capital Fund was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

In order for DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)\Chief Financial Officer is developing the DoD-wide financial management enterprise architecture. The DoD anticipates developing and implementing the financial management enterprise architecture by 2007. The Army is also working to reengineer and modernize wholesale logistics processes and has contracted for modernizing Army logistics functions through the Logistics Modernization Program. However, until the architecture is developed and implemented, the Army Working Capital Fund will be unable to fully comply with the statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met;
- ensuring that the Army Working Capital Fund's financial management systems substantially comply with FFMIA requirements; and
- complying with applicable laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Reports on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data is accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of Army Working Capital Fund internal control over financial reporting and we did not obtain sufficient evidence to support or express an opinion on internal control because the following previously identified reportable conditions, all of which are material, continue to exist. The following material internal control weaknesses precluded an audit opinion of the FY 2002 Army Working Capital Fund Financial Statements and significantly impair the ability of DoD to detect and investigate fraud or theft of assets. A high risk of material misstatements will continue to exist until the internal control deficiencies are corrected.

Financial Management Systems and Processes. The Army Working Capital Fund's systems are unable to meet all of the requirements for full accrual accounting because the systems used were not designed to collect and record financial information as required by generally accepted accounting principles. Financial and non-financial feeder systems are not integrated and do not contain an audit trail for the proprietary and budgetary accounts. The Army Working Capital Fund derives its financial information for major asset and liability accounts from noncompliant financial systems, such as the Commodity Command Standard System. The Army Working Capital Fund disclosed financial management system deficiencies in the footnotes to the FY 2002 financial statements. Until such time as all of the processes are updated to collect and report financial information as required by generally accepted accounting principles, some of the Army Working Capital Fund's financial data will be based on budgetary transactions (obligations, disbursements, and collections) and non-financial feeder systems. The DoD-wide systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely.

Inventory and Related Property. The existing inventory valuation method does not produce an auditable approximation of historical cost because the associated gains and losses cannot be accurately tracked to specific items or purchases. The Army Working Capital Fund uses the latest acquisition cost method of valuing inventory because its inventory systems were designed for materiel management rather than accounting. The systems provide accountability and visibility over inventory items. However, they did not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property," and could not directly produce financial transactions using the U.S. Government Standard General Ledger. In addition, neither the Defense Finance and Accounting Service (DFAS) nor the Army reconciled differences between the accounting records and the logistical records. Instead, they accepted the data from the logistical records and adjusted the accounting records. Further, physical inventories have not been completed and adequate controls had not been established over items in transit.

General Property, Plant, and Equipment. The value of Army Working Capital Fund General Property, Plant, and Equipment is not reliably reported due to the lack of supporting documentation, the failure to correctly compute depreciation, and the value of property in the possession of contractors was not fully reported. Information on the acquisition date and cost was not always available and was sometimes recorded incorrectly. In addition, the system that provides real property information to the Defense Property Accountability System was a noncompliant system.

Accounts Payable. DFAS Indianapolis made significant adjustments to the accounts payable balances to derive the reported balances. DFAS Indianapolis adjusted accounts payable with the public downward by $124.7 million for undistributed disbursements. Also, the Army Working Capital Fund was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. As a result, DFAS made $61.7 million in unsupported adjustments to increase intragovernmental accounts payable for the Supply Management activity group and made $57.1 million in unsupported adjustments to decrease intragovernmental accounts payable in the other three activity groups in order to force the amounts to agree with Army trading partners. In addition, accounts payable in the Supply Management activity group were not established in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities."

Intragovernmental Eliminations. The inability to reconcile most intragovernmental transactions results in adjustments that cannot be verified. DoD and Army accounting systems were not capable of capturing trading partner data at the transaction level in a manner that facilitated trading partner reconciliations and DoD guidance did not require adequate support for intragovernmental eliminations. As a result, DoD did not require trading partner reconciliations, but required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. DFAS Indianapolis made $7.7 billion in adjustments to intragovernmental accounts to force the accounts to agree with the records of Army Working Capital Fund trading partners.

Statement of Net Cost. The Statement of Net Cost was not presented by responsibility segments that were consistent with DoD performance goals and measures. Accounting systems were unable to accurately capture costs for Army Working Capital Fund programs and properly account for intragovernmental transactions and related eliminations. In addition, some of the Army Working Capital Fund's financial data presented on the Statement of Net Cost were based on budgetary transactions. DFAS Indianapolis made $1.1 billion in unsupported adjustments to decrease intragovernmental costs and $1.2 billion in unsupported adjustments to increase costs with the public in order to force buyer-side transaction data to agree with seller-side transaction data.

Statement of Financing. The Army cannot reconcile budgetary obligations to net cost without making adjustments. The Statement of Financing was prepared on a combined basis, while the Statement of Net Cost was prepared on a consolidated basis. As a result, the Army Working Capital Fund made $338.3 million in unsupported adjustments to force the Statement of Financing to reconcile with information on the Statement of Net Cost.

Compliance with Laws and Regulations

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

Statutory Financial Management Systems Reporting Requirements. The Army Working Capital Fund is required to comply with the following financial management systems reporting requirements.

The FFMIA requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires DoD to evaluate its systems and to annually report whether those systems are in compliance with applicable requirements. The CFO Act of 1990 requires that each agency develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control. The system should comply with internal control standards, applicable accounting principles, standards, and requirements, and provide complete, reliable, consistent, and timely information.

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The Army was also unable to comply with the CFO Act, which requires agencies to develop and maintain integrated agency accounting and financial systems.

In an attempt to comply with statutory reporting requirements and applicable financial systems requirements, DoD plans to develop a DoD-wide financial management enterprise architecture. The architecture is intended to provide a "blueprint" of the Department's financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is developed, the Army Working Capital Fund will be unable to fully comply with the statutory reporting requirements. Therefore, we did not perform tests of compliance for these requirements.

Audit Disclosures

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army and DFAS financial management systems could not provide adequate evidence supporting various material amounts on the financial statements. As a result, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal control, and compliance with laws and regulations.

Our review of internal control was limited to followup work on deficiencies identified in previous audit reports. We primarily focused on the deficiencies related to the material weaknesses reported in the audits of the FY 2000 Army Working Capital Fund Financial Statements and the FY 2001 DoD Agency-Wide Financial Statements associated with the Army Working Capital Fund.

We performed limited tests of Army Working Capital Fund compliance with other laws and regulations that have a direct and material effect on the financial statement information. We recognize that there were additional laws and regulations pertinent to the Army Working Capital Fund financial operations during FY 2002. However, in accordance with Section 1008(d) of the FY 2002 National Defense Authorization Act, we limited our audit scope and only performed audit procedures required by generally accepted government auditing standards that were consistent with the representations made by the Assistant Secretary of the Army (Financial Management and Comptroller) in the engagement memorandum signed on August 21, 2002. Therefore, we did not perform tests of compliance for these requirements.

- Anti-Deficiency Act.
- Provisions Governing Claims of the United States Government.
- Federal Credit Reform Act of 1990.
- Pay and Allowance System for Civilian Employees.
- Prompt Payment Act.

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	FY 2002	FY 2001
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	$2,543,957	$2,537,990
2. Investments (Note 4)	2,269,086	2,255,539
3. Accounts Receivable (Note 5)	528,149	476,541
4. Other Assets (Note 6)	0	0
5. Total Intragovernmental Assets	$5,341,192	$5,270,070
B. Cash and Other Monetary Assets (Note 7)	$817	$3,990
C. Accounts Receivable (Note 5)	922,931	1,028,288
D. Loans Receivable (Note 8)	0	0
E. Inventory and Related Property (Note 9)	63,139	54,719
F. General Property, Plant and Equipment (Note 10)	36,873,953	34,818,281
G. Other Assets (Note 6)	77	16,190
2. TOTAL ASSETS	$43,202,109	$41,191,538
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$83,814	$92,727
2. Debt (Note 13)	24,667	30,512
3. Environmental Liabilities (Note 14)	0	0
4. Other Liabilities (Notes 15 and 16)	1,146,944	1,167,318
5. Total Intragovernmental Liabilities	$1,255,425	$1,290,557
B. Accounts Payable (Note 12)	$595,952	$505,328
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 (Notes 15 and 16)	590,776	576,523
4. TOTAL LIABILITIES	$2,442,153	$2,372,408
5. NET POSITION		
A. Unexpended Appropriations (Note 18)	$1,064,864	$1,214,901
B. Cumulative Results of Operations	39,695,092	37,604,229
6. TOTAL NET POSITION	$40,759,956	$38,819,130
7. TOTAL LIABILITIES AND NET POSITION	$43,202,109	$41,191,538

See Note 1 and Note 2.

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		FY 2002	FY 2001
1.	**Program Costs**		
	A. Intragovernmental Gross Costs	$786,630	$1,105,529
	B. (Less: Intragovernmental Earned Revenue)	(616,437)	(483,102)
	C. Intragovernmental Net Costs	$170,193	$622,427
	D. Gross Costs With the Public	$3,645,278	$3,768,681
	E. (Less: Earned Revenue From the Public)	(121,740)	(102,129)
	F. Net Costs With the Public	$3,523,538	$3,666,552
	G. Total Net Cost	$3,693,731	$4,288,979
2.	**Cost Not Assigned to Programs**	$0	$0
3.	**(Less:Earned Revenue Not Attributable to Programs)**	0	0
4.	**Net Cost of Operations**	$3,693,731.00	$4,288,979.00

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	FY 2002	2002 Unexpended Appropriations	FY 2001	2001 Unexpended Appropriations
Beginning Balances	$37,604,229	$1,214,901	$36,999,464	$1,004,640
Prior period adjustments (+/-)	0	0	(846,130)	0
Beginning Balances, as adjusted	$37,604,229	$1,214,901	$36,153,334	$1,004,640
Budgetary Financing Sources:				
Appropriations received	0	4,324,965	0	210,262
Appropriations transferred-in/out (+/-)	0	198,408	0	0
Other adjustments (rescissions, etc) (+/-)	0	(153,374)	0	0
Appropriations used	4,704,846	(4,520,036)	4,310,085	0
Nonexchange revenue	835,997	0	919,800	0
Donations and forfeitures of cash and cash	0	0	0	0
equivalents	(706,651)	0	(445,585)	0
Transfers-in/out without reimbursement (+/-)				
Other budgetary financing sources (+/-)	(3,166)	0	(8,859)	0
Other Financing Sources:				
Donations and forfeitures of property	303	0	275	0
Transfers-in/out without reimbursement (+/-)	744,279	0	752,563	0
Imputed financing from costs absorbed by others	208,986	0	211,595	0
Other (+/-)	0	0	0	0
Total Financing Sources	$5,784,594	($150,037)	$5,739,874	$210,262
Net Cost of Operations (+/-)	3,693,731	0	4,288,979	0
Ending Balances	$39,695,092	$1,064,864	$37,604,229	$1,214,902

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		FY 2002	FY 2001
Budgetary Resources:			
A.	Budget Authority:		
	Appropriations received	$4,324,965	$3,974,001
	Borrowing authority	0	0
	Contract authority	0	0
	Net transfers (+/-)	1,006,223	1,544,283
	Other	0	0
B.	Unobligated balance:		
	Beginning of period	1,713,303	1,638,978
	Net transfers, actual (+/-)	(23,140)	(491)
	Anticipated Transfers Balances	0	0
C.	Spending authority from offsetting collections:	0	0
	Earned	0	0
	Collected	4,837,613	4,216,800
	Receivable from Federal sources	(53,523)	56,628
	Change in unfilled customer orders	0	0
	Advance received	37,345	34
	Without advance from Federal sources	115,628	231,286
	Anticipated for the rest of year, without advances	0	0
	Transfers from trust funds	0	0
	Subtotal	$4,937,063	$4,504,748
D.	Recoveries of prior year obligations	0	0
E.	Temporarily not available pursuant to Public Law	0	0
F	Permanently not available	(16,515)	(17,545)
G	Total Budgetary Resources	$11,941,899.00	$11,643,974.00
Status of Budgetary Resources:			
H.	Obligations incurred:		
	Direct	$5,415,360	$8,478,611
	Reimbursable	4,785,522	1,120,752
	Subtotal	$10,200,882	$9,599,363
I.	Unobligated balance:		
	Apportioned	1,246,051	1,435,403
	Exempt from apportionment	494,957	608,718
	Other available	0	1
J.	Unobligated Balances Not Available	9	489
K.	Total, Status of Budgetary Resources	$11,941,899	$11,643,974
Relationship of Obligations to Outlays:			
L.	Obligated Balance, Net - beginning of period	$1,097,971	$797,587
M.	Obligated Balance transferred, net (+/-)	0	0
N.	Obligated Balance, Net - end of period:		
	Accounts receivable	(235,443)	(262,026)
	Unfilled customer order from Federal sources	(1,373,128)	(1,257,500)
	Undelivered orders	1,475,183	1,492,092
	Accounts payable	1,180,711	771,210
O.	Outlays:		
	Disbursements	10,189,428	9,365,262
	Collections	(4,874,959)	(4,216,835)
	Subtotal	$5,314,469	$5,148,427
P.	Less: Offsetting receipts	(819,255)	0
Q.	Net Outlays	$4,495,214	$5,148,427

