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UNITED STATES ARMY

TWO THOUSAND TWELVE



# BUILDING ON A FOUNDATION OF **STRENGTH**

Fiscal Year 2012 United States Army Annual Financial Report

U.S. ARMY CORPS OF ENGINEERS - CIVIL WORKS

# BUILDING ON A FOUNDATION OF STRENGTH

Fiscal Year 2012 United States Army Corps of Engineers Annual Financial Report



**On the Cover (From Left to Right, Top to Bottom):** Combat engineers prepare to maneuver sections of an improved ribbon bridge in a bridge erection boat / Two U.S. Army Soldiers breach a wire obstacle during a situational training exercise. (U.S. Army Photo by Visual Information Specialist Gertrud Zach, Released) / A Soldier performs a foot march during a training event. (U.S. Army photo by Visual Information Specialist Gertrud Zach/Released) / A U.S. Army AH-64 Apache attack helicopter prepares to depart Bagram Air Field, Afghanistan. (U.S. Air Force photo, Tech. Sgt. Matt Hecht) / A paratrooper provides overwatch security to fellow paratroopers. (U.S. Army photo by Sgt. Michael J. MacLeod) / A combat engineer places a Bangalore torpedo during a platoon concertina wire breach. (U.S. Army photo by Sgt. Heather Denby) / An Afghan company executive officer suggests a route of approach into a village to a platoon leader. (U.S. Army photo by Sgt. Michael J. MacLeod) / A U.S. Army sergeant goes across the rope bridge at an obstacle course. (U.S. Army photo by Visual Information Specialist Markus Rauchenberger/Released)

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**“In keeping with the President’s commitment to cut waste and make targeted investments in critical priorities, the Army has undertaken a major effort to improve the performance and responsiveness of the Civil Works program and to increase customer satisfaction and public confidence.”**

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



Throughout its long history, the Army Corps of Engineers has been committed to serving the Nation in peace and war, with its Civil Works mission critical to the safety, security, and economy of our great Nation. Shifting national priorities for public water management have necessitated a concomitant shift in the focus of the Corps' activities and operations.

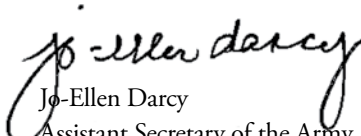
As described in these pages, the majority of the Army Civil Works program is heavily focused on the operation, maintenance, repair and replacement of major navigation, flood risk management and hydropower infrastructure systems and on the environmental mitigation and restoration of resources affected in the past by these systems. Within the flood risk management business line, priority continues to be given to infrastructure maintenance and repair, reflecting the Army's concern about the risks associated with aging dams and levee systems. Within the navigation business line, the Army continues to partner with the Department of Transportation to better align federal infrastructure investments to improve the economy and foster a competitive, efficient, and environmentally sustainable freight movement infrastructure.

Each year as we execute our multi-billion dollar program, the Army considers the integrity of the existing Civil Works infrastructure, the associated risks to the economy, safety, and the environment, and the development of sustainable solutions to America's water resources needs. The Army continues to work closely with other federal, state and local agencies to develop integrated water resources management outcomes across mission areas that leverage taxpayer dollars and strives to return the highest value to the Nation in terms of economic, social, and environmental benefits.

In keeping with the President's commitment to cut waste and make targeted investments in critical priorities, the Army has undertaken a major effort to improve the performance and responsiveness of the Civil Works program and to increase customer satisfaction and public confidence. These goals will be accomplished through the following on-going focus areas:

- Modernize the project planning process.
- Enhance the budget development process through a systems-oriented watershed approach and pursue new opportunities for collaboration, and innovative financing.
- Evaluate the current and potential portfolio of water resources infrastructure to deliver smart solutions for water resources problems.
- Improve methods of delivery to produce and deliver critical water resources products and services.

Together, these initiatives will enhance the ability of the Corps of Engineers to meet current and future challenges and address the water resources needs of our Nation.

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

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**“We have created an environment of transparency and accountability that has transformed us from a state of audit readiness to audit sustainability.”**

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– Wesley C. Miller, Chief Financial Officer




The United States Army Corps of Engineers (USACE) Civil Works Annual Financial Report provides stakeholders our financial position and results of operations for fiscal year (FY) 2012. During this past fiscal year we continued to build on our strong commitment to accountability, effective management of financial resources and sound business processes. Our commitment to our financial business processes resulted in our fifth consecutive “clean” audit opinion and for the first time we can report our operations are free from material weaknesses.

The importance of and emphasis on fiscal responsibility in the financial environment continually increases. USACE Civil Works contributes to the fiscal responsibility of the Department of the Army by making financial decisions based on relevant and reliable information. Our responsibility includes accounting for and making fiscally responsible decisions for the approximately \$18.4 billion obligated during FY 2012.

Our results in FY 2012 clearly demonstrate our steadfast commitment to improving our end-to-end business processes, embedding them into our financial management system, and providing sound governance and oversight. We have created an environment of transparency and accountability that has transformed us from a state of audit readiness to audit sustainability. Moving forward we will continue the integration of our Quality Management System, Continuous Process Improvement Program, and Governance and Internal Controls to enhance outcomes, drive performance, and increase accountability.

Today, because of strong senior leadership, exceptional working relationships with the auditors and improvements to our documented processes and controls, we have created the conditions for enduring success in the Chief Financial Officer audit. Our focus and synchronization of resources across the Command have allowed us to change the culture of our internal controls from a reactive to a proactive process, which has helped us to proactively prevent problems that could occur with our financial management process. Due to our strengthened internal controls program and reliable financial management system, I am confident that the financial information presented accurately reflects the results of our operations.

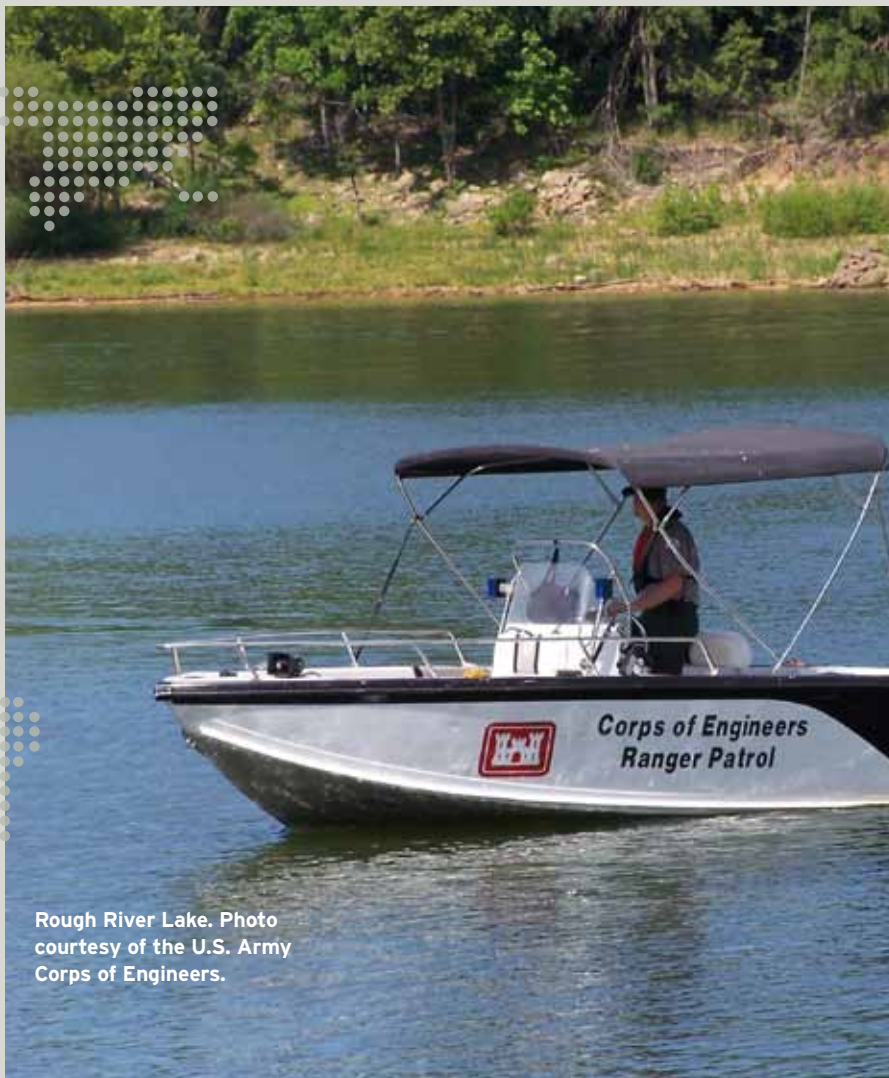
I am proud of everyone within USACE Civil Works who continues to strive toward greatness in financial management. This report and the accomplishments it describes reflect their extraordinary dedication to duty.

  
Wesley C. Miller  
Chief Financial Officer

# 2012

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

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



Rough River Lake. Photo courtesy of the U.S. Army Corps of Engineers.



Geese on Bennington Lake. Photo courtesy of the U.S. Army Corps of Engineers.





Mosquito Creek Lake. Photo courtesy of the U.S. Army Corps of Engineers.

## OVERVIEW

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

### Mission

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

### Developing and Managing Water Resources

The original role of the USACE in Civil Works, as it related to developing and managing water resources, was to support lake, riverine, coastal, and island navigation by maintaining and improving federal navigation channels. Over the years, and through subsequent legislation, the Corps' role expanded to include (1) flood risk management; (2) improvement of aquatic habitat; (3) generation of hydroelectric power; (4) creation of recreation opportunities; (5) provision of water storage for municipal and industrial water supplies; (6) regulation of discharges into navigable waters; and, (7) emergency planning and management.

### Protecting, Restoring and Managing the Environment

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

### Responding and Assisting in Disaster Relief

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

### Providing Engineering Support and Technical Services

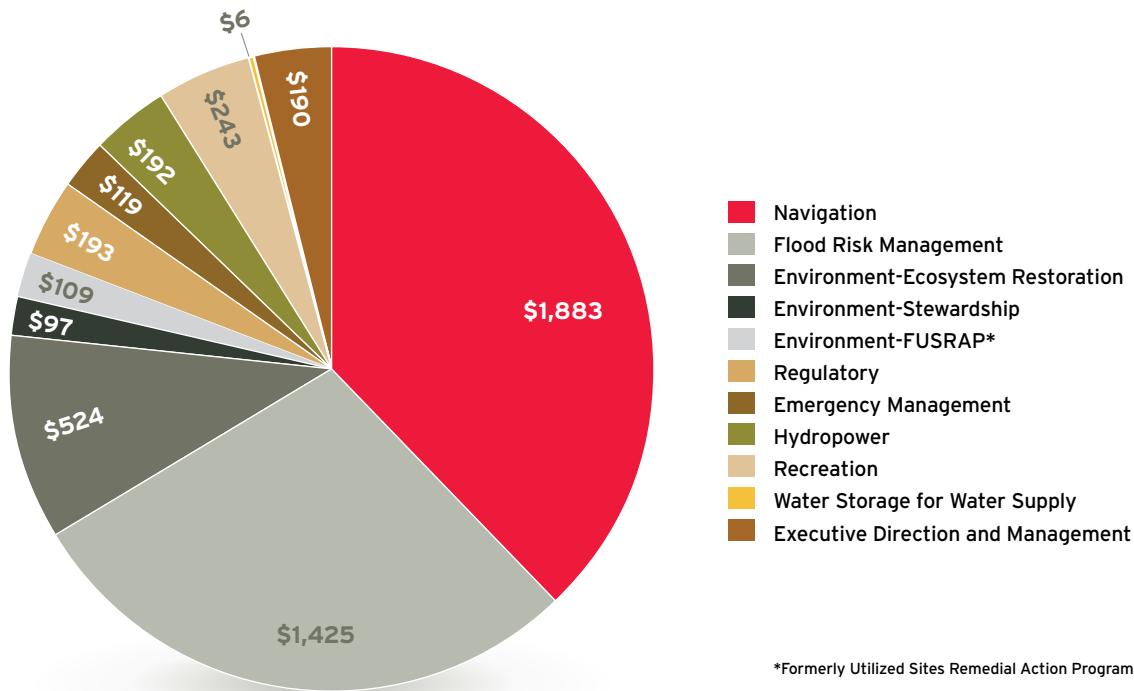
In Titles 10 and 33 of the U.S. Code (U.S.C.), Congress expresses its intent for the Corps to provide services on a reimbursable basis to other federal entities; state, local, and tribal governments; private firms; and international organizations. Additional authority to provide services to all federal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

## THE CIVIL WORKS PROGRAM

The Corps operates multiple business lines to accomplish its mission. Each business line specifically addresses a single mission component, but may also contribute to one or more missions in other business lines. Figure 1 lists the business lines that receive

direct appropriations and the funds used for executive direction and management for fiscal year (FY) 2012.

**FIGURE 1. FY 2012 Civil Works Initial Appropriations by Business Line**



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

### Navigation

The Navigation business line is responsible for ensuring safe, reliable, efficient, and environmentally sustainable waterborne transportation systems for the movement of commercial goods, as well as for national security purposes. It fulfills this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The Navigation business line is vital to the nation’s economic prosperity; 97 percent of America’s overseas international trade, by volume, and 64 percent of its trade, by value, moves

through its ports. Our nation’s Marine Transportation System (MTS) encompasses a network of Corps-maintained navigable channels, waterways, and infrastructure as well as publicly- and privately-owned vessels, marine terminals, intermodal connections, shipyards, and repair facilities. The MTS consists of approximately 12,000 miles of inland and intracoastal waterways with 220 locks at 171 sites; approximately 300 deep-draft and over 600 shallow-draft coastal and Great Lakes channels and harbors, extending 13,000 miles, and including 21 locks; and more than 900 coastal structures and 800 bridges. The Corps maintains all of these entities.

In FY 2012, Navigation, estimated at \$1.88 billion, accounted for almost 38 percent of Civil Works appropriations.

### Flood Risk Management

The Flood Risk Management (FRM) business line reduces the risk to human safety and property damage in the event of floods and coastal storms. The Civil Works Program has constructed 8,500 miles of levees and dikes, 383 reservoirs, and more than 90 storm damage reduction projects along 240 miles of the nation’s

2,700 miles of shoreline. With the exception of reservoirs, upon completion, most infrastructure built under the auspices of FRM is transferred to the sponsoring cities, towns, and special use districts that own and operate the projects.

Over the years, the Corps' mission of addressing the causes and impacts of flooding has evolved from flood control and prevention to more comprehensive FRM. These changes reflect a greater appreciation for the complexity and dynamics of flood problems—the interaction of natural forces and human development—as well as for the federal, state, local, and individual partnerships needed to thoroughly manage the risks caused by coastal storms and heavy rains.

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

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

In FY 2012, the FRM business line was estimated at \$1.43 billion and accounted for slightly more than 28 percent of the Civil Works Program appropriation.

## Environment

The Corps has three distinct areas that are focused on the environment: (1) aquatic ecosystem restoration; (2) stewardship of Corps' lands; and, (3) the Formerly Utilized Sites Remedial Action Program (FUSRAP).

***Aquatic Ecosystem Restoration.*** The Corps' mission in aquatic ecosystem restoration is to help restore aquatic habitat to a more natural condition in ecosystems in which structure, function, and dynamic processes have become degraded. The emphasis is on restoration of nationally- or regionally-significant habitats where the solution primarily involves modifying the hydrology and geomorphology. In FY 2012, Aquatic Ecosystem Restoration received approximately \$524 million, which translates to just over 10 percent of the total appropriation.

***Environmental Stewardship.*** Environmental Stewardship focuses on managing, conserving, and preserving natural resources on 11.5 million acres of land and water at 456 multipurpose Corps' projects. Corps' personnel monitor water quality at the Corps' dams and operate fish hatcheries in cooperation with state wildlife agencies. This business line encompasses compliance measures to ensure Corps' projects (1) meet federal, state and local environmental requirements; (2) sustain environmental quality; and, (3) conserve natural and cultural resources. In FY 2012, Environmental Stewardship received \$97 million, an amount comprising 1.9 percent of the appropriation.

