Department of Defense
US Army Corps of Engineers
CONSOLIDATED BALANCE SHEET
As of June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	$ 4,099,820,466.98	$ 3,876,658,105.27
b. Non-Entity Seized Iraqi Cash	0.00	0.00
c. Non-Entity-Other	129,136,803.26	(3,436,955.42)
2. Investments (Note 4)	3,077,279,488.36	2,671,656,023.20
3. Accounts Receivable (Note 5)	849,315,776.27	636,066,214.65
4. Other Assets (Note 6)	0.00	0.00
5. Total Intragovernmental Assets	$ 8,155,552,534.87	$ 7,180,943,387.70
B. Cash and Other Monetary Assets (Note 7)	$ 1,126,386.51	$ 1,098,071.14
C. Accounts Receivable (Note 5)	1,763,017,597.98	1,818,228,574.69
D. Loans Receivable (Note 8)	0.00	0.00
E. Inventory and Related Property (Note 9)	108,544,102.29	63,409,293.38
F. General Property, Plant and Equipment (Note 10)	26,911,593,648.25	30,437,570,005.74
G. Investments (Note 4)	0.00	0.00
H. Other Assets (Note 6)	0.00	0.00
2. TOTAL ASSETS	$ 36,939,834,269.90	$ 39,501,249,332.65
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$ 290,648,174.46	$ 262,812,201.78
2. Debt (Note 13)	14,785,723.58	15,572,996.67
3. Other Liabilities (Note 15 & Note 16)	2,024,833,536.66	1,985,932,361.09
4. Total Intragovernmental Liabilities	$ 2,330,267,434.70	$ 2,264,317,559.54
B. Accounts Payable (Note 12)	$ 276,202,254.33	$ 343,407,580.11
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0.00	0.00
D. Environmental Liabilities (Note 14)	0.00	0.00
E. Loan Guarantee Liability (Note 8)	0.00	0.00
F. Other Liabilities (Note 15 & Note 16)	618,024,782.00	634,248,959.16
4. TOTAL LIABILITIES	$ 3,224,494,471.03	$ 3,241,974,098.81
5. NET POSITION		
A. Unexpended Appropriations	$ 2,460,721,658.06	$ 2,320,588,206.84
B. Cumulative Results of Operations	31,254,618,140.81	33,938,687,027.00
6. TOTAL NET POSITION	$ 33,715,339,798.87	$ 36,259,275,233.84
7. TOTAL LIABILITIES AND NET POSITION	$ 36,939,834,269.90	$ 39,501,249,332.65

Department of Defense
US Army Corps of Engineers
CONSOLIDATED STATEMENT OF NET COST
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
1. Program Costs		
A. Intragovernmental Gross Costs	$ 1,034,957,644.56	$ 717,399,253.74
B. (Less: Intragovernmental Earned Revenue)	(1,663,486,998.11)	(797,929,587.71)
C. Intragovernmental Net Costs	$ (628,529,353.55)	$ (80,530,333.97)
D. Gross Costs With the Public	6,137,501,931.69	4,644,181,909.34
E. (Less: Earned Revenue From the Public)	(286,574,959.66)	(292,431,643.58)
F. Net Costs With the Public	$ 5,850,926,972.03	$ 4,351,750,265.76
G. Total Net Cost	$ 5,222,397,618.48	$ 4,271,219,931.79
2. Cost Not Assigned to Programs	0.00	8,847.45
3. (Less:Earned Revenue Not Attributable to Programs)	0.00	0.00
4. Net Cost of Operations	$ 5,222,397,618.48	$ 4,271,228,779.24

Department of Defense
US Army Corps of Engineers
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	$ 32,276,298,348.60	$ 34,289,487,426.63
2. Prior period adjustments (+/-)		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	0.00
2.B. Beginning Balance, Restated	32,276,298,348.60	34,289,487,426.63
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
3. Beginning Balances, as adjusted	32,276,298,348.60	34,289,487,426.63
4. Budgetary Financing Sources:		
4.A. Appropriations received	0.00	0.00
4.B. Appropriations transferred-in/out (+/-)	0.00	0.00
4.C. Other adjustments (rescissions, etc) (+/-)	0.00	0.00
4.D. Appropriations used	2,614,915,199.72	2,706,520,195.01
4.E. Nonexchange revenue	1,170,158,442.67	701,905,821.91
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	274,177,349.07	379,846,267.43
4.H. Other budgetary financing sources (+/-)	(36,961,554.55)	(12,236,786.84)
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	385,009.85	265,900.19
5.B. Transfers-in/out without reimbursement (+/-)	(3,408,645.57)	(3,310,161.59)
5.C. Imputed financing from costs absorbed by others	180,884,751.80	176,063,561.63
5.D. Other (+/-)	566,857.70	(28,626,418.13)
6. Total Financing Sources	4,200,717,410.69	3,920,428,379.61
7. Net Cost of Operations (+/-)	5,222,397,618.48	4,271,228,779.24
8. Ending Balances	$ 31,254,618,140.81	$ 33,938,687,027.00

Department of Defense
US Army Corps of Engineers
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended June 30, 2005 and 2004

	2005 Consolidated	2004 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	$ 396,361,969.29	$ 636,846,117.13
2. Prior period adjustments (+/-)		
2.A. Prior Period Adjustments - Restated (+/-)	0.00	0.00
2.B. Beginning Balance, Restated	396,361,969.29	636,846,117.13
2.C. Prior Period Adjustments - Not Restated (+/-)	0.00	0.00
3. Beginning Balances, as adjusted	396,361,969.29	636,846,117.13
4. Budgetary Financing Sources:		
4.A. Appropriations received	4,693,386,587.15	4,233,532,503.03
4.B. Appropriations transferred-in/out (+/-)	23,803,800.00	183,590,430.40
4.C. Other adjustments (rescissions, etc) (+/-)	(37,915,498.66)	(26,860,648.71)
4.D. Appropriations used	(2,614,915,199.72)	(2,706,520,195.01)
4.E. Nonexchange revenue	0.00	0.00
4.F. Donations and forfeitures of cash and cash equivalents	0.00	0.00
4.G. Transfers-in/out without reimbursement (+/-)	0.00	0.00
4.H. Other budgetary financing sources (+/-)	0.00	0.00
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.00	0.00
5.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00
5.C. Imputed financing from costs absorbed by others	0.00	0.00
5.D. Other (+/-)	0.00	0.00
6. Total Financing Sources	2,064,359,688.77	1,683,742,089.71
7. Net Cost of Operations (+/-)		
8. Ending Balances	$ 2,460,721,658.06	$ 2,320,588,206.84

Department of Defense
US Army Corps of Engineers
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	$ 5,862,183,015.28	$ 5,172,027,616.54
1b. Borrowing authority	0.00	134,899.00
1c. Contract authority	0.00	0.00
1d. Net transfers (+/-)	177,328,646.61	272,245,876.71
1e. Other	78,813,009.77	15,922,000.00
2. Unobligated balance:		
2a. Beginning of period	1,693,280,555.92	4,232,645,738.88
2b. Net transfers, actual (+/-)	(11,598,595.86)	0.00
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	4,618,073,969.88	3,531,939,000.54
2. Receivable from Federal sources	147,485,828.75	37,893,713.95
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	(19,168,570.35)	25,326,743.10
2. Without advance from Federal sources	(148,895,080.87)	(83,760,772.18)
3c. Anticipated for the rest of year, without advances	1,554,559,816.66	767,198,218.48
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	6,152,055,964.07	4,278,596,903.89
4. Recoveries of prior year obligations	0.00	0.00
5. Temporarily not available pursuant to Public Law	(10,000,000.00)	0.00
6. Permanently not available	(38,208,377.70)	(28,874,725.57)
7. Total Budgetary Resources	$ 13,903,854,218.09	$ 13,942,698,309.45

Department of Defense
US Army Corps of Engineers
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
STATUS OF BUDGETARY RESOURCES		
8. Obligations incurred:		
8a. Direct	$ 4,233,262,198.85	$ 4,168,180,775.91
8b. Reimbursable	4,738,047,979.47	3,796,060,015.80
8c. Subtotal	8,971,310,178.32	7,964,240,791.71
9. Unobligated balance:		
9a. Apportioned	2,678,024,188.59	2,385,085,075.18
9b. Exempt from apportionment	2,254,453,979.08	3,577,384,570.46
9c. Other available	0.00	0.00
10. Unobligated Balances Not Available	65,872.10	15,987,872.10
11. Total, Status of Budgetary Resources	$ 13,903,854,218.09	$ 13,942,698,309.45
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
12. Obligated Balance, Net - beginning of period	$ 1,038,675,290.87	$ 1,007,622,149.36
13. Obligated Balance transferred, net (+/-)	0.00	0.00
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	(372,190,269.94)	(198,494,943.70)
14b. Unfilled customer order from Federal sources	(1,758,915,291.21)	(1,551,494,018.28)
14c. Undelivered orders	2,633,580,940.48	2,386,683,799.59
14d. Accounts payable	886,536,200.71	878,275,107.97
15. Outlays:		
15a. Disbursements	8,622,383,141.27	7,502,760,053.72
15b. Collections	(4,598,905,399.53)	(3,557,265,743.64)
15c. Subtotal	4,023,477,741.74	3,945,494,310.08
16. Less: Offsetting receipts	(1,244,052,081.99)	(672,840,270.58)
17. Net Outlays	$ 2,779,425,659.75	$ 3,272,654,039.50

Department of Defense
US Army Corps of Engineers
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	$ 0.00	$ 0.00
1b. Borrowing authority	0.00	0.00
1c. Contract authority	0.00	0.00
1d. Net transfers (+/-)	0.00	0.00
1e. Other	0.00	0.00
2. Unobligated balance:		
2a. Beginning of period	0.00	0.00
2b. Net transfers, actual (+/-)	0.00	0.00
2c. Anticipated Transfers balances	0.00	0.00
3. Spending authority from offsetting collections:		
3a. Earned	0.00	0.00
1. Collected	0.00	0.00
2. Receivable from Federal sources	0.00	0.00
3b. Change in unfilled customer orders	0.00	0.00
1. Advance received	0.00	0.00
2. Without advance from Federal sources	0.00	0.00
3c. Anticipated for the rest of year, without advances	0.00	0.00
3d. Previously unavailable	0.00	0.00
3e. Transfers from trust funds	0.00	0.00
3f. Subtotal	0.00	0.00
4. Recoveries of prior year obligations	0.00	0.00
5. Temporarily not available pursuant to Public Law	0.00	0.00
6. Permanently not available	0.00	0.00
7. Total Budgetary Resources	$ 0.00	$ 0.00

Department of Defense
US Army Corps of Engineers
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
STATUS OF BUDGETARY RESOURCES		
8. Obligations incurred:		
8a. Direct	$ 0.00	$ 0.00
8b. Reimbursable	0.00	0.00
8c. Subtotal	0.00	0.00
9. Unobligated balance:		
9a. Apportioned	0.00	0.00
9b. Exempt from apportionment	0.00	0.00
9c. Other available	0.00	0.00
10. Unobligated Balances Not Available	0.00	0.00
11. Total, Status of Budgetary Resources	$ 0.00	$ 0.00
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
12. Obligated Balance, Net - beginning of period	$ 0.00	$ 0.00
13. Obligated Balance transferred, net (+/-)	0.00	0.00
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	0.00	0.00
14b. Unfilled customer order from Federal sources	0.00	0.00
14c. Undelivered orders	0.00	0.00
14d. Accounts payable	0.00	0.00
15. Outlays:		
15a. Disbursements	0.00	0.00
15b. Collections	0.00	0.00
15c. Subtotal	0.00	0.00
16. Less: Offsetting receipts	0.00	0.00
17. Net Outlays	$ 0.00	$ 0.00