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	2002 Combined	2001 Combined
Budgetary Resources Obligated		
1. Obligations incurred	$10,200,882	$9,599,363
2. Less: Spending authority from offsetting collections and recoveries (-)	(4,937,063)	(4,504,749)
3. Obligations net of offsetting collections and recoveries	$5,263,819	$5,094,614
4. Less: Offsetting receipts (-)	(819,255)	(43,761)
5. Net obligations	$4,444,564	$5,050,853
Other Resources		
6. Donations and forfeitures of property	305	275
7. Transfers in/out without reimbursement (+/-)	1,171	1,735
8. Imputed financing from costs absorbed by others	208,986	211,595
9. Other (+/-)	16,743	(26,044)
10. Net other resources used to finance activities	$227,205	$187,561
11. Total resources used to finance activities	$4,671,769	$5,238,414
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	(2,705)	(281,946)
Unfilled Customer Orders	152,974	231,321
13. Resources that fund expenses recognized in prior periods	0	(169,635)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	819255	0
15. Resources that finance the acquisition of assets		
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations	(2,461,629)	(1,540,367)
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	0	(390,870)
17. Total resources used to finance items not part of the net cost of operations	($1,492,105)	($2,151,497)
18. Total resources used to finance the net cost of operations	$3,179,664	$3,086,917

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	2002 Combined	2001 Combined
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:	$0	$0
19. Increase in annual leave liability	0	0
20. Increase in environmental and disposal liability		
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the	(3,429)	0
public (-)	41,497	103,175
23. Other (+/-)		
24. Total components of Net Cost of Operations that will require or generate resources in future periods	$38,068	$103,175
Components not Requiring or Generating Resources:	475,534	589,863
25. Depreciation and amortization	0	169,970
26. Revaluation of assets or liabilities (+/-)	465	28,145
27. Other (+/-)		
28. Total components of Net Cost of Operations that will not require or generate resources	$475,999	$787,978
29. Total components of net cost of operations that will not require or generate resources in the current period	514,067	891,153
	$3,693,731	$3,978,070
30. Net Cost of Operations		

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

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 of 1990, 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" ("DoD FMR"), 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.

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 obligated legally 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 also is 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 14X5035	Land Acquisition and State Assistance, 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 Accounts:

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%)

C. Appropriations and Funds

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.

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

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.

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.

D. Basis of Accounting

The Corps' transactions generally are 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.

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.

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 in the Corps operations until depreciated in the case of PP&E or consumed in the case of OM&S. 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.

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 are 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 System (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 the 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 consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be 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.

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 provision of the "Arms Export Control Act of 1976." Under the provision of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

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), 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 DFAS centers and 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 reconciled subsequently. Material disclosures are provided at note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

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 identified separately.

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.

L. Loans Receivable As Applicable

Not applicable

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. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost as new receipts are recorded.

The related property portion of the amount reported on the Inventory and Related Property line includes operating materials and supplies (OM&S) and stockpile materials. The OM&S are valued at standard purchase price. For the most part, the Department is using the consumption method of accounting for OM&S, as defined in the SFFAS No. 3, "Accounting for Inventory and Related Property" as material that has not been issued to the end user. Once OM&S is issued, the material is expensed. Material disclosures related to inventory and related property are provided at Note 9.

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.

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. There has been much discussion in the past that the Corps of Engineers Civil Works should follow the DoD threshold of $100,000. Civil Works has justified its threshold amounts by explaining its policy is in line with Federal Energy Regulatory Commission guidance and the negative impacts the increased threshold would cause its program. These impacts include the effect of accelerating amortization expenses on customer rates and the fact that the lower threshold amounts are in line with Government agencies with similar missions (Department of Interior, Department of Agriculture, Environmental Protection Agency). Presently, DoD is considering the Corps of Engineers request for the Civil Works amounts to remain status quo.

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 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.

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.

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.

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.

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.

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.

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 represent 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.

V. Treaties for Use of Foreign Bases

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

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.

In FY 2002, the Corps modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, the Corps statements during this reporting period may not lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

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. Nonentity and Entity Assets

As of September 30,
(Amounts in thousands)

		2002			2001
1. Intragovernmental Assets:		**Nonentity**	**Entity**	**Total**	
A.	Fund Balance with Treasury	$41,280	$2,502,677	$2,543,957	$2,537,990
B.	Investments	0	2,269,086	2,269,086	2,255,539
C.	Accounts Receivable	0	528,150	528,150	476,540
D.	Other Assets	0	0	0	0
E.	Total Intragovernmental Assets	$41,280	$5,299,913	$5,341,193	$5,270,069
2. Non-Federal Assets:					
A.	Cash and Other Monetary Assets	$817	$0	$ 817	$3,990
B.	Accounts Receivable	915,452	7,479	922,931	1,028,288
C.	Loans Receivable	0	0	0	0
D.	Inventory & Related Property	0	63,139	63,139	54,719
E.	General Property, Plant and Equipment	0	36,873,952	36,873,952	34,818,280
F.	Other Assets	0	77	77	16,190
G.	Total Non-Federal Assets	$916,269	$36,944,647	$37,860,916	$35,921,467
3. Total Assets:		$957,549	$42,244,560	$43,202,109	$41,191,536

4. Other Information:

Assets are categorized as:

Entity assets consist of resources that the Corps has the authority to use, or where management is obligated legally to use funds to meet entity obligations.

Nonentity assets are assets held by an entity, but are not available for use in the operations of the entity.

Composition of Other Nonentity Assets

Non-federal nonentity accounts receivable represents all current and noncurrent receivables due from non-federal sources, net of an allowance for estimated uncollectible accounts. Other nonentity receivables include $860 million in long-term receivables due from state and local municipalities for water storage contracts, $13.2 million in current receivables due from state and local municipalities for water storage, $12.5 million in accrued interest receivable with the water storage contracts, $8.2 million in claims receivable and $1.7 million in long-term receivable for hydraulic mining. The additional $ .7 million represents amounts due from the leasing of land acquired for flood control purposes. The allowance for doubtful accounts totals $ .7 million.

Federal Non-Entity Fund Balance with Treasury consists of amounts collected into deposit, suspense and budget clearing accounts.

Note Reference

For Additional Line Item discussion, see

Note 3. Fund Balance with Treasury

As of September 30,
(Amounts in thousands)

	2002	2001
1. Fund Balances:		
A. Appropriated Funds	$1,177,287	$1,351,271
B. Revolving Funds	902,533	849,577
C. Trust Funds	59,954	11,129
D. Other Fund Types	404,183	326,013
E. Total Fund Balances	$2,543,957	$2,537,990
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$2,484,784	$2,532,474
B. Fund Balance per	2,543,957	2,537,990
C. Reconciling Amount	($59,173)	($5,516)

3. Explanation of Reconciliation Amount:

Reconciling Amount

Fund Balance per USACE includes $6.3 million and $53.1 million cash reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the Corps is identified as the lead agency for reporting.

Fund Balance per Treasury includes funds available in appropriation 96X6094 in the amount of $20.7 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. The amount reported is $.4 million greater than the Treasury's balance due to an unreconciled difference between Washington Aqueduct and Treasury.

4. Other Information:

Fund Balance per USACE includes $40 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. According to the Treasury Financial Manual, Part 2, Chapter 4000, Federal Agencies' Centralized Trial-Balance System, paragraph 4630.60, if an allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation in all of its financial statements, except the Statement of Budgetary Resources. The Corps has determined that these balances are material and have included them in all of our financial statements except the Statement of Budgetary Resources.

Other Fund Types consists of $20.6 million in deposit, suspense and clearing accounts that are not available to finance the Corps' activities, $.8 million in borrowing authority, $363 million in contributed funds and $(.7) million in Disbursing Officer's Cash transactions. The $20.7 million in the suspense account established to finance Washington Aqueduct operations is included also in this balance.

Note Reference

See Note Disclosure 1.I. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

Note 4. Investments

As of September 30,
(Amounts in thousands)

	2002					2001
1. Intragovernmental Securities:	Cost	Amor-zation Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
A. Marketable	$0		$0	$0	$0	$0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	2,289,045		(24,594)	2,264,451	2,264,452	2,250,847
D. Subtotal	$2,289,045		($24,594)	$2,264,451	$2,264,452	$2,250,847
E. Accrued Interest	$4,635		-	4,635	$4,635	4,693
F. Total Intragovernmental Securities	$2,293,6807		($24,594)	$2,269,086	$2,269,087	$2,255,540
2. Other Investments:	$0		$0	$0	$0	$0

3. 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 $406 million in Inland Waterways, $1,821 million in Harbor Maintenance and $42 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. ·

Note Reference

See Note Disclosure 1.N. - Investments in U.S. Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.

Note 5. Accounts Receivable

As of September 30,
(Amounts in thousands)

	2002			2001
	Gross Amount Due	Allowance For Estimated Collectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. **Intragovernmental Receivables:**	$528,149	N/A	$528,149	$476,540
2. **Non-Federal Receivables (From the Public):**	925,395	($2,464)	922,931	1,028,288
3. **Total Accounts Receivable:**	$1,453,544	($2,464)	$1,451,080	$1,504,828

4. **Allowance method:**

Allowance Method

The method of calculating the allowance for estimated uncollectibles is based on the cumulative balance of delinquent public receivables aged in accordance with current USACE policy. The calculation was performed automatically in the Corps of Engineers Financial Management System as part of the year-end closing process. 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:**

Intragovernmental Account Receivable Adjustments

Elimination Adjustments

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.

Intragovernmental Receivables Over 180 Days

The amount of intragovernmental receivables over 180 days old is $24 million. No intragovernmental receivables have been submitted to the General Accounting Office for opinion.

Public Receivables Over 180 Days

The amount of public receivables over 180 days old is $38 million. Receivables with the public include $1.6 million in accrued interest on delinquent receivables.

Non-federal Refunds Receivable

The amount of public receivables includes $1.5 million in refunds receivable.

Other Disclosures

Public receivables include $20 million in current and $860 million in long-term accounts receivable associated with water storage contracts.

The amount of Public Receivables on the Treasury Report on Receivables Due From the Public is $2.5 million greater than the balance of public receivables reflected on the balance sheet. The difference is attributed to the allowance for estimated uncollectibles not included on the Treasury report.

Intragovernmental receivables increased due primarily to an increase of $37.2 million in the receivable for transfers of currently invested balances for the trust funds. The trust fund receivable includes $304 million for the Coastal Wetlands Restoration Trust Fund and $18.5 million for the Inland Waterways Trust Fund. To accommodate cash management practices, funds will remain invested until needed for disbursement. The budget authority is realized and obligations may be incurred before the actual transfer of funds.

Note Reference

See Note Disclosure 1.K. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

Note 6. Other Assets

s of September 30,2002
(Amounts in thousands)

	2002	2001
1. Intragovernmental Other Assets:		
A. Advances and Prepayments	$0	$0
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$0	$0
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	$0	$0
B. Other Assets (With the Public)	77	16,190
C. Total Non-Federal Other Assets	$77	$16,190
3. Total Other Assets:	$77	$16,190

4. Other Information:

Other assets have been reclassified and reported as other property, plant and equipment.

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Note Reference

See Note Disclosure 1. R. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

Note 7. Cash and Other Monetary Assets

As of September 30,
(Amounts in thousands)

	2002	2001
1. Cash	$654	$622
2. Foreign Currency (non-purchased)	163	3,368
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$817	$3,990

5. Other Information:

The decrease of $3.2 million reflects a correction to erroneous reporting in FY 2001, which included the military portion of foreign currency.

Definitions

Cash - consists of the total of cash resources under the control of the Corps, which includes coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include petty cash funds and cash held in revolving funds which will not be transferred into the U.S. Government General Fund.

Foreign Currency - consists of the total U.S. dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

Other Monetary Assets - includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

Other Corps Disclosures

Cash consists solely of Disbursing Officers' Cash and reconciles to Note 15A Disbursing Officer's Cash. It differs from the Statement of Accountability by $992.80 due to erroneous reporting of the Statement of Accountability.

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 be available legally to the U.S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions.