***FUSRAP.*** Under the FUSRAP, the Corps cleans up former Manhattan Project and Atomic Energy Commission sites, making use of expertise gained in cleansing former military sites and civilian hazardous waste sites under the Environmental Protection Agency's Superfund Program. In FY 2012, the FUSRAP received \$109 million, or approximately 2.2 percent of the total appropriation.



A helicopter prepares to land on the refueling platform after spraying an EPA-approved herbicide on one of the Interior Least Tern islands along the McClellan-Kerr Arkansas River Navigation System in Oklahoma. U.S. Army Corps of Engineers photo by Nate Herring.



Discussing ways to capture how dredging works in Reeds Landing. Photo by Laura Bremer.



Native American fishing scaffolds on the Columbia River. Photo courtesy of the U.S. Army Corps of Engineers.

## Regulation of Aquatic Resources

In accordance with the Rivers and Harbors Act of 1899 (Section 10) and the Clean Water Act of 1972 (Section 404), as amended, the Corps' regulatory program regulates work in, over, and under navigable rivers as well as the discharge of dredged and fill material into U.S. waters, including wetlands. The Corps implements many of its oversight responsibilities by means of a permit process. Throughout the permit evaluation process, the Corps complies with the National Environmental Policy Act and other applicable environmental and historic preservation laws. In addition to federal statutes, the Corps also considers the views of other federal, tribal, state and local governments, agencies, and interest groups, as well as the general public when rendering its final permit decisions. Regulatory responsibilities include evaluating minor activities, such as driveways for small landowners as well as large water supply and energy project proposals which affect billions of dollars of the nation's economy.

In FY 2012, at \$193 million, the Regulatory appropriation accounted for 3.8 percent of total Civil Works Program appropriations.

## Emergency Management

Throughout USACE history, the United States has relied on the Civil Works Program in times of national disaster. Emergency management continues to be an important part of the Civil Works Program, which directly supports the Department of

Homeland Security in carrying out the National Response Framework. It does this by providing emergency support in public works and engineering and by conducting emergency response and recovery activities under authority of P.L. 84-99. In a typical year, the Corps responds to more than 30 presidential disaster declarations; its highly-trained workforce is prepared to deal with both man-made and natural disasters.

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

In FY 2012, Emergency Management received approximately \$85 million for repairs to eligible damaged projects. It also received \$34 million for Continuity of Operations activities, non-natural disaster preparedness activities, and Facility Protection. The \$119 million received by Emergency Management accounted for 2.4 percent of total appropriations for the Civil Works Program.

## Hydropower

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

In FY 2012, the Hydropower business line, approximately \$192 million, accounted for just under 4 percent of Civil Works Program appropriations.

## Recreation

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

(3) manage and conserve natural resources consistent with ecosystem management principles.

The Corps administers 4,248 recreation sites at 422 projects on 12 million acres of land. During FY 2012, 10 percent of the U.S. population visited a Corps' project at least once. These visitors spent \$16 billion pursuing their favorite outdoor recreation activities, which, in turn, supported some 270,000 full- and part-time jobs.

In FY 2012, the Recreation business line accounted for approximately \$243 million, or 4.8 percent of the Civil Works Program appropriations.

## Water Storage for Water Supply

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

In FY 2012, this business line accounted for approximately \$6 million, or just one-tenth of 1 percent of Civil Works Program appropriations.



Chattahoochee River adventure race. U.S. Corps of Engineers photo by Steven Rector.

## ORGANIZATIONAL STRUCTURE

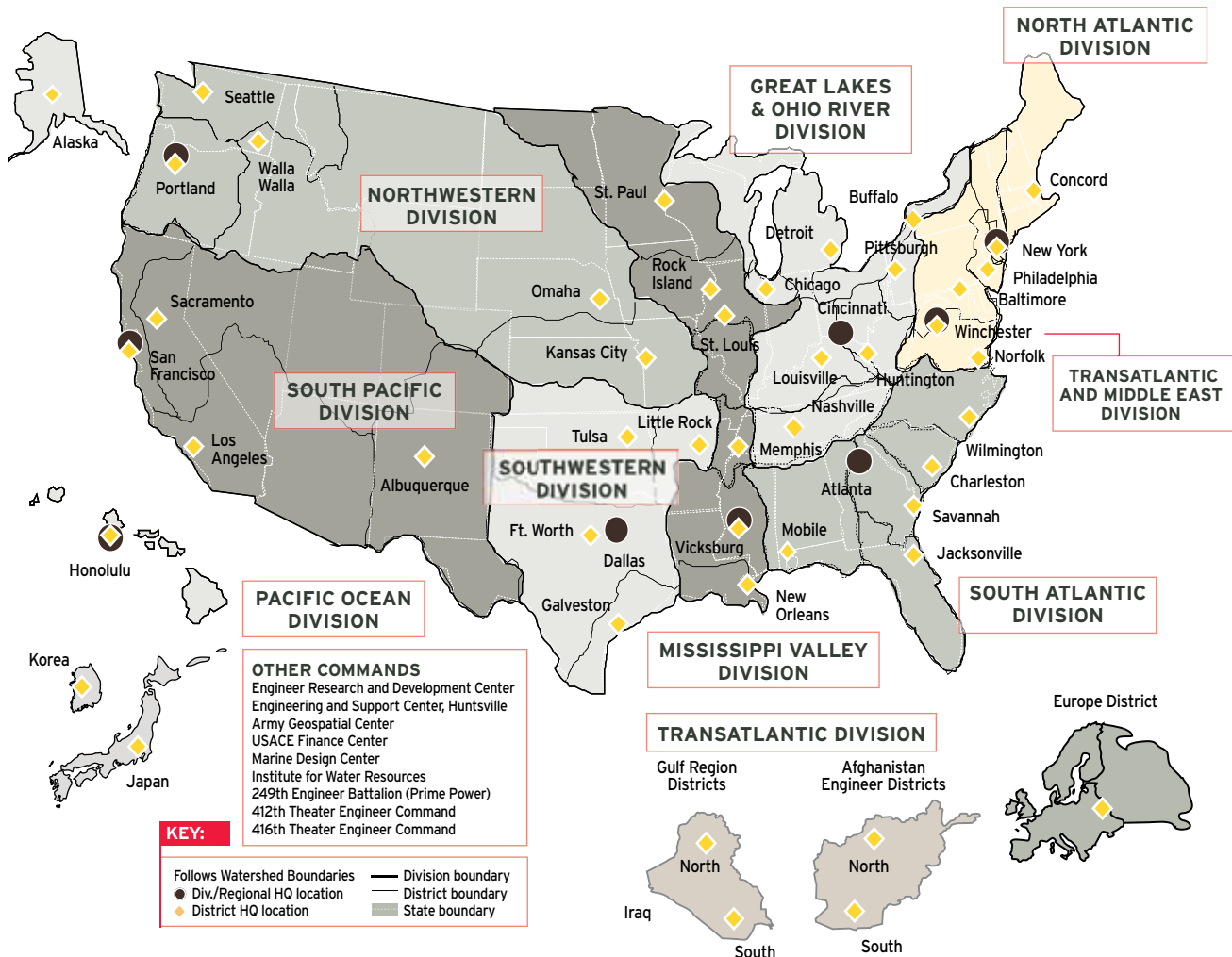
### The Workforce

USACE employs approximately 36,000 people, including 650 military officers and 25,000 civilians who perform Civil Works duties. It is funded through the Energy and Water Development appropriation and executes its missions through 8 of its 9 regional divisions and 38 of the Corps' 44 districts; the remaining districts are dedicated solely to military-related missions.

Figure 2 shows the division boundaries, which are defined by watersheds and drainage basins and reflect the water resources nature of the Civil Works' mission. Through its Pacific Ocean and South Atlantic Divisions, USACE also has Civil Works responsibilities in the Territory of American Samoa, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

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

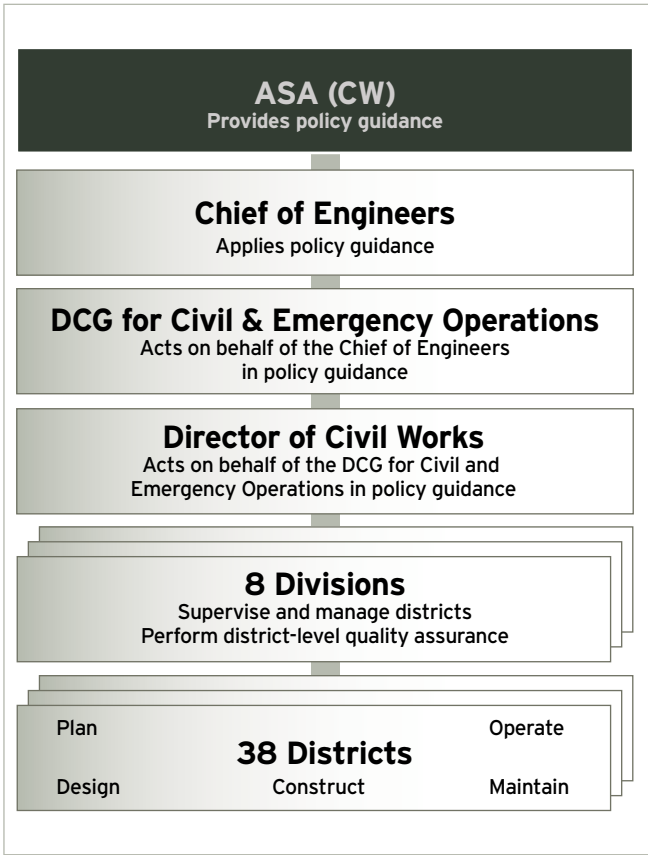
**FIGURE 2. Civil Works Boundaries**



**The Leadership**

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

**FIGURE 3. Civil Works Levels of Authority**



John H. Kerr Dam and Reservoir, Steel Creek Marina. U.S. Corps of Engineers photo by Joshua Davis.



The U.S. Army Corps of Engineers Philadelphia District commander speaks with the Assistant Secretary of the Army for Civil Works, during a tour of Prompton Dam. Photo courtesy of the U.S. Army Corps of Engineers.



Harvard's School of Engineering and Applied Sciences and the Escola Politécnica of the Universidade de São Paulo touring Hurricane & Storm Damage Risk Reduction System (HSDRRS) projects. Photo courtesy of the U.S. Army Corps of Engineers.

## CIVIL WORKS PROGRAM PERFORMANCE RESULTS

The Civil Works Program has a direct impact on America's prosperity, competitiveness, quality of life, and environmental stability. In September 2011, the Corps' leadership published a new strategic plan to provide a framework for enhancing the sustainability of America's resources. The plan's strategic goals support the Corps' strategic direction over the five-year period, FY 2011–FY 2015. Key performance measures, developed in conjunction with and approved by the Office of Management and Budget, are presented below.

### Priority Goals

In support of the Presidential Administration's drive toward a more efficient, effective, and transparent government, federal agencies identified new Priority Goals for FY 2012–FY 2013. The USACE Civil Works Program has chosen to emphasize four goals that support the Administration's broader policy priorities and which, simultaneously, have high and direct public value. These goals are:

**Priority Goal 1 (Aquatic Ecosystem Restoration):** By September 30, 2013, consistent with the federal restoration strategies developed for each unique ecosystem, the Corps will show progress through completion of identified study, design, and construction activities that will contribute to a long-term goal of improved ecological conditions in the Great Lakes Basin, the Everglades, and the Columbia River basin.

**Priority Goal 2 (Flood Risk Management):** Reduce the nation's risk of flooding that places individuals at risk of injury or loss of life and damages property. By September 30, 2013, reduce at least 10 dam safety classification ratings, conduct at least 600 levee risk screenings, and improve the condition rating for at least 15 high-consequence projects, which have either failed or have inadequate condition ratings.

**Priority Goal 3 (Inland Navigation):** Help facilitate commercial navigation by providing safe, reliable, highly cost-effective, and environmentally-sustainable waterborne transportation systems. Through September 30, 2013, limit annual lock closures due to mechanical failures of main lock chambers on high and moderate use waterways to no more than 46 for closures lasting more than 1 day, and no more than 26 for closures lasting more than one week.

**Priority Goal 4 (Hydropower):** Improve the current operating performance and asset reliability of hydropower plants in support of Executive Order 13514. By September 30, 2013, the Corps, the Department of Energy Power Marketing Administrations (PMA), and PMA preference customers will implement sub-agreements that will provide funds to accomplish major maintenance and/or major rehabilitation on existing power plants.

The FY 2012 performance on these Priority Goals is discussed in the relevant business line sections.



***Strategic Goal 1: Assist in Providing Safe and Resilient Communities and Infrastructure.***

**FLOOD RISK MANAGEMENT**

*The primary objectives of the FRM business line follow:*

- Invest in environmentally-sustainable flood and coastal storm damage reduction solutions through the safe operation of flood reduction infrastructure when benefits exceed costs.
- Reduce the nation's risk of flooding, which damages property and places individuals at risk of injury or loss of life.

**Funding History:** The first rows of Table 1 and Table 2 display FRM funding.

**Performance Indicators:** To measure its progress in meeting Goal 1 objectives, the Corps uses performance indicators described below; their measures are shown in Tables 1 and 2.

**Construction measures for Flood Risk Management**

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

**Flood damage prevented.** The estimated annual dollars of property damage avoided through Corps' flood control projects completed during the fiscal year.

**Ten-year moving average.** The 10-year moving average of actual flood-damage reduction benefits attributable to all completed Corps' flood control projects.

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

**Dam safety action class (DSAC) I, II, III dams under study.** The number of DSAC I, II, and III projects under dam safety and seepage/stability study.

**DSAC I, II, III dams with completed studies.** The number of DSAC I, II, and III projects with complete dam safety modification reports.

**DSAC I, II, III dams under remediation.** The number of DSAC I, II, and III projects under remediation construction.

**Performance Results—Construction and Investigations**

Investigations funding was used in FY 2012 to advance 19 continuing feasibility studies and preconstruction, engineering, and designs (PED) work for a total cost of \$45.3 million. A portion of the funding was used to complete four investigations studies. Funds used in FY 2012 continue

to protect the nation from flooding and to provide flood-risk measures and programs that will minimize risk to human life and properties within our local communities.

*Within the investigations program, the following was accomplished:*

- A Chief of Engineer's report for the Ohio River shoreline, Paducah, Kentucky, reconstruction project was signed on May 16, 2012.
- The Encinitas Solana Beach, California project, a shoreline beach erosion project, was scheduled for completion in FY 2012; however, due to unexpected complexities with the environmental documentation and required coordination with resource agencies, this project will now be completed in FY 2013. Significant progress continues to be made on this project, e.g., the alternative formulation briefing, held in September 2012, and the Civil Works Review Board scheduled for May 2013.
- The Edisto Island, South Carolina study was advanced to the alternative milestone using the specific, measurable, attainable, risk-informed, and timely (SMART) planning process, which was initiated in FY 2012 to better utilize the highest performing projects and activities within the Corps' main water resources missions. The SMART planning process provides tools and techniques to implement feasibility studies in a more cost-effective manner.

Construction funding was used to continue work on 55 construction projects and to complete several projects that will provide flood risk reduction to 135,000 people and prevent \$27.5 million dollars in potential damages. Construction funding was also used to continue construction on four high-risk DSAC I dams (Wolf Creek, Center Hill, Clearwater, and Herbert Hoover) and four DSAC II dams (Bluestone, Dover, Canton, and Emsworth). In addition, design work for two DSAC II dams was completed.

Dam Safety and Seepage/Stability Correction Program construction funds were used to continue dam safety modification studies for eight DSAC I dams and nine DSAC II dams, to include the dam safety modification report for Rough River Dam (DSAC II), completed in August 2012.

Additionally, based on completed studies, the Dam Safety Program approved seven DSAC improvements in FY 2012:

- Westville Dam, DSAC Level I to IV, based on a dam safety modification study.
- Proctor Dam, DSAC Level II to III, based on an issue evaluation study.



Garrison Dam releasing water into the Missouri River. North Dakota National Guard photo by Bill Prokopyk.

- Curwensville Dam, DSAC Level II to IV, based on an issue evaluation study.
- Dworshak Dam, DSAC Level II to III, based on an issue evaluation study.
- Tenkiller Dam, DSAC Level III to IV, based on a screening for portfolio risk analysis (SPRA) re-evaluation.
- Arkabutla Dam, DSAC Level II to IV, based on an SPRA re-evaluation.
- DePere Dam, DSAC Level II to IV, based on an SPRA re-evaluation.