Department of Defense
US Army Corps of Engineers
COMBINED STATEMENT OF FINANCING
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	$ 8,971,310,178.32	$ 7,964,240,791.71
2. Less: Spending authority from offsetting collections and recoveries (-)	(4,597,496,147.41)	(3,511,398,685.41)
3. Obligations net of offsetting collections and recoveries	4,373,814,030.91	4,452,842,106.30
4. Less: Offsetting receipts (-)	(1,244,052,081.99)	(672,840,270.58)
5. Net obligations	3,129,761,948.92	3,780,001,835.72
Other Resources		
6. Donations and forfeitures of property	385,009.85	265,900.19
7. Transfers in/out without reimbursement (+/-)	(3,408,645.57)	(3,310,161.59)
8. Imputed financing from costs absorbed by others	180,884,751.80	176,063,561.63
9. Other (+/-)	566,857.70	(28,626,418.13)
10. Net other resources used to finance activities	178,427,973.78	144,392,882.10
11. Total resources used to finance activities	3,308,189,922.70	3,924,394,717.82
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(608,323,549.04)	(762,330,660.22)
12b. Unfilled Customer Orders	(168,063,651.22)	(58,434,029.08)
13. Resources that fund expenses recognized in prior periods	(36,162,299.16)	(62,771,581.04)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	1,244,052,081.99	701,894,836.50
15. Resources that finance the acquisition of assets	(5,155,948.31)	(1,024,408,343.36)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to	(10,000,000.00)	(10,000,000.00)
16b. Other (+/-)	3,023,635.72	3,310,161.59
17. Total resources used to finance items not part of the net cost of operations	419,370,269.98	(1,212,739,615.61)
18. Total resources used to finance the net cost of operations	3,727,560,192.68	2,711,655,102.21

Department of Defense
US Army Corps of Engineers
COMBINED STATEMENT OF FINANCING
For the periods ended June 30, 2005 and 2004

	2005 Combined	2004 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 Period:		
19. Increase in annual leave liability	0.00	0.00
20. Increase in environmental and disposal liability	0.00	0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.00	0.00
22. Increase in exchange revenue receivable from the public (-)	0.00	0.00
23. Other (+/-)	901,253.80	70,912,595.29
24. Total components of Net Cost of Operations that will require or generate resources in future periods	901,253.80	70,912,595.29
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	1,010,430,361.12	1,330,825,055.39
26. Revaluation of assets or liabilities (+/-)	888,160,933.44	156,919,621.19
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0.00	0.00
27b. Cost of Goods Sold	1,336,669.66	0.00
27c. Operating Material & Supplies Used	0.00	0.00
27d. Other	(405,991,792.22)	916,405.16
28. Total components of Net Cost of Operations that will not require or generate resources	1,493,936,172.00	1,488,661,081.74
29. Total components of net cost of operations that will not require or generate resources in the current period	1,494,837,425.80	1,559,573,677.03
30. Net Cost of Operations	5,222,397,618.48	4,271,228,779.24

Note 1.	Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers (USACE) Civil Works, 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 USACE in accordance with the "Department of Defense Financial Management Regulation (DoDFMR)," the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and, to the extent possible, generally accepted accounting principles (Federal GAAP). The USACE 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 USACE 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).

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

1.B. Mission of the Reporting Entity

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

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

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

Entity Accounts:

General Funds

96X3112	Flood Control, Mississippi River and Tributaries
96X3121	General Investigations
96 3121	General Investigations (fiscal year)
96X3122	Construction, General
96X3123	Operation and Maintenance, General
96X3124	General Expenses
96X3125	Flood Control and Coastal Emergencies
96X3126	Regulatory Program
96X3128	Washington Aqueduct Capital Improvements
96 3129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year)
96X3130	FUSRAP
96 3132	Office of Assistant Secretary of the Army (Civil Works)
96X6094	Advances from the District of Columbia

Revolving Funds

96X4902	Revolving Fund

Special Funds

96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5493	Fund for Non-Federal Use of Disposal Facilities

Trust Funds

96X8217	South Dakota Terrestrial Wildlife habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96 20X8861	Inland Waterways Trust Fund
96X8862	Rivers and Harbors Contributed and Advance Funds
96 20X8863	Harbor Maintenance Trust Fund

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 69X8083	Federal Aid Highways
96 89X4045	Bonneville Power Administration
96 72 99/00 1021	Development Assistance, Agency for International Development

Non-Entity:

Deposit Funds

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

Clearing Accounts

96F3875	Budget Clearing Account
96F3880	Unavailable Check Cancellations and Overpayments
96F3885	Undistributed Intergovernmental Payments

Receipt Accounts

96 0891	Miscellaneous fees for regulatory and judicial services, not otherwise classified
96 1060	Forfeitures of Unclaimed Money and Property
96 1099	Fines, Penalties, and Forfeitures Not Otherwise Classified
96 1299	Gifts to the United States, Not Otherwise Classified
96 1435	General Fund Proprietary Interest, Not Otherwise Classified
96 3220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other
96 5005	Land and Water Conservation Fund
96 5007	Special Recreation Use Fees
96 5066	Hydraulic Mining in California
96 5090	Receipts from leases of lands acquired for flood control, navigation, and allied purposes
96 5125	Licenses under Federal Power Act, Improvements of navigable water, maintenance and operation of dams, etc., (50%)
96 5493	User Fees, Fund for Non-Federal Use of Disposal Facilities

Obsolete Accounts:

96X3930	96X8868
96 13X1450	96 20X8145
96 14X2301	96F3879
96 19 00 1082	96F3886
96 46X0200	96 0199
96 47X4542	96 0869
96 67X0204	96 1030
96 72 00/01 1021	96 1040
96 89X0224	96 1210
96X6050	96 1499
96X6075	96 2413
96X6134	96 2814
96X6145	96 3102
96X6275	96 3124
96X6302	
96X6999	

1.C. Appropriations and Funds

The USACE 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 USACE 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 Supports for Others Program, which is conducted under reimbursable agreements with Federal agencies.

In 1997, the USACE received borrowing authority from the Treasury for the 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 USACE is acting as an agent, custodian, or whose distribution awaits legal determination, or (2) account for unidentified remittances.

1.D. Basis of Accounting

The USACE transactions are generally recorded on an accrual accounting basis and a budgetary basis as is required by Federal 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.

A policy change was effective March 2005 to report transfer appropriation Funds Balance with Treasury as non-entity funds. These funds had previously been reported as appropriated entity funds. Special Funds have also been distinguished from appropriated funds effective in December 2004.

CEFMS is used at all 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 USACE business, including civil, military, revolving funds, and reimbursable activity. The general ledger chart of accounts in CEFMS is substantially compliant with the U.S. Government Standard General Ledger. In addition, the USACE identifies programs based upon the major appropriation groups provided by Congress.

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses in the USACE operations 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 when earned.

1.G. Accounting for Intragovernmental Activities

The USACE, 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 USACE as though the agency were a stand-alone entity.

The USACE's 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 USACE 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 USACE 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 USACE funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The USACE 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 of Defense 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 General Fund 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 USACE is responsible for eliminating transactions between components and activities.

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 USACE implemented the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. In addition, the USACE 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," issued October 2002 for reconciling intragovernmental transactions. These transactions pertain to investments in Federal securities, borrowings from United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the 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.

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

The USACE's 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, the 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 USACE recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed at Note 3, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

1.J. Foreign Currency

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

1.K. Accounts Receivable

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

1.L. Loans Receivable

Not applicable.

1.M. Inventories and Related Property

Inventories are reported at approximate historical cost based on a moving weighted average that is based on actual cost divided by quantity. A perpetual record of inventory is maintained in CEFMS to allow for recomputation of the average unit cost as new receipts are recorded.

The related property portion of the amount reported on the Inventory and Related Property line includes operating materials and supplies (OM&S). 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 is provided at Note 9.

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

Investments in U. S. Treasury 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 USACE's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities, because in the majority of cases, they are held to maturity. Amounts reported reflect the value of investments in the South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Fund accounts, which are managed by the Treasury Department. Material disclosures are provided at Note 4.

1.O. General Property, Plant and Equipment

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost is greater than $25,000 with the exception of all buildings and structures related to hydro-power purpose which are capitalized (to include joint cost) regardless of cost. Starting in FY 2004, all Civil Works Buildings and Structures under $25,000 are expensed except for hydro-power assets.

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

In FY 2004, the USACE, OSD(C), and DoDIG reached an agreement on supporting documentation for Land values to include administrative costs. The USACE is in the process of gathering the necessary supporting documentation in accordance with the Memorandum of Agreement signed on June 9, 2004.

When it is in the best interest of the government, the USACE provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the USACE, 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 is required to be included in the value of General PP&E reported on the USACE Balance Sheet. The Department of Defense 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 USACE currently reports only government property in the possession of contractors that is maintained in the USACE property systems.

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

Material disclosures are provided at Note 10.

1.P. Advances and Prepayments

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

1.Q. Leases

Generally, lease payments are for the rental of equipment, space, and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), the USACE records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The capitalization threshold for civil works assets is $25,000. The USACE records the amounts as 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 term.

1.R. Other Assets

The USACE 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 USACE provides financing payments. One type of financing payment that the USACE 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 at Note 10, General PP&E, Net.

In addition, based on the provision of the Federal Acquisition Regulation, the USACE makes financing payments under fixed price contracts that are not based on a percentage of completion. The USACE reports these financing payments as advances or prepayments in the "Other Assets" line item. The USACE treats these payments as advances or prepayments because the USACE 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 USACE is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the USACE for the full amount of the advance.

DoD 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." DoD concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the USACE. 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 USACE's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as ship and vehicle accidents, property or environmental damages, and contract disputes.

1.T. Accrued Leave

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

1.U. Net Position

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

Cumulative results of operations 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.

1.V. Treaties for Use of Foreign Bases

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

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY 2005. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between FY 2004 and FY 2005 are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The USACE 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.

1.Y. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the departmental accounting reports.

The Department of Defense policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of Federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The USACE does not follow this procedure.

All undistributed disbursements and collections for the USACE are unrecorded Intragovernmental Payment and Collection (IPAC) transactions. These transactions are all Federal.

Note 2. Nonentity Assets

As of June 30	2005	2004
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 129,136,803.26	$ (3,436,955.42)
B. Investments	0.00	0.00
C. Accounts Receivable	0.00	9,069.24
D. Other Assets	0.00	0.00
E. Total Intragovernmental Assets	$ 129,136,803.26	$ (3,427,886.18)
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 1,126,386.51	$ 1,098,071.14
B. Accounts Receivable	1,721,625,258.03	1,764,591,535.43
C. Loans Receivable	0.00	0.00
D. Inventory & Related Property	0.00	0.00
E. General PP&E	0.00	0.00
F. Investments	0.00	0.00
G. Other Assets	0.00	0.00
H. Total Nonfederal Assets	$ 1,722,751,644.54	$ 1,765,689,606.57
3. Total Nonentity Assets	$ 1,851,888,447.80	$ 1,762,261,720.39
4. Total Entity Assets	$ 35,087,945,822.10	$ 37,738,987,612.26
5. Total Assets	$ 36,939,834,269.90	$ 39,501,249,332.65

Asset accounts are categorized either as entity or nonentity. Entity accounts consist of resources that the agency has authority to use, or when management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets that are held by an entity, but are not available for use in the operations of the entity.

Composition of Other Nonentity Assets

Intragovernmental Nonentity Fund Balance with Treasury consists of amounts collected into deposit, suspense, unavailable receipt accounts, and from transfer appropriations. Transfer appropriations had previously been recorded as appropriated entity funds. Policy change was effective March 2005 to report these funds as nonentity.

Cash and Other Monetary Assets is comprised of $3.9 thousand in change funds for recreation cashiers, $542.7 thousand in Disbursing Officer's cash, and $579.8 thousand in foreign currency, as listed at Note 7.