Note Reference

See Note Disclosure 1. J. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

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

1. Direct Loan and/or Loan Guarantee Programs: The entity operates the following direct loan and/or Loan guarantee program(s):

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

Not Applicable

Note 8.C. Total Amount of Direct Loans Disbursed

Not Applicable

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

Not Applicable

Note 8.E. Subsidy Rate for Direct Loans

Not Applicable

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

Not Applicable

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

Not Applicable

Note 8.H. Guaranteed Loans Outstanding

Not Applicable

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

Not Applicable

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

Not Applicable

Note 8.K. Subsidy Rate for Loan Guarantees

Not Applicable

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

Not Applicable

Note 8.M. Administrative Expense

Not Applicable

Note 9. Inventory and Related Property

As of September 30,
(Amounts in thousands)

	2002	2001
1. Inventory, Net (Note 9.A.)	$63,037	$54,421
2. Operating Materials & Supplies, Net (Note 9.B.)	102	299
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	$63,139	$54,720

Note 9.A. Inventory, Net

As of September 30
(Amounts in thousands)

	2002			2001	
1. Inventory Categories:	**Inventory, Gross Value**	**Revaluation Allowance**	**Inventory, Net**	**Inventory, Net**	**Valuation Method**
A. Available and Purchased for Resale	$87,245	($46,697)	$40,548	$47,343	O
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	44	(44)	0	1	NRV
D. Raw Materials	0	0	0	0	
E. Work in Process	22,489	0	22,489	7,077	O
F. Total	$109,778	($46,741)	$63,037	$54,421	

Legend for Valuation Methods:

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

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

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:

General Composition of Inventory

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 which is 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 comply fully with the Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property."

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 coded as excess, obsolete and unserviceable has been revalued to reflect a zero value.

The inventory increase in the Work in Process category is due to the mat casting process in support of the Revetment Program in the Lower Mississippi Valley Districts.

Note Reference

See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property.

Note 9.B. Operating Materials and Supplies, Net

As of September 30,
(Amounts in thousands)

	2002			2001	
1. OM&S Categories:	**OM&S Gross Value**	**Revaluation Allowance**	**OM&S, Net**	**OM&S, Net**	**Valuation Method**
A. Held for Use	$102	$0	$102	$299	O
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	0	
D. Total	$102	0	$102	$299	

Legend for Valuation Methods:

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

2. Restrictions on OM&S:

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.

3. Other Information:

Note Reference

See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

Note 9.C. Stockpile Materials, Net

Not Applicable

Note 10. General PP&E, Net

As of September 30,
(Amounts in thousands)

1. Major Asset Classes:	Depreciation/ Amortization Method	Service Life	2002 Acquisition Value	2002 (Accumulated Depreciation/ Amortization)	2002 Net Book Value	2001 Prior FY Net Book Value
A. Land	N/A	N/A	$8,045,799	N/A	$8,045,799	$7,876,386
B. Buildings, Structures and Facilities	S/L	20 Or 40	30,543,611	($12,506,873)	18,036,738	17,228,056
C. Leasehold Improvements	S/L	lease term	23,151	(4,552)	18,599	466
D. Software	S/L	2-5 Or 10	52,624	(574)	30,917	35,802
E. Equipment	S/L	5 Or 10	1,199,584	(21,707)	650,784	609,912
F. Assets Under Capital Lease[1]	S/L	lease term	0	0	0	0
G. Construction-in-Progress	N/A	N/A	10,042,530	N/A	10,042,530	9,043,763
H. Other			48,586	0	48,586	23,894
I. Total General PP&E			$49,955,885	($13,081,932)	$36,873,953	$34,818,279

[1]Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

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

2. Other Information:

General PP&E - Significant Amount of Assets

The $2.1 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 originally were 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 classified improperly in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment," as they were part of the initial acquisition 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 2002 statements to reflect properly the effect of the transfer into land (category 00) where accumulated depreciation is inappropriate.

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

The $18.1 million increase in leasehold improvements from FY 2001 is attributed to new FY 2002 Corps policy requiring all capital improvements with a useful life of two or more years and cost of $25,000 or greater will be capitalized as leasehold improvements.

Other assets include $11.7 million for archaeological and cultural resources reclassified from other assets to property, $7.3 million in deferred and undistributed items, $23.8 million in property awaiting disposal and $5.8 million in unidentified assets.

Note Reference

See Note Disclosure 1. N. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment (PP&E).

Note 10.A. Assets Under Capital Lease

Not Applicable

Note 11. Liabilities Not Covered and Covered by Budgetary Resources

As of September 30,
(Amounts in thousands)

	2002			2001
1. Intragovernmental Liabilities:	**Covered by Budgetary Resources**	**Not Covered By by Budgetary**	**Total**	
A. Accounts Payable	$83,815	$0	$83,815	$92,731
B. Debt	554	24,113	24,667	30,512
C. Environmental Liabilities	0	0	0	0
D. Other	961,649	185,293	1,146,942	1,167,318
E. Total Intragovernmental Liabilities	$1,046,018	$209,406	$1,255,424	$1,290,561
2. Non-Federal Liabilities:				
A. Accounts Payable	$595,952	$0	$595,952	$505,326
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	590,777	0	590,777	576,522
F. Total Non-Federal Liabilities	$1,186,729	$0	$1,186,729	$1,081,848
3. Total Liabilities:	$2,232,747	$209,406	$2,442,153	$2,372,409

4. Other Information:

Liabilities Not Covered and Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), 3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, 4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and 5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

Other Corps Information

Intragovernmental other liabilities (not covered by budgetary resources) includes judgment fund liabilities in the amount of $144.6 million and the FY 2002 Workmen's Compensation liabilities in the amount of $40.7 million.

Intragovernmental other liabilities (covered) includes $880 million representing future revenue from long term water storage contracts and $1.6 million representing future revenue from long term hydraulic mining contracts. Once collected, these monies are returned to the Department of Treasury's general fund receipt account and have no budgetary impact. This category also includes $13.7 million in employer contributions and payroll taxes, $.7 million in Disbursing Officer Cash, $33.6 million to offset interest and account receivables which, when collected, will be returned to Treasury, $14.4 million in the suspense account and $17.3 million in unearned advances.

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.

Non-federal other liabilities (covered) includes $388.4 million in accrued funded payroll and leave, $41.7 million in contract holdbacks, $32.4 million in unearned advances, $80 million in contributed funds, mainly from state and local municipalities for work to be done on a cost-share basis, $41.8 million maintained to fund contingent liabilities arising from casualty losses and $6.5 million in deposit fund and clearing account liabilities.

Note Reference

For Additional Line Item discussion, see:
Note 8, Direct Loans and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Liabilities Not Covered and Covered by Budgetary Resources
Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities

Note 15, Other Liabilities
Note 16, Commitments and Contingencies
Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

Note 12. Accounts Payable

As of September 30,
(Amounts in thousands)

	2002			2001
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables:	$83,814	N/A	$83,814	$92,731
2. Non-Federal Payables (to the Public):	595,952	$0	595,952	505,326
3. Total	679,766	$0	$679,766	$598,057

4. Other Information:

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received, but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Payables (to the Public) are payments to non-federal government entities.

The reason for the variance in Accounts Payable from Fiscal Year (FY) 2001 is due largely to the fact that Accounts Payable was reduced by $161 million in FY 2001 due to an Auditor recommended adjustment based on unsupported accruals. During FY 2002 USACE put out new policy to correct this matter and thus no adjustment was made.

The Corps has no known delinquent accounts payable, therefore no amount is reported for interest, penalties, and administrative fees. During FY 2002, the Corps paid $143 thousand in interest, from Civil Works appropriations, on payments of $4.5 billion subject to the Prompt Payment Act (.003%).

Note Reference

See Note Disclosure 1. G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

Note 13. Debt

As of September 30,
(Amounts in thousands)

	2002			2001
1. Public Debt:	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
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

As of September 30, (Amounts in thousands)	2002			2001
2. Agency Debt:	**Beginning Balance**	**Net Borrowings**	**Ending Balance**	**Ending Balance**
A. Debt to the Treasury	$30,512	($5,845)	$24,667	$30,512
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	$30,512	($5,845)	$24,667	$30,512
3. Total Debt:	$30,512	($5,845)	$24,667	$30,512
4. Classification of Debt:				
A. Intragovernmental Debt			$24,667	$30,512
B. Non-Federal Debt			N/A	N/A
C. Total Debt			$24,667	$30,512

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 draw down of funds has been made from the Treasury in the amount of $73.4 million. Principal repayments as of September 30, 2002 total $49.3 million. $553,901.68 represents accrued interest payable at September 30, 2002.

During fiscal year 2002, actual draw down of funds from the Treasury totals $10.3 million. Principal repayments during fiscal year 2002 total $16 million.

Note Reference

See Note Disclosure 1. G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounting for Intragovernmental Activities, Public Debt.

Note 14. Environmental Liabilities and Disposal Liabilities

Not Applicable

Note 15.A. Other Liabilities

As of September 30,
(Amounts in thousands)

		2002			2001
1.	**Intragovernmental:**	**Current Liability**	**Noncurrent Liability**	**Total**	**Total**
A.	Advances from Others	$17,312	$0	$17,312	$21,491
B.	Deferred Credits	0	0	0	991,343
C.	Deposit Funds and Suspense Account Liabilities	14,413	0	14,413	0
D.	Resources Payable to Treasury	33,642	0	33,642	0
E.	Disbursing Officer Cash	653	0	653	649
F.	Non-environmental Disposal Liabilities:				
	(1) National Defense PP&E (Non-nuclear)	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	Judgment Fund Liabilities	144,641	0	144,641	103,618
I.	FECA Reimbursement to the Department of Labor	15,835	24,817	40,652	40,178
J.	Capital Lease Liability	0	0	0	0
K.	Other Liabilities	13,702	881,925	895,627	10,039
L.	Total Intragovernmental Other Liabilities	$240,198	$906,742	$1,146,940	$1,167,318
2.	**Non-Federal:**				
A.	Accrued Funded Payroll and Benefits	$388,374	$0	$388,374	$353,706
B.	Advances from Others	112,410	0	112,410	77,527
C.	Deferred Credits	0	0	0	6
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	6,524	0	6,524	27,010
G.	Temporary Early Retirement Authority	0	0	0	0
H.	Non-environmental Disposal Liabilities:				
	(1) National Defense PP&E (Non-nuclear)	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	83,468	0	83,468	118,272
N.	Total Non-Federal Other Liabilities	$590,776	$0	$590,776	$576,521
3.	**Total Other Liabilities:**	$830,974	$906,742	$1,737,716	$1,743,839

4. Other Information:

Other Liabilities

The Corps of Engineers Civil Works Directorate has recognized 28 unfunded liabilities arising from the 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 $80.1 million in the FY 2003 Energy and Water Development Act Budget Submission. Congress has not funded these liabilities in the past. The Corps did not request the entire $144.6 million in the FY 2003 budget due to the fact that we have several Judgment Fund liabilities valued at $64.5 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.

Federal Employees' 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 2003 costs are reflected as a current liability.

Intragovernmental other liabilities (current) represent the liability for Employer Contributions and Payroll Taxes. Intragovernmental other liabilities (noncurrent) represent future revenue from long-term water storage and hydraulic mining contracts.

$80 million of the non-federal advances from others is for contributed funds, mainly from state and local municipalities for work to be done on a cost-share basis.

$33.6 million in Resources Payable to Treasury was reclassified from Custodial Liabilities due to restrictions imposed on balances reported for Custodial Liabilities.

$882 million was reclassified from deferred credits to other liabilities for long-term water storage contracts, in accordance with DoD regulation.

$41.8 million of the non-federal other liabilities is maintained to fund contingent liabilities arising from casualty losses. An additional $41.7 million in contract holdbacks on construction-in-progress payments also is included.

Note Reference

See Note Disclosure 1. S. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

Note 15.B. Capital Lease Liability

Not Applicable

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Proprietary contingencies commonly are referred to as contingent liabilities. Although the Corps of Engineers has cases pending litigation, they 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." Therefore, no amount is included in our financial statements.

Note Reference

See Note Disclosure 1. S. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

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

Not Applicable

Note 18. Unexpended Appropriations

As of September 30, (Amounts in Thousands)	2002	2001
1. Unexpended Appropriations:		
A. Unobligated, Available	$694,450	$747,093
B. Unobligated, Unavailable	8	489
C. Unexpended Obligations	369,982	467,320
D. Total Unexpended Appropriations	$1,064,440	$1,214,902

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 been received/performed yet.

Unexpended appropriations is $.4 million less than the balance of unexpended appropriations reflected on the Balance Sheet due to an unreconciled difference in the Funds Balance between Washington Aqueduct and Treasury for appropriation 96X6094. Budgetary accounts were adjusted in order to reconcile with Treasury FACTS II submission edits.

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

Not Applicable

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

Not Applicable

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

Note 19.D. Imputed Expenses

As of September 30,
(Amount in thousands)

	2002	2001
1. Civilian (e.g.,CSRS/FERS) Retirement	$81,319	$80,620
2. Civilian Health	102,986	99,996
3. Civilian Life Insurance	366	344
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	24,316	30,635
7. Total Imputed Expenses	$208,987	$211,595

Note 19.E. Benefit Program Expenses

Not Applicable

Note 19. F. Exchange Revenue

Disclosures Related to the Exchange Revenue:

Exchange Revenue - arises when a Government entity provides goods and services to the public or to another Government entity for a price, - "earned revenue." Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges.