In FY 2012, the Corps continued to expand the collaboration of state-level intergovernmental partnerships (Silver Jackets teams). Currently, 35 state teams have been formed and are actively working to address state flood mitigation priorities and actions that will result in coordinated intergovernmental actions to reduce flood risks and losses.

**TABLE 1. Construction & Investigation—Flood Risk Management**

|  | FY 2009 | FY 2010 | FY 2011 | FY 2012 |                 |
|--|---------|---------|---------|---------|-----------------|
|  |         |         |         | Target  | Actual          |
| Expenditures in millions of dollars            | \$1,343 | \$2,767 | \$2,172 | \$909   | \$1,427         |
| Additional people protected in thousands       | 645     | 37      | 35      | 135     | 135             |
| Flood damage prevented in millions of dollars  | \$10.4  | \$28.0  | \$9.8   | \$27.3  | \$27.5          |
| Ten-year moving average in billions of dollars | \$23.1  | \$25.2  | \$37.1  | Note 1  |                 |
| DSAC I, II, III dams under study               | Note 2  | 28      | 75      | 65      | 90 <sup>3</sup> |
| DSAC I, II, III dams with completed studies    |         | 2       | 5       | 7       | 5 <sup>4</sup>  |
| DSAC I, II, III dams under remediation         |         | 8       | 9       | 9       | 10              |

Note 1: Data are collected from actual floods occurring throughout the year and data become available in March following the year of interest. The Corps makes no predictions or targets year-to-year; data are used for trend analysis only.

Note 2: Data collection for this measure began in FY 2010.

Note 3: Early in FY 2012 approximately 50 DSAC II and III study projects were put on hold to focus limited resources on the higher DSAC I and II priority projects. Many of the suspended projects are expected to be resumed as higher priority projects are completed and resources become available in FY 2013.

Note 4: Two additional Dam Safety Modification Report projects (Isabella Dam and Addicks and Barker Dams) were scheduled to be completed by the end of FY 2012 but were delayed due to longer than anticipated review comment resolution and delays in the National Environmental Policy Act (NEPA) process. These reports are now expected to be completed early in FY 2013.

**Operations and maintenance measures for Flood Risk Management**

**Operating projects in zones 21-25 (low risk).** The percentage of operating projects (dams, levees, channels, flood gates) in zones 21-25 of the relative risk ranking matrix.

**Operating projects in zones 1-6 (high risk).** The percentage of operating projects (dams, levees, channels, flood gates) in zones 1-6 of the relative risk ranking matrix.

**Marginal cost of operations.** The marginal cost of operations and maintenance (O&M) for all operating projects (dams, levees, channels, and flood gates) relative to damages prevented; shown as a percentage, i.e., the cost of O&M divided by the cost of damages prevented.



The U.S. Army Corps of Engineers St. Louis District dewatered Wappapello Lake's Dam during the periodic inspection of the Dam and Gatehouse control structure. Photo courtesy of the U.S. Army Corps of Engineers.

The following three measures comprise the FY 2012-2013 FRM priority goal:

**Number of dam safety classification ratings reduced.** The number of dam safety risk classification improvements on Corps-operated dams resulting from risk assessment analysis and safety improvements implemented.

**Levee risk screenings conducted.** The number of portfolio risk screening and periodic inspections conducted on levee systems with the Corps Levee Safety Program.

**High-consequence project condition rating improvement.** The number of Corps projects with an improved overall project condition rating resulting from maintenance work completed.

### Performance Results—Operations and Maintenance

The FY 2012 O&M funding supported operation of 396 FRM projects, including the Mississippi River and Tributary system, in order to maintain basic operations for flood damage reduction purposes as well as the integrity of project objective and function. Additionally, funding was used for the following condition-improvement maintenance activities: (1) seven projects with failing and inadequate condition ratings and high consequences; (2) levee safety inspections of non-federally operated projects to assess proper project condition and operations; and, (3) critical dam safety interim risk reduction measures on high-risk dams.

### Priority Goal

The FRM business line Priority Goal is to reduce the nation's risk of flooding, which poses a risk to individuals and property. The goal target is to improve at least 10 DSAC ratings, conduct at least 600 periodic levee inspections or levee risk screenings, and improve the condition rating for at least 13 high-consequence projects that have failed or received inadequate condition ratings by September 30, 2013. As of September 30, 2012, 326 levee safety periodic inspections and levee risk screenings have been completed; DSAC improvements were made to seven dams. In addition, maintenance work to improve the condition rating on the 13 high-consequence projects is on schedule to achieve or exceed performance goal targets. These three FRM Priority Goal measures are shown in bold in Table 2.

**TABLE 2. Operations and Maintenance—Flood Risk Management**

|  | FY 2009       | FY 2010 | FY 2011 | FY 2012    |            |
|--|---------------|---------|---------|------------|------------|
|  |               |         |         | Target     | Actual     |
| Expenditures in millions of dollars                        | \$858         | \$887   | \$855   | \$516      | \$1,087    |
| Operating projects in zones 21-25 (low risk)               | 50            | 80      | 33      | 24         | 28         |
| Operating projects in zones 1-6 (high risk)                | 74            | 85      | 136     | 43         | 90         |
| Marginal cost of operations                                | 3.7%          | 2.3%    | 3.1%    | 2.50%      | 2.50%      |
| <b>Number of dam safety classification ratings reduced</b> |               |         |         | <b>5</b>   | <b>7</b>   |
| <b>Levee risk screenings conducted</b>                     | <b>Note 1</b> |         |         | <b>300</b> | <b>326</b> |
| <b>High-consequence projects improved condition rating</b> |               |         |         | <b>4</b>   | <b>5</b>   |

Note 1: FY 2012 is the first year of reporting on this measure.

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## EMERGENCY MANAGEMENT

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

- Attain and maintain a high, consistent state of preparedness.
- Provide a rapid, effective, and efficient all-hazards response.
- Ensure effective and efficient long-term recovery operations.

**Funding History:** The first row of Table 3 indicates funding for emergency preparedness and response and recovery operations.

**Performance Indicators:** The four primary measures listed in Table 3 assist in determining progress toward meeting the Corps' emergency management objectives. Indicators are explained below.

1. **Planning response team readiness.** The Corps established designated planning and response teams (PRTs) organized to provide rapid emergency response within a specific mission area. This measure is calculated as a percentage of time during the fiscal year during which PRTs are fully staffed, trained, and ready to deploy.
2. **Project inspection performance.** The Corps performs inspections of flood control works operated and maintained by public sponsors to ensure and assess their O&M condition. This measure is determined by the percentage of scheduled inspections completed during the fiscal year.
3. **Damaged project restoration.** The Corps repairs flood control projects damaged by floods or storms under authority of P.L. 84-99. This measure is the percentage of projects damaged during a fiscal year and repaired prior to the next flood season.
4. **Project condition ratings.** Under the Corps' Rehabilitation and Inspection Program, inspected projects are given condition ratings characterizing their state of maintenance. This measure is the percentage of total projects inspected during the fiscal year that received a rating of at least "Minimally Acceptable."

### Performance Results

The flooding in the Missouri River Basin continued into early FY 2012. Additional emergency response events included the Kootenai River, Hurricane Irene, Hurricane Debby, and Hurricane Isaac. Northwestern and northeastern storms resulted in technical or direct assistance in Kansas, Louisiana, Minnesota, Missouri, Mississippi, Montana, Idaho, Oregon, Nebraska, Tennessee, Washington, Wisconsin, Maine, and New York.

In FY 2012, the Corps' flood response provided more than 300 super sacks and over 300 million sand bags, allocating \$7.1 million in flood control and coastal emergencies funding, and accepting \$372 million in FEMA mission assignments under the National Response Framework. The drastic effects of slow-moving Hurricane Isaac tested the \$14 billion Hurricane Storm Damage Risk Reduction System in New Orleans, closing all major structures. Unlike FY 2011, significant drought conditions persisted throughout the Midwest, lower and middle parts of the Mississippi Valley, and the Central Plains.

**TABLE 3. Emergency Management Indicators**

|                                     | FY 2012              |                      |                      |                     |                     |
|-------------------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
|                                     | FY 2009 <sup>1</sup> | FY 2010 <sup>1</sup> | FY 2011 <sup>1</sup> | Target <sup>2</sup> | Actual <sup>1</sup> |
| Expenditures in millions of dollars | \$1,405              | \$1,515              | \$1,857              | \$119               | \$1,165             |
| Planning response team readiness    | 83%                  | 87%                  | 96%                  | 78%                 | 96%                 |
| Project inspection performance      | 67%                  | 77%                  | 70%                  | 70%                 | 86%                 |
| Damaged project restoration         | 14%                  | 61%                  | 27%                  | 55%                 | 68%                 |
| Project condition ratings           | 79%                  | 67%                  | 89%                  | 63%                 | 91%                 |

*Note 1: Additional funding was provided in supplemental appropriations to repair projects damaged by coastal storm and flooding.*

*Note 2: The funding target for FY 2012 included \$34 million to fund preparedness activities and \$85 million to repair damaged projects.*

**Strategic Goal 2: Help Facilitate Commercial Navigation in an Environmentally- and Economically-Sustainable Fashion**

**NAVIGATION**

*The primary objectives of the Navigation business line are to:*

- Invest in navigation infrastructure that is fully capable of supporting maritime requirements in environmentally-sustainable ways when economically justified.
- Improve the efficiency and effectiveness of existing Corps' water resource projects by maintaining justified levels of service to commercial traffic of high-use infrastructure, e.g., waterways, harbors, and channels.
- Address the O&M backlog by funding high-priority O&M projects.

**Funding History:** The first rows of Table 4 and Table 5 indicate Navigation funding.

**Performance Indicators:** To measure progress in meeting Goal 2 objectives, the Corps uses performance indicators. These indicators relate to activities for inland and intracoastal waterways, coastal ports, and harbors as well as to the efficiency of the overall navigation system. The indicators are described below and their measures are shown in Table 4 and Table 5.

**Construction measures for the navigation system**

*In FY 2008, the Corps instituted the following performance measures:*

- **High-return investments.** The percentage of funding to rehabilitate, construct, or expand projects that are allocated to high-return investments. High-return investment projects are those with a benefit-to-cost ratio (BCR) of 3.0 or greater.
- **Percentage of reports recommending projects reflecting watershed principles.** The percentage of

Chief of Engineers' reports recommending projects for authorization that meet criteria for industry-accepted watershed principles. This measure expresses a long-term goal and assesses progress achieved in watershed-based planning.

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



The pink tints of the rising sun cast a warm light on an otherwise chilly scene as the *Paul R. Tregurtha* eases into the Poe Lock. U.S. Army Corps of Engineers photo by Michelle Hill.



The Western tie-in project along the west bank of the Mississippi River. Photo courtesy of the U.S. Army Corps of Engineers.

### Performance Results - Construction and Investigations

Investigations funds of \$18 million were used at various locations throughout the nation to continue the study and design of navigation improvements, exemplified by (1) replacing locks on the Mississippi and Ohio Rivers, Gulf Intracoastal Waterway, and Illinois Waterway; (2) deepening of key ports, e.g., Charleston, Savannah, Miami, and Freeport; and, (3) increasing economic benefits, reducing transportation costs, and improving the overall reliability of the navigation infrastructure. Chief of Engineers' reports were completed for the Savannah, Georgia Harbor Expansion project to deepen the channels from 42 to 47 feet and the Jacksonville, Florida Mile Point project to improve navigation conditions for deep-draft vessels in the St. Johns River.

Construction funds of \$282 million for inland waterways were used to complete major rehabilitation projects: (1) Markland Lock and Dam (L&D); (2) Ohio River main lock chamber; (3) continued major rehabilitation of L&D 27, Mississippi River, Lockport L&D, Illinois Waterway, and Emsworth L&D, Ohio River; (4) continued construction of replacement L&Ds, such as Olmsted L&D, Ohio River and L&Ds 2, 3, and 4, Monongahela River. Construction of Kentucky Lock and Chickamauga Lock on the Tennessee River continued using previously appropriated Inland Waterways Trust Fund (IWTF), ARRA, and Construction funds. Approximately 97 percent of the funds were programmed for high-return investments.

Funding for inland waterway projects remains constrained by the low balance in the IWTF and collected fuel-tax revenues, which fund 50 percent of the costs for inland projects on the fuel-taxed waterways. As the Corps continues to assess the condition of the nation's dams, it must address human safety and navigation reliability issues discovered. These dam safety projects are given funding priority, and together with the constrained IWTF, necessitate deferring or delaying many critical projects.

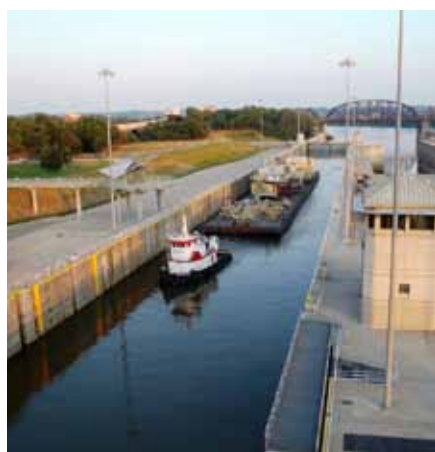
Construction funds of \$233 million for coastal navigation projects were used for (1) major channel-deepening improvement projects, such as Long Beach Harbor, California, New York and New Jersey Harbor, Delaware River Main Channel (Delaware, New York, Pennsylvania), and Wilmington Harbor, North Carolina; (2) construction of dredged material and beneficial use placement sites, including the Craney Island site for Norfolk Harbor; and completion of the Indiana Harbor Confined Placement Facility, which will provide an estimated \$21 million in benefits; (3) mitigation of shoreline damages caused by navigation projects; and, (4) completion of construction at Douglas Harbor, Alaska and Northwest Tennessee Harbor, Lake County, Tennessee, which, together, will provide \$2.8 million in benefits, and initiation of navigation improvements at Sitka Harbor, Alaska.

**TABLE 4. Navigation Construction and Investigation Performance Indicators**

|                                     |   |         |         |         | FY 2012 |        |
|-------------------------------------|---|---------|---------|---------|---------|--------|
|                                     |   | FY 2009 | FY 2010 | FY 2011 | Target  | Actual |
| Expenditures in millions of dollars |   | \$597   | \$753   | \$654   | \$377   | \$533  |
| Inland Waterways                    | Percentage of funds to high-return investments (BCR > 3)  | 42%     | 76%     | 94%     | 97%     | 97%    |
| Coastal Ports and Harbors           | Percentage of reports recommending projects reflecting watershed principles                                       | 0%      | Note 1  |         | 100%    | 100%   |
|                                     | Average annual benefits attributable to PEDs completed in current FY in millions of dollars                       | \$7.9   | Note 2  |         |         |        |
|                                     | Average annual benefits realized by construction projects completed in current fiscal year in millions of dollars | \$8.3   | \$44.7  | \$3.6   | \$20.0  | \$23.8 |

Note 1: No Chief of Engineers reports or PEDs were completed in FY 2010 or FY 2011.

Note 2: No PEDs were completed in FY 2010, FY 2011, or FY 2012.



A tugboat pulls a barge through the chamber at McAlpine Locks and Dam. U.S. Army Corps of Engineers photo by Charles Gauld.

### Operations and maintenance measures for inland and intracoastal waterways

**Ton-miles.** The sum total of movement of cargo on a specific waterway; this measure is a roll-up of tons of cargo transported by a vessel multiplied by the miles that vessel traveled on the particular inland or intracoastal waterway. Although there is no specific Corps generated target, this indicator is used for trend analysis.

**Segment availability.** The number of hours, in excess of 24, that mechanical-driven failure or shoaling results in the closure of all, or part of, a high- or moderate-commercial-use segment. The measure includes only failures on the main chamber of a lock (rather than an auxiliary chamber) and on shoaling due to inadequate dredging (rather than low water levels from droughts or channels closed due to floods). It also tracks closures of more than one week. The two measures that were developed for the Navigation Priority Goal—preventable lock closures over 1 day, and over 7 days—are proxies for this measure.