Non-federal nonentity accounts receivable represents all current and non-current receivables due from non-federal sources. Nonentity receivables include $831.8 million in long-term receivables due from state and local municipalities for water storage contracts, $35.8 million in current receivables due from state and local municipalities for water storage, $852.5 million in accrued interest receivable, $2.2 million in penalties, fines and administrative fees receivable, $1.3 million in long-term receivables for hydraulic mining, and $1.8 million for other miscellaneous receivables. An additional $558.5 thousand represents the amount due from the leasing of land acquired for flood control purposes. Nonentity receivables are recorded in unavailable receipt accounts and funds will be returned to the U.S. Treasury when collected. The allowance for doubtful accounts totals $4.3 million for nonentity receivables.

Fluctuations

Line 1A. Transfer appropriations in the amount of $42.1 million had previously been recorded as appropriated entity funds. Policy change was effective March 2005 to report these funds as nonentity. The increase is also due to $78.1 million in collections to unavailable receipt accounts. The cash in unavailable receipt accounts was not reported in 3rd quarter FY 2004.

The negative balance in FY 2004 was due to recording unposted Intragovernmental Payment and Collection (IPAC) transactions in budget clearing account 96F3885. The amount was negative because unposted disbursement transactions were greater than unposted collection transactions. All transactions were posted to the appropriate fund in July 2004. Transactions have been recorded in the appropriate fund for 3rd Quarter, FY 2005.

Line 1C. Outstanding receivables from the U.S. Coast Guard in 2nd Quarter, FY 2004 have been collected to miscellaneous receipts.

Note Reference

For Additional Line Item discussion, see:

Note 3, Funds Balance with Treasury
Note 4, Investments
Note 5, Accounts Receivable
Note 6, Other Assets
Note 7, Cash and Other Monetary Assets
Note 9, Inventory and Related Property
Note 10, General PP&E, Net

Note 3. Fund Balance with Treasury

As of June 30		2005		2004
1. Fund Balances				
A. Appropriated Funds	$	2,791,051,330.47	$	2,626,231,003.38
B. Revolving Funds		800,212,467.67		788,122,399.64
C. Trust Funds		78,586,205.07		4,455,845.96
D. Special Funds		5,813,390.21		0.00
E. Other Fund Types		553,293,876.82		454,411,900.87
F. Total Fund Balances	$	4,228,957,270.24	$	3,873,221,149.85
2. Fund Balances Per Treasury Versus Agency				
A. Fund Balance per Treasury	$	4,153,174,730.00	$	3,873,219,986.46
B. Fund Balance per USACE		4,228,957,270.24		3,873,221,149.85
3. Reconciling Amount	$	(75,782,540.24)	$	(1,163.39)

Fund Balance per the USACE includes $75.5 million cash reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the USACE is identified as the lead agency for reporting. Fund Balance per USACE also includes $0.5 million in Disbursing Officer's Cash. Fund Balance per USACE does not include ($0.3) million in collections processed by the Department of Energy on behalf of USACE because they were not reflected in the preliminary data received from Treasury. These collections were processed in July 2005.

4. Other Information Related to Fund Balance with Treasury

Fund Balance per USACE does not include deposits of $7.2 million in CASHLINK and is reflected on the Treasury TFS 6652 Statement of Differences – Deposits. These were recorded in July 2005. Fund Balance per the USACE includes $18.3 million in transfer appropriations that were not reported by the USACE in the Treasury FACTS II System. 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 4030.60, 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 USACE has determined that these balances are material and have included them in all of its financial statements, except the Statement of Budgetary Resources.

Appropriated funds includes net disbursements in transit for undistributed Intragovernmental Payments and Collections (IPAC) of ($1.4) million. These were distributed to the appropriate funds during July 2005.

Other Fund types (nonentity) consist of $10 million in deposit, suspense and clearing accounts that are not available to finance the USACE activities. Other Fund types (entity) consists of $78.1 million in receipt accounts, $2 thousand in borrowing authority, $444.7 million in contributed funds, and $20.4 million in the suspense account established to finance Washington Aqueduct operations and are available to finance the USACE activities.

Entity accounts consist of resources that the agency has the authority to use, or when management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity, but are not available for use in the operation of the entity.

The USACE currently has a ($42.7) million balance in the Flood Control and Coastal Emergencies appropriation (96X3125) due to an unprecedented hurricane season in the fall of 2004, with four named storms reaching the continental United States causing significant damage. As the Federal Emergency Management Agency's (FEMA) Emergency Support Function for Engineering, the USACE has received over $848,000 thousand in funding authority to perform numerous missions to support those affected by the four hurricanes. Since these missions are funded on a reimbursable basis, the USACE was required to finance these large disbursements through its 96X3125 appropriation causing the negative balance. This negative balance will be reduced as the USACE receives collections from FEMA.

There are no restrictions for future use of unobligated balances.

The Fund Balance with Treasury line does not include any amounts for which the Department of the Treasury is willing to accept corrections to cancelled appropriation accounts, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities."

Fluctuations

Trust Funds. The increase in Trust Funds is from Treasury Bureau of Public Debt financial statements for the Harbor Maintenance and Inland Waterways Trust Funds. The USACE incorporates Bureau of Public Debt's financial statement into its statements. The USACE is the lead agency for reporting these trust funds. Bureau of Public Debt performs the investment activity for these trust funds. They had not invested all available cash as of the end of 3rd quarter FY2005.

Special Funds. This category is new in FY2005. Special Funds were previously reported as Appropriated Funds.

Other Fund Types. The increase in Other Fund Types is due to reporting $78.1 million in receipt accounts from the Treasury FMS 6655 report. These accounts were not reported in FY 2004. The increase also includes $(22.6) million in Undistributed Intragovernmental Payments and Collections reported as Other Fund Types in FY2004 that is correctly reported as Appropriated Funds in FY2005.

Reconciling Amount. Fund Balance per the USACE includes $75.4 million cash reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the USACE is identified as the lead agency for reporting. The Bureau of Public Debt had not invested all available cash as of the end of 3rd Quarter, FY 2005.

Note Reference

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 2 for Entity/Nonentity Accounts

Status of Fund Balance with Treasury

As of June 30		2005		2004
1. Unobligated Balance				
A. Available	$	3,377,918,351.01	$	5,195,271,427.16
B. Unavailable		65,872.10		15,987,872.10
2. Obligated Balance not yet Disbursed	$	752,276,222.44	$	(1,380,312,004.97)
3. Total	$	4,130,260,445.55	$	3,830,947,294.29

Status of Funds Balance uses the formula of the Treasury Financial Management Service 2108 report. The unobligated and obligated not yet disbursed amounts in the budgetary accounts should agree to the balance at Treasury.

There is a difference because suspense, deposit, budget clearing, and receipt accounts do not record budgetary resources, but do have balances at Treasury. The amount in those accounts is $88.2 million.

The Bureau of Public Debt Financial Statements for the Inland Waterways, Harbor Maintenance and South Dakota Terrestrial Wildlife Habitat Restoration Trust Funds are incorporated into the USACE statements. Treasury does not recognize budgetary resources for premium and amortization of premium on U. S. Treasury Securities for $89.3 million.

According to Statement of Federal Financial Accounting Standards No. 1, an entity's Fund Balance with Treasury does not include contract obligation authority or unused authority to borrow. Contract authority is a statutory authority under which contracts or other obligations may be entered into prior to receiving an appropriation or cash transfer for the payment of obligations. The later enacted appropriation provides cash to liquidate obligations. Thus, contract authority merely permits a federal entity to incur certain obligations but does not, in itself, add funds to the agency's accounts with Treasury. The USACE available balance includes $78.8 million in contract obligation authority for transfer appropriations from Department of Transportation and Department of Energy.

Fluctuations

Unobligated Balance Available. The decrease of $1.8 billion in available unobligated funds is a result of reporting changes during 4th Quarter, FY 2004 for Trust Funds. At the request of OMB, Treasury reported Receipts Unavailable for Obligation Upon Collection (4394) instead of Unobligated Funds Exempt From Apportionment (4620) for budgetary reporting purposes for Inland Waterways and Harbor Maintenance Trust Funds. The USACE is identified as the lead agency for reporting these Trust Funds.

Unobligated Balance Unavailable. The decrease of $15.9 million in unavailable unobligated funds is attributed to the USACE recording the receivable from Bonneville Power in General Funds to USSGL Unapportioned Authority (4450) in FY 2004 vice Unobligated Funds Exempt from Apportionment (4620) in FY 2005. The policy change to use different USSGL accounts resulted in the balances being reported in another category.

Obligated Balance not yet Disbursed. The increase of $2.1 billion in undisbursed obligated funds is a result of reporting changes during 4th Quarter, FY 2004 for Trust Funds. At the request of OMB, Treasury reported Receipts Unavailable for Obligation Upon Collection (4394) instead of Unobligated Funds Exempt From Apportionment (4620) for budgetary reporting purposes for Inland Waterways and Harbor Maintenance Trust Funds. The USACE is identified as the lead agency for reporting these Trust Funds.

Disclosures Related to Suspense/Budget Clearing Accounts

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
Account				
F3875	$ 653,957.74	$ 975,275.83	$ 1,155,980.06	$ 180,704.23
F3880	0.00	0.00	0.00	0.00
F3882	0.00	0.00	0.00	0.00
F3885	0.00	(22,325,132.62)	(1,357,498.99)	20,967,633.63
F3886	0.00	0.00	0.00	0.00
Total	$ 653,957.74	$ (21,349,856.79)	$ (201,518.93)	$ 21,148,337.86

Budget Clearing Account F3875 increased due to an error recording a collection for usage of dredge disposal areas. Funds should have been collected into a suspense account pending distribution.

Budget Clearing Account F3885 decreased due to recording Intragovernmental Payment and Collection net disbursement transactions in CEFMS during FY 2005.

Disclosures Related to Problem Disbursements and In-Transit Disbursements

As of June 30	2003	2004	2005	(Decrease)/ Increase from FY 2004 - 2005
1. Total Problem Disbursements, Absolute Value				
A. Unmatched Disbursements (UMDS)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
B. Negative Unliquidated Obligations (NULO)	0.00	0.00	0.00	0.00
2. Total In-transit Disbursements, Net	$ 0.00	$ (22,325,132.62)	$ (1,357,498.99)	$ 20,967,633.63

The net of the unposted transactions is recorded in Budget Clearing Account 96F3885, as disclosed in the previous chart.

Note 4. Investments and Related Interest

As of June 30	2005					2004
	Par Value/Cost	Amortization Method	Unamortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
1. Intragovernmental Securities						
A. Non-Marketable, Market-Based	$ 2,948,501,045.53	Level Yield Calculation	$ 83,968,860.55	$ 3,032,469,906.08	$ 3,013,699,542.24	$ 2,630,449,259.44
B. Accrued Interest	44,809,582.28			44,809,582.28	44,809,582.28	41,206,763.76
C. Total Intragovernmental Securities	$ 2,993,310,627.81		$ 83,968,860.55	$ 3,077,279,488.36	$ 3,058,509,124.52	$ 2,671,656,023.20
2. Other Investments	$ 0.00		0.00	$ 0.00	N/A	$ 0.00

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. Investments include $273.8 million in one-day certificates and $2.8 billion in bonds and notes. Total investment amounts include $366.6 million in Inland Waterways, $2.6 billion in Harbor Maintenance, and $75.4 million in the South Dakota Terrestrial Wildlife account.

Investments are held until maturity. As funds are needed to sustain operations, withdrawals are made from the one-day certificate investment account for Inland Waterways and Harbor Maintenance Trust Funds. The investment policy changed for South Dakota Trust Funds in February 2005. Funds are no longer invested in one-day certificates, but are invested in notes and bonds. 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.

The Department of the Treasury also provides the investment market value based on the bid price provided by the Federal Reserve Bank of New York on June 30, 2005.

Note Reference

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

Fluctuations

Line 1A. Non-Marketable, Market Based Securities: Investment increase is due to the increase in tax revenues in Trust Funds. Tax revenues are from imports, domestics, excise, foreign trade and passengers. The tax revenues are invested by the Treasury and reported on the financial statements for the Harbor Maintenance and Inland Waterways Trust Funds.