SFFAS No. 7 - Disclosures and Other Accompanying Information Requirements

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 Reference

For Regulatory Discussion on "Exchange Revenue" see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102116.

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

Not Applicable

Note 19.H. Stewardship Assets

Not Applicable

Note 19.I. Intragovernmental Revenue and Expense

Disclosures Related to Intragovernmental Revenue and Expense:

Intragovernmental Revenue

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 Reference

For Regulatory Discussion on "Intragovernmental Revenue and Expense" see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102125.

Note 19.J. Suborganization Program Costs

Not Applicable

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

As of September 30,
(Amounts in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
1. Prior Period Adjustments Increases Decreases) to Net Position Beginning Balance:				
A. Changes in Accounting Standards	$0	$0	$0	$0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	(846,196)	0
C. Other Prior Period Adjustments	0	0	67	0
D. Total Prior Period Adjustments	$0	$0	($846,129)	$0

As of September 30,
(Amounts in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$81,319	$0	$80,620	$0
B. Civilian Health	102,986	0	99,996	0
C. Civilian Life Insurance	366	0	344	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	24,316	0	30,635	0
G. Total Imputed Financing	$208,987	$0	$211,595	$0

3. Other Information:

Other Corps Disclosures

Taxes and Other Non-exchange Revenue include $748 million in tax collections and $71.1 million in interest income deposited into the trust fund accounts. $95.1 million was derived from excise taxes and was deposited into the Inland Waterways Trust Fund. $652.9 million was collected and deposited into The Harbor Maintenance Trust Fund as tax collections. These taxes were derived from:

Tax on Domestics	$27.8 million
Tax on Exports	1.6 million
Tax on Foreign Trade	69.1 million
Tax on Imports	544.8 million
Tax on Passengers	9.6 million

Transfers in include $10 million transferred into the South Dakota Terrestrial Wildlife Restoration Trust Fund and $63.9 million in budget authority which was transferred into the Coastal Wetlands Restoration Trust Fund from the Aquatic Resources Trust Fund.

Transfers out to other government agencies include $3 million to the Customs Department, $13.3 million to the Saint Lawrence Seaway Development Corporation, $1.4 million to the Department of Transportation, $103 thousand to the Department of the Interior, and $13 thousand to the Department of Agriculture.

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 Reference

For Regulatory Disclosure Related to The Statement of Changes in Net Position see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1022.

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

As of September 30,
(Amounts in thousands)

	2002	2001
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$1,368,628	$1,412,416
2. Available Borrowing and Contract Authority at the End of the Period	$42,134	$42,167

3. Other Information:

Apportionment Categories

Disclosure of apportionment categories for obligations incurred. OMB 01-09 section 9.27 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under category A, B and exempt from apportionment. This disclosure should agree with the aggregate of the related information as reported on the agency's year-end SF 133s and lines 8A and 8B in the Statement of Budgetary Resources.

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.

The Statement of Budgetary Resources reflects a $354 million difference between the beginning and ending unobligated and obligated, net balances due to a correction of FY 2001 reporting in the revolving fund account. These amounts have been revised in accordance with OMB Circular No. A-11, Part 4, Instructions on Budget Execution, section 130.2, which requires any material errors in previously reported information to be revised.

According to the Treasury Financial Manual, Part 2, Chapter 4000, Federal Agencies' Centralized Trial-Balance System, paragraph 4630.60, if an allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation on all of its financial statements, except the Statement of Budgetary Resources. The Departments of Commerce, Energy and Transportation chose to report their transfers to the Corps. Therefore, the Statement of Budgetary Resources will not reconcile to the Statement of Budget Execution, SF 133, which was reported by the Corps.

The format of the Statement of Budgetary Resources was modified for FY 2002 to include a new line (Line 16) for reporting Offsetting Receipts. No Offsetting Receipts were reported in FY 2001.

Undelivered Orders

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

Spending Authority from Offsetting Collections

Adjustments in funds that temporarily are not available pursuant to Public Law, and those that permanently are not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in the "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Adjustments" line on the Statement of Financing.

Note Reference

For Regulatory Disclosure Related to The Statement of Budgetary Resources" see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1023.

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

As of September 30,
(Amounts in thousands)

	Sep 2000	Sep 2001	Sep 2002	(Decrease)/Increase from 2001 to 2002
1. Total Problem Disbursement				
A. Absolute Unmatched Disbursements	$0	$0	$0	$0
B. Negative Unliquidated Obligations	0	0	0	0
2. Total In-transit Disbursements, Net	$0	$0	$0	$0

3. Other Information Related to Problem Disbursements and In-transit Disbursements:

4. Suspense/Budget Clearing Accounts, Net

Account	Sep 2000	Sep 2001	Sep 2002	(Decrease)/Increase
F3875	$17,909	$17,422	$14,228	($3,194)
F3880	(5)	(5)	0	5
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
Total	$17,904	$17,417	$14,228	($3,189)

5. Other Information Related to Suspense/Budget Clearing Accounts:

Other Corps Disclosures

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 2003 is collected into F3875. The collections are transferred out in the year following collection. Also included are receivables of $185 thousand that pertain to the leases of land.

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

Note Reference
For Regulatory Disclosure Related to "Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts" see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102305.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:
Transfers to other government agencies include $1.4 million to the Department of Transportation, $103 thousand to the Department of The Interior, and $13 thousand to the Department of Agriculture.

In FY 2002, the Department of Defense modified the financial statement presentation for the Statement of Financing, in accordance with Office of Management and Budget direction. As a result, the Statement of Financing will not lend itself always to comparative analysis. The Departmental Reporting System was modified to calculate the Net Cost using different accounts than had been used in past report submissions. Therefore, the FY 2001 Statement of Financing Net Cost Line 30 does not agree with FY 2001 Statement of Net Cost Line 4.

Note Reference
For Regulatory Disclosure Related to The Statement of Financing see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1024.

Note 23. Disclosures Related to the Statement of Custodial Activity

Not Applicable

Note 24.A. Other Disclosures

Not Applicable

Note 24.B. Other Disclosures

Not Applicable

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$85	$59,954	$45,492	$773
2. Investments (Note 4)	0	2,269,086	0	0
3. Accounts Receivable (Note 5)	0	322,728	0	(1)
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$85	$2,651,768	$45,492	$772
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0
C. Accounts Receivable (Note 5)	2,257	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)	1,950	759,935	218,068	69,198
G. Other Assets (Note 6)	0	0	0	0
2. TOTAL ASSETS	$4,292	$3,411,703	$263,560	$69,970
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$0	$159	$855	$0
2. Debt (Note 13)	0	0	0	24,667
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Notes 15 and 16)	2,257	6,000	0	0
5. Total Intragovernmental Liabilities	$2,257	$6,159	$855	$24,667
B. Accounts Payable (Note 12)	$5	$15,978	$6,220	$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 (Notes 15 and 16)	2	873	1,336	246
4. TOTAL LIABILITIES	$2,264	$23,010	$8,411	$24,913
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$78	$0	$37,081	$0
B. Cumulative Results of Operations	1,950	3,388,693	218,068	45,057
6. TOTAL NET POSITION	$2,028	$3,388,693	$255,149	$45,057
7. TOTAL LIABILITIES AND NET POSITION	$4,292	$3,411,703	$263,560	$69,970

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Revolving Funds	Contributed Funds	General Funds	FUSRAP
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$902,533	$362,902	$1,132,301	$39,917
2. Investments (Note 4)	0	0	0	0
3. Accounts Receivable (Note 5)	3,159	0	202,382	(1)
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$905,692	$362,902	$1,334,683	$39,916
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$817	$0
C. Accounts Receivable (Note 5)	849	0	919,825	0
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	46,171	0	16,968	0
F. General Property, Plant and Equipment (Note 10)	875,412	919,602	34,029,757	31
G. Other Assets (Note 6)	42	35	0	0
2. TOTAL ASSETS	$1,828,166	$1,282,539	$36,302,050	$39,947
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$41,239	$480	$41,107	$92
2. Debt (Note 13)	0	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Notes 15 and 16)	14,192	1,308	1,123,187	0
5. Total Intragovernmental Liabilities	$55,431	$1,788	$1,164,294	$92
B. Accounts Payable (Note 12)	$67,830	$17,163	$455,113	$33,643
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 (Notes 15 and 16)	455,481	2,668	130,043	127
4. TOTAL LIABILITIES	$578,742	$21,619	$1,749,450	$33,862
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$0	$342,591	$679,060	$6,054
B. Cumulative Results of Operations	1,249,424	918,329	33,873,540	31
6. TOTAL NET POSITION	$1,249,424	$1,260,920	$34,552,600	$6,085
7. TOTAL LIABILITIES AND NET POSITION	$1,828,166	$1,282,539	$36,302,050	$39,947

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
As of September 30, 2002 and 2001 ($ in thousands)

	Combined Total	Eliminations	2002 Consolidated	2001 Consolidated
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$2,543,957	$0	$2,543,957	$2,537,990
2. Investments (Note 4)	2,269,086	0	2,269,086	2,255,539
3. Accounts Receivable (Note 5)	528,267	118	528,149	476,541
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$5,341,310	$118	$5,341,192	$5,270,070
B. Cash and Other Monetary Assets (Note 7)	$817	$0	$817	$3,990
C. Accounts Receivable (Note 5)	922,931	0	922,931	1,028,288
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	63,139	0	63,139	54,719
F. General Property, Plant and Equipment (Note 10)	36,873,953	0	36,873,953	34,818,281
G. Other Assets (Note 6)	77	0	77	16,190
2. TOTAL ASSETS	$43,202,227	$118	$43,202,109	$41,191,538
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$83,932	$118	$83,814	$92,727
2. Debt (Note 13)	24,667	0	24,667	30,512
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Notes 15 and 16)	1,146,944	0	1,146,944	1,167,318
5. Total Intragovernmental Liabilities	$1,255,543	$118	$1,255,425	$1,290,557
B. Accounts Payable (Note 12)	$595,952	$0	$595,952	$505,328
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 (Notes 15 and 16)	590,776	0	590,776	576,523
4. TOTAL LIABILITIES	$2,442,271	$118	$2,442,153	$2,372,408
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$1,064,864	$0	$1,064,864	$1,214,901
B. Cumulative Results of Operations	39,695,092	0	39,695,092	37,604,229
6. TOTAL NET POSITION	$40,759,956	$0	$40,759,956	$38,819,130
7. TOTAL LIABILITIES AND NET POSITION	$43,202,227	$118	$43,202,109	$41,191,538

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Combined Total	Eliminations
1. Program Costs		
A. Borrowing Authority		
1. Intragovernmental Gross Costs	$802	$0
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$802	$0
4. Gross Costs With the Public	$16,000	0
5. (Less: Earned Revenue From the Public)	(16,940)	0
6. Net Costs With the Public	($940)	$0
7. Total Net Cost	($138)	$0
B. Contributed Funds		
1. Intragovernmental Gross Costs	$5,051	$0
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$5,051	$0
4. Gross Costs With the Public	$176,683	0
5. (Less: Earned Revenue From the Public)	(2)	0
6. Net Costs With the Public	$176,681	$0
7. Total Net Cost	$181,732	$0
C. FUSRAP		
1. Intragovernmental Gross Costs	$2,209	$0
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$2,209	$0
4. Gross Costs With the Public	$147,444	0
5. (Less: Earned Revenue From the Public)	(600)	0
6. Net Costs With the Public	$146,844	0
7. Total Net Cost	$149,053	$0
D. General Funds		
1. Intragovernmental Gross Costs	$290,137	$0
2. (Less: Intragovernmental Earned Revenue)	(604,225)	0
3. Intragovernmental Net Costs	($314,088)	$0
4. Gross Costs With the Public	$2,870,037	0
5. (Less: Earned Revenue From the Public)	(88,170)	0
6. Net Costs With the Public	$2,781,867	$0
7. Total Net Cost	$2,467,779	$0
E. Revolving Funds		
1. Intragovernmental Gross Costs	$480,519	$0
2. (Less: Intragovernmental Earned Revenue)	(12,212)	0
3. Intragovernmental Net Costs	$468,307	$0
4. Gross Costs With the Public	($227,050)	0
5. (Less: Earned Revenue From the Public)	(16,028)	0
6. Net Costs With the Public	($243,078)	$0
7. Total Net Cost	$225,229	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Combined Total	Eliminations
1. Program Costs		
F. Special Funds		
1. Intragovernmental Gross Costs	$0	$0
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$0	$0
4. Gross Costs With the Public	$12,290	0
5. (Less: Earned Revenue From the Public)	0	0
6. Net Costs With the Public	$12,290	$0
7. Total Net Cost	$12,290	$0
G Transfer Funds		
1. Intragovernmental Gross Costs	$224	$0
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$224	$0
4. Gross Costs With the Public	$2,569	0
5. (Less: Earned Revenue From the Public)	0	0
6. Net Costs With the Public	$2,569	$0
7. Total Net Cost	$2,793	$0
H. Trust Funds		
1. Intragovernmental Gross Costs	$7,688	$0
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$7,688	$0
4. Gross Costs With the Public	$647,305	0
5. (Less: Earned Revenue From the Public)	0	0
6. Net Costs With the Public	$647,305	$0
7. Total Net Cost	$654,993	$0
I. Total Program Costs		
1. Intragovernmental Gross Costs	$786,630	$0
2. (Less: Intragovernmental Earned Revenue)	(616,437)	0
3. Intragovernmental Net Costs	$170,193	$0
4. Gross Costs With the Public	$3,645,278	0
5. (Less: Earned Revenue From the Public)	(121,740)	0
6. Net Costs With the Public	$3,523,538	$0
7. Total Net Cost	$3,693,731	$0
2. Cost Not Assigned to Programs	$0	0
3. (Less:Earned Revenue Not Attributable to Programs)	0	0
4. Net Cost of Operations	$3,693,731	$0