**Total funds expended per segment ton-mile (five-year rolling average).** Total O&M funds expended per segment ton-mile averaged over a five-year period, including major rehabilitations.

**Efficiency measure.** This measures the O&M costs per ton of cargo shipped. It assesses the efficiency of the commercial navigation system at a particular coastal port or harbor.

### Operations and maintenance measures for coastal ports and harbors, including major repairs

**Tons of cargo.** Total sum of cargo in tons moved in and out of coastal ports and harbor systems. This measure indicates system use; data collected are for the purpose of trend analysis. No specific target is generated by the Corps.

**Channel availability, high-use projects.** This represents the percentage of time that high commercial traffic navigation channels are available to commercial users. There are a total of 59 high-use projects, defined as those that pass 10 million or more tons of cargo per year.

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### Performance Results

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

### Performance Results—Operations and Maintenance

The Operation and Maintenance and the Mississippi River and Tributaries appropriations of \$1.66 billion were used to fund (1) continued operation and maintenance of 220 locks at 177 locations and, (2) maintenance dredging of critical and high commercial-use reaches of the 12,000 miles of inland and intracoastal waterways. Not all waterways were maintained at authorized dimensions. Many locks and dams received only the most critically-needed maintenance; some locks, dams, and waterways were only maintained in caretaker status. The overall condition of the inland and intracoastal waterways is expected to decline, and projects will continue to experience lock closures due to mechanical breakdowns and failures.

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

Supplemental appropriations were used to perform additional maintenance of inland and intracoastal waterways and dredging and maintenance of coastal ports and harbors in order to restore projects damaged by flooding to pre-storm conditions. These funds will help (1) improve the overall condition of the inland and intracoastal waterways, (2) reduce lock closures due to mechanical breakdowns and failures, and (3) improve the conditions of coastal ports and harbors.



**Priority Goal**

The measures, targets, and results for the Inland Navigation Priority Goal are shown in bold typeface in the table below. The targets are based on the median annual number of closures over the previous five years. The instances and hours of scheduled and unscheduled lock closures due to mechanical failures have been increasing since FY 2000. The Corps anticipates lock

closures will continue to increase over the next several years and it further anticipates that the five-year median target will increase accordingly. The Corps is prioritizing its annual funding and is completing repairs and maintenance work on locks with Recovery Act investments, which will help arrest the increase in lock closures. These factors, together with anticipated higher targets, will increase our ability to achieve our Priority Goal.

**TABLE 5. Navigation, Operations and Maintenance Activities Performance Indicators**

|                           |  | FY 2012  |           |           |           |           |           |
|---------------------------|--|--|-----------|-----------|-----------|-----------|-----------|
|                           |  | FY 2009  | FY 2010   | FY 2011   | Target    | Actual    |           |
| Inland waterways          | Expenditures in millions of dollars                                    | \$1,653  | \$2,281   | \$1,878   | \$1,505   | \$1,662   |           |
|                           | Segment availability—closures over 24 hours in thousands of hours      | 11.1   | 19.6      | 23.1      | Note 1    | 16.5      |           |
|                           | Total O&M funds expended per segment ton-mile (5-year rolling average) | \$0.0021                                       | \$0.0024  | \$0.0025  | \$0.0025  | Note 2    |           |
|                           | Ton-miles in billions of ton—miles by fiscal year                      | 222  | 261       | 242       | Note 1    |           |           |
|                           | Efficiency—cost per ton  | \$0.83   | \$1.75    | \$1.26    | \$1.50    |           |           |
|                           |  | <b>Preventable lock closures over 24 hours</b> | <b>37</b> | <b>61</b> | <b>50</b> | <b>46</b> | <b>39</b> |
|                           |  | <b>Preventable lock closures over 7 days</b>   | <b>19</b> | <b>37</b> | <b>26</b> | <b>26</b> | <b>19</b> |
| Coastal ports and harbors | Tons of cargo in billions of tons                                      | 1.807  | 1.856     | 1.914     | Note 1    | Note 2    |           |
|                           | Channel availability, high-use projects                                | 50%  | 38%       | Note 3    | 40%       |           |           |

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

Note 2: Waterborne Commerce Statistics Center data for FY 2012 will not be available until late spring 2013.

Note 3: Data unavailable at time of printing.

**Strategic Goal 3: Restore Degraded Aquatic Ecosystems and Prevent Future Environmental Losses**

**AQUATIC ECOSYSTEM RESTORATION**

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

**Funding History:** The first row of Table 6 displays the funding for aquatic ecosystem restoration.

**Performance Indicators:** The Corps has established two indicators to assess progress in meeting this objective. Data are shown in Table 6.

Acres of habitat restored, created, improved, or protected annually. The number of acres of habitat restored in degraded ecosystems.

Number of projects or separate elements physically completed. This represents the actual number of projects or separate elements physically completed in the current fiscal year.

**Performance Results**

Substantial funding was provided to continue efforts in four of the five administration priority ecosystems. This includes (1) implementation of Everglades restoration efforts, (2) modifications to the Chicago Sanitary and Ship Canal to prohibit Asian Carp from entering the Great Lakes from the Mississippi River, (3) continued restoration of Poplar Island, Maryland using dredged material from the Baltimore Channel, and, (4) substantial funding of studies in the Louisiana Coastal Area Program. Among the Corps' priorities is the multimillion dollar effort directed towards meeting the requirements of biological opinions affecting various projects on the Columbia River system and the Missouri River. Other projects receiving construction funding include restoration of Hamilton Airfield Wetlands, California, Napa Salt Marsh, California, and the Upper Mississippi River. Fifteen ecosystem restoration projects were physically completed in FY 2012, including two juvenile fish bypass system outfall relocations as part of the Columbia River Fish Mitigation Program. The other 13 projects restored 1,221 acres. Five of the completed projects on the Missouri River provide restored habitat for endangered pallid sturgeon, least terns, and piping plover as well as other native fish. Three projects were completed in the Great Lakes including one sea lamprey

barrier. Four coastal projects and one inland wetland restoration project were also completed. The Great Lakes Mississippi River Inter-basin Study was one among several funded. Six Chief of Engineer’s reports were approved in FY 2012, including Marsh Lake, Minnesota, two coastal Louisiana projects, and three projects in the Everglades program.

**Priority Goal**

The FY 2012-2013 aquatic ecosystem restoration Priority Goal is a milestone-only goal focused on three national

priority ecosystems: the Great Lakes, the Everglades, and the Columbia River.

The goal consists of a total of 23 milestones, 11 of which were scheduled in FY 2012; 9 of which completed. Among the projects/products completed were the Great Lakes Aquatic Nuisance Species Control Technologies Report; submission of the Comprehensive Everglades Restoration Plan C-111 Spreader Canal report to Congress for authorization, and the Columbia River Basin Caspian Tern relocation project. However, indications are that additional work will need to be done to meet the tern reduction target.

**TABLE 6. Aquatic Ecosystem Restoration Indicators**

|   | FY 2012 |         |         |        |        |
|---|---------|---------|---------|--------|--------|
|   | FY 2009 | FY 2010 | FY 2011 | Target | Actual |
| Expenditures in millions of dollars                                 | \$492   | \$531   | \$496   | \$524  | \$581  |
| Acres of habitat restored, created, improved, or protected (annual) | 10,480  | 4,540   | 12,200  | 1,600  | 1,221  |
| Number of projects/separable elements physically completing         | 14      | 17      | 28      | 20     | 15     |



Osprey on Allatoona Lake. Photo by Brad J. Keshlear.

**REGULATORY**

**Objective:** To execute the Corps’ Regulatory mission in a manner that protects the aquatic environment while allowing reasonable development through fair and balanced decision making.

**Funding History:** The first row of Table 7 displays the funding for the Regulatory business line.

**Performance Indicators:** Table 7 lists eight measures that are performance indicators in determining progress in meeting this objective.

**Individual permit compliance.** The percentage of all individual permits on which the Corps completed an initial compliance inspection. Measures permits issued during the previous fiscal year when authorized work began.

**General permit compliance.** The percentage of all general permits on which the Corps completed an initial compliance inspection. Measures the permits issued during the previous fiscal year when authorized work began.

**Mitigation site compliance.** The percentage of field compliance inspections completed on active mitigation sites each fiscal year. Active mitigation sites are those authorized and monitored through the permit process, but which have not met final approval under the permit special conditions.

**Mitigation inspections or audits.** This represents the percentage of compliance inspections or audits completed on active mitigation banks and in-lieu-of-fee programs.

**Resolution of noncompliance issues.** The percentage of noncompliance issues identified during the fiscal year in which the Corps reached resolution. This addresses noncompliance with permit conditions.

**Resolution of enforcement actions.** The percentage of pending enforcement actions, i.e., unauthorized activities identified during the fiscal year in which the Corps reached resolution.

**General permit decisions.** The percentage of general permit application decisions made within 60 days.

**Individual permits.** The percentage of general individual permit application decisions made within 120 days. This standard does not include individual permits with formal Endangered Species Act (ESA) consultations.

### Performance Results

In FY 2012, the Corps' Regulatory business line exceeded the performance targets. As noted below, five of the eight performance indicators are compliance-based in nature and track compliance at permit and mitigation sites. One of the other three indicators pertains to enforcement, and the remaining two are related to processing time goals for individual and general permits. Regulatory funds were used to maintain similar levels

of staffing across the nation. This business line continues to seek out advancements that can be made by leveraging the best in available technology and science. Its goal is to place the necessary tools and technology in the hands of the field staff so that they may continue to provide exceptional service to stakeholders while meeting the mission—protecting the nation's aquatic environment.

Despite reduced residential and commercial development pressures, this business line has experienced an influx of permit applications of increasing complexity. The national priority to develop alternative energy sources—wind, solar, hydroelectric as well as traditional energy resources (coal, oil, and gas)—involves multiple regulatory agencies and associated reviews/approvals, which often generate substantial public interest.

The Regulatory business line will continue to be energy-focused as development of energy resources frequently affects aquatic resources. Districts continue to fortify their compliance programs to ensure that activities are properly constructed and appropriately operated, and that the effectiveness of required mitigations is well documented. Districts target their efforts toward maximizing performance both locally and regionally, with the goal of executing our Regulatory mission in a clear and consistent manner for the American public.

**TABLE 7. Regulatory Indicators**

|   | FY 2012 |         |         |        |        |
|---|---------|---------|---------|--------|--------|
|   | FY 2009 | FY 2010 | FY 2011 | Target | Actual |
| Expenditures in millions of dollars   | \$190   | \$209   | \$196   | \$193  | \$191  |
| Percentage of compliance inspections on individual permits                                    | 25%     | 26%     | 27%     | 10%    | 24%    |
| Percentage of compliance inspections on general permits                                       | 11%     | 13%     | 12%     | 5%     | 13%    |
| Percentage of active mitigation sites inspected   | 37%     | 10%     | 11%     | 5%     | 12%    |
| Percentage of compliance inspections on active mitigation banks                               | 44%     | 34%     | 37%     | 20%    | 35%    |
| Percentage of resolution on noncompliance with permit conditions or mitigation requirements   | 38%     | 40%     | 40%     | 20%    | 39%    |
| Percentage of resolution on pending enforcement actions                                       | 37%     | 38%     | 37%     | 20%    | 39%    |
| Percentage of general permit application decisions made within 60 days                        | 88%     | 92%     | 91%     | 75%    | 89%    |
| Percentage of standard permits and letter of permission permit decisions made within 120 days | 64%     | 67%     | 71%     | 50%    | 69%    |

### ENVIRONMENTAL REMEDIATION (FORMERLY UTILIZED SITES REMEDIAL ACTION PROGRAM)

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

**Funding History:** The first row of Table 8 displays funding for environmental remediation.

**Performance Indicators:** The measures listed in Table 8 serve as indicators to help Corps' personnel determine progress in meeting this objective. In addition to the indicators explained below, the Corps has begun to measure both the cumulative percentage of FUSRAP funding expended on actual cleanup activities, as well as the total cost of disposing of contaminated material.

**Number of records of decision (ROD) signed.** As studies are completed and the best alternatives for cleanup activities are decided, the number of RODs increases. A final ROD establishes the final cleanup standard which controls the actual estimate of the remaining environmental liability for each site.

**Number of remedial investigations (RI) completed.** An RI establishes the baseline risk assessment whereby the level of risk to human health and the environment is identified.

**Cubic yardage of contaminated material disposed.** Target-soil amounts are dependent on previous year funding and scheduled activities.

**Individual properties returned to beneficial use.** The number of properties released for general use following remediation.

**Number of remedies in place or response complete.** As select portions of sites or complete sites meet their remedial action goals, risks to human health and the environment are reduced to within acceptable levels. Properties may be used within a community without fear of increased cancer risk or further degradation of the environment.

**Percentage of funding expended on cleanup.** The cumulative percentage of FUSRAP funding expended on cleanup activities rather than on studies. The baseline for this measure was established in FY 2004; results are reported every three years.

**Remediation of contaminated material.** The cost to dispose of contaminated material as measured in cubic yards. Data for this measure will not be reported again until FY 2013.

**Performance Results**

Fiscal Year 2012 funds were used to continue remedial activities at the Linde site in Towanda, New York; the Maywood site in New Jersey; the Shallow Land Disposal Area in Pennsylvania; properties in the vicinity of the St. Louis Airport in Missouri; the Iowa Army Ammunition Plant, Iowa; the Hazelwood Interim Storage /Latty Avenue site in St. Louis, Missouri; and W.R. Grace sites in Baltimore, Maryland.

The scheduled feasibility study for the operable unit at the Harshaw site in Cleveland, Ohio was completed. A ROD was signed for the Maywood, New Jersey Groundwater operable unit. A RI and Baseline Risk Assessment Report for the Inaccessible Soil Operable Unit at the St. Louis Downtown Site (Missouri) was completed. Approximately 97,529 cubic yards of contaminated material was removed—exceeding the FY 2012 target but significantly less than in FY 2011 when funding was reduced. Eleven (121 cumulative) properties were returned to beneficial use. Remedial investigation activities continued at all other FUSRAP sites.

The FUSRAP met or exceeded all seven of its FY 2012 performance indicators. This business line continues to use the Monte Carlo approach to cost and schedule risk analysis, a methodology that continues to improve the Corps’ performance and ability to repair past environmental damage.

**TABLE 8. Remedial Action Indicators**

|   |         |         |         | FY 2012 |        |
|---|---------|---------|---------|---------|--------|
|   | FY 2009 | FY 2010 | FY 2011 | Target  | Actual |
| Expenditures in millions of dollars                         | \$127   | \$166   | \$181   | \$109   | \$137  |
| Number of RODs signed                                       | 1       | 1       | 3       | 1       | 1      |
| Remedial investigations completed                           | 1       | 2       | 0       | 1       | 1      |
| Contaminated material removed in thousand cubic yards       | 143     | 212     | 129     | 70      | 97     |
| Individual properties returned to beneficial use            | 61      | 92      | 110     | 121     | 121    |
| Remedies in place or response complete                      | 0       | 1       | 2       | 0       | 0      |
| Percentage of funding expended on cleanup                   | Note 1  |         | 87%     | Note 1  |        |
| Cost of remediation of contaminated material per cubic yard | \$496   | Note 2  |         |         |        |

Note 1: This measure is cumulative; data is reported every third year.  
 Note 2: Results for this measure will not be reported again until FY 2013.

**ENVIRONMENTAL STEWARDSHIP**

The primary objectives of the Environmental Stewardship business line are to:

- ⇒ Improve the efficiency and effectiveness of existing Corps water resources projects.

- ⇒ Ensure healthy and sustainable lands and waters and associated natural resources on Corps’ lands in public trust to support multiple purposes.
- ⇒ Protect, preserve, and restore significant ecological resources in accordance with master plans.

- Ensure the operation of all civil works facilities and management of associated land—including out-granted land—complies with the environmental requirements of relevant federal, state, and local laws and regulations.
- Meet the mitigation requirements of authorizing legislation or applicable Corps authorization decision documents.



Showing off a solar panel at Melvern Lake. This project was the first sustainability project to be completed for the Corps in FY 2012. U.S. Army Corps of Engineers photo by Diana McCoy.



Sassafras Tree at Caesar Creek Lake. Photo by Steven Lee.