Line 1C. Total Intragovernmental Securities: Overall, Trust Funds have a net increase of 15 percent in investments and interest compared to June of 2004. This is a result of tax revenues collected and invested until funds are needed for support of operations.

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Note 5. Accounts Receivable

As of June 30	2005			2004
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 849,315,776.27	N/A	$ 849,315,776.27	$ 636,066,214.65
2. Nonfederal Receivables (From the Public)	$ 1,767,347,620.18	$ (4,330,022.20)	$ 1,763,017,597.98	$ 1,818,228,574.69
3. Total Accounts Receivable	$ 2,616,663,396.45	$ (4,330,022.20)	$ 2,612,333,374.25	$ 2,454,294,789.34

4. 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.

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:

<u>Elimination Adjustments</u>

The USACE was able to compare its accounts receivable balances with the accounts payable balances of its intragovernmental trading partners. No material differences were identified.

<u>Receivables with Other Federal Agencies (Non-Defense</u>)

Receivables with Department of Homeland Security increased by $157.4 million as a result of proper identification of agencies transferred to Homeland Security and for reimbursable work performed for Federal Emergency Management Agency in support of hurricane relief efforts. Some activities previously identified under other agencies are now reported under Department of Homeland Security. Receivables for amounts to be transferred from the Aquatic Resources Trust Fund (Department of Interior) for currently invested balances to the USACE Coastal Wetlands Trust Fund is $24.5 million more than at this time last year. This is for coastal wetland projects in the New Orleans District. Additionally, receivables for Inland Waterways are $44.9 million more than this time last year because of amounts to be transferred to the USACE from the Inland Waterways Trust Fund for inland waterway navigation projects.

<u>Intragovernmental Receivables Over 180 Days</u>

The amount of intragovernmental receivables over 180 days old is $16.6 million.

Public Receivables Over 180 Days

The amount of public receivables over 180 days old is $78.0 million. Receivables with the public include $56.1 million in accrued interest on receivables over 180 days old which is associated with long-term water storage contracts.

Nonfederal Refunds Receivable

The amount of public receivables includes $1.2 million in refunds receivable.

Other Disclosures

Public receivables include $35.8 million in current and $831.8 million in long-term accounts receivable (principal) associated with water storage contracts, $852.5 million in accrued interest receivable, and $2.2 million in penalties, fines, and administrative fees receivable. Public receivables also include $1.3 million in long-term receivable for hydraulic mining and $558.5 thousand due from the leasing of land acquired for flood control purposes, and $37.1 million due from the D.C. Public Schools and Department of Housing. The remainder is for various other accounts receivables.

The amount of Public Receivables on the Treasury Report on Receivables Due from the Public is $1.0 million less than the balance of public receivables reported on the balance sheet. The difference is attributed to the amount of work-in-progress for $5.3 million less the allowance for estimated uncollectibles of $4.3 million not reported on the Treasury Report on Receivables.

Total trust fund receivables for currently invested balances are $607.5 million. The breakdown between funds follows. Trust fund receivables for currently invested balances include $382.9 million for the Coastal Wetlands Restoration Trust Fund, and $72.1 million for the Inland Waterways Trust Fund and $152.5 million for the Harbor Maintenance 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.

Fluctuations

Intragovernmental Receivables. The increase in intragovernmental receivables is attributed to the increase of $157.4 million in reimbursable work performed for Federal Emergency Management Agency in support of hurricane relief efforts in Florida. Receivables for amounts to be transferred from the Aquatic Resources Trust Fund (Department of Interior) for currently invested balances to the USACE is $24.5 million more than at this time last year. This is for coastal wetland projects in the New Orleans District. Additionally, receivables for Inland Waterways are $44.9 million more than this time last year because of amounts to be transferred to the USACE from the Inland Waterways Trust Fund for inland waterway navigation projects.

Note 6. Other Assets

As of June 30	2005	2004
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 0.00	$ 0.00
B. Total Intragovernmental Other Assets	$ 0.00	$ 0.00
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 0.00	$ 0.00
B. Other Assets (With the Public)	0.00	0.00
C. Total Nonfederal Other Assets	$ 0.00	$ 0.00
3. Total Other Assets	$ 0.00	$ 0.00

Note 7. Cash and Other Monetary Assets

As of June 30	2005	2004
1. Cash	$ 546,597.76	$ 468,836.43
2. Foreign Currency (non-purchased)	579,788.75	629,234.71
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,126,386.51	$ 1,098,071.14

Definitions

Cash – The total of cash resources under the control of the USACE, 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 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 USACE Disclosures

Cash consists of $542.7 thousand in Disbursing Officer's Cash and $3.9 thousand in change funds for recreation cashiers.

The USACE translates foreign currency to U.S. dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U. S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. The USACE maintains a balance of Japanese yen, Euro dollars, and Korean won for disbursements made at Japan, Europe, and Far-East Districts.

Fluctuations

The increase in cash is due to an increase in travel advances issued. The advances are recorded in the Disbursing Officer's accountability.

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. Direct Loan and/or Loan Guarantee Programs

As of June 30

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 & Manufacturing Support Initiative

Direct Loans Obligated After FY 1991

As of June 30	2005	2004
Loan Programs		
Military Housing Privatization Initiative		
A. Loans Receivable Gross	$ 0.00	$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Direct Loans	$ 0.00	$ 0.00
Total Loans Receivable	$ 0.00	$ 0.00

Total Amount of Direct Loans Disbursed

As of June 30	2005	2004
Direct Loan Programs		
Military Housing Privatization Initiative	$ 0.00	$ 0.00
Total	$ 0.00	$ 0.00

Subsidy Expense for Post-1991 Direct Loans

As of June 30

2005	Interest Differential	Defaults	Fees	Other	Total
1. New Direct Loans Disbursed: Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2004	Interest Differential	Defaults	Fees	Other	Total
2. New Direct Loans Disbursed: Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates: Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

	2005	2004
5. Total Direct Loan Subsidy Expense: Military Housing Privatization Initiative	$ 0.00	$ 0.00

Subsidy Rate for Direct Loans

As of June 30	Interest Differential	Defaults	Fees	Other	Total
Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans

As of June 30	2005	2004
1. Beginning Balance of the Subsidy Cost Allowance	$ 0.00	$ 0.00
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	$ 0.00	$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	$ 0.00	$ 0.00
3. Adjustments		
A. Loan Modifications	$ 0.00	$ 0.00
B. Fees Received	0.00	0.00
C. Foreclosed Property Acquired	0.00	0.00
D. Loans Written Off	0.00	0.00
E. Subsidy Allowance Amortization	0.00	0.00
F. Other	0.00	0.00
G. Total of the above Adjustment Components	$ 0.00	$ 0.00
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	$ 0.00	$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	$ 0.00	$ 0.00
B. Technical/default Re-estimate	0.00	0.00
C. Total of the above Re-estimate Components	$ 0.00	$ 0.00
6. Ending Balance of the Subsidy Cost Allowance	$ 0.00	$ 0.00

Defaulted Guaranteed Loans from Post-1991 Guarantees

As of June 30	2005	2004
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0.00	$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0.00	$ 0.00
B. Interest Receivable	0.00	0.00
C. Foreclosed Property	0.00	0.00
D. Allowance for Subsidy Cost (Present Value)	0.00	0.00
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.00	$ 0.00
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.00	$ 0.00

Guaranteed Loans Outstanding

As of June 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 0.00	$ 0.00
3. Total	$ 0.00	$ 0.00
2005		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 0.00	$ 0.00
3. Total	$ 0.00	$ 0.00
2004		
New Guaranteed Loans Disbursed		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	$ 0.00	$ 0.00
3. Total	$ 0.00	$ 0.00

Liability for Post-1991 Loan Guarantees, Present Value

As of June 30	2005	2004
Loan Guarantee Program		
1. Military Housing Privatization Initiative	$ 0.00	$ 0.00
2. Armament Retooling & Manufacturing Support Initiative	0.00	0.00
3. Total	$ 0.00	$ 0.00

Subsidy Expense for Post-1991 Loan Guarantees

As of June 30

2005	Interest Differential	Defaults	Fees	Other	Total
1. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2004	Interest Differential	Defaults	Fees	Other	Total
2. New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2005	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

	2005	2004
5. Total Loan Guarantee:		
Military Housing Privatization Initiative	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	$ 0.00	$ 0.00

Subsidy Rate for Loan Guarantees

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantees:					
1. Military Housing Privatization Initiative	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

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

As of June 30	2005	2004
1. Beginning Balance of the Loan Guarantee Liability	$ 0.00	$ 0.00
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	$ 0.00	$ 0.00
B. Default Costs (Net of Recoveries)	0.00	0.00
C. Fees and Other Collections	0.00	0.00
D. Other Subsidy Costs	0.00	0.00
E. Total of the above Subsidy Expense Components	$ 0.00	$ 0.00
3. Adjustments		
A. Loan Guarantee Modifications	$ 0.00	$ 0.00
B. Fees Received	0.00	0.00
C. Interest Supplements Paid	0.00	0.00
D. Foreclosed Property and Loans Acquired	0.00	0.00
E. Claim Payments to Lenders	0.00	0.00
F. Interest Accumulation on the Liability Balance	0.00	0.00
G. Other	0.00	0.00
H. Total of the above Adjustments	$ 0.00	$ 0.00
4. Ending Balance of the Loan Guarantee Liability before Re-estimates	$ 0.00	$ 0.00
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	0.00	0.00
B. Technical/default Re-estimate	0.00	0.00
C. Total of the above Re-estimate Components	$ 0.00	$ 0.00
6. Ending Balance of the Loan Guarantee Liability	$ 0.00	$ 0.00

Administrative Expense

As of June 30	2005	2004
1. Direct Loans		
Military Housing Privatization Initiative	$ 0.00	$ 0.00
Total	$ 0.00	$ 0.00
2. Loan Guarantees		
Military Housing Privatization Initiative	$ 0.00	$ 0.00
Armament Retooling & Manufacturing Support Initiative	0.00	0.00
Total	$ 0.00	$ 0.00

Note 9. Inventory and Related Property

As of June 30	2005	2004
1. Inventory, Net	$ 108,344,296.54	$ 63,325,410.74
2. Operating Materials & Supplies, Net	199,805.75	83,882.64
3. Stockpile Materials, Net	0.00	0.00
4. Total	$ 108,544,102.29	$ 63,409,293.38

Inventory, Net

As of June 30	2005			2004	
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valuation Method
1. Inventory Categories					
A. Available and Purchased for Resale	$ 87,855,167.85	$ 15,964.71	87,871,132.56	$ 39,849,097.15	LAC,MAC
B. Held for Repair	0.00	0.00	0.00	0.00	LAC,MAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	NRV
D. Raw Materials	0.00	0.00	0.00	0.00	MAC,SP,LAC
E. Work in Process	20,473,163.98	0.00	20,473,163.98	23,476,313.59	AC
F. Total	$ 108,328,331.83	$ 15,964.71	108,344,296.54	$ 63,325,410.74	

Legend for Valuation Methods:

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

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.

Definitions

Inventory Available and Purchased for Resale includes consumable spare and repair parts and repairable items owned and managed by the Department. Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies.

Inventory Held for Repair is damaged inventory that requires repair to make suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because the Department often relies on weapon systems and machinery no longer in production, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

Excess, Obsolete, and Unserviceable inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. Potentially reusable 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.

Work-in-Process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work-in-Process also includes the value of finished products or completed services pending the submission of bills to the customer. The Work-in-Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end-items of material ordered, but not delivered.

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 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. Work-in-Process includes associated labor, applied overhead and supplies used in the delivery of services.

The inventory data reported on the financial statements is derived from the Corps of Engineers Financial Management System (CEFMS). CEFMS is a comprehensive system that is designed to capture and maintain historical cost data necessary to fully comply with the Statement of Federal Financial Accounting Standards No. 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.