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	FY 2002	FY 2001
1. Program Costs		
A. Borrowing Authority		
1. Intragovernmental Gross Costs	$802	$1,310
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$802	$1,310
4. Gross Costs With the Public	$16,000	$8,239
5. (Less: Earned Revenue From the Public)	(16,940)	(8,971)
6. Net Costs With the Public	($940)	($732)
7. Total Net Cost	($138)	$578
B. Contributed Funds		
1. Intragovernmental Gross Costs	$5,051	$2,266
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$5,051	$2,266
4. Gross Costs With the Public	$176,683	$139,174
5. (Less: Earned Revenue From the Public)	(2)	(5)
6. Net Costs With the Public	$176,681	$139,169
7. Total Net Cost	$181,732	$141,435
C. FUSRAP		
1. Intragovernmental Gross Costs	$2,209	$475
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$2,209	$475
4. Gross Costs With the Public	$147,444	$151,840
5. (Less: Earned Revenue From the Public)	(600)	0
6. Net Costs With the Public	$146,844	$151,840
7. Total Net Cost	$149,053	$152,315
D. General Funds		
1. Intragovernmental Gross Costs	$290,137	$211,797
2. (Less: Intragovernmental Earned Revenue)	(604,225)	(452,951)
3. Intragovernmental Net Costs	($314,088)	($241,154)
4. Gross Costs With the Public	$2,870,037	$3,448,065
5. (Less: Earned Revenue From the Public)	(88,170)	(75,484)
6. Net Costs With the Public	$2,781,867	$3,372,581
7. Total Net Cost	$2,467,779	$3,131,427
E. Revolving Funds		
1. Intragovernmental Gross Costs	$480,519	$887,509
2. (Less: Intragovernmental Earned Revenue)	(12,212)	(30,151)
3. Intragovernmental Net Costs	$468,307	$857,358
4. Gross Costs With the Public	($227,050)	($660,624)
5. (Less: Earned Revenue From the Public)	(16,028)	(17,668)
6. Net Costs With the Public	($243,078)	($678,292)
7. Total Net Cost	$225,229	$179,066

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	FY 2002	FY 2001
1. Program Costs		
F. Special Funds		
1. Intragovernmental Gross Costs	$0	$4
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$0	$4
4. Gross Costs With the Public	$12,290	$16,037
5. (Less: Earned Revenue From the Public)	0	(1)
6. Net Costs With the Public	$12,290	$16,036
7. Total Net Cost	$12,290	$16,040
G Transfer Funds		
1. Intragovernmental Gross Costs	$224	$68
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$224	$68
4. Gross Costs With the Public	$2,569	$14,580
5. (Less: Earned Revenue From the Public)	0	0
6. Net Costs With the Public	$2,569	$14,580
7. Total Net Cost	$2,793	$14,648
H. Trust Funds		
1. Intragovernmental Gross Costs	$7,688	$2,100
2. (Less: Intragovernmental Earned Revenue)	0	0
3. Intragovernmental Net Costs	$7,688	$2,100
4. Gross Costs With the Public	$647,305	$651,370
5. (Less: Earned Revenue From the Public)	0	0
6. Net Costs With the Public	$647,305	$651,370
7. Total Net Cost	$654,993	$653,470
I. Total Program Costs		
1. Intragovernmental Gross Costs	$786,630	$1,105,529
2. (Less: Intragovernmental Earned Revenue)	(616,437)	(483,102)
3. Intragovernmental Net Costs	$170,193	$622,427
4. Gross Costs With the Public	$3,645,278	$3,768,681
5. (Less: Earned Revenue From the Public)	(121,740)	(102,129)
6. Net Costs With the Public	$3,523,538	$3,666,552
7. Total Net Cost	$3,693,731	$4,288,979
2. Cost Not Assigned to Programs	0	0
3. (Less:Earned Revenue Not Attributable to Programs)	0	0
4. Net Cost of Operations	$3,693,731	$4,288,979

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Special Funds Cumulative Results of Operations	Special Funds Unexpended Appropriations	Trust Funds Cumulative Results of Operations	Trust Funds Unexpended Appropriations
Beginning Balances	$24,879	($1,536)	$3,157,181	$0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$24,879	($1,536)	$3,157,181	$0
Budgetary Financing Sources:				
Appropriations received	0	50,781	0	0
Appropriations transferred-in/out (+/-)	0	(36,880)	0	0
Other adjustments (rescissions, etc) (+/-)	0	1,839	0	0
Appropriations used	12,287	(14,126)	0	0
Nonexchange revenue	0	0	819,255	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(22,890)	0	(683,761)	0
Other budgetary financing sources (+/-)	0	0	(3,111)	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(36)	0	754,122	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	($10,639)	$1,614	$886,505	$0
Net Cost of Operations (+/-)	12,290	0	654,993	0
Ending Balances	$1,950	$78	$3,388,693	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Transfer Funds Cumulative Results of Operations	Transfer Funds Unexpended Appropriations	Borrowing Authority Cumulative Results of Operations	Borrowing Authority Unexpended Appropriations
Beginning Balances	$128,150	$54,303	$13,483	$15,436
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$128,150	$54,303	$13,483	$15,436
Budgetary Financing Sources:				
Appropriations received	0	0	0	0
Appropriations transferred-in/out (+/-)	0	75,698	0	0
Other adjustments (rescissions, etc) (+/-)	0	(6,057)	0	(15,436)
Appropriations used	93,011	(86,863)	15,436	0
Nonexchange revenue	0	0	16,000	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(300)	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$92,711	($17,222)	$31,436	($15,436)
Net Cost of Operations (+/-)	2,793	0	(138)	0
Ending Balances	$218,068	$37,081	$45,057	$0

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Revolving Funds Cumulative Results of Operations	Revolving Funds Unexpended Appropriations	Contributed Funds Cumulative Results of Operations	Contributed Funds Unexpended Appropriations
Beginning Balances	$1,253,929	$0	$766,391	$283,052
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$1,253,929	$0	$766,391	$283,052
Budgetary Financing Sources:				
Appropriations received	0	0	0	394,039
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	(3,597)
Appropriations used	36,176	0	334,500	(330,903)
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	(55)	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	13	0	0	0
Transfers-in/out without reimbursement (+/-)	(80)	0	(830)	0
Imputed financing from costs absorbed by others	184,670	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$220,724	$0	$333,670	$59,539
Net Cost of Operations (+/-)	225,229	0	181,732	0
Ending Balances	$1,249,424	$0	$918,329	$342,591

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	General Funds Cumulative Results of Operations	General Funds Unexpended Appropriations	FUSRAP Cumulative Results of Operations	FUSRAP Unexpended Appropriations
Beginning Balances	$32,260,196	$848,529	$20	$15,117
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$32,260,196	$848,529	$20	$15,117
Budgetary Financing Sources:				
Appropriations received	0	3,740,145	0	140,000
Appropriations transferred-in/out (+/-)	0	159,590	0	0
Other adjustments (rescissions, etc) (+/-)	0	(122,236)	0	(7,887)
Appropriations used	4,064,372	(3,946,968)	149,064	(141,176)
Nonexchange revenue	742	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	290	0	0	0
Transfers-in/out without reimbursement (+/-)	(8,597)	0	0	0
Imputed financing from costs absorbed by others	24,316	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$4,081,123	($169,469)	$149,064	($9,063)
Net Cost of Operations (+/-)	2,467,779	0	149,053	0
Ending Balances	$33,873,540	$679,060	$31	$6,054

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Combined Total Cumulative Results of Operations	Combined Total Unexpended Appropriations	Eliminations Cumulative Results of Operations	Eliminations Unexpended Appropriations
Beginning Balances	$37,604,229	$1,214,901	$0	$0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$37,604,229	$1,214,901	$0	$0
Budgetary Financing Sources:				
Appropriations received	0	4,324,965	0	0
Appropriations transferred-in/out (+/-)	0	198,408	0	0
Other adjustments (rescissions, etc) (+/-)	0	(153,374)	0	0
Appropriations used	4,704,846	(4,520,036)	0	0
Nonexchange revenue	835,997	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(706,651)	0	0	0
Other budgetary financing sources (+/-)	(3,166)	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	303	0	0	0
Transfers-in/out without reimbursement (+/-)	744,279	0	0	0
Imputed financing from costs absorbed by others	208,986	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$5,784,594	($150,037)	$0	$0
Net Cost of Operations (+/-)	3,693,731	0	0	0
Ending Balances	$39,695,092	$1,064,864	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	FY 2002 Consolidated Cumulative Results of Operations	FY 2002 Consolidated Unexpended Appropriations	FY 2001 Trust Funds Cumulative Results of Operations	FY 2001 Trust Funds Unexpended Appropriations
Beginning Balances	$37,604,229	$1,214,901	$36,999,464	$1,004,640
Prior period adjustments (+/-)	0	0	(846,130)	0
Beginning Balances, as adjusted	$37,604,229	$1,214,901	$36,153,334	$1,004,640
Budgetary Financing Sources:				
Appropriations received	0	4,324,965	0	210,262
Appropriations transferred-in/out (+/-)	0	198,408	0	0
Other adjustments (rescissions, etc) (+/-)	0	(153,374)	0	0
Appropriations used	4,704,846	(4,520,036)	4,310,085	0
Nonexchange revenue	835,997	0	919,800	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(706,651)	0	(445,585)	0
Other budgetary financing sources (+/-)	(3,166)	0	(8,859)	0
Other Financing Sources:				
Donations and forfeitures of property	303	0	275	0
Transfers-in/out without reimbursement (+/-)	744,279	0	752,563	0
Imputed financing from costs absorbed by others	208,986	0	211,595	0
Other (+/-)	0	0	0	0
Total Financing Sources	$5,784,594	($150,037)	$5,739,874	$210,262
Net Cost of Operations (+/-)	3,693,731	0	4,288,979	0
Ending Balances	$39,695,092	$1,064,864	$37,604,229	$1,214,902