**Funding History:** The first row of Table 9 reflects funding for environmental stewardship

**Performance Indicators:** To measure success in attaining the above objectives, the Corps developed seven performance indicators; data may be found in Table 9.

**Mitigation compliance.** The percentage of acres of designated Corps-administered mitigation lands that meet mitigation requirements, divided by the total number of acres of designated Corps-administered mitigation lands. This measure can also be the number of pounds of fish (or the number of individual fish) produced in a mitigation hatchery, divided by the number of fish required to be produced at a mitigation hatchery in order to meet the mitigation requirement.

**Endangered species protection.** The percentage of Corps operating projects with ESA responsibilities that meet those responsibilities.

**Cultural resources management.** The percentage of operating projects meeting federally-mandated cultural resource management responsibilities in relation to the number of projects with such responsibilities.

**Healthy and sustainable lands and waters.** The number of Corps fee-owned acres classified in a sustainable condition, divided by the total number of Corps fee-owned acres. “Sustainable” is defined as being healthy and viable, not significantly impacted by any unmanageable factors, and not requiring intensive management to maintain health. The acreage also meets operational goals and objectives established in applicable management documents.

**Level-one natural resources inventory completion index.** This index measures the Corps’ efforts in completing basic, level-one natural resource inventories required by USACE Environmental Regulation 1130-2-540, *Environmental Stewardship Operations and Maintenance Policies*. These inventories are necessary to effect sound resource management decisions and strategy development. The percentage of acres, for which level-one inventories are necessary and completed, is used to evaluate the relative performance in this measure.

**Master plan completion.** A master plan is completed, per regulation, to foster an efficient and cost-effective project for natural resources, cultural resources, and recreational management programs. This measure demonstrates the Corps’ commitment to fully integrate environmental stewardship in the management of operating projects. The measure is expressed as a percentage derived by dividing the number of required master plans in compliance with regulation by the total number of required master plans.

20  
12



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

**Performance Results**

Performance levels for several measures in the table, below, are depressed and unable to improve substantially due to Environmental Stewardship’s relatively flat budget trend as it simultaneously confronts increasing environmental commitments and challenges. It should be noted that, typically, 50 percent of the Environmental Stewardship program budget has been dedicated to critical annual commitments in support of endangered species, mitigation, and cultural resources which are related to the impacts of overall Corps water resource missions. The remaining 50 percent of Environmental Stewardship’s budget covers natural resources responsibilities which encompass essential, day-to-day natural and cultural resources protection on 470 Environmental Stewardship projects spanning more than 12 million acres.

As a result, only the highest priority mitigation activities have been completed, as evidenced by a relatively stable or, in some instances, a declining performance history. Constrained budgets have permitted the Corps to meet only the highest priorities and most immediate responsibilities under the ESA. In addition, the new infrastructure designed to meet biological opinion requirements is projected to increase the Corps’ funding challenge as it strives to address ESA needs.

Performance results in the level one natural resources inventory have increased over the past five years, primarily due to leveraging both technology and training. The number of master plans updated in accordance with current regulations, remain fairly low, which, in turn, hampers the ability to adequately plan for, and adjust to, increasing pressures by rising population growth and land use demands.

Under the “healthy and sustainable” performance measure, the basic protection of land and water resources is expected to continue to decrease. Threats from invasive species, exotic pests, development, and population growth, combined with the increase in funding needs of environmental requirements, will continue a path of declining resource health across Corps projects.

**TABLE 9. Environmental Stewardship Indicators**

|   | FY 2012 |         |         |        |                     |
|---|---------|---------|---------|--------|---------------------|
|   | FY 2009 | FY 2010 | FY 2011 | Target | Actual <sup>1</sup> |
| Expenditures in millions of dollars             | \$150   | \$212   | \$191   | \$97   | \$57                |
| Mitigation compliance                           | 100%    | 76%     | 79%     | 69%    | 69%                 |
| Endangered species protection                   | 100%    | 61%     | 64%     | 39%    | 54%                 |
| Cultural resource management                    | 67%     | 53%     | 55%     | 38%    | 38%                 |
| Healthy and sustainable acreage                 | 38%     | 45%     | 65%     | 60%    | 54%                 |
| Level-one natural resources inventory completed | 59%     | 74%     | 80%     | 82%    | 84%                 |
| Master plans completed                          | 27%     | 28%     | 32%     | 33%    | 34%                 |
| Efficiency in cents-on-the-dollar               | \$0.11  | \$ 0.17 | \$0.15  | Note 2 | \$0.18              |

Note 1: FY 2012 figures are estimates; actual results will be available in December 2012.

Note 2: In order to ensure that revenue generation is not emphasized at the expense of sustainability, the Corps does not set annual efficiency targets. This indicator is used for trend analysis.

*Strategic Goal 4: Implement Effective, Reliable, and Adaptive Life-Cycle Performance Management of Infrastructure*

**HYDROPOWER**

**Objective:** To improve the efficiency and effectiveness of existing Corps water resource projects. The Corps seeks to maintain peak availability and reliability of hydroelectric power-generation at multipurpose reservoir projects.

**Funding History:** The first row of Table 10 indicates capital improvements and O&M expenditures for the Hydropower business line over the past three-year period.

**Performance Indicator:** Table 10 displays the performance indicator results and targets for the year.

**Percentage of time units are available to produce power.** The amount of time during a given year that hydroelectric generating units are available to the PMA interconnected system.

**Percentage of time available during periods of peak demand.** The amount of time during designated peak demand periods that hydroelectric generating units are available to the PMA's interconnected system.

**Percentage of forced outages.** The percentage of time generating units are in an unscheduled or unplanned outage status. The lower the forced outage rate, the more reliable and less expensive the electrical power provided to the customer.

**Electrical reliability standards met.** The percentage of Federal Energy Regulatory Commission (FERC)-approved electric reliability standards that are met or exceeded. The FERC has no direct jurisdiction over the Corps' hydropower production; however, the Corps takes reliability seriously and has voluntarily chosen to comply with all applicable FERC electric reliability standards, subject to the availability of resources.

*The following measures were developed in FY 2010 and FY 2011:*

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

**Sub-Agreements signed.** Under their existing master agreements, the major subordinate commands sign sub-agreements with their regional Department of Energy PMA and preference customers to provide customer funding for specific maintenance, rehabilitation, or modernization activities at Corps hydroelectric facilities.

**Performance Results**

Continued constraints have resulted in diminished federal funding for capital and other non-routine work, as well as for routine O&M. However, some capital work and other non-routine maintenance work have been accomplished through the implementation of agreements, and associated sub-agreements, with the regional Department of Energy PMAs and their preference customers.

The length of time hydropower generating units were actually available to produce power increased incrementally when compared to the previous year; however, there was a concurrent decrease in availability during peak-demand periods. The increase resulted, in part, from completion of some scheduled equipment outages for capital investments. The industry standards for availability and peak availability are 98 and 95 percent, respectively. Table 10 shows FY 2012 business line performance for availability and peak availability to be below the industry standard at approximately 86 and 88 percentage points, respectively, availability being 1 percentage point above the FY 2012 target while peak availability is approximately 1 percentage point below the FY 2012 target.

The Corps' corporate electric reliability plan, implemented in September 2009, provides guidance for voluntary compliance with FERC electric reliability standards within available funding.

**Priority Goal**

The measure for the Hydropower Priority Goal is shown in bold in the table on the next page.

The Corps is on schedule to meet the Hydropower Priority Goal of implementing sub-agreements to provide funds to accomplish major maintenance and/or major rehabilitation at existing hydropower plants. All Corps divisions with hydropower have either implemented sub-agreements during FY 2012 or are in the process of negotiating sub-agreements with their regional Department of Energy PMAs and preference customers.



Guiding a 270-ton rotor assembly onto a pedestal at the Barkley Dam Hydropower Plant. U.S. Army Corps of Engineers photo by Lee Roberts.

**TABLE 10. Hydropower Indicators**

|  | FY 2012       |         |         |               |           |
|--|---------------|---------|---------|---------------|-----------|
|  | FY 2009       | FY 2010 | FY 2011 | Target        | Actual    |
| Expenditures in millions of dollars                                  | \$299         | \$352   | \$349   | \$192         | \$395     |
| Percentage of time units are available                               | 86.35%        | 84.8%   | 84.45%  | 85%           | 85.85%    |
| Percentage of time available during periods of peak demand           | 87.83%        | 86.82%  | 89.33%  | 89.5%         | 88.18%    |
| Net generation (millions of mWH)                                     | Note 1        |         | 22      | 20            | 20        |
| Percentage of time units are out of service due to unplanned outages | 4.27%         | 4.29%   | 4.4%    | 4.30%         | 4.22%     |
| Electric reliability standards met                                   | Note 2        | 85.3%   | 96%     | 100%          | 98%       |
| <b>Number of sub-agreements signed</b>                               | <b>Note 3</b> |         |         | <b>Note 4</b> | <b>13</b> |

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

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

Note 3: New measure beginning in FY 2012.

Note 4: The Corps does not set targets for this measure.

## RECREATION

The primary objectives of the Recreation business line are to:

- Provide justified outdoor recreation opportunities in an effective and efficient manner at all Corps-operated water resources projects.
- Offer outdoor recreation opportunities to meet the needs of present and future generations of Americans.
- Provide a safe and healthful outdoor recreation environment for Corps’ customers.

**Funding History:** The first row of Table 11 shows the funding for the Recreation business line.

**Performance Indicators:** The measures listed in Table 11 mark the progress made in meeting Recreation efficiency, service, and availability objectives. These indicators are explained below.

**Total national economic development (NED) benefits.** The NED<sup>1</sup> benefits are estimated using the unit-day value method, which was originally developed by the Water Resources Council.

**Benefit-to-cost ratio.** The ratio of NED benefits to actual expenditures or budget.

**Cost recovery.** The percentage of total recreation receipts to the recreation budget.

**Park capacity.** The capacity of facilities to provide recreation opportunities, expressed in millions of days and nights, when recreation units were available for use.

**Number of visitors.** The total number of visitors to Corps-managed parks, expressed in millions of people.

**Visitor health and safety services.** This measure is expressed as a percentage of visitors to Corps-managed recreation areas who reported “Acceptable” service.<sup>2</sup> Functions and activities that impact this measure, i.e., facility cleaning, mowing, visitor assistance, ranger patrols, park hosts, reservation services, and repairs, have been externally validated with visitors, Corps partners, and other stakeholders.

**Facility service.** The percentage of visitors served at a Corps-managed recreation area with a facility condition score of four or better<sup>3</sup>, who indicate their experience as “Fair” to “Good.” The quality of a visitor’s experience and satisfaction with Corps’ facilities is directly related to the facility condition.

### Performance Results

Recreation funding in the regular Civil Works appropriation decreased \$21 million from FY 2011 to FY 2012. Only 45 percent of people who visited Corps’ parks were served at “Acceptable” health and safety service level; this figure compares with 47 percent in FY 2011.

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

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

<sup>3</sup> A facility condition score of four means the facility requires no more than routine maintenance, e.g., painting, caulking, asphalt patching, filling cracks, to reduce visitor health and safety risks and environmental degradation.



Of the 2,500 Corps-managed parks, 880 were operated at “Acceptable” health and safety services and 1,200 parks were operated at “Acceptable” facility condition standards. In an attempt to mitigate the combined impact of reduced funding and increasing demand, the Corps resorted to reductions in

both contract services and daily operating hours, as well as in shortened recreation seasons.

The Corps’ Recreation Strategic Plan, implemented in April 2011, addresses the challenges of increasing demand on resources and facilities and provides direction and guidance to transform and reposition the Recreation business line for the future.

**TABLE 11. Recreation Indicators**

|   | FY 2009 | FY 2010 | FY 2011 | FY 2012 |         |
|---|---------|---------|---------|---------|---------|
|   |         |         |         | Target  | Actual  |
| Expenditures in millions of dollars       | \$380   | \$557   | \$422   | \$243   | \$103   |
| Total NED benefits in millions of dollars | \$1,500 | \$1,610 | \$1,477 | \$1,260 | \$1,447 |
| Benefit-to-cost ratio                     | 4.30    | 3.00    | 3.46    | 4.86    | 4.32    |
| Cost recovery                             | 15%     | 8%      | 9%      | 15%     | 14%     |
| Park capacity in millions of days         | 74      | 74      | 74      | 74      | 74      |
| Number of visitors in millions of visits  | 134     | 135     | 126     | 122     | 127     |
| Visitor health and safety services        | 48%     | 47%     | 47%     | 42%     | 45%     |
| Facility service                          | 47%     | 51%     | 51%     | 50%     | 57%     |

**WATER STORAGE FOR WATER SUPPLY**

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

**Funding History:** Funding for Water Storage for Water Supply is provided in the first row of Table 12.

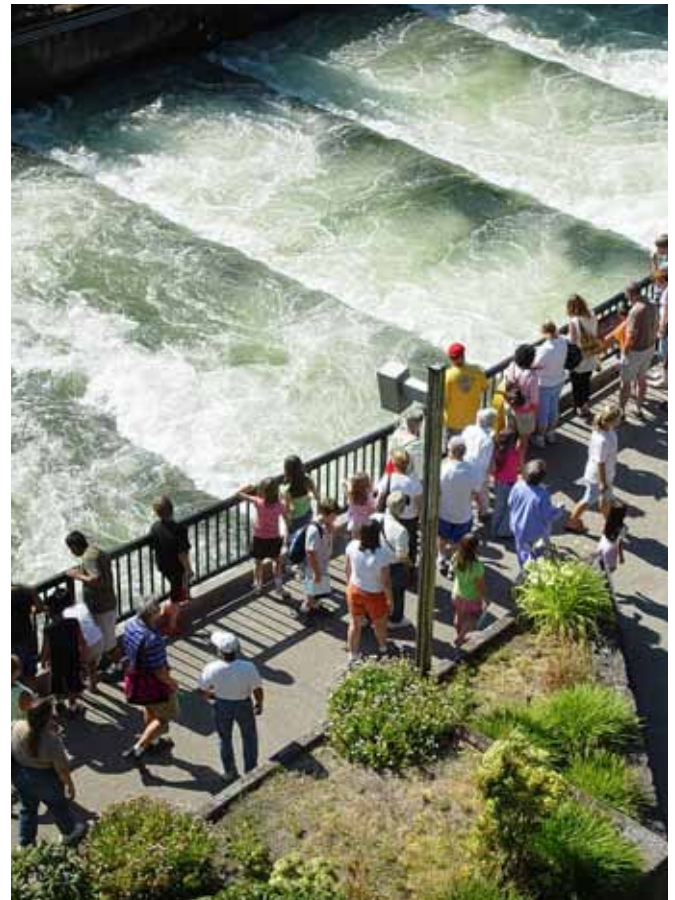
**Performance Indicator:** To assist in gauging progress, the Corps uses measures relating to the acre-feet of water stored and cost-recovery measures. These are shown in Table 12.

**Acre-feet available.** Of the total acre-feet of water stored in a reservoir, this number represents the total acre-feet available for water supply.

**Acre-feet under contract.** Of the acre-feet available for water supply, this number represents the total number of acre-feet, for present and future use, under contract with state and local interests.

**Percentage under contract.** The percentage of the acre-feet of water supply storage space under contract compared to the acre-feet of space available for water storage.

**Capital cost available for recovery.** The Corps seeks proportional reimbursement of capital costs for that portion of the reservoir allocated for water supply. Cost available for recovery is the total estimated capital cost of water supply allocations.



A park ranger leads an interpretive walk along the fish ladder at the Bradford Island Visitor Center near Bonneville Lock and Dam. Photo by Robin Norris.

**Capital cost recovered.** Capital costs assigned to the water supply storage space that has been, or is in the process of being recovered through repayment agreements. This indicator was modified for FY 2010 to “costs actually recovered” in lieu of the previous “recovered or in the process of being recovered.”

**Percentage capital cost recovered.** The percentage of capital cost available for recovery compared to cost recovered.

**Administrative yearly cost (input) per dollar collected (output).** This efficiency measure describes the cost to provide water storage versus the revenues collected and returned to the U.S. Treasury.