For regulatory discussion on Inventory, Net, see Department of Defense Federal Management Regulation, Volume 6B, Chapter 10, paragraph 1011.

Fluctuations

Available and Purchased for Resale. The increase in Inventory Available and Purchased for Resale is attributed to corrections made to the value of the Warehouse Stock Found on Works account in the amount of $46.7 million. This account had previously been understated. The increase is also attributed to the Memphis and New Orleans Districts. The Districts increased their inventory of materials for river bank stabilization revetment projects on the Mississippi River by $1.5 million due to a transfer from Inventory Work-in-Progress to Available and Purchased for Resale.

Work-in-Process. The decrease of $3.0 million in Inventory Work-in-Process is due to transfers of $1.5 million to Inventory Available and Purchased for Resale at Memphis and New Orleans Districts. The remaining $1.5 million decrease is due to a transfer at the New Orleans District from inventory in process to expense.

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.

Operating Materials and Supplies, Net

As of June 30	2005			2004	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
1. OM&S Categories					
A. Held for Use	$ 199,805.75	$ 0.00	$ 199,805.75	$ 83,882.64	SP, LAC
B. Held for Repair	0.00	0.00	0.00	0.00	SP, LAC
C. Excess, Obsolete, and Unserviceable	0.00	0.00	0.00	0.00	NRV
D. Total	$ 199,805.75	$ 0.00	$ 199,805.75	$ 83,882.64	

Legend for Valuation Methods:

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

There are no restrictions on operating materials and supplies (OM&S). The valuation method is based on a moving weighted average based on actual cost divided by quantity.

For regulatory discussion on OM&S, see DoD FMR, Volume 6B, Chapter 10, paragraph 101108.

Fluctuations

Operating Materials and Supplies - The increase in OM&S is attributed to an increase in the miscellaneous office supplies account at Fort Worth District.

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.

Stockpile Materials, Net

As of June 30	2005			2004	
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	Valuation Method
1. Stockpile Materials Categories					
A. Held for Sale	$ 0.00	$ 0.00	$ 0.00	$ 0.00	AC, LCM
B. Held in Reserve for Future Sale	0.00	0.00	0.00	0.00	AC, LCM
C. Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other

Note 10. General PP&E, Net

As of June 30	2005					2004
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
1. Major Asset Classes						
A. Land	N/A	N/A	$ 8,792,035,878.70	N/A	$ 8,792,035,878.70	$ 8,206,321,101.54
B. Buildings, Structures, and Facilities	S/L	20 - 100	27,248,113,338.83	$ (12,625,528,559.43)	14,622,584,779.40	17,183,039,821.90
C. Leasehold Improvements	S/L	lease term	26,744,665.64	(13,543,122.15)	13,201,543.49	15,309,108.97
D. Software	S/L	2 - 5	82,392,054.86	(43,020,463.92)	39,371,590.94	29,363,668.27
E. General Equipment	S/L	5 - 100	1,219,773,548.86	(611,809,208.98)	607,964,339.88	618,004,206.44
F. Military Equipment	S/L	Various	0.00	0.00	0.00	0.00
G. Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00	0.00
H. Construction-in-Progress	N/A	N/A	2,791,830,344.07	N/A	2,791,830,344.07	4,349,229,620.14
I. Other			46,754,018.48	(2,148,846.71)	44,605,171.77	36,302,478.48
2. Total General PP&E			$ 40,207,643,849.44	$ (13,296,050,201.19)	$ 26,911,593,648.25	$ 30,437,570,005.74

[1] Note 15 for additional information on Capital Leases

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

General PP&E – Significant Amount of Assets

A cumulative total of $2.3 billion of intangible assets has been reclassified as land. These costs increased by $43.4 million in FY 2005. These assets are comprised of historical costs associated with the acquisition of land in conjunction with power projects. Costs were originally classified as intangible assets in order to comply with Federal Energy Regulatory Commission guidelines on cost recovery. However, the decision was made that these costs were improperly classified in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment," as they were part of the initial acquisitions cost of the land and should have been classified as such. We have also made a reversing entry for current year amortization in our statements to properly reflect the effect of the transfer into land (category 00) where accumulated depreciation is inappropriate. Supporting documentation for $17.3 billion of the $27 billion recorded in the Property, Plant, and Equipment (PP&E) line is being supported by alternate methods as agreed upon by the Inspector General, Department of Defense and the USACE in a June 9, 2004 Memorandum of Agreement.

The service life for our multiple purpose project assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The Power Marketing Administration related assets make up $7.6 billion of the book value of the USACE's Property, Plant, and Equipment.

The USACE currently operates and maintains 75 hydroelectric power plants, generating about 24 percent of America's hydroelectric power. All power generated by these 75 hydroelectric power plants is transmitted to Power Marketing Authorities (PMA) for distribution to customers across the region. Each fiscal year the USACE prepares a "Statement of Expenses" broken down by plant, District and Region and provides this information to the PMAs to assist in their Power Repayment Study. The PMAs then collect power receipts (revenues) from customers and return the receipts to the Treasury.

The USACE policy requires all capital improvements to real property, occupied but not owned by the USACE, with a useful life of two or more years and cost of $25 thousand to be capitalized as leasehold improvements.

For regulatory discussion on General PP&E, Net, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1012.

Fluctuations

Line1A – The USACE recorded an increase of $252.2 million in intangible assets reclassified to land associated with the power projects from 3rd Quarter, FY 2004 to 3rd Quarter, FY 2005. Other significant increases occurred from land purchases in Memphis district for canal, ditch, bayou, and bridge construction in the amount of $88.9 million. Additional land purchases for reservoir work occurred at Walla Walla district for $22.3 million, Louisville district for $21.1 million, Fort Worth district for $47.4 million, Tulsa district for $32 million, Saint Louis district for $13.1 million, Vicksburg district for $11.9 million, Omaha district for $17.5 million, Huntington district for $15.3 million, Kansas City district for $12.2 million, Mobile district for $35.5 million, and Wilmington district for $21.8 million. These purchases are for grading and filling at reservoirs.

Line 1B – The decrease of $2.6 billion in Buildings and Structure is a result of on going corrective actions by the USACE. A large portion of river bank stabilization assets should have been expensed and the USACE has taken appropriate actions to remove these assets.

Line 1C – The decrease of $2.1 million in net book value of Leasehold Improvements is due to an increase in accumulated amortization of $2.3 million for Local Area Network and Electronic Document Management System (EDMS) hardware and software at Humphreys Engineering Center Support Activity (HECSA).

Line 1D – The increase of $10 million in net book value of Software is due to the acquisition of P2 Project Management System for $14.9 million at Headquarters USACE (HQUSACE) and the normal depreciation expense of $4.9 for software at HECSA and HQUSACE.

Line 1H - The decrease of $1.6 billion in construction in progress is due to a change in accounting policy in FY 2004 requiring the write-off of nonfederal cost share projects as costs are incurred. In the past, costs for nonfederal cost share projects were capitalized and then transferred to the public at completion by recording a loss.
Line 1I - Other: Other assets consist of assets awaiting disposal. The increase of $8.3 million is due to a chamber demolition at Pittsburgh district for $5.2 million and the retirement of a swim beach and various roads and boat ramps at Savannah district for $2.5 million.

Note Reference
See Note Disclosure 1.O. **-** Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment.

Assets Under Capital Lease

As of June 30	2005	2004
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 0.00	$ 0.00
B. Equipment	0.00	0.00
C. Other	0.00	0.00
D. Accumulated Amortization	0.00	0.00
E. Total Capital Leases	$ 0.00	$ 0.00

Note 11. Liabilities Not Covered by Budgetary Resources

As of June 30	2005	2004
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0.00	$ 0.00
B. Debt	14,432,825.53	15,201,133.10
C. Other	1,993,318,470.11	188,694,814.33
D. Total Intragovernmental Liabilities	$ 2,007,751,295.64	$ 203,895,947.43
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0.00	$ 0.00
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0.00	0.00
C. Environmental Liabilities	0.00	0.00
D. Loan Guarantee Liability	0.00	0.00
E. Other Liabilities	20,626,839.82	71,161,019.99
F. Total Nonfederal Liabilities	$ 20,626,839.82	$ 71,161,019.99
3. Total Liabilities Not Covered by Budgetary Resources	$ 2,028,378,135.46	$ 275,056,967.42
4. Total Liabilities Covered by Budgetary Resources	$ 1,196,116,335.57	$ 2,966,917,131.39
5. Total Liabilities	$ 3,224,494,471.03	$ 3,241,974,098.81

Definitions

Liabilities Not Covered by Budgetary Resources

Liabilities that are not considered covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass the following:

- New budget authority.
- Spending authority from offsetting collections (credited to an appropriation or fund account).
- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations.
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year.
- Borrowing authority or permanent indefinite appropriations, which have been enacted and signed into law as of the Balance Sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by the Congress or without a contingency first having to be met.

Other Information

Intragovernmental Liabilities – Other includes Workmen's Compensation liabilities in the amount of $41.9 million, offsetting custodial liability to accounts receivable in the amount of $1.8 billion, and judgment fund liabilities-Contract Dispute Act (CDA) in the amount of $152.7 million. The custodial liability is for amounts that will be deposited in the General Fund of the Treasury when collected and are primarily related to water storage contracts.

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 United States Army Corps of Engineers (USACE).

Nonfederal Liabilities – Other includes $20.6 million for contracts with continuation clauses.

Total Liabilities Covered by Budgetary Resources: Intragovernmental - Accounts Payable, $290.6 million; Debt, $352.9 thousand; and Other (FECA, Unearned Revenue-Advances, Deposit Fund, Clearing Accounts and Long-Term Receivables), $17.8 million. Nonfederal – Accounts Payable, $276.2 million; and Other (Contract Holdbacks, FECA, Unearned Revenue-Advances, Deposit Fund, Clearing Account and Contingent Liabilities resulting from casualty losses), $611.1 million.

Fluctuations

Intragovernmental Liabilities - Debt: The liability for debt decreases as payments are made to Treasury to reduce the principal amount.

Intragovernmental Liabilities - Other: This amount increased because Uncollected Custodial Liabilities totaling $1.8 billion is reported with Liabilities Not Covered by Budgetary Resources in the 3rd Quarter, FY 2005; it was reported with Liabilities Covered by Budgetary Resources in the 3rd Quarter, FY 2004. Prior to the 4th Quarter, FY 2004, the USACE could not use Standard General Ledger (SGL) 2980 and recorded the offsetting custodial liability to accounts receivable in SGL 2990. There is no longer a restriction on the use of SGL 2980 by the USACE.

Nonfederal Liabilities – Other Liabilities: The decrease is attributed to liabilities for contracts with continuation clauses. The amount for the unfunded payable is recorded in the general ledger when a receiving report is entered in the Corps of Engineers Financial Management System (CEFMS), but no obligation is recorded at this time. When funds become available the actual receiving report and obligation are entered in CEFMS and the initial receiving report with no obligation is reversed. More contracts with continuation clauses were recorded in the 3rd Quarter, FY 2004 than the 3rd Quarter, FY 2005 because funding was received earlier in FY 2005. Earlier receipt of funding in FY 2005 resulted in a reduction of $50.5 million in unfunded liabilities for the contracts with continuation clauses.

Note Reference

For additional line item discussion, see:
Note 8, Direct Loans and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Debt
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 June 30	2005			2004
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intragovernmental Payables	$ 290,648,174.46	$ N/A	$ 290,648,174.46	$ 262,812,201.78
2. Non-Federal Payables (to the Public)	276,202,254.33	0.00	276,202,254.33	343,407,580.11
3. Total	$ 566,850,428.79	$ 0.00	$ 566,850,428.79	$ 606,219,781.89

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.