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		Special Funds Budgetary	Special Funds Non-Budgetary Credit Program Financing Accounts	Trust Funds Budgetary	Trust Funds Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:					
A.	Budget Authority:				
	Appropriations received	$50,781	$0	$0	$0
	Borrowing authority	0	0	0	0
	Contract authority	0	0	0	0
	Net transfers (+/-)	(36,780)	0	808,338	0
	Other	0	0	0	0
B.	Unobligated balance:				
	Beginning of period	23,189	0	180,805	0
	Net transfers, actual (+/-)	(22,990)	0	0	0
	Anticipated Transfers Balances	0	0	0	0
C.	Spending authority from offsetting collections:				
	Earned				
	Collected	0	0	0	0
	Receivable from Federal sources	0	0	0	0
	Change in unfilled customer orders				
	Advance received	0	0	0	0
	Without advance from Federal sources	0	0	0	0
	Anticipated for the rest of year, without advances	0	0	0	0
	Transfers from trust funds	0	0	0	0
	Subtotal	$0	$0	$0	$0
D.	Recoveries of prior year obligations	0	0	0	0
E.	Temporarily not available pursuant to Public Law	0	0	0	0
F	Permanently not available	0	0	0	0
G	Total Budgetary Resources	$14,200	$0	$989,143	$0
Status of Budgetary Resources:					
H.	Obligations incurred:				
	Direct	$14,139	$0	$789,011	$0
	Reimbursable	0	0	0	0
	Subtotal	14,139	0	789,011	0
I.	Unobligated balance:				
	Apportioned	61	0	0	0
	Exempt from apportionment	0	0	200,132	0
	Other available	0	0	0	0
J.	Unobligated Balances Not Available	0	0	0	0
K.	Total, Status of Budgetary Resources	$14,200	$0	$989,143	$0
Relationship of Obligations to Outlays:					
L.	Obligated Balance, Net - beginning of period	$1,348	$0	$109,754	$0
M.	Obligated Balance transferred, net (+/-)	0	0	0	0
N.	Obligated Balance, Net - end of period:				
	Accounts receivable	0	0	0	0
	Unfilled customer order from Federal sources	0	0	0	0
	Undelivered orders	17	0	106,140	0
	Accounts payable	7	0	17,010	0
O.	Outlays:				
	Disbursements	15,463	0	775,615	0
	Collections	0	0	0	0
	Subtotal	$15,463	$0	$775,615	$0
P.	Less: Offsetting receipts	0	0	(819,255)	0
Q.	Net Outlays	$15,463	$0	($43,640)	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		Transfer Funds Budgetary	Transfer Funds Non-Budgetary Credit Program Financing Accounts	Borrowing Authority Budgetary	Borrowing Authority Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:					
A.	Budget Authority:				
	Appropriations received	$0	$0	$0	$0
	Borrowing authority	0	0	0	0
	Contract authority	0	0	0	0
	Net transfers (+/-)	70,885	0	0	0
	Other	0	0	0	0
B.	Unobligated balance:				
	Beginning of period	37,203	0	3,893	0
	Net transfers, actual (+/-)	(150)	0	0	0
	Anticipated Transfers Balances	0	0	0	0
C.	Spending authority from offsetting collections:				
	Earned				
	Collected	12	0	16,940	0
	Receivable from Federal sources	(2)	0	0	0
	Change in unfilled customer orders				
	Advance received	0	0	0	0
	Without advance from Federal sources	(7)	0	0	0
	Anticipated for the rest of year, without advances	0	0	0	0
	Transfers from trust funds	0	0	0	0
	Subtotal	3	0	16,940	0
D.	Recoveries of prior year obligations	0	0	0	0
E.	Temporarily not available pursuant to Public Law	0	0	0	0
F	Permanently not available	0	0	(16,033)	0
G	Total Budgetary Resources	$107,941	$0	$4,800	$0
Status of Budgetary Resources:					
H.	Obligations incurred:				
	Direct	$86,650	$0	$3,223	$0
	Reimbursable	7	0	940	0
	Subtotal	86,657	0	4,163	0
I.	Unobligated balance:				
	Apportioned	21,276	0	0	0
	Exempt from apportionment	0	0	636	0
	Other available	0	0	1	0
J.	Unobligated Balances Not Available	8	0	0	0
K.	Total, Status of Budgetary Resources	$107,941	$0	$4,800	$0
Relationship of Obligations to Outlays:					
L.	Obligated Balance, Net - beginning of period	$24,194	$0	$12,285	$0
M.	Obligated Balance transferred, net (+/-)	0	0	0	0
N.	Obligated Balance, Net - end of period:				
	Accounts receivable	0	0	0	0
	Unfilled customer order from Federal sources	(4)	0	0	0
	Undelivered orders	15,802	0	732	0
	Accounts payable	8,411	0	800	0
O.	Outlays:				
	Disbursements	86,653	0	14,917	0
	Collections	(12)	0	(16,940)	0
	Subtotal	$86,641	$0	($2,023)	$0
P.	Less: Offsetting receipts	0	0	0	0
Q.	Net Outlays	$86,641	$0	($2,023)	$0

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Budgetary Resources:	Revolving Funds Budgetary	Revolving Funds Non-Budgetary Credit Program Financing Accounts	Contributed Funds Budgetary	Contributed Funds Non-Budgetary Credit Program Financing Accounts
A. Budget Authority:				
Appropriations received	$0	$0	$394,039	$0
Borrowing authority	0	0	0	0
Contract authority	0	0	0	0
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
B. Unobligated balance:				
Beginning of period	73,615	0	195,588	0
Net transfers, actual (+/-)	0	0	0	0
Anticipated Transfers Balances	0	0	0	0
C. Spending authority from offsetting collections:				
Earned				
Collected	3,675,810	0	111	0
Receivable from Federal sources	(21,258)	0	0	0
Change in unfilled customer orders				
Advance received	8,127	0	8	0
Without advance from Federal sources	(1,966)	0	15	0
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	$3,660,713	$0	$134	$0
D. Recoveries of prior year obligations	0	0	0	0
E. Temporarily not available pursuant to Public Law	0	0	0	0
F Permanently not available	0	0	0	0
G Total Budgetary Resources	$3,734,328	$0	$589,761	$0
Status of Budgetary Resources:				
H. Obligations incurred:				
Direct	$0	$0	$338,691	$0
Reimbursable	3,676,977	0	125	0
Subtotal	3,676,977	0	338,816	0
I. Unobligated balance:				
Apportioned	0	0	23,784	0
Exempt from apportionment	57,352	0	227,161	0
Other available	(1)	0	0	0
J. Unobligated Balances Not Available	0	0	0	0
K. Total, Status of Budgetary Resources	$3,734,328	$0	$589,761	$0
Relationship of Obligations to Outlays:				
L. Obligated Balance, Net - beginning of period	$775,963	$0	$103,137	$0
M. Obligated Balance transferred, net (+/-)	0	0	0	0
N. Obligated Balance, Net - end of period:				
Accounts receivable	(25,520)	0	0	0
Unfilled customer order from Federal sources	(29,959)	0	(19)	0
Undelivered orders	337,544	0	91,679	0
Accounts payable	563,116	0	20,298	0
O. Outlays:				
Disbursements	3,630,982	0	329,981	0
Collections	(3,683,937)	0	(120)	0
Subtotal	($52,955)	$0	$329,861	$0
P. Less: Offsetting receipts	0	0	0	0
Q. Net Outlays	($52,955)	$0	$329,861	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		General Funds Budgetary	General Funds Non-Budgetary Credit Program Financing Accounts	FUSRAP Budgetary	FUSRAP Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:					
A.	Budget Authority:				
	Appropriations received	$3,740,145	$0	$140,000	$0
	Borrowing authority	0	0	0	0
	Contract authority	0	0	0	0
	Net transfers (+/-)	163,780	0	0	0
	Other	0	0	0	0
B.	Unobligated balance:				
	Beginning of period	1,195,565	0	3,445	0
	Net transfers, actual (+/-)	0	0	0	0
	Anticipated Transfers Balances	0	0	0	0
C.	Spending authority from offsetting collections:				
	Earned				
	Collected	1,132,137	0	12,603	0
	Receivable from Federal sources	(32,021)	0	(242)	0
	Change in unfilled customer orders				
	Advance received	29,210	0	0	0
	Without advance from Federal sources	119,827	0	(2,241)	0
	Anticipated for the rest of year, without advances	0	0	0	0
	Transfers from trust funds	0	0	0	0
	Subtotal	$1,249,153	$0	$10,120	$0
D.	Recoveries of prior year obligations	0	0	0	0
E.	Temporarily not available pursuant to Public Law	0	0	0	0
F	Permanently not available	(482)	0	0	0
G	Total Budgetary Resources	$6,348,161	$0	$153,565	$0
Status of Budgetary Resources:					
H.	Obligations incurred:				
	Direct	$4,042,663	$0	$140,983	$0
	Reimbursable	1,097,316	0	10,157	0
	Subtotal	5,139,979	0	151,140	0
I.	Unobligated balance:				
	Apportioned	1,198,505	0	2,425	0
	Exempt from apportionment	9,676	0	0	0
	Other available	0	0	0	0
J.	Unobligated Balances Not Available	1	0	0	0
K.	Total, Status of Budgetary Resources	$6,348,161	$0	$153,565	$0
Relationship of Obligations to Outlays:					
L.	Obligated Balance, Net - beginning of period	$33,425	$0	$37,865	$0
M.	Obligated Balance transferred, net (+/-)	0	0	0	0
N.	Obligated Balance, Net - end of period:				
	Accounts receivable	(209,922)	0	(1)	0
	Unfilled customer order from Federal sources	(1,340,520)	0	(2,626)	0
	Undelivered orders	917,013	0	6,256	0
	Accounts payable	537,206	0	33,863	0
O.	Outlays:				
	Disbursements	5,181,820	0	153,997	0
	Collections	(1,161,347)	0	(12,603)	0
	Subtotal	$4,020,473	$0	$141,394	$0
P.	Less: Offsetting receipts	0	0	0	0
Q.	Net Outlays	$4,020,473	$0	$141,394	$0

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

		FY 2002 Combined Total Budgetary	FY 2002 Non-Budgetary Credit Program Financing Accounts	FY 2001 Budgetary	FY 2001 Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:					
A.	Budget Authority:				
	Appropriations received	$4,324,965	$0	$3,974,001	$0
	Borrowing authority	0	0	0	0
	Contract authority	0	0	0	0
	Net transfers (+/-)	1,006,223	0	1,544,283	0
	Other	0	0	0	0
B.	Unobligated balance:				
	Beginning of period	1,713,303	0	1,638,978	0
	Net transfers, actual (+/-)	(23,140)	0	(491)	0
	Anticipated Transfers Balances	0	0	0	0
C.	Spending authority from offsetting collections:				
	Earned				
	Collected	4,837,613	0	4,216,800	0
	Receivable from Federal sources	(53,523)	0	56,628	0
	Change in unfilled customer orders				
	Advance received	37,345	0	34	0
	Without advance from Federal sources	115,628	0	231,286	0
	Anticipated for the rest of year, without advances	0	0	0	0
	Transfers from trust funds	0	0	0	0
	Subtotal	$4,937,063	$0	$4,504,748	$0
D.	Recoveries of prior year obligations	0	0	0	0
E.	Temporarily not available pursuant to Public Law	0	0	0	0
F	Permanently not available	(16,515)	0	(17,545)	0
G	Total Budgetary Resources	$11,941,899	$0	$11,643,974	$0
Status of Budgetary Resources:					
H.	Obligations incurred:				
	Direct	$5,415,360	$0	$8,478,611	$0
	Reimbursable	4,785,522	0	1,120,752	0
	Subtotal	10,200,882	0	9,599,363	0
I.	Unobligated balance:				
	Apportioned	1,246,051	0	1,435,403	0
	Exempt from apportionment	494,957	0	608,718	0
	Other available	0	0	1	0
J.	Unobligated Balances Not Available	9	0	489	0
K.	Total, Status of Budgetary Resources	$11,941,899	$0	$11,643,974	$0
Relationship of Obligations to Outlays:					
L.	Obligated Balance, Net - beginning of period	$1,097,971	$0	$797,587	$0
M.	Obligated Balance transferred, net (+/-)	0	0	0	0
N.	Obligated Balance, Net - end of period:				
	Accounts receivable	(235,443)	0	(262,026)	0
	Unfilled customer order from Federal sources	(1,373,128)	0	(1,257,500)	0
	Undelivered orders	1,475,183	0	1,492,092	0
	Accounts payable	1,180,711	0	771,210	0
O.	Outlays:				
	Disbursements	10,189,428	0	9,365,262	0
	Collections	(4,874,959)	0	(4,216,835)	0
	Subtotal	$5,314,469	$0	$5,148,427	$0
P.	Less: Offsetting receipts	(819,255)	0	0	0
Q.	Net Outlays	$4,495,214	$0	$5,148,427	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
Budgetary Resources Obligated				
1. Obligations incurred	$14,139	$789,011	$86,657	$4,164
2. Less: Spending authority from offsetting collections and recoveries (-)	0	0	(3)	(16,940)
3. Obligations net of offsetting collections and recoveries	$14,139	$789,011	$86,654	($12,776)
4. Less: Offsetting receipts (-)	0	(819,255)	0	0
5. Net obligations	$14,139	($30,244)	$86,654	($12,776)
Other Resources				
6. Donations and forfeitures of property	0	0	0	0
7. Transfers in/out without reimbursement (+/-)	(36)	11,014	(300)	0
8. Imputed financing from costs absorbed by others	0	0	0	0
9. Other (+/-)	0	0	0	16,000
10. Net other resources used to finance activities	($36)	$11,014	($300)	$16,000
11. Total resources used to finance activities	$14,103	($19,230)	$86,354	$3,224
Resources Used to Finance Items not Part of the Net Cost of Operations				
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered Orders (-)	(1,852)	(17,465)	1,300	10,811
Unfilled Customer Orders	0	0	(7)	0
13. Resources that fund expenses recognized in prior periods	0	0	0	0
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	819,255	0	0
15. Resources that finance the acquisition of assets	31	(130,029)	(86,156)	(14,173)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations				
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0	0
Other (+/-)	0	0	0	0
17. Total resources used to finance items not part of the net cost of operations	($1,821)	$671,761	($84,863)	($3,362)
18. Total resources used to finance the net cost of operations	$12,282	$652,531	$1,491	($138)