**Performance Results**

A major FY 2012 initiative provided \$1 million in first year funding of a 3-year, \$3 million study of the six Missouri

mainstream reservoirs designated for reallocation possibilities of storage for water supply needs. This is the first reallocation study included in the Water Storage for Water Supply budget since FY 2006. Otherwise the current funding level provides only the minimum amount necessary to continue this function on a caretaker basis.

During FY 2012, the Corps continued development and quality control of the water supply module of the Operations and Maintenance Business Information Link (OMBIL). This module provides the following: (1) additional data to help Corps districts manage their water supply program; (2) a greater number of tools for project oversight at the Washington, DC, headquarters level; and, (3) instant response to inquiries from the Department of the Army, the Congress, and state and local sponsors. One such example during the year was the request by the Assistant Secretary of the Army for Civil Works for an audit of water withdrawals from USACE reservoirs.

**TABLE 12. Water Storage for Water Supply**

|   | FY 2012 |         |         |         |         |
|---|---------|---------|---------|---------|---------|
|   | FY 2009 | FY 2010 | FY 2011 | Target  | Actual  |
| Expenditures in millions of dollars                               | \$7     | \$6     | \$7     | \$6     | \$6     |
| Acre-feet available in millions of acre-feet                      | 11.1    | 9.7     | 9.7     | 9.8     | 9.8     |
| Acre-feet under contract in millions of acre-feet                 | 10.5    | 9.2     | 9.3     | 9.4     | 9.3     |
| Percentage under contract   | 94.6%   | 94.8%   | 95.9%   | 95.3%   | 94.9%   |
| Total capital costs available for recovery in millions of dollars | \$1429  | \$1428  | \$1428  | \$1,450 | \$1,504 |
| Total capital costs recovered in millions of dollars              | \$836   | \$803   | \$803   | \$830   | \$831   |
| Percentage of capital cost recovered                              | 56.4%   | 56.2%   | 56.0%   | 57.2%   | 55.3%   |
| Administrative yearly cost per dollar collected                   | \$0.021 | \$0.028 | \$0.015 | \$0.033 | Note 1  |

*Note 1: Data unavailable at time of printing.*



Aerial of the Carlyle Lake Dam. Photo by Allan Dooley.

## POSSIBLE FUTURE EFFECTS OF EXISTING CONDITIONS

### Flood Risk Management

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

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

### The Marine Transportation System

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

*Inland Waterways.* Eleven inland waterway locks are more than 100 years old, and 122 are over 50 years old. In recent years, maintenance deferrals and delays in repairs and replacement of aging locks have driven up the number of unscheduled closures. For example, lock closures due to mechanical breakdowns of main lock chambers on high- and moderate-use waterways increased from less than 10,000 hours per year in FY 2001 to more than 23,000 hours per year in FY 2011. Closures have a

negative effect on the economy by imposing costs on shippers, carriers, and electric utilities. An unscheduled 52-day closure at Greenup Locks and Dams in Ohio, for example, cost shippers and carriers over \$53 million. Additionally, rehabilitations and improvements to inland waterways are jeopardized by the low balance in the IWTF due to the fact that half of the cost of improvements is derived from this fund.

*Coastal Channels and Harbors.* Existing high-volume channels and harbors had authorized depths for the center half of the channel only one-third of the time in FY 2007 and FY 2008. Inadequate channels negatively affect the economy by imposing costs on vessel operators that, in turn, are reflected in the cost of imports and the price of U.S. exports. On average, failure to maintain one foot of channel depth increases container shipping costs by about 6 percent. Additional economic costs will accrue by postponing investment in deeper and wider channels that correlate with projected future demand.

### Environment: Aquatic Ecosystem Restoration

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

The need for aquatic ecosystem restoration is great; however, the challenge is to strike a sustainable balance between the often-conflicting demands for funding and the use of water resources. Climate change is likely to make this balancing act even more difficult in the future. In the absence of a standard metric, the Corps continues to work with other agencies and invest in research and development to objectively evaluate disparate ecosystem restoration projects and prioritize restoration needs. In FY 2012, the Corps continued its research and development efforts to improve the use of structured decision-making tools, provide additional tools to facilitate evaluation of alternatives, and more effectively use ecosystem services in project formulation and evaluation. These efforts will continue over time as there is no easy answer to the complex issues involved; however, ongoing efforts will facilitate more consistent results as well as the ability to effectively build and evaluate a national portfolio of projects. The Corps continues its efforts to balance funding to address the variety of resources needed across the country.

## ANALYSIS OF FINANCIAL STATEMENTS

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

The Corps Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (beginning on page 36) have been prepared to report the financial position and results of operations of the USACE Civil Works Program, pursuant to the requirements of the Chief Financial Officer (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2011 to FY 2012. The charts presented in this analysis are “in millions” unless otherwise noted.

### Balance Sheet

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

Figure 4 shows the Civil Works Assets Comparison as of September 30, 2012 and 2011. Total assets amounted to \$54 billion in FY 2012 and \$54.2 billion in FY 2011, a \$177 million or 0.3% decrease, remaining approximately the same as FY 2011.

**FIGURE 4. Assets Comparison**

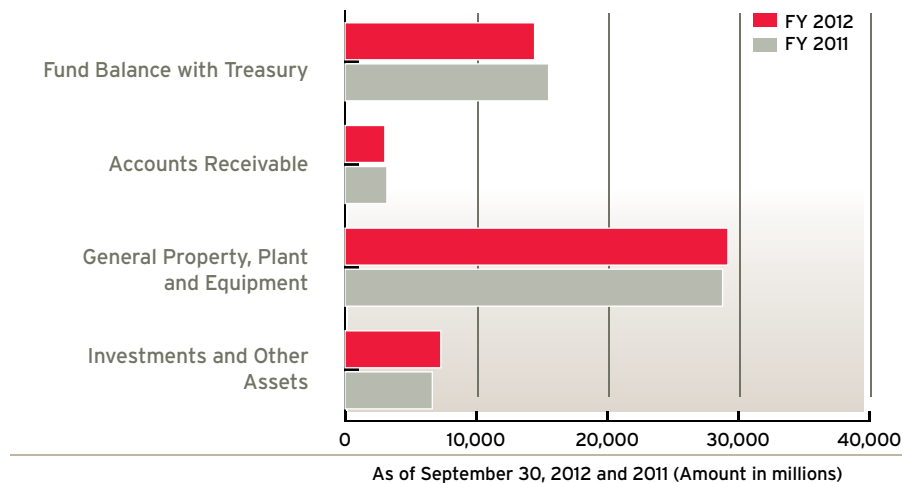
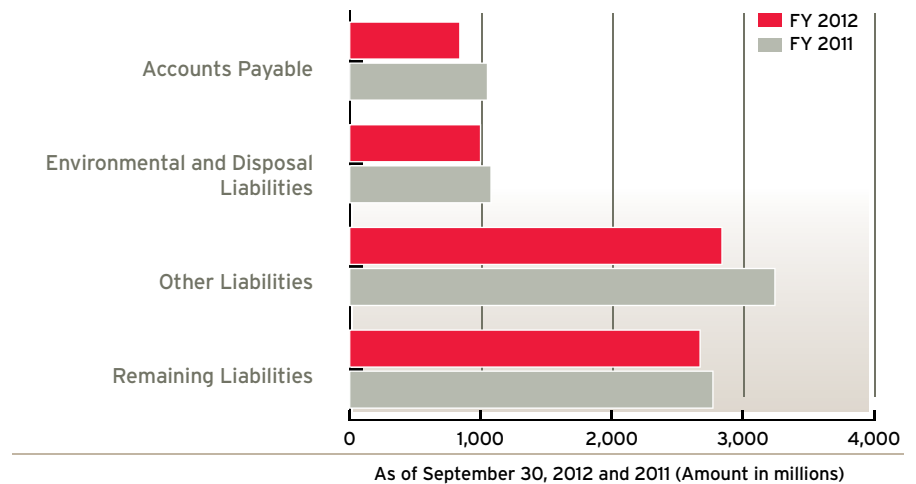


Figure 5 shows the Civil Works Liabilities Comparison as of September 30, 2012 and 2011. Total liabilities amounted to \$7.4 billion in FY 2012 and \$8.1 billion in FY 2011, a 9.7% decrease. This decrease is primarily because of a decrease in accounts payable of \$211 million, a 20% decrease over accounts payable in FY 2011. The decrease is related to a reduction in spending for the Lake Pontchartrain & Vicinity, the West Bank & Vicinity, and the Inner Harbor Navigation Canal Surge Barrier projects and to the completion of a Debris Management Mission for removal, reduction, and disposal of disaster debris from a series of tornadoes that struck Alabama.

**FIGURE 5. Liabilities Comparison**



**Statement of Net Cost**

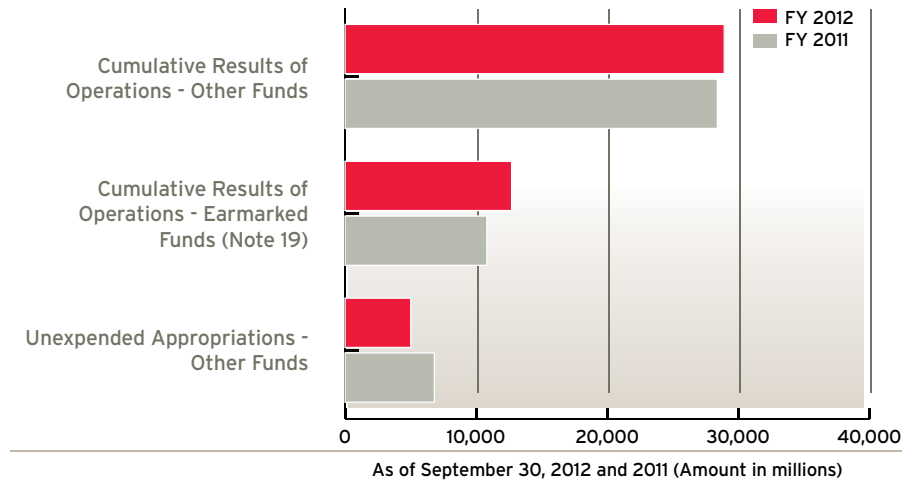
The major elements of net cost include civil works program costs totaling \$11 billion in FY 2012 and \$14.3 billion in FY 2011, and earned revenues amounting to \$3.5 billion in FY 2012 and \$3.7 billion in FY 2011. Both elements are comprised of both intragovernmental and public costs. Total Net Costs of Operations decreased \$3.1 billion, a decrease of by 29.1% which is mainly attributed to a decrease in costs for the Lake Pontchartrain & Vicinity, the West Bank & Vicinity, and the Inner Harbor Navigation Canal Surge Barrier projects related to the Hurricane and Storm Damage Risk Reduction System. There was also a decrease due to the completion of a Debris Management Mission for removal, reduction, and disposal of disaster debris from a series of tornadoes that struck Alabama, and for projects funded by the American Recovery and Reinvestment Act are completed.

**Statement of Changes in Net Position**

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

Figure 6 shows the three components of the Civil Works net position for FY 2012 and FY 2011. Overall, net position increased in FY 2012 compared with FY 2011 due to increases in Cumulative Results of Operations- Earmarked Funds offsetting a decrease in the Unexpended Appropriations - Other Funds.

**FIGURE 6. Civil Works Net Position**

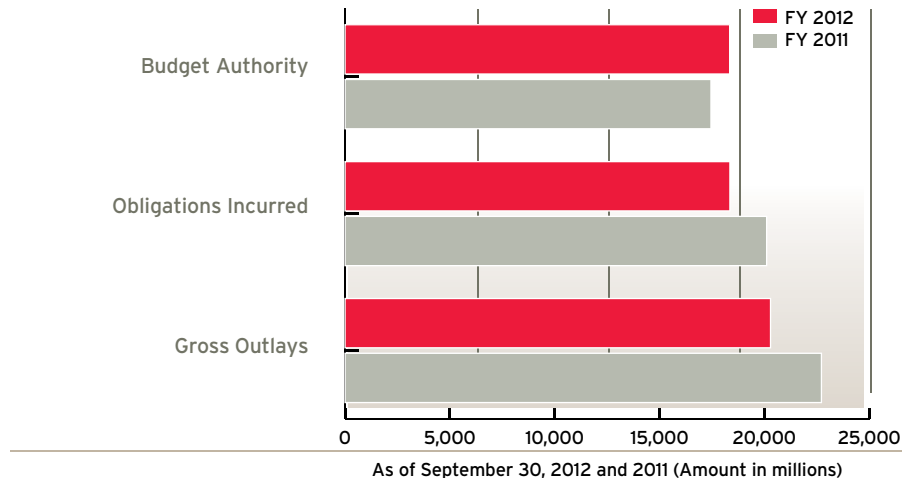


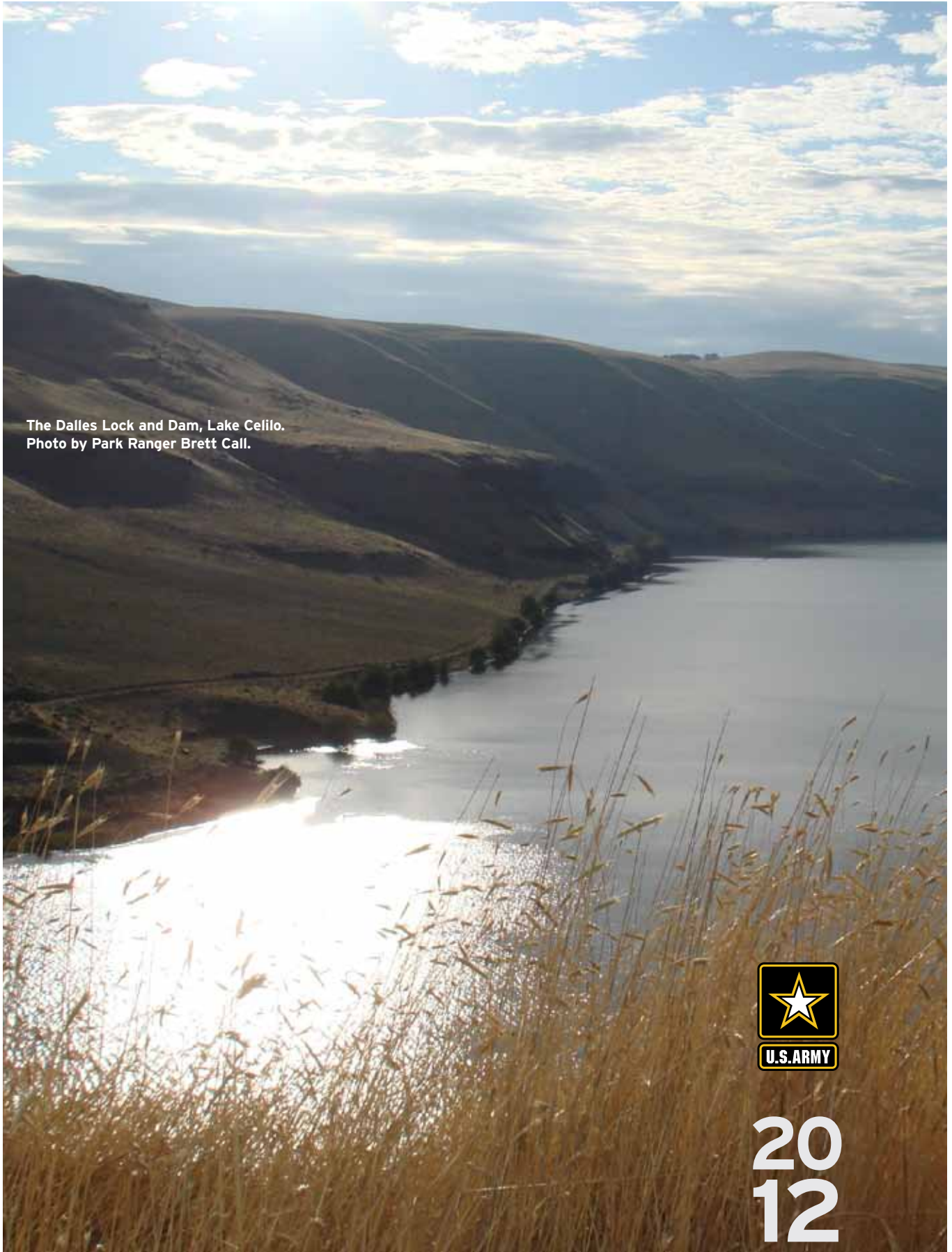
**Statement of Budgetary Resources**

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Civil Works Program as of September 30, 2012 and 2011, and the status of those budgetary resources. Budget authority is the authority provided to the Civil Works Program by law to enter into obligations that will result in outlays of federal funds. Obligations Incurred results from an order placed, contract awarded, or similar transaction, which will require payments during the same or a future period. Gross Outlays reflects the actual cash disbursed by Treasury for Civil Works obligations.