The United States Army Corps of Engineers (USACE) has no known delinquent accounts payable; therefore, no amount is reported for interest, penalties, and administrative fees. For the period ending June 30, 2005, the USACE paid $516.8 thousand in interest from Civil Works appropriations on payments subject to the Prompt Payment Act.

The USACE was able to compare its accounts payable balance with the accounts receivable balances of its intra-departmental (Department of Defense) trading partners. No material reconciling differences were identified.

Fluctuations

Intragovernmental Payables: The increase is attributed to Trust Funds' Payable. The Inland Waterways Trust Fund's Payable and the Harbor Maintenance Trust Fund's Payable increased by $44.9 million and $1.5 million, respectively, for Transfers of Currently Invested Balances reported by the Bureau of Public Debt. The variance includes a decrease of $1.6 million for Intragovernmental Payment and Collection (IPAC) disbursements in transit transactions which liquidated intragovernmental accounts payable. This process was not done for the 3rd Quarter, FY 2004; the unprocessed IPAC transactions were reported on Treasury's Statement of Difference. There was also a decrease of $16.4 million for contractual activity with the Department of Interior because a contract for geological survey services was fully liquidated.

Non-Federal Payables (to the Public) decreased because open payables for public contracts established in 3rd Quarter, FY 2004 associated with hurricane cleanup efforts in Mobile, Jacksonville and Savannah Districts were liquidated and disbursed in FY 2005.

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 June 30	2005						2004	
	Beginning Balance		Net Borrowings		Ending Balance		Ending Balance	
1. Agency Debt								
A. Debt to the Treasury	$	15,366,670.24	$	(580,946.66)	$	14,785,723.58	$	15,572,996.67
B. Debt to the Federal Financing Bank		0.00		0.00		0.00		0.00
C. Total Agency Debt	$	15,366,670.24	$	(580,946.66)	$	14,785,723.58	$	15,572,996.67
2. Total Debt	$	15,366,670.24	$	(580,946.66)	$	14,785,723.58	$	15,572,996.67

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. Arlington County, the city of Falls Church, Virginia, and the District of Columbia provide funding to repay the debt. Cumulative actual drawdown of the funds has been made from the Treasury in the amount of $74.9 million. There were no drawdowns of funds, from the Treasury, for the 3rd Quarter, FY 2005.

Accrued Interest Payable as of June 30, 2005	+	**Principle Repayments FY05**	=	**Net Borrowings FY05**
$14 thousand		$567 thousand		$581 thousand

Total cumulative principal repayments as of June 30, 2005 are $61 million.

The difference between FY 2004 and FY 2005 represents fluctuations of principal repayments towards liquidating debt. The District of Columbia, Water and Sewer Authority, decided to prepay their debt. Therefore, all remaining Treasury borrowing was repaid in the 2nd Quarter, FY 2004. This created a larger than normal principal repayment. FY 2004 principal repayment was $1.8 million compared to 3rd Quarter, FY 2005 repayment of $567 thousand.

There are two remaining customers under the Washington Aqueduct Capital Improvement program. Arlington County and the city of Falls Church, Virginia, do not intend to prepay. Therefore, principal repayments should become more stable barring fluctuations of short term interest rate on this debt.

<u>Note Reference</u>

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.

See Note 20 for further discussion on the Washington Aqueduct project.

Note 14.	Environmental Liabilities and Disposal Liabilities

As of June 30	2005			2004
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Active Installations--ER for Closed Ranges	0.00	0.00	0.00	0.00
3. Formerly Used Defense Sites (FUDS) -- ER	0.00	0.00	0.00	0.00
4. FUDS--ER for Transferred Ranges	0.00	0.00	0.00	0.00
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	0.00	0.00	0.00	0.00
2. Active Installations--Environmental Closure Requirements	0.00	0.00	0.00	0.00
3. Active Installations--Environ.Response at Active Ranges	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	0.00	0.00	0.00	0.00
2. BRAC Installations--ER for Transferring Ranges	0.00	0.00	0.00	0.00
3. BRAC Installations--Environmental Corrective Action	0.00	0.00	0.00	0.00
4. Other	0.00	0.00	0.00	0.00
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.00	0.00	0.00	0.00
2. Nuclear Powered Submarines	0.00	0.00	0.00	0.00
3. Other Nuclear Powered Ships	0.00	0.00	0.00	0.00
4. Other National Defense Weapons Systems	0.00	0.00	0.00	0.00
5. Chemical Weapons Disposal Program	0.00	0.00	0.00	0.00
6. Other	0.00	0.00	0.00	0.00
2. Total Environmental Liabilities:	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Note 15. Other Liabilities

As of June 30	2005						2004	
	Current Liability		Noncurrent Liability		Total		Total	
1. Intragovernmental								
A. Advances from Others	$	11,234,610.98	$	0.00	$	11,234,610.98	$	11,920,979.94
B. Deposit Funds and Suspense Account Liabilities		583,673.75		0.00		583,673.75		633,239.71
C. Disbursing Officer Cash		542,712.76		0.00		542,712.76		464,831.43
D. Judgment Fund Liabilities		152,665,321.95		0.00		152,665,321.95		147,197,362.00
E. FECA Reimbursement to the Department of Labor		20,171,865.29		21,701,755.91		41,873,621.20		41,497,452.33
F. Other Liabilities		223,606,023.82		1,594,327,572.20		1,817,933,596.02		1,784,218,495.68
G. Total Intragovernmental Other Liabilities	$	408,804,208.55	$	1,616,029,328.11	$	2,024,833,536.66	$	1,985,932,361.09
2. Nonfederal								
A. Accrued Funded Payroll and Benefits	$	382,099,206.99	$	0.00	$	382,099,206.99	$	344,883,232.54
B. Advances from Others		121,925,387.00		0.00		121,925,387.00		135,344,614.25
C. Deferred Credits		0.00		0.00		0.00		0.00
D. Deposit Funds and Suspense Accounts		11,071,122.65		0.00		11,071,122.65		(3,032,555.43)
E. Temporary Early Retirement Authority		0.00		0.00		0.00		0.00
F. Nonenvironmental Disposal Liabilities								
(1) National Defense PP&E (Nonnuclear)		0.00		0.00		0.00		0.00
(2) Excess/Obsolete Structures		0.00		0.00		0.00		0.00
(3) Conventional Munitions Disposal		0.00		0.00		0.00		0.00
(4) Other		0.00		0.00		0.00		0.00
G. Accrued Unfunded Annual Leave		0.00		0.00		0.00		0.00
H. Capital Lease Liability		0.00		0.00		0.00		0.00
I. Other Liabilities		102,929,065.36		0.00		102,929,065.36		157,053,667.80
J. Total Nonfederal Other Liabilities	$	618,024,782.00	$	0.00	$	618,024,782.00	$	634,248,959.16
3. Total Other Liabilities	$	1,026,828,990.55	$	1,616,029,328.11	$	2,642,858,318.66	$	2,620,181,320.25

Capital Lease Liability

As of June 30	2005				2004
	Asset Category				
	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments Due					
A. 2005	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
B. 2006	0.00	0.00	0.00	0.00	0.00
C. 2007	0.00	0.00	0.00	0.00	0.00
D. 2008	0.00	0.00	0.00	0.00	0.00
E. 2009	0.00	0.00	0.00	0.00	0.00
F. After 5 Years	0.00	0.00	0.00	0.00	0.00
G. Total Future Lease Payments Due	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
H. Less: Imputed Interest Executory Costs	0.00	0.00	0.00	0.00	0.00
I. Net Capital Lease Liability	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 0.00	$ 0.00
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 0.00	$ 0.00

Line 1.D. The Corps of Engineers Civil Works Directorate has recognized 33 unfunded liabilities arising from Judgment Fund Contract Disputes Act settlement in accordance with the interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgment Fund Transactions.

Line 1.E. 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 as authorized in the Federal Employees' Compensation Act (FECA) by Department of Labor. The USACE reimburses the Department of Labor for the costs. The USACE records a liability until the reimbursement to Department of Labor is accomplished. Fiscal year 2006 and beyond costs of $21.7 million are reflected as a noncurrent liability.

Other Liabilities

Intragovernmental

Line 1.F. Intragovernmental other liabilities (current) includes $5.5 million for employer contributions and payroll taxes and $2.0 billion to offset interest and accounts receivables which, when collected, will be returned to Treasury. Intragovernmental other liabilities (noncurrent) represent future revenue of $1.6 billion from long-term water storage and $1.3 million from hydraulic mining contracts.

Nonfederal

Line 2.I. Nonfederal other liabilities include $39.8 million to fund contingent liabilities arising from casualty losses. The amount also includes $56.2 million in contract holdbacks on construction-in-progress payments and $20.6 million for unfunded liabilities for contracts with continuation clauses. The continuation clause allows contractors to continue work without funds being obligated. . The amount for the unfunded payable is recorded in the general ledger when a receiving report is entered in the Corps of Engineers Financial Management System (CEFMS), but no obligation is recorded at this time. When funds become available the actual receiving report and obligation are entered in CEFMS and the initial receiving report with no obligation is reversed. More contracts with continuation clauses were recorded in the 3rd Quarter, FY 2004 than the 3rd Quarter, FY 2005 because funding was received earlier in FY 2005. Earlier receipt of funding in FY 2005 resulted in a reduction of $50.5 million in unfunded liabilities for the contracts with continuation clauses.

Intragovernmental Reconciliations for Fiduciary Transactions

With respect to the major fiduciary balances with the Office of Personnel Management (OPM) and the Department of Labor (DOL), the USACE was able to reconcile with the OPM and the DOL.

Fluctuations

Line 1.C. Disbursing Officer's Cash increased this year due to an increase in outstanding employee travel advances.

Line 2.A. Accrued Funded Payroll and Benefits increased this year due to an increase in the number of days remaining at the end of the month for which the USACE accrued the payroll liability.

Line 2.D. The increase in Deposit Funds and Suspense Accounts this year is due primarily to a decrease in the amount of unprocessed Intragovernmental Payment and Collection (IPAC) transactions during the year. The net amount of the unprocessed IPAC transactions decreased by $22.3 million. Unprocessed disbursements exceeded collections resulting in an abnormal balance for this suspense account last year. These transactions have since been posted in the Corps of Engineers Financial Management System (CEFMS). The suspense accounts for the 3rd Quarter, FY 2004 also included $8.3 million for a military advance account, $2.5 million for a wire transfer from Defense Finance and Accounting Service (DFAS), and $1.3 million for a vendor payment of an invoice prior to the recording of the receivable. The disposition of the $2.5 wire transfer from DFAS could not be determined when it was received and was recorded in the Civil Works suspense account. It was transferred to a military advance account in July 2004. These transactions have all been recorded in CEFMS.

Line 2.I. The decrease in Other Nonfederal liabilities is due to two factors. There was a decrease of $50.5 million in the liability recorded for contracts with continuation clauses. USACE implemented a policy change this year requiring approval from Headquarters before awarding a contract with continuation clauses which resulted in a decrease in these contracts and related liability. There was also an increase of $9.6 million in contract holdbacks in the Flood Control and Coastal Emergencies appropriation and the Construction General appropriation. The increase in contract holdbacks for the Flood Control and Coastal Emergencies is due to recovery work related to the hurricanes in the South Atlantic Region in the fall of 2004.

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 16.	Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Proprietary contingencies are commonly referred to as contingent liabilities. The USACE has 95 cases pending litigation, 140 claims pending in contract claims and appeals, and 332 tort claims in which the relief requested is $3.9 million or more. The USACE Legal Counsel is of the opinion that it is "reasonably possible" that the outcome of the litigation will result in a loss.

The USACE is responsible for the Formerly Utilized Remedial Action Program (FUSRAP), which was established to respond to radiological contamination from early U.S. atomic energy and weapons program. This program is funded through Civil Works appropriations. The USACE recognizes future contingent liabilities related to this program but the liability amounts are currently unknown.