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods:				
19. Increase in annual leave liability	$0	$0	$0	$0
20. Increase in environmental and disposal liability	0	0		0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0	0
22. Increase in exchange revenue receivable from the public (-)	(7)	0	0	0
23. Other (+/-)	0	0	0	0
24. Total components of Net Cost of Operations that will require or generate resources in future periods	($7)	$0	$0	$0
Components not Requiring or Generating Resources:				
25. Depreciation and amortization	15	2,462	1,302	0
26. Revaluation of assets or liabilities (+/-)	0	0	0	0
27. Other (+/-)	0	0	0	0
28. Total components of Net Cost of Operations that will not require or generate resources	$15	$2,462	$1,302	$0
29. Total components of net cost of operations that will not require or generate resources in the current period	$8	$2,462	$1,302	$0
30. Net Cost of Operations	$12,290	$654,993	$2,793	($138)

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	Revolving Funds	Contributed Funds	General Funds
Budgetary Resources Obligated			
1. Obligations incurred	$3,676,977	$338,816	$5,139,977
2. Less: Spending authority from offsetting collections and recoveries (-)	(3,660,713)	(135)	(1,249,153)
3. Obligations net of offsetting collections and recoveries	$16,264	$338,681	$3,890,824
4. Less: Offsetting receipts (-)	0	0	0
5. Net obligations	$16,264	$338,681	$3,890,824
Other Resources			
6. Donations and forfeitures of property	13	0	292
7. Transfers in/out without reimbursement (+/-)	(80)	(830)	(8,597)
8. Imputed financing from costs absorbed by others	184,670	0	24,316
9. Other (+/-)	$0	$0	$743
10. Net other resources used to finance activities	$184,603	($830)	$16,754
11. Total resources used to finance activities	$200,867	$337,851	$3,907,578
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	(43,420)	(4,204)	41,842
Unfilled Customer Orders	6,162	23	149,037
13. Resources that fund expenses recognized in prior periods	0	0	0
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0
15. Resources that finance the acquisition of assets	13,085	(152,205)	(2,092,171)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
17. Total resources used to finance items not part of the net cost of operations	($24,173)	($156,386)	($1,901,292)
18. Total resources used to finance the net cost of operations	$176,694	$181,465	$2,006,286

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	Revolving Funds	Contributed Funds	General Funds
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	$0	$0	$0
20. Increase in environmental and disposal liability	0	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
22. Increase in exchange revenue receivable from the public (-)	0	0	(3,422)
23. Other (+/-)	0	137	41,360
24. Total components of Net Cost of Operations that will require or generate resources in future periods	$0	$137	$37,938
Components not Requiring or Generating Resources:			
25. Depreciation and amortization	48,535	130	423,090
26. Revaluation of assets or liabilities (+/-)	0	0	0
27. Other (+/-)	0	0	465
28. Total components of Net Cost of Operations that will not require or generate resources	$48,535	$130	$423,555
29. Total components of net cost of operations that will not require or generate resources in the current period	$48,535	$267	$461,493
30. Net Cost of Operations	$225,229	$181,732	$2,467,779

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Resources Used to Finance Activities:	FUSRAP	FY 2002 Combined	FY 2001 Combined
Budgetary Resources Obligated			
1. Obligations incurred	$151,141	$10,200,882	$9,599,363
2. Less: Spending authority from offsetting collections and recoveries (-)	(10,119)	(4,937,063)	(4,504,749)
3. Obligations net of offsetting collections and recoveries	$141,022	$5,263,819	$5,094,614
4. Less: Offsetting receipts (-)	0	(819,255)	(43,761)
5. Net obligations	$141,022	$4,444,564	$5,050,853
Other Resources			
6. Donations and forfeitures of property	0	305	275
7. Transfers in/out without reimbursement (+/-)	0	1,171	1,735
8. Imputed financing from costs absorbed by others	0	208,986	211,595
9. Other (+/-)	0	16,743	(26,044)
10. Net other resources used to finance activities	$0	$227,205	$187,561
11. Total resources used to finance activities	$141,022	$4,671,769	$5,238,414
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	10,283	(2,705)	(281,946)
Unfilled Customer Orders	(2,241)	152,974	231,321
13. Resources that fund expenses recognized in prior periods	0	0	(169,635)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	819,255	0
15. Resources that finance the acquisition of assets	(11)	(2,461,629)	(1,540,367)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	(390,870)
17. Total resources used to finance items not part of the net cost of operations	$8,031	($1,492,105)	($2,151,497)
18. Total resources used to finance the net cost of operations	$149,053	$3,179,664	$3,086,917

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the years ended September 30, 2002 and 2001 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	Component Level	FY 2002 Combined	FY 2001 Combined
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	$0	$0	$0
20. Increase in environmental and disposal liability	0	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
22. Increase in exchange revenue receivable from the public (-)	0	(3,429)	0
23. Other (+/-)	0	41,497	103,175
24. Total components of Net Cost of Operations that will require or generate resources in future periods	$0	$38,068	$103,175
Components not Requiring or Generating Resources:			
25. Depreciation and amortization	0	475,534	589,863
26. Revaluation of assets or liabilities (+/-)	0	0	169,970
27. Other (+/-)	0	465	28,145
28. Total components of Net Cost of Operations that will not require or generate resources	$0	$475,999	$787,978
29. Total components of net cost of operations that will not require or generate resources in the current period	$0	$514,067	$891,153
30. Net Cost of Operations	$149,053	$3,693,731	$3,978,070

The accompanying notes are an integral part of these statements.

Heritage Assets

	FY 2002FY Beginning Balance	Additions	Deletions	2002 Ending Balance
Museums	0	0	0	0
Monuments & Memorials	1	0	0	1
Cemeteries & Archaeological Sites	120	0	0	120
Buildings & Structures	324	0	0	324
Major Collections	1	0	0	1
Total	446	0	0	446

Stewardship Land

	FY 2002 Beginning Balance	Additions	Deletions	FY 2002 Ending Balance
Mission	0	0	0	0
Parks & Historic Sites	0	0	0	0
Total	0	0	0	0

Non-Federal Physical Property

	1998	1999	2000	2001	2002
Trans. Assets: ND Mission Related	0	0	0	0	0
Funded Assets: ND Mission Related	0	0	0	0	0
Total	0	0	0	0	0

Research and Development Investments

	1998	1999	2000	2001	2002
Basic Research	0	0	0	0	0
Applied Research	0	0	0	0	0
Advanced Technology Development	0	0	0	0	0
Demonstration and Validation	0	0	0	0	0
Engineer. and Manufacturing. Development	0	0	0	0	0
RDT&E Management Support	0	0	0	0	0
Operational System Development	0	0	0	0	0
Total	0	0	0	0	0

Narrative Statement:

At the end of September 2001, we reported having 8,099 Major Collections. After receiving clarifying guidance from the Department of Defense on what makes up Major Collections, we are reporting that we have one (1) Major Collection, this being the collection of historical memorabilia, historic artifacts and records managed by the Headquarters, U.S. Army Corps of Engineers Office of History.

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 are contained in the financial statements.

Heritage assets classified as Land are special land plots containing archaeological sites 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 degraded materially while under the care of the U.S. Army Corps of Engineers. The existence of most of the un-categorized heritage assets is known informally to be adequate for display purposes; however, the condition of many un-categorized assets are unknown.

Cemeteries and Archeological Sites are archeological properties listed on, or eligible for, the National Register of Historic Places. These archeological assets cover almost the entire range of human occupation of the Continental United States beginning with the Kennewick Man Discovery Site in Washington State, dating to approximately 10,000 years before present, to archeological remains of early European-American settlements such as Fort Independence in Georgia.

Buildings and Structures include a range of historic resources from a covered bridge in the Sacramento District to early farming structures in the Savannah District. It also includes some non-traditional structures such as a snag boat that operated on the Mississippi River.

Deferred Maintenance

$ in thousands

Real Property Annual Deferred Sustainment

	Required	Actual	Difference
Buildings, Structures, and Utilities	$702,000	$702,000	$0

Annual Deferred Sustainment Trend

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Buildings and Structures	$329,000	$415,000	$702,000	$884,000	Not Available

Real Property Restoration and Modernization Requirements

	End FY 2001	End FY 2002	Change
Buildings, Structures, and Utilities	$415,000	$702,000	$287,000

Military Equipment Deferred Maintenance Amounts

FY 2002	
Aircraft	0
Ships	0
Missiles	0
Combat Vehicles	0
Other Weapons Systems	0
Total	0

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.

Schedule, Part A DoD Intra-governmental Asset Balances ($ Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Unidentifiable Federal Agency Entity (Other than DoD entities)	0		$0			
The Judiciary	10		$16			
Department of Agriculture	12		$2,842			
Department of Commerce	13		$3,350			
Department of the Interior	14		$304,811			
Department of Justice	15		$18,159			
Department of Labor	16		$4			
Navy General Fund	17		$2,073			
United State Postal Service	18		$703			
Department of State	19		$847			
Department of the Treasury	20	$2,543,957	$18,810		$2,269,086	
Army General Fund	21		$1,077			
Office of Personnel Management	24		$0			
Social Security Administration	28		$3			
Library of Congress	3		($2)			
Nuclear Regulatory Commission	31		$14			
Smithsonian Institution	33		$181			
Department of Veterans Affairs	36		$20			
Government Printing Office	4		$0			
U.S. Equal Employment Opportunity Commission	45		$0			
General Service Administration	47		$333			
National Science Foundation	49		($126)			
General Printing Office	5		$9			
Air Force General Fund	57		$42			
Federal Emergency Management Agency	58		$29,552			
Railroad Retirement Board	60		$10			
Tennessee Valley Authority	64		$256			
Environmental Protection Agency	68		$28,442			
Department of Transportation	69		$13,970			
Agency for International Development	72		$1,802			
American Battle Monuments	74		$31			
Department of Health and Human Services	75		$611			
National Aeronautics and Space Administration	80		$1,757			
Department of Housing and Urban Development	86		$5			
Department of Energy	89		$260			
Independent Agencies	95		$98,009			
US Army Corps of Engineers	96					
Other Defense Organizations General Funds	97		$98			
Other Defense Organizations Working Capital Funds	97-4930		$60			
Army Working Capital Fund	97-4930.001		$38			
Navy Working Capital Fund	97-4930.002		$84			
Totals:		$2,543,957	$528,151		$2,269,086	

Schedule, Part B DoD Intra-governmental Entity Liabilities ($ Amounts in Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Agriculture	12	$1,394		$321
Department of Commerc	13	$4,969		$142
Department of the Interior	14	$14,819		$4,812
Department of Justice	15	$397		$7
Department of Labor	16	$54		$40,652
Navy General Fund	17	$1,777		
United States Postal Service	18	$1		$31
Department of State	19	$482		$256
Department of the Treasury	20	$1,235	$24,667	$1,075,277
Army General Fund	21	$5,616		$118
Office of Personnel Management	24	$145		$13,702
Social Security Administration	28	$30		
Library of Congress	3	$65		
Department of Veterans Affairs	36			$37
Government Printing Office	4	$109		
U.S. Equal Employment Opportunity Commission	45	$3		
General Service Administration	47	$35,950		$110
Air Force General Fund	57	$89		
Federal Emergency Management Agency	58	$11		$19
Tenessee Valley Authority	64	$2,902		$0
Environmental Protection Agency	68	$263		$4
Department of Transportation	69	$210		$29
Small Business Administration	73			$1
Department of Health and Human Services	75	$353		$58
Department of Housing and Urban Development	86			$6,163
Narional Archives and Records Administration	88 $2			
Department of Energy	89	$2,782		$1,917
Department of Education	91			$2,563
Independent Agencies	95			$724
Other Defense Organizations General Funds	97	$1,738		
Other Defense Organizations Working Capital Funds	97-4930	$8,328		
Army Working Capital Fund	97-4930.001	$80		
Navy Working Capital Fund	97-4930.002	$608		
Air Force Working Capital Fund	97-4930.003	$3		
Totals:		$84,413	$24,667	$1,146,943

Schedule, Part C DoD Intra-governmental Revenue and Related Costs ($ Amounts in Thousands)	Treasury Index	Earned Revenue
The Judiciary	10	$35
Executive Office of the President	11	$4
Department of Agriculture	12	$9,743
Department of Commerce	13	$5,531
Department of the Interior	14	$36,899
Department of Justice	15	$80,980
Department of Labor	16	$7
Navy General Fund	17	$2,224
United States Postal Service	18	$3,043
Department of State	19	$8,240
Department of the Treasury	20	$4,571
Army General Fund	21	$4,017
Office of Personnel Management	24	$0
Social Security Administration	28	$8
Nuclear Regulatory Commission	31	$159
Smithsonian Institution	33	$762
Department of Veterans Affairs	36	$2,266
Government Printing Office	4	$0
U.S. Equal Employment Opportunity Commission	45	$4
General Service Administration	47	$773
National Science Foundation	49	$1,839
General Printing Office	5	$1,384
Air Force General Fund	57	$689
Federal Emergency Management Agency	58	$92,168
Railroad Retirement Board	60	$25
Tennessee Valley Authority	64	$369
Environmental Protection Agency	68	$134,102
Department of Transportation	69	$28,236
Agency for International Development	72	$4,661
Small Business Administration	73	$3
American Battle Monuments	74	$144
Department of Health and Human Services	75	$6,470
National Aeronautics and Space Administration	80	$8,930
Department of Housing and Urban Development	86	$121
Department of Energy	89	$13,355
Department of Education	91	$37
Independent Agencies	95	$163,321
Other Defense Organizations General Funds	97	$1,671
Other Defense Organizations Working Capital Funds	97-4930	($396)
Army Working Capital Fund	97-4930.001	$64
Navy Working Capital Fund	97-4930.002	($24)
Totals:		$616,435

Schedule, Part E DoD Intra-governmental Non-exchange Revenues ($ Amounts in Thousands)	Treasury Index	Transfers In	Transfers Out
Department of Agriculture	12	$13	
Department of the Interior	14	$63,941	$103
Department of Justice	15		$1
Department of the Treasury	20	$756,107	$770,287
Army General Fund	21		$0
General Service Administration	47		$55
Tennessee Valley Authority	64		$61
Department of Transportation	69	$1,406	$13,305
Totals:		$821,467	$783,812

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

January 6, 2003

MEMORANDUM FOR COMMANDER, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2002 Principal Financial Statements (Report No. D-2003-043)

The Office of Management and Budget (OMB) in implementing the Chief Financial Officers (CFO) Act of 1990, as amended, has required the Office of the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the U.S. Army Corps of Engineers, Civil Works, (Corps of Engineers) as of September 30, 2002 and 2001, the related Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statements of Financing and Budgetary Resources for the fiscal years then ended. The financial statements are the responsibility of the Corps of Engineers management. The Corps of Engineers management is also responsible for implementing effective internal control and for complying with laws and regulations. We are also including the required reports on internal control and compliance with laws and regulations.