Figure 7 shows a comparison of Budget Authority, Obligations Incurred and Gross Outlays in FY 2012 and FY 2011. The reported total Civil Works budget authority was \$18.3 billion and \$17.4 billion as of September 30, 2012 and 2011, respectively. Obligations incurred amounted to was \$18.4 billion as of September 30, 2012, \$20.1 billion as of September 30, 2011. The decrease was due to completion of multiple projects related to the ARRA and hurricane recovery in New Orleans.

**FIGURE 7. Budgetary Resources**





The Dalles Lock and Dam, Lake Celilo.  
Photo by Park Ranger Brett Call.



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12

## ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE



Measuring the distance from the river bank to a location at higher elevation near the Poplar River, a tributary of the Missouri River. U.S. Army Corps of Engineers photo by Diana Fredlund.

### Federal Manager's Financial Integrity Act

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

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

The Civil Works internal control program is designed to ensure full compliance with the goals, objectives, and requirements of FMFIA and the OMB Circulars Numbers A-123, *Management's Responsibility for Internal Control*, A-136, *Financial Reporting Requirements*, and A-127, *Financial Management Systems*.

The Corps holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. The Corps undertakes a combination of actions to ensure there is a reasonable level of assurance that internal controls throughout the Corps are in place and operating effectively. Those actions consist of a combination of inspections, audits, investigations, and management control reviews conducted throughout the year. The Corps also has a strong network of management control oversight committees to include the National Management Board, Regional Management Boards, and the Quarterly Review Boards. The Quality Management System, another management control mechanism, allows the Corps to standardize business processes throughout the Corps and ensure appropriate internal controls are built into those processes. Many of the Corps management control evaluations are integrated into periodic management review processes such as the Consolidated Management Reviews, Directorate Management Reviews, Program Management Reviews, and through the execution of internal audits. The Corps' evaluation for FY 2012 identified no material weaknesses in the design or operation of its management and financial system internal controls.

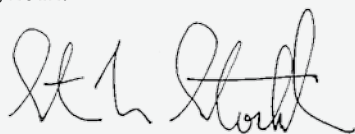


### Statement of Assurance

The management of the United States Army Corps of Engineers (USACE) Civil Works is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). USACE Civil Works conducted its assessment of the effectiveness of internal control over operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, USACE Civil Works can provide reasonable assurance that internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations met the objectives of FMFIA and no material weaknesses were found in the design or operation of the internal controls as of September 30, 2012.

USACE Civil Works conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular No. A-123. Based on the results of this assessment, USACE Civil Works can provide reasonable assurance that its internal control over financial reporting as of September 30, 2012 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. In addition, OMB Circular No. A-127 requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards, and the USSGL. Evaluation results also indicated that USACE Civil Works financial management systems were found to substantially comply with FFMIA and OMB Circular No. A-127 as of September 30, 2012.



Steven L. Stockton  
Director of Civil Works  
November 11, 2012

### OMB Circular No. A-123, Appendix A

The Civil Works Program conducted an assessment of the effectiveness of its internal controls over financial reporting in compliance with OMB Circular No. A-123, Appendix A, *Internal Control over Financial Reporting* (ICOFIR) and related Department of Defense (DoD) guidance. The USACE Executive Senior Assessment Team (ESAT), established in FY 2008, is chaired by the Deputy Commanding General and comprised of functional area Senior Executives who provide expert leadership and direction over the CFO Act financial statement audits. USACE evaluation for FY 2012 did not identify any material weaknesses as of or subsequent to June 30, 2012 for the Civil Works Program.

### Federal Financial Management Improvement Act 1996

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

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

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

**Summary**

Although USACE has no material weaknesses to report as a result of the above internal control evaluations, management

remains committed to addressing the material weaknesses and significant deficiencies identified as a result of audits, evaluations and assessments of controls in its financial management systems and its business processes, to ensure existence of effective internal controls, systems integration, and timely and reliable financial and performance data for reporting purposes. The table below shows the number of material weaknesses, significant deficiencies and legal requirements not in compliance, as a result of the independent audits of Civil Works financial statements from FY 2008 through FY 2012:

**TABLE 13. Auditor Identified Control Weaknesses**

| Fiscal Year End | Number of Material Weaknesses | Number of Significant Deficiencies | Number of Legal Requirements Not in Compliance |
|-----------------|-------------------------------|------------------------------------|--|
| 2008            | 1                             | 5                                  | 3  |
| 2009            | 5                             | 2                                  | 6  |
| 2010            | 4                             | 2                                  | 3  |
| 2011            | 1                             | 3                                  | 3  |
| 2012            | 0                             | 3                                  | 3  |



Lake Wallula. Photo by David H. Lewis.

# 2012



## LIMITATIONS

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### *Limitations of the Financial Statements*

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

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

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

**BUILDING ON A FOUNDATION OF  
STRENGTH**

Fiscal Year 2012 United States Army Corps of Engineers Annual Financial Report

US Army Corps of Engineers - Civil Works

**CONSOLIDATED BALANCE SHEETS**

As of September 30, 2012 and 2011 (Amounts in thousands)

|  | 2012                 |           | 2011              |
|--|----------------------|-----------|-------------------|
| <b>ASSETS (Note 2)</b>                                       |                      |           |                   |
| Intragovernmental:   |                      |           |                   |
| Fund Balance with Treasury (Note 3)                          | \$ 14,461,483        | \$        | 15,532,602        |
| Investments (Note 4)   | 7,239,781            |           | 6,489,467         |
| Accounts Receivable (Note 5)                                 | 606,610              |           | 647,913           |
| Total Intragovernmental Assets                               | \$ 22,307,874        | \$        | 22,669,982        |
| <br>   |                      |           |                   |
| Cash and Other Monetary Assets (Note 6)                      | \$ 1,691             | \$        | 1,195             |
| Accounts Receivable, Net (Note 5)                            | 2,428,773            |           | 2,543,480         |
| Operating Materials and Supplies (Note 7)                    | 63,533               |           | 166,379           |
| General Property, Plant and Equipment, Net (Note 8)          | 29,205,629           |           | 28,803,701        |
| Other Assets   | 115                  |           | 118               |
| <b>TOTAL ASSETS</b>  | <b>\$ 54,007,615</b> | <b>\$</b> | <b>54,184,855</b> |
| <br>   |                      |           |                   |
| <b>Stewardship PP&amp;E (Note 9)</b>                         |                      |           |                   |
| <br>   |                      |           |                   |
| <b>LIABILITIES (Note 10)</b>                                 |                      |           |                   |
| Intragovernmental:   |                      |           |                   |
| Accounts Payable   | \$ 51,752            | \$        | 54,217            |
| Debt (Note 11)   | 4,273                |           | 5,114             |
| Due to Treasury - General Fund (Note 13)                     | 2,408,205            |           | 2,515,535         |
| Other Liabilities (Notes 13 & 14)                            | 816,921              |           | 973,217           |
| Total Intragovernmental Liabilities                          | \$ 3,281,151         | \$        | 3,548,083         |
| <br>   |                      |           |                   |
| Accounts Payable - Public                                    | \$ 788,679           | \$        | 997,413           |
| Federal Employee and Veterans' Benefits                      | 261,352              |           | 251,076           |
| Environmental and Disposal Liabilities (Note 12)             | 998,241              |           | 1,078,592         |
| Other Liabilities (Notes 13 & 14)                            | 2,023,592            |           | 2,271,469         |
| <b>TOTAL LIABILITIES</b>                                     | <b>\$ 7,353,015</b>  | <b>\$</b> | <b>8,146,633</b>  |
| <br>   |                      |           |                   |
| <b>Contingencies (Note 14)</b>                               |                      |           |                   |
| <br>   |                      |           |                   |
| <b>NET POSITION</b>  |                      |           |                   |
| Unexpended Appropriations - Other Funds                      | \$ 5,014,903         | \$        | 6,813,138         |
| Cumulative Results of Operations - Earmarked Funds (Note 19) | 12,710,452           |           | 10,819,526        |
| Cumulative Results of Operations - Other Funds               | 28,929,245           |           | 28,405,558        |
| <b>TOTAL NET POSITION</b>                                    | <b>\$ 46,654,600</b> | <b>\$</b> | <b>46,038,222</b> |
| <br>   |                      |           |                   |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                    | <b>\$ 54,007,615</b> | <b>\$</b> | <b>54,184,855</b> |

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

*US Army Corps of Engineers - Civil Works***CONSOLIDATED STATEMENTS OF NET COST***For the years ended September 30, 2012 and 2011 (Amounts in thousands)*

|                               | 2012                | 2011                 |
|-------------------------------|---------------------|----------------------|
| <b>Program Costs</b>          |                     |                      |
| Gross Costs (Note 15)         | \$ 11,027,330       | \$ 14,257,477        |
| Less: Earned Revenue          | (3,517,657)         | (3,671,382)          |
| <b>Net Cost of Operations</b> | <u>\$ 7,509,673</u> | <u>\$ 10,586,095</u> |

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

US Army Corps of Engineers - Civil Works

**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**

For the years ended September 30, 2012 and 2011 (Amounts in thousands)

|   | 2012 Earmarked | 2012 Other    | 2012 Consolidated Total |
|---|----------------|---------------|-------------------------|
| <b>CUMULATIVE RESULTS OF OPERATIONS</b>         |                |               |                         |
| <b>Beginning Balances</b>                       | \$ 10,819,526  | \$ 28,405,558 | \$ 39,225,084           |
| <b>Budgetary Financing Sources:</b>             |                |               |                         |
| Appropriations used                             | -              | 7,515,953     | 7,515,953               |
| Nonexchange revenue                             | 1,813,267      | (348)         | 1,812,919               |
| Transfers-in/out without reimbursement          | 43,707         | 89,875        | 133,582                 |
| <b>Other Financing Sources (Non-exchange):</b>  |                |               |                         |
| Donations and forfeitures of property           | -              | 266           | 266                     |
| Transfers-in/out without reimbursement          | -              | 136,029       | 136,029                 |
| Imputed financing from costs absorbed by others | 3,444          | 322,093       | 325,537                 |
| Other (+/-)                                     | (1,247)        | 1,247         |                         |
| <b>Total Financing Sources</b>                  | 1,859,171      | 8,065,115     | 9,924,286               |
| <b>Net Cost of Operations</b>                   | (31,755)       | 7,541,428     | 7,509,673               |
| <b>Net Change</b>                               | 1,890,926      | 523,687       | 2,414,613               |
| <b>Cumulative Results of Operations</b>         | \$ 12,710,452  | \$ 28,929,245 | \$ 41,639,697           |
| <b>UNEXPENDED APPROPRIATIONS</b>                |                |               |                         |
| <b>Beginning Balances</b>                       | \$ -           | \$ 6,813,138  | \$ 6,813,138            |
| <b>Budgetary Financing Sources:</b>             |                |               |                         |
| Appropriations received                         | -              | 5,719,292     | 5,719,292               |
| Appropriations transferred-in/out               | -              | (1,643)       | (1,643)                 |
| Other adjustments (rescissions, etc.)           | -              | 69            | 69                      |
| Appropriations used                             | -              | (7,515,953)   | (7,515,953)             |
| <b>Total Budgetary Financing Sources</b>        | -              | (1,798,235)   | (1,798,235)             |
| <b>Unexpended Appropriations</b>                | -              | 5,014,903     | 5,014,903               |
| <b>Net Position</b>                             | \$ 12,710,452  | \$ 33,944,148 | \$ 46,654,600           |

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

US Army Corps of Engineers - Civil Works

**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**

For the years ended September 30, 2012 and 2011 (Amounts in thousands)

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

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

US Army Corps of Engineers - Civil Works

**COMBINED STATEMENTS OF BUDGETARY RESOURCES**

For the years ended September 30, 2012 and 2011 (Amounts in thousands)

|   | 2012                 | 2011                 |
|---|----------------------|----------------------|
| <b>BUDGETARY RESOURCES</b>  |                      |                      |
| Unobligated balance brought forward, October 1  | \$ 8,528,488         | \$ 11,069,152        |
| Recoveries of prior year unpaid obligation  | 93,483               | 117,174              |
| Other changes in unobligated balance  | (1,664)              | (2,542)              |
| Unobligated balance from prior year budget authority, net   | 8,620,307            | 11,183,784           |
| Appropriations (discretionary and mandatory)  | 7,641,853            | 5,375,401            |
| Spending Authority from offsetting collections  | 10,698,950           | 12,072,626           |
| <b>Total Budgetary Resources</b>  | <b>\$ 26,961,110</b> | <b>\$ 28,631,811</b> |
| <b>STATUS OF BUDGETARY RESOURCES:</b>   |                      |                      |
| Obligations Incurred  | \$ 18,351,033        | \$ 20,103,323        |
| Unobligated balance, end of year  |                      |                      |
| Apportioned   | 7,411,953            | 7,632,910            |
| Exempt from Apportionment   | 1,184,183            | 844,091              |
| Unapportioned   | 13,941               | 51,487               |
| Unobligated balance brought forward, end of year  | 8,610,077            | 8,528,488            |
| <b>Total Budgetary Resources</b>  | <b>\$ 26,961,110</b> | <b>\$ 28,631,811</b> |
| <b>Change in Obligated Balance:</b>   |                      |                      |
| Unpaid obligations, brought forward, October 1 (gross)  | \$ 10,405,457        | \$ 13,134,605        |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-)                  | (3,097,701)          | (3,065,405)          |
| Obligated balance, start of year (net)  | 7,307,756            | 10,069,200           |
| Obligations incurred  | 18,351,033           | 20,103,323           |
| Outlays (gross) (-)   | (20,288,275)         | (22,715,297)         |
| Change in uncollected customer payments from Federal Sources (+ or -)                               | 920,974              | (32,296)             |
| Recoveries of prior year unpaid obligations (-)   | (93,483)             | (117,174)            |
| Obligated balance, end of year  |                      |                      |
| Unpaid Obligations, end of year (gross)   | 8,374,732            | 10,405,457           |
| Uncollected customer payments from Federal sources, end of year (-)                                 | (2,176,727)          | (3,097,701)          |
| <b>Obligated balance, end of year</b>   | <b>\$ 6,198,005</b>  | <b>\$ 7,307,756</b>  |
| <b>Budget Authority and Outlays, Net:</b>   |                      |                      |
| Budget authority, gross (discretionary and mandatory)   | \$ 18,340,803        | \$ 17,448,027        |
| Actual offsetting collections (discretionary and mandatory) (-)                                     | (11,953,668)         | (11,864,395)         |
| Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -) | 920,974              | (32,296)             |
| <b>Budget Authority, net (discretionary and mandatory)</b>  | <b>\$ 7,308,109</b>  | <b>\$ 5,551,336</b>  |
| Outlays, gross (discretionary and mandatory)  | 20,288,275           | 22,715,297           |
| Actual offsetting collections (discretionary and mandatory) (-)                                     | (11,953,668)         | (11,864,395)         |
| Outlays, net (discretionary and mandatory)  | 8,334,607            | 10,850,902           |
| Distributed offsetting receipts   | (552,645)            | (696,399)            |
| <b>Agency Outlays, net (discretionary and mandatory)</b>  | <b>\$ 7,781,962</b>  | <b>\$ 10,154,503</b> |

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



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## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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### 1.A. Mission of the Reporting Entity

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

### 1.B. Basis of Presentation and Accounting

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

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

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

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

### 1.C. Fund Types

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

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

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

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

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

Most USACE trust, contributed, and special funds are designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time.

USACE is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for earmarked funds.