Since these cases fail to satisfy the criteria to record a contingent liability in accordance with the Federal Financial Accounting Standard No. 5, Accounting for Liabilities of the Federal Government, 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

As of June 30	2005				2004
	Actuarial Present Value of Projected Plan Benefits	Assume Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
1. Pension and Health Benefits					
A. Military Retirement Pensions	$ 0.00		$ 0.00	$ 0.00	$ 0.00
B. Military Retirement Health Benefits	0.00		0.00	0.00	0.00
C. Medicare-Eligible Retiree Benefits	0.00		0.00	0.00	0.00
D. Total Pension and Health Benefits	$ 0.00		$ 0.00	$ 0.00	$ 0.00
2. Other					
A. FECA	$ 0.00		$ 0.00	$ 0.00	$ 0.00
B. Voluntary Separation Incentive Programs	0.00		0.00	0.00	0.00
C. DoD Education Benefits Fund	0.00		0.00	0.00	0.00
D. *[Enter Program Name}*	0.00		0.00	0.00	0.00
E. Total Other	$ 0.00		$ 0.00	$ 0.00	$ 0.00
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$ 0.00		$ 0.00	$ 0.00	$ 0.00

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

Note 18. Disclosures Related to the Statement of Net Cost

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost (SoNC) 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 are based on obligations, disbursements, and accruals. The United States Army Corps of Engineers (USACE) records transactions on an accrual basis as required by generally accepted accounting principles.

Fluctuations

The increase in intragovernmental cost is due to $312.0 million in activity with the Department of the Army. Activity was primarily in the USACE Gulf Region Division for the Iraqi relief and reconstruction effort. The remaining increase is attributed to recognizing imputed cost for new Judgment Funds claims and a rise in the employee benefit expense and imputed cost for health and life insurance and retirement.

Intragovernmental Earned Revenue increased $756.1 million for reimbursable work performed for Federal Emergency Management Agency (FEMA) on the hurricane relief effort in Florida. The USACE received $848.0 million in funding authority from FEMA to perform numerous missions to support those affected by the four hurricanes that struck Florida in the fall of 2004. Work continues on that effort. There was also a small increase of $7.0 million for work performed for Department of Energy.

Gross Cost with the Public increased $1.5 billion as a result of a policy change to transfer all non-federal cost share construction in progress projects to expense. The USACE also recorded a loss for buildings and structures written off. The change is also due to adjustments to the useful life of some assets and a corresponding adjustment to depreciation expense.

Cost Not Assigned to Programs decreased $9.0 thousand. In FY 2004, cost was erroneously recorded as not assigned to programs due to using an incorrect cost attribute in the Defense Departmental Reporting System. The error was corrected in FY 2005.

Gross Cost and Earned Revenue by Budget Functional Classification

As of June 30	2005			2004
	Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost
Budget Functional Classification				
1. Department of Defense Military (051)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	0.00
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	0.00
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	0.00	0.00	0.00	0.00
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	0.00
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	0.00
7. Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

As of June 30	2005			2004
	Gross Cost to Generate Intragovernmental Revenue	(Less: Earned Revenue)	Net Cost	Net Cost
1. Department of Defense Military (051)	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Water Resources by U.S. Army Corps of Engineers (301)	0.00	0.00	0.00	0.00
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0.00	0.00	0.00	0.00
4. Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund (602)	0.00	0.00	0.00	0.00
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0.00	0.00	0.00	0.00
6. Medicare Eligible Retiree Health Care Fund (551)	0.00	0.00	0.00	0.00
7. Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

As of June 30	2005 Cumulative Results of Operations	2005 Unexpended Appropriations	2004 Cumulative Results of Operations	2004 Unexpended Appropriations
1. Prior Period Adjustments Increases (Decreases) to Net Position				
A. Changes in Accounting Standards	$ 0.00	$ 0.00	$ 0.00	$ 0.00
B. Errors and Omissions in Prior Year Accounting Reports	0.00	0.00	0.00	0.00
C. Other Prior Period Adjustments	0.00	0.00	0.00	0.00
D. Total Prior Period Adjustments	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2. Imputed Financing				
A. Civilian CSRS/FERS Retirement	$ 71,465,928.13	$ 0.00	$ 75,076,447.75	$ 0.00
B. Civilian Health	100,418,144.15	0.00	93,694,291.50	0.00
C. Civilian Life Insurance	288,538.53	0.00	284,952.55	0.00
D. Judgment Fund	8,712,140.99	0.00	7,007,869.83	0.00
E. Intra-Entity	0.00	0.00	0.00	0.00
F. Total Imputed Financing	$ 180,884,751.80	$ 0.00	$ 176,063,561.63	$ 0.00

Other Corps Disclosures

Taxes and Other Nonexchange Revenue include $818.3 million in tax collections and $59.7 million in interest income deposited into the trust fund accounts. Excise taxes totaling $58.7 million were deposited into the Inland Waterways Trust Fund. Taxes totaling $759.6 million were collected and deposited into the Harbor Maintenance Trust Fund. These taxes were derived from:

Tax on Exports	$21 thousand
Tax on Foreign Trade	$97.6 million
Tax on Imports	$613.6 million
Tax on Passengers	$5.9 million
Tax on Domestics	$42.5 million

Transfers-in include: $10 million transferred into the South Dakota Terrestrial Wildlife Restoration Trust Fund; $610 million in budget authority transferred into the Harbor Maintenance Trust Fund from Treasury; $58 million in budget authority transferred into the

Coastal Wetlands Restoration Trust Fund from the Aquatic Resource Trust Fund; and $142 million in budget authority transferred into the Inland Waterways Trust Fund from Treasury.

Transfers-out to other governmental agencies totals $17.8 million. This includes $15.7 million transferred to Saint Lawrence Seaway Development Corporation from the Harbor Maintenance Trust Fund. Additional transfers from the General Fund were transferred as follows: $20 thousand was transferred to U.S. Department of Interior, Bureau of Indian Affairs; $2.1 million was transferred to U.S. Fish and Wildlife; and $7.7 thousand was transferred to the U.S. Geological Survey.

Transfers-out to Non-Corps totals $34 thousand, which is a transfer to the 425th Engineering Detachment.

Fluctuations

Footnotes:

Line 2B. Imputed Financing – Civilian Health: The overall increase in civilian health is due to the rising cost of health insurance.

Line 2D. Imputed Financing – Judgment Fund: The amount of Judgment Fund claims paid by Treasury increased by $1.7 million, which is due to an increase in the number of claims, paid by Treasury, for 3rd Quarter, FY 2005.

Statement of Changes in Net Position

Cumulative Results of Operations:

Line 4E. Budgetary Financing Sources – Nonexchange revenue: There are several factors that have contributed to the overall increase in nonexchange revenue. First, the $497 million increase in the Trust Fund account is due to fluctuation in taxes and interest. The USACE is the lead agency for reporting Inland Waterways and Harbor Maintenance Trust Funds. Second, the $292 million increase in Contributed Funds and $29.8 million decrease in General Funds are due to new reporting procedures in recording appropriated receipts. The Corps of Engineers Financial Management System (CEFMS) was recording the transactions as appropriations received and updating the Standard General Ledger (SGL) 3100 series. According to Treasury proforma entry A186, the transactions should be recorded in General Ledger Account Code (GLAC) 5900 - Other Revenue.

Line 4G. Budgetary Financing Sources – Transfers-in/out: The overall $106 million, net decrease to Transfers-in/out without reimbursement, is due to changes in reporting procedures for Contributed, General, and Transfer Funds. There is a $322.2 million decrease in Contributed Funds. Contributed Funds now records appropriated receipts as other revenue based on Treasury proforma entry A186. The $110.4 million recorded in the Transfer Fund account and the $110 million recorded in the General Fund account, for 2nd Quarter, FY 2005, are due to a change in reporting procedures for appropriations that no longer update GLAC 3100.

Line 4H. Budgetary Financing Sources – Other budgetary financing sources: The overall $24.7 million decrease in other budgetary financing sources is due to a change in reporting procedures for General, Revolving, and Transfer Funds. General and Revolving Funds now record GLACs 7190 and 7290 with a Fin26 attribute to update the Statement of Financing instead of the Change in Net Position. However, Revolving Fund has a $10.7 million increase in losses on disposition of assets. The $35.6 million decrease, recorded in the Transfer Fund account for 3rd Quarter, FY 2005, is due to a change in reporting procedures for Transfer appropriations that no longer updates GLAC 3100.

Line 5A. Other Financing Sources – Donations and forfeitures of property: There was an overall increase in donations and forfeitures of property for 3rd Quarter, FY 2005. This is due to property being recorded with an incorrect work item class code, in 4th Quarter, FY 2003 at the Buffalo District, which caused a negative balance of $100 thousand in the account. It was corrected during 2nd Quarter, FY 2004.

Line 5C. Other Financing Sources – Imputed Financing from Costs Absorbed by Others: Revolving Funds reports a $40 million increase in Civilian Health, due to the rising cost of health insurance. There is a $1.7 million increase in General Funds for 3rd Quarter, FY 2005. This is a result in the amount of Judgment Fund claims paid by Treasury. The amount of claims paid in 3rd Quarter, FY 2004 was $7 million.

Line 5D. Other Financing Sources – Other: The overall $29.2 million increase to Other Financing Sources – Other, was caused by several factors. General Fund is now recording general ledgers 5900 and 5909 to distributed offsetting receipts, which updates line 4 on Net Position, instead of line 5. In 3rd Quarter, FY 2004, the amount was $28.6 million. There is a $1.2 million decrease in Borrowing Authority due to the District of Columbia, Water and Sewer Authority deciding to prepay their debt. Therefore, all remaining Treasury borrowing was repaid in the 2nd Quarter, FY 2004. This created a larger than normal principal repayment.

Unexpended Appropriations:

Lines 1, 2B & 3. Beginning Balance and Prior period adjustments: The overall decrease in the beginning Balance is due to General and Transfer Funds reporting some funds transferred-in as finances from other sources rather than appropriated funds. This change began in 4th Quarter, FY 2004. Finances from other sources do not update the SGL 3100 series; therefore, the beginning balance was adjusted accordingly.

Line 4A. Appropriations Received – The overall increase in Appropriations Received is due to an increase in funding from the Energy and Water Development Appropriations Act. General Funds has an increase of $435 million and Formerly Utilized Sites Remedial Action Program (FUSRAP) has an increase of $25 million.

Line 4B. Budgetary Financing Sources – Appropriations transferred-in/out: Transfer Funds has received $105.4 million less in transfers-in/out from the Department of Interior for 3rd Quarter, FY 2005 compared to the 3rd Quarter, FY 2004. Also, General Funds has a $54.4 million decrease in budgetary financing sources. It now records transfers-in from Bonneville Power Administration, to GLAC 5755 Non-expenditure Financing Sources transfers-in.

Line 4C. Budgetary Financing Sources – Other adjustments (rescissions, etc): The $10.8 million difference to other adjustments is due to an increase in rescission amounts for 3rd Quarter, FY 2005 compared to 3rd Quarter, FY 2004. General Funds has an increase of $11 million and Formerly Utilized Sites Remedial Action Program (FUSRAP) has an increase of $494 thousand.

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 20. Disclosures Related to the Statement of Budgetary Resources

As of June 30	2005	2004
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 2,181,574,926.98	$ 2,100,327,389.76
2. Available Borrowing and Contract Authority at the End of the Period	0.00	30,445,319.65

Other Information:

Intraentity Transactions

The Statement of Budgetary Resources (SBR) does not include intraentity transactions because the statements are presented as combined and combining.

Apportionment Categories

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A in the SBR includes: $4.2 billion for direct; $20.4 million for direct obligations exempt from apportionment; $4.7 billion for reimbursable obligations; and $1 million for reimbursable obligations exempt from apportionment. The USACE has no apportionments under Category B.

Undelivered Orders

Undelivered Orders presented in the SBR includes Undelivered Orders-Unpaid for both direct and reimbursable funds.

Borrowing Authority

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

Fluctuations

Note 20, Line 2 reflects a variance due to receipt in full of borrowing authority.