Disclaimer of Opinion on the Financial Statements

Our audit of the Corps of Engineers FY 2002 Financial Statements was limited to the Consolidated Balance Sheet. Time constraints precluded the Corps of Engineers from providing sufficient audit-ready evidential material for the auditors to complete the audit. Therefore, we are unable to express, and we do not express, an opinion on the Corps of Engineers FY 2002 Consolidated Balance Sheet. We did not audit the Corps of Engineers FY 2002 Consolidated Statements of Net Cost and Changes in Net Position and the Combined Statements of Financing and Budgetary Resources; therefore, we do not express an opinion on those statements.

Although we were not able to complete the audit of the Corps of Engineers FY 2001 Consolidated Balance Sheet, our limited review identified material internal control weaknesses related to General Property, Plant, and Equipment; Accounts Payable - Public; and general and application controls. Therefore, we are unable to express an opinion on the Corps of Engineers FY 2001 financial statements.

Summary of Internal Control

In planning and performing our audit, we considered the Corps of Engineers internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because time constraints precluded the Corps of Engineers from providing sufficient audit-ready evidential material for the auditors to assess internal control over financial reporting and compliance or to follow up on previously identified reportable conditions[1] related to: General Property, Plant, and Equipment and general and application controls of the Corps of Engineers Financial Management System (CEFMS). However, possible material internal control weaknesses were identified in the Compilation of the Financial Statements, Capitalized Equipment, and Accounts Payable-Public.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on possible material internal control weaknesses identified during the FY 2002 CFO audit and other previously identified material internal control weaknesses.

Summary of Compliance With Laws and Regulations

Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because time constraints precluded the Corps of Engineers from providing sufficient audit-ready evidential material for the auditors to complete the review. However, our limited review of the FY 2002 Balance Sheet revealed that the Corps of Engineers was not compliant with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard No. 6, "Accounting for Property, Plant, and Equipment," and the Department of Defense Federal Management Regulation, volume 4, chapter 12, "Unearned Revenue and Other Liabilities." In previously issued audit reports, the General Accounting Office (GAO) and the Army Audit Agency (AAA) noted instances of noncompliance with the Federal Managers' Financial Integrity Act of 1982; OMB Circular A-123, "Management Accountability and Control;" OMB Circular A-130, "Management of Federal Information Resources;" OMB Circular A-127, "Federal Management Systems;" and the Federal Financial Management Improvement Act of 1996. Due to time constraints, we were unable to follow up on instances of noncompliance. Therefore, we did not determine whether the Corps of Engineers was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations. We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

[1] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

A Regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States Article I, Section 9

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met;
- ensuring that the Corps of Engineers financial management systems substantially comply with the Federal Financial Management Improvement Act of 1996 requirements; and
- complying with applicable laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Reports on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of the Corps of Engineers internal control over financial reporting and we did not obtain sufficient evidence to support or express an opinion on internal control because time constraints precluded the Corps of Engineers from providing sufficient audit-ready evidential matter for the auditors to assess internal control on financial reporting and compliance or to follow up on previously identified reportable conditions. However, our limited review of the Corps of Engineers FY 2002 Balance Sheet revealed material internal control deficiencies in the Compilation of the Financial Statements, Capitalized Equipment, Accounts Payable-Public, and general and application controls.

Compilation of the Financial Statements. The Corps of Engineer's processes and financial management systems used to compile the FY 2002 Financial Statements were substantially in compliance with the U.S. Government Standard General Ledger. However, the controls over the process used to compile the financial statements were not adequate, resulting in undocumented modifications to the financial data used to prepare the FY 2002 financial statements. In addition, journal vouchers used to make accounting adjustments were unsupported and inadequately controlled.

Equipment. The Corps of Engineers was unable to adequately explain approximately $49 million of differences between the equipment universe and the amount reported in the FY 2002 financial statements. Internal control over equipment was not adequate to ensure that Corps of Engineers districts maintain supporting documentation throughout a capitalized asset's entire useful or depreciable life.

Accounts Payable - Public. During the FY 2001 and FY 2002 CFO audits, the Corps of Engineers could not demonstrate that CEFMS captured and reported accounts payable transactions in the proper period. In addition, CEFMS does not recognize liabilities in accordance with Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," 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. As a result, the Corps of Engineers could not ensure that its accounts payable were not materially misstated.

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 and issued a report, GAO-02-589, "Corps of Engineers Making Improvements, But Weaknesses Continue," dated June 10, 2002. GAO stated that continuing and newly identified vulnerabilities involving general and application computer controls continue to impair the

Corps of Engineers' ability to ensure the reliability, confidentiality, and availability of financial and sensitive data. GAO also stated that such vulnerabilities increased risks to other Department of Defense networks and systems to which the Corps of Engineers' network was linked.

The Army Audit Agency (AAA) Report, AA 01-319, "Corps of Engineers Financial Management System General and Applications Controls," dated June 26, 2001, stated that the Corps of Engineers did not implement an effective security management program or service continuity controls to ensure that critical and sensitive data are protected, and critical operations continue without interruption when unexpected events happen. The AAA also stated that CEFMS internal control was not adequate for financial statements auditing purposes. In AAA Report, A-2002-0610-FFC, "Corps of Engineers Financial Management System General and Applications Controls," dated September 30, 2002, AAA again cited weaknesses in the computer general control areas of entity-wide security and service continuity and stated that these areas continue to impair the ability of the Corps of Engineers to ensure the reliability, confidentiality, and availability of financial and sensitive data contained in the system.

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," December 1997, requires auditors to assess the risk of material misstatement due to 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 due to the Corps of Engineer's deficiencies in financial management and accounting systems, audit trails, and control over assets. Therefore, we were not able to obtain sufficient evidence to provide reasonable assurance that fraud or illegal acts were detected. We are unable to report the effect that fraud risk factors had on the FY 2002 Corps of Engineers Financial Statements. Nonetheless, the Corps of Engineers financial management deficiencies are indications of internal control weaknesses that could impact the ability of the Corps of Engineers to monitor, detect, and investigate fraud or theft of assets. A risk of material misstatements due to fraud or illegal acts will continue to be present until internal control deficiencies within the Corps of Engineers are remedied.

Report on Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because time constraints precluded the Corps of Engineers from providing sufficient audit-ready evidential material for the auditors to complete the review of compliance with laws and regulations. However, our limited review of the FY 2002 Balance Sheet revealed instances of noncompliance, and GAO and AAA noted instances of noncompliance in previously issued audit reports. Due to time constraints, we were unable to complete our review of previously identified noncompliances. Therefore, we did not determine whether the Corps of Engineers was in compliance with all applicable laws and regulations related to financial reporting. Our objective was not to express, and we do not express, an opinion on compliance with applicable laws and regulations.

The Corps of Engineers did not classify and report Construction in Progress costs in accordance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard No. 6.

The auditors identified 76 sample items, valued at $669 million, that should not have been reported in Construction in Progress. The charges represented items that should have been expensed or that had been completed prior to September 30, 2002, and should have been transferred to other accounts.

CEFMS does not recognize liabilities in accordance with Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," which requires that an account payable be established when goods or services are received.

Auditors also noted that the Corps of Engineers was not reporting Other Liabilities in accordance with the Department of Defense Financial Management Regulation, volume 4, chapter 12, which requires that the Deferred Credit account be used only with the permission of the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and to represent revenue received from others, but not yet earned. The Corps of Engineers did not have permission to use the Deferred Credit account and had not received the revenue when the account was used. Therefore, in FY 2002, the Corps of Engineers reclassified about $800 million to the Other Liabilities account and disclosed the adjustment in the FY 2002 Notes to the Financial Statements. But the Corps of Engineers did not adjust the FY 2001 Deferred Credit account or revise the FY 2001 Notes to the Financial Statements for comparative purposes.

The Corps of Engineers is required to comply with the following financial management systems reporting requirements.

- The Federal Financial Management Improvement Act of 1996 is intended to advance Federal financial management by ensuring that the Federal financial management systems can and do provide reliable, consistent disclosure of financial data that is uniform across the Federal Government from year to year, consistently using professionally-accepted accounting standards. It is also intended to provide the basis for ongoing use of reliable financial information in program management and in oversight by the President, the Congress, and the public. The Federal Financial Management Improvement Act requires each agency to implement and maintain systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level; requires auditors to report on the agency compliance with the Federal Financial Management Improvement Act; and requires agency heads to determine whether their financial management systems comply with the Federal Financial Management Improvement Act based on audit reports and other information and to develop remediation plans and file them with OMB if the financial management systems do not comply with Federal Financial Management Improvement Act.

- The Federal Managers' Financial Integrity Act of 1982 requires agencies to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. When systems are not in compliance, the statement must include a report of internal accounting and administrative control material weaknesses and plans and a schedule for correcting the material weaknesses.

- OMB Circular A-123, revised June 21, 1995, requires agencies and individual Federal managers to take systematic and proactive measures to: assess the adequacy of management controls in Federal programs and operations, identify needed improvements, take corresponding corrective actions, and report annually on management control.

- OMB Circular A-130, Appendix III, establishes a minimum set of controls to be included in Federal automated information security programs, assigns Federal agency responsibilities for the security of automated information, and links agency information security programs and agency management control systems established in accordance with OMB Circular A-123. Agencies should implement and maintain their automated security programs to ensure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.
- OMB Circular A-127, revised July 23, 1993, requires agencies to develop, operate, evaluate, and report on financial management systems. It also requires that financial management systems provide complete, reliable, consistent, timely, and useful information.

According to prior GAO and AAA audit reports, the Corps of Engineers did not fully comply with the Federal Managers' Financial Integrity Act and OMB Circulars A-123 and A-130 requirements to protect the integrity of its financial management systems, identify needed improvements, and take corresponding corrective actions. According to AAA, the Corps of Engineers does not comply with the Federal Financial Management Improvement Act because the lack of computer controls impairs the Corps of Engineers' ability to ensure the reliability, confidentiality, and availability of financial and sensitive data. The Corps of Engineers' remediation plan has been requested but not received as of December 2002. According to GAO and AAA, the continued CEFMS general and application computer controls vulnerabilities impair the ability of the Corps of Engineers to ensure reliability, confidentiality, and availability of financial and sensitive data, as required by OMB Circular A-127.

Federal agencies reporting under the Government Management Reform Act of 1994 are to follow accounting standards and concepts adopted by OMB, Department of the Treasury, and GAO. OMB Bulletin 01-09, "Form and Content of Agency Financial Statements," requires the Statement of Net Cost to present costs by major programs. However, the Corps did not fully implement the requirements established by OMB for its FY 2002 Statement of Net Cost. Instead, the Corps presented the statement by appropriation as required by the DoD Financial Management Regulation. The DoD Financial Management Regulation, which implements the OMB bulletins for DoD, requires the Statement of Net Cost to be presented by program units or appropriation groupings.

Audit Disclosures

We did not conduct followup work related to the deficiencies identified in the FY 2002 Corps of Engineers financial statement audit related to General Property, Plant, and Equipment. Time constraints precluded the Corps of Engineers from providing sufficient audit-ready evidential material for the auditors to complete the audit. Unfinished audit work will be completed as other agreed-upon procedures.

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United States Army Annual Financial Statement

Transforming the Army: Imagination • Innovation • Initiative