SBR Fluctuations

Appropriations received - The majority of the increase is due to General Fund's receiving $475 million more in appropriated funds than this time last year, and an increase of $179 million in Treasury's receipts unavailable for obligation. The USACE records Treasury's portion of funds in DDRS.

Borrowing authority - Reflects a variance due to receipt in full of borrowing authority.

Net transfers – The variance is due to the USACE now recording the nonexpenditure transfers-out of appropriated special funds. In prior reporting periods, the zero net effect of funds received and transferred out was not recorded in the proper general ledgers.

Other – The variance is due to a change in recording the receivable in Transfer Funds of $78.8 million from Bonneville Power and Federal Highways. The receivable is recorded as anticipated transfers in USSGL 4160 for 3rd Quarter, FY 2005.

Beginning of period – The variance is due to a difference of 2.5 billion to Treasury's receipts unavailable for obligation at year-end FY 2004. The USACE records Treasury's portion of funds in DDRS.

Net transfers, actual (+/-) – The change is due to transactions recorded in the Transfer Funds. $24 million was transferred in from prior year funding from the Department of Interior, and $35.6 million was transferred out of prior year budget authority and recorded as current year budget authority for the Department of Transportation (DOT) and the Department of Energy (DOE). At the beginning of FY 2005, DOT and DOE reapportioned excess prior year money and recorded as new authority. The USACE recorded entries to reconcile with DOT and DOE.

Spending authority from offsetting collections – The increase is due to customer orders and accounts receivable associated with reimbursable work primarily with Federal Emergency Management Agency for hurricane relief efforts in the fall of 2004, primarily in General and Revolving Funds.

Temporarily not available pursuant to Public Law – The variance is due to the recording of funding for South Dakota Terrestrial Wildlife in USSGL 4397 vice 4394.

Permanently not available – The variance is due to an increase of budget authority rescission of $10 million in General Funds and $.5 million in FUSRAP. Also, repayment of debt in Borrowing Authority decreased by $1.8 million.

Obligations incurred – The increase is due to the activity in the South Atlantic region for hurricane relief efforts in the fall of 2004, primarily in General and Revolving Funds.

Unobligated balance apportioned – The increase is due to an increase in appropriations received in the Energy and Water Development Appropriations Act for FY 2005.

Unobligated balance exempt from apportionment – The USACE now records the offset to USSGLs 4160, 4166, 4167, and 4170 to 4620 vice 4610 as reported in 3rd Quarter, FY 2004.

Unobligated balances not available – In FY 2004, the USACE recorded the receivable from Bonneville Power in General Funds to USSGL 4450 vice 4620 in FY 2005.

Obligated balance, net–end of period - The fluctuation is due to an increase in accounts receivable in the Flood Control and Coastal Emergencies appropriation and in Revolving Fund. This increase is due to recovery work performed in the South Atlantic Region in support of the hurricane relief effort in the fall of 2004.

Outlays – The variance is due to an increase of disbursements in General Funds of $865 million and in Revolving Fund of $269 million; and an increase of collections in General Fund of $675 million and Revolving Fund of $369 million. The increase in activity is due to the hurricane relief effort in the fall of 2004.

Less: Offsetting receipts – The increase is primarily due to the reporting of Distributed Offsetting Receipts totaling $366 million in Contributed, General, and Special Funds. Prior to 4th Quarter, FY2004, these funds were recorded as other revenue. There was also an increase in tax collections and interest revenue of $205 million in Trust Funds from prior year.

Note 21. Disclosures Related to the Statement of Financing

Intra-entity transactions have not been eliminated because the Statement of Financing is presented as combined and combining.

Resources Used to Finance Activities:

Obligations incurred: The increase in obligations occurred in the General and Revolving Funds. The increase in the General Fund is due to an increase in obligations in the Flood Control and Coastal Emergencies appropriation for the hurricanes in the South Atlantic region in 2004. The USACE will be reimbursed by FEMA for recovery work for hurricane damage. The increase in the Revolving Fund is associated with the Gulf Region Division in Iraq.

Less: Spending Authority from offsetting collections: This amount increased due primarily to an increase in collections and receivables in the Flood Control and Coastal Emergencies appropriation and the Revolving Fund. Again, this increase is related to recovery work for the hurricane damage in the South Atlantic Region during 2004. There was also an increase in collections associated with the Gulf Region Division in Iraq.

Less: Offsetting receipts: The increase in offsetting receipts is due primarily to the reporting of Distributed Offsetting Receipts totaling $366 million in the Contributed, General and Special Funds. Distributed Offsetting Receipts in these fund accounts were not reported on this line in the past. There was also an increase in tax collections and interest revenue of $205.2 million in the Trust Funds from the prior year. Ninety-two percent of the increase in revenue from Trust Funds is from tax collections.

Donations and forfeitures of property: The increase in donations and forfeitures of property is due to the reporting of an abnormal balance of $100 thousand in the revolving fund in FY 2004. This amount was to correct a prior year asset donation.

Imputed financing from costs absorbed by others: This amount increased due to an increase in health insurance costs of $40 mi1lion. The increase in health insurance costs was offset by a decrease of $3.6 million in retirement costs.

Other: The decrease is due to the movement of Distributed Offsetting Receipts in the General Fund from Other Income to Offsetting Receipts. Undistributed offsetting receipts net of the contra account, collections for others, were previously reported as other income on the statement of financing but are now only reported on the Statement of Changes in Net Position. In addition, there was a decrease of $1.2 million in the amount of collections for repayment of the debt for repairs to the Washington Aqueduct.

Resources Used to Finance Items not Part of the Cost of Operations:

Undelivered Orders: The change in undelivered orders is primarily due to three factors. Approximately half of the change in undelivered orders is due to activity in the Gulf Region Division in Iraq. Undelivered orders increased by $102.1 million by 3rd Quarter, FY 2004, which was the first year of operation for this district. The change in undelivered orders fell to $28.5 million by 3rd Quarter, FY 2005. There was also a large change in undelivered orders in the Flood Control and Coastal Emergencies appropriation. This is due to recovery work for hurricane damage in the South Atlantic

Region in 2004. There was also a change in undelivered orders in the Coastal Wetlands Restoration Trust Fund related to environmental projects in the New Orleans district.

Unfilled Customer Orders: The change in unfilled customer orders is mainly attributed to a decrease in unfilled customer orders in the Flood Control and Coastal Emergencies appropriation as disaster relief projects are completed for hurricane damage that occurred last year in the South Atlantic Region. Unfilled customer orders without advances also decreased in the Revolving Fund at the USACE Headquarters for costs associated with the Automated Information System and the Civilian Personnel Operations Center as customers forwarded the funds earlier in the year and costs were liquidated in FY 2005.

Resources that fund expenses recognized in prior periods: The change is mostly attributed to the decrease in future funded expense for contracts with continuation clauses. The amount of future funded expense associated with the liability for contracts with continuation clauses decreased by $33 million in FY 2005. The USACE implemented a policy change this year requiring approval from Headquarters before awarding contracts with continuation clauses which resulted in a decrease in these contracts and related liabilities. The change also reflects the payment of judgment fund claims in FY 2005 for $1.7 million. In addition, the amounts for employer contributions to employee benefit programs not requiring budgetary resources increased by $3.5 million in FY 2005.

Budgetary offsetting collections and receipts that do not affect net cost of operations: The increase is due to the reporting of $366 million in Distributed Offsetting Receipts on this line for the Contributed, Special, and General Funds to offset the amount of offsetting receipts reported on Line 4. Only the amount of Distributed Offsetting Receipts for interest income in the General Fund of $29.1 million was reported on this line in the past. There was also an increase in tax collections and interest revenue of $205.2 million in the Trust Funds from the prior year.

Resources that finance the acquisition of assets: The decrease is due to a change in the methodology by USACE to record current year purchases of capitalized assets to comply with the Office of Management and Budget Bulletin 01-09, *Form and Content* and Treasury's *Cost Capitalization Offset*, policy and procedures. The major change this fiscal year is to exclude costs included in construction in process as current year purchases of capitalized assets for reporting on this line. These costs are now recognized as part of the Cost Capitalization Offset account.

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

Other: The decrease is due to a reduction in the amount of future funded expense associated with new judgment fund claims and the liability for contracts with continuation clauses. The amount of the liability for contracts with continuation clauses decreased by $50.5 million in FY 2005.

Components not Requiring or Generating Resources:

Depreciation and amortization: Depreciation expense decreased by $850.5 million in the Flood Control, Mississippi River Tributaries appropriation, but was offset by an increase in depreciation expense of $547.2 million in the Construction, General, and Operation and Maintenance appropriations this year for a net decrease of $302.6 million. The New Orleans district adjusted depreciation expense to fully depreciate all revetments already placed in service by the end of 3rd Quarter, FY 2004 in the Flood Control, Mississippi River Tributaries appropriation. The increase in depreciation expense for the Construction, General, and Operations and Maintenance appropriations is due primarily to depreciation adjustments. Adjustments were made to change the service life years of real property, to change the depreciation method from composite to straight line for some assets, to change the placed-in-service dates for some assets and to adjust for errors in depreciation for Additions and Betterments.

Revaluation of assets or liabilities: The increase in the revaluation of assets is due primarily to an increase in losses for fixed asset disposals. Losses on the disposition of assets and capital investments increased by approximately $897.5 million as a result of the write-off of bank stabilization projects, the physical existence or impairment of assets, and the incorrect capitalization of non-Federal lease classifications of buildings and other structures. Almost 60 percent of the losses were recorded by the Vicksburg district for losses related to the bank stabilization projects. These losses were offset by a gain of $47.1 million for a found-on-works inventory adjustment made in FY 2005. Found-on-works inventory was previously recorded as an inventory allowance account in error. A loss of $113.8 million was recorded in the Contributed Fund in FY 2004 for the write-off of non-federal cost share projects. In the past, non-federal cost share projects were recorded as assets in construction-in-process. When the projects were completed, they were transferred to the public and a loss was recorded. Due to a policy change implemented in FY 2004, costs associated with non-federal cost share projects are reported as operating expenses rather than losses.

Other – Costs of Goods Sold: Costs of goods sold are reported for costs associated with the sale of assets in the revolving fund. This was not reported in the prior fiscal year.

Other: The change is primarily due to recognition of other expenses not requiring budgetary resources related to the write-off of capitalized non-federal cost share projects in the General and Contributed Funds. This amount includes a reversing entry of $909.8 million for costs recognized in FY 2004 when the non-federal cost share projects were written-off. This expense was recognized in the Defense Departmental Reporting System but not in the Corps of Engineers Financial Management System (CEFMS) FY 2004. The expense has since been recorded in CEFMS as an operating expense or to the Cost Capitalization Offset account. Other expenses not requiring budgetary resources has an abnormal balance due to the reversal of the prior year expense. The USACE expensed an additional $141.6 million in FY 2005 to write-off non-federal cost share projects. Other expenses not requiring budgetary resources also includes $342.1 million charged to the cost capitalization offset account to record costs charged to “in-process type” asset accounts. The cost capitalization offset account was not used in FY 2004. This account also has an abnormal balance due to the amount of capitalized costs that were reclassified to this account.

Note 22.	Disclosures Related to the Statement of Custodial Activity

Note 23. Other Disclosures

As of June 30	2005			
1. ENTITY AS LESSEE- Operating Leases				
Future Payments Due	Land and Buildings	Equipment	Other	Total
Fiscal Year				
2005	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2006	0.00	0.00	0.00	0.00
2007	0.00	0.00	0.00	0.00
2008	0.00	0.00	0.00	0.00
2009	0.00	0.00	0.00	0.00
After 5 Years	0.00	0.00	0.00 y	0.00
Total Future Lease Payments Due	$ 0.00	$ 0.00	$ 0.00	$ 0.00

2. During FY 2005, the USACE received $53.8 million in direct appropriations from the Power Marketing Administration.