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

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

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

*A summary of USACE accounts follows:*

#### **General Funds**

|         |   |
|---------|---|
| 96X3112 | Flood Control, Mississippi River and Tributaries  |
| 96 3113 | Mississippi River and Tributaries - Recovery Act (fiscal year)                                |
| 96X3121 | Investigations  |
| 96 3121 | Investigations (fiscal year)  |
| 96X3122 | Construction  |
| 96 3122 | Construction (fiscal year)  |
| 96X3123 | Operation and Maintenance, General  |
| 96 3123 | Operation and Maintenance, General (fiscal year)  |
| 96X3124 | General Expenses  |
| 96 3124 | General Expenses (fiscal year)  |
| 96X3125 | Flood Control and Coastal Emergencies   |
| 96 3125 | Flood Control and Coastal Emergencies (fiscal year)   |
| 96X3126 | Regulatory Program  |
| 96 3126 | Regulatory Program (fiscal year)  |
| 96X3128 | Washington Aqueduct Capital Improvements  |
| 96 3129 | Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year) |
| 96X3130 | Formerly Utilized Sites Remedial Action Program   |
| 96X3132 | Office of Assistant Secretary of the Army, Civil Works  |
| 96 3132 | Office of Assistant Secretary of the Army, Civil Works (fiscal year)                          |
| 96 3133 | Investigations - Recovery Act (fiscal year)   |
| 96 3134 | Construction – Recovery Act (fiscal year)   |
| 96 3135 | Operation and Maintenance – Recovery Act (fiscal year)  |
| 96 3136 | Regulatory Program – Recovery Act (fiscal year)   |
| 96 3137 | Formerly Utilized Sites Remedial Action Program – Recovery Act (fiscal year)                  |
| 96 3138 | General Expenses – Recovery Act (fiscal year)   |
| 96X6094 | Advances from the District of Columbia  |

#### **Revolving Funds**

|         |                |
|---------|----------------|
| 96X4902 | Revolving Fund |
|---------|----------------|

#### **Special Funds**

|         |  |
|---------|--|
| 96X5007 | Special Recreation Use Fees  |
| 96X5066 | Hydraulic Mining in California, Debris                                       |
| 96X5090 | Payments to States, Flood Control Act of 1954                                |
| 96X5125 | Maintenance and Operation of Dams and Other Improvements of Navigable Waters |
| 96X5493 | Fund for Nonfederal Use of Disposal Facilities                               |
| 96 5493 | Fund for Nonfederal Use of Disposal Facilities (fiscal year)                 |

**Trust Funds**

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

**Trust Funds (Contributed)**

|         |  |
|---------|--|
| 96X8862 | Rivers and Harbors Contributed and Advance Funds |
|---------|--|

**Deposit Funds**

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

**Clearing Accounts**

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

**Receipt Accounts**

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

**1.D. Financing Sources**

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

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

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

USACE receives congressional appropriations as financing sources that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of services. USACE recognizes revenue as a result of costs incurred for goods or services provided to other Federal agencies and the public. Full cost pricing is USACE's standard policy for goods or services provided as required by OMB Circular No. A-25, *User Charges*.

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

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

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

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

### **1.E. Recognition of Expenses**

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

### **1.F. Accounting for Intragovernmental Activities**

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

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government. Costs and revenues with the public represent transactions made between the reporting entity and a nonfederal entity. The classification of revenue or cost as "intragovernmental" or "with the public" is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements.

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

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

### **1.G. Entity and Nonentity Assets**

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

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

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

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

## 1.I. Investments

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

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

Net investments are primarily held by the Harbor Maintenance Trust Fund.

## 1.J. Accounts Receivable

Accounts receivable includes three categories: accounts, claims, and refunds receivable from other Federal entities or from the public. USACE bases the allowance for uncollectible accounts receivable due from the public on established percentages per aged category of the cumulative balance of delinquent public receivables. USACE regards its intragovernmental accounts receivable balance as fully collectable.

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

## 1.K. Operating Materials and Supplies

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

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

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

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

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

## 1.M. Leases

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

## 1.N. Other Assets

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

## 1.O. Accounts Payable

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

## 1.P. Debt

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

## 1.Q. Due to Treasury - General Fund

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

## 1.R. Federal Employee and Veterans' Benefits

The Federal Employees and Veterans' Benefits liability consist of the actuarial liability for Federal Employees Compensation Act benefits. The Department of the Army (DA) actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and provided to the DA at the end of each fiscal year. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds.

## 1.S. Other Liabilities

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

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

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

## 1.T. Environmental and Disposal Liabilities

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

feasible alternatives using the decision-making process prescribed by the Comprehensive Environmental Response, Compensation, and Liability Act.

### **1.U. Liabilities Not Covered by Budgetary Resources**

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

### **1.V. Net Position**

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

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

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

### **1.W. Allocation Transfers**

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

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

### **1.X. Reclassifications**

In FY 2012, changes to the presentation of the Combined Statements of Budgetary Resources (SBR) were made, in accordance with guidance provided in OMB Circular No. A-136 and as such, activity and balances reported on the FY 2011 SBR have been reclassified to conform to the presentation in the current year.

## NOTE 2. NONENTITY ASSETS

| As of September 30              | 2012          | 2011          |
|---------------------------------|---------------|---------------|
| <i>(Amount in thousands)</i>    |               |               |
| <b>Nonentity Assets</b>         |               |               |
| <b>Intragovernmental Assets</b> |               |               |
| Fund Balance with Treasury      | \$ 11,118     | \$ 11,386     |
| Total Intragovernmental Assets  | 11,118        | 11,386        |
| Cash and Other Monetary Assets  | 1,691         | 1,195         |
| Accounts Receivable             | 2,408,249     | 2,515,535     |
| Total Nonfederal Assets         | 2,409,940     | 2,516,730     |
| <b>Total Nonentity Assets</b>   | 2,421,058     | 2,528,116     |
| <b>Total Entity Assets</b>      | 51,586,557    | 51,656,739    |
| <b>Total Assets</b>             | \$ 54,007,615 | \$ 54,184,855 |

### Other Information

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

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

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

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

## NOTE 3. FUND BALANCE WITH TREASURY

| As of September 30           | 2012          | 2011          |
|------------------------------|---------------|---------------|
| <i>(Amount in thousands)</i> |               |               |
| <b>Fund Balances</b>         |               |               |
| General Funds                | \$ 11,675,098 | \$ 12,745,069 |
| Revolving Funds              | 1,579,441     | 1,486,115     |
| Trust Funds                  | 102,746       | 110,517       |
| Special Funds                | 81,458        | 75,435        |
| Contributed Funds            | 979,219       | 1,066,755     |
| Other Fund Types             | 43,521        | 48,711        |
| <b>Total Fund Balances</b>   | \$ 14,461,483 | \$ 15,532,602 |

### Status of Fund Balance with Treasury

| As of September 30                         | 2012          | 2011          |
|--|---------------|---------------|
| <i>(Amount in thousands)</i>               |               |               |
| <b>Unobligated Balance</b>                 |               |               |
| Available                                  | \$ 8,596,136  | \$ 8,477,001  |
| Unavailable                                | 13,941        | 51,487        |
| <b>Obligated Balance not yet Disbursed</b> | 8,374,732     | 10,405,457    |
| <b>Nonbudgetary FBWT</b>                   | 84,044        | 80,434        |
| <b>Non FBWT Budgetary Accounts</b>         | (2,607,370)   | (3,481,777)   |
| <b>Total</b>                               | \$ 14,461,483 | \$ 15,532,602 |



## Other Information

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

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

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

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

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

## NOTE 4. INVESTMENTS AND RELATED INTEREST

| As of September 30<br><i>(Amount in thousands)</i> | 2012                |                     |                              |                  |                         |
|--|---------------------|---------------------|------------------------------|------------------|-------------------------|
|  | Cost                | Amortization Method | Amortized (Premium)/Discount | Investments, Net | Market Value Disclosure |
| <b>Intragovernmental Securities</b>                |                     |                     |                              |                  |                         |
| Nonmarketable, Market-Based                        | \$ 7,264,578        | Effective Interest  | (57,704)                     | 7,206,874        | 7,416,234               |
| Accrued Interest                                   | 32,907              |                     | -                            | 32,907           | 32,907                  |
| <b>Total Intragovernmental Securities</b>          | <b>\$ 7,297,485</b> |                     | <b>(57,704)</b>              | <b>7,239,781</b> | <b>7,449,141</b>        |
|  |                     |                     |                              |                  |                         |
|  | 2011                |                     |                              |                  |                         |
| As of September 30<br><i>(Amount in thousands)</i> | Cost                | Amortization Method | Amortized (Premium)/Discount | Investments, Net | Market Value Disclosure |
| <b>Intragovernmental Securities</b>                |                     |                     |                              |                  |                         |
| Nonmarketable, Market-Based                        | \$ 6,495,067        | Effective Interest  | (37,322)                     | 6,457,745        | 6,704,814               |
| Accrued Interest                                   | 31,722              |                     | -                            | 31,722           | 31,722                  |
| <b>Total Intragovernmental Securities</b>          | <b>\$ 6,526,789</b> |                     | <b>(37,322)</b>              | <b>6,489,467</b> | <b>6,736,536</b>        |

## Other Information

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

Treasury securities provide USACE with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When USACE requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Total net investments among the Harbor Maintenance Trust Fund for FY 2012 and FY 2011 are \$7.1 and \$6.3 billion, respectively.

The U.S. Treasury also provides the investment market value based on the bid price provided by the Federal Reserve Bank of New York on September 30, 2012 and September 30, 2011, respectively.

## NOTE 5. ACCOUNTS RECEIVABLE, NET

| As of September 30<br><i>(Amount in thousands)</i> | 2012                |  |                          |
|--|---------------------|--|--------------------------|
|  | Gross Amount Due    | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| Intragovernmental Receivables                      | \$ 606,610          | \$ N/A                                 | \$ 606,610               |
| Nonfederal Receivables (From the Public)           | \$ 2,431,791        | \$ (3,018)                             | \$ 2,428,773             |
| <b>Total Accounts Receivable</b>                   | <b>\$ 3,038,401</b> | <b>\$ (3,018)</b>                      | <b>\$ 3,035,383</b>      |

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

### Other Information

As of September 30, 2012 and September 30, 2011, Accounts Receivables Intragovernmental include \$466.4 million and \$421.2 million, respectively, for amounts received from the Coastal Wetlands Restoration Trust Fund for projects in the New Orleans District.

As of September 30, 2012 and September 30, 2011, Accounts Receivable from the Public, net of allowances, stemming from long-term water storage and Louisiana coastal restoration, flood control and hurricane protection agreements include \$2.2 billion and \$2.3 billion, respectively. These agreements have maturity dates ranging from two to fifty years, and interest rates based on the U.S. Treasury effective rate at the time of the agreement.

## NOTE 6. CASH AND OTHER MONETARY ASSETS

| As of September 30<br><i>(Amount in thousands)</i> | 2012      |              | 2011      |              |
|--|-----------|--------------|-----------|--------------|
| Cash   | \$        | 33           | \$        | 8            |
| Foreign Currency                                   |           | 1,658        |           | 1,187        |
| <b>Total Cash and Foreign Currency</b>             | <b>\$</b> | <b>1,691</b> | <b>\$</b> | <b>1,195</b> |

### Other Information

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

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

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

## NOTE 7. OPERATING MATERIALS AND SUPPLIES

| As of September 30                | 2012      |               | 2011      |                |
|-----------------------------------|-----------|---------------|-----------|----------------|
| <i>(Amount in thousands)</i>      |           |               |           |                |
| Operating Materials and Supplies: |           |               |           |                |
| Items Held for Use                | \$        | 63,533        | \$        | 166,379        |
| <b>Total</b>                      | <b>\$</b> | <b>63,533</b> | <b>\$</b> | <b>166,379</b> |

### Other Information

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

As of September 30, 2012 and 2011, there were no differences between the carrying amount and the net realizable value of OM&S. There are no restrictions on the use of OM&S.

As of September 30, 2012 and 2011, USACE does not have inventories, stockpile materials, seized or forfeited properties, or goods held under price support and stabilization programs, as defined in SFFAS No. 3, "Accounting for Inventory and Related Property".

## NOTE 8. GENERAL PROPERTY, PLANT & EQUIPMENT, NET

| As of September 30                    | 2012                                 |                    |                      |  |                      |
|---------------------------------------|--------------------------------------|--------------------|----------------------|--|----------------------|
|                                       | Depreciation/<br>Amortization Method | Service Life (yrs) | Acquisition Value    | (Accumulated<br>Depreciation/<br>Amortization) | Net Book Value       |
| <i>(Amount in thousands)</i>          |                                      |                    |                      |  |                      |
| <b>Major Asset Classes</b>            |                                      |                    |                      |  |                      |
| Land                                  | N/A                                  | N/A                | \$ 9,021,172         | N/A  | \$ 9,021,172         |
| Buildings, Structures, and Facilities | S/L                                  | 20 - 100           | 31,195,733           | \$ (16,090,489)                                | 15,105,244           |
| Leasehold Improvements                | S/L                                  | Lease term         | 39,535               | (31,951)                                       | 7,584                |
| Software                              | S/L                                  | 2 - 10             | 114,519              | (88,826)                                       | 25,693               |
| General Equipment                     | S/L                                  | 5 - 50             | 1,892,105            | (940,225)                                      | 951,880              |
| Construction-in-Progress              | N/A                                  | N/A                | 4,094,056            | N/A  | 4,094,056            |
| <b>Total General PP&amp;E</b>         |                                      |                    | <b>\$ 46,357,120</b> | <b>\$ (17,151,491)</b>                         | <b>\$ 29,205,629</b> |

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

### Legend for Depreciation Methods:

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

### Other Information

USACE currently operates and maintains 75 hydroelectric power plants, generating approximately 24% of America's hydroelectric power. All power generated by these hydroelectric power plants is transmitted to four Power Marketing Administrations for

distribution to power companies across the United States. The service life for USACE's hydropower project related assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The hydropower project related assets make up \$10.2 billion of the net book value of USACE's PP&E in FY 2012 and \$9.9 billion in FY 2011.

As of September 30, 2012 and 2011, approximately \$26.2 billion of the acquisition value recorded in the PP&E line is being supported by alternate methods described in Note 1.L "General Property, Plant, and Equipment". The net book value is \$9.3 billion at September 30, 2012, and \$11.9 billion at September 30, 2011.

Note 9 "Stewardship Property, Plant and Equipment (PP&E)" provides the physical quantity information for multi-use heritage assets that are recognized and presented with general PP&E in the basic financial statements.

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

## NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT (PP&E)

### Information Related to Stewardship PP&E

Stewardship PP&E are assets whose properties resemble those of the General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E consists of heritage assets. Heritage assets are items of historical, natural, cultural, educational, or artistic significance, (e.g., aesthetic) or items with significant architectural characteristics. Heritage assets are expected to be preserved indefinitely. In the case where a heritage asset serves both a heritage function and general government operations, the asset is considered a multi-use heritage asset. Multi-use heritage assets are recognized and presented with general PP&E in the basic financial statements.

### Relevance to the USACE Mission

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

### Stewardship Policy

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

### Heritage Asset Categories

1. **Buildings and Structures.** Buildings and structures are those heritage assets listed on, or eligible for listing on, the National Register of Historic Places. Buildings and structures include a range of historic resources from the Crooked Creek Lake Dam located in Pennsylvania and the Indiana and Michigan Canal in Illinois. They also include some non-traditional structures, such as the War Eagle, a steamer that caught fire in Lacrosse, Wisconsin in 1870. There are 95 buildings and structures listed on the National Register and 217 determined eligible for listing. There are a total of 312 heritage assets in this category; this reflects a decrease of 48 building and structures, 34 of which were reclassified as archeological sites, from the prior

fiscal yearend report. Additionally, we noted 41 building and structures as multi-use heritage assets within our districts and divisions. An example of a multi-use heritage asset within the Corps is the Mill Spring Mill in Kentucky, which is listed on the National Register of historic places and serves as a full service visitor center.

2. Archeological Sites. Cemeteries and archeological sites are archeological properties listed on or eligible for listing in the national Register of Historic Places. The current National Register inventory for USACE included 119 archeological properties listed and 488 archeological properties determined to be eligible for listing. This total of 607 archeological sites reflects an increase of 46, 34 of which were reclassified from buildings and structures, from the prior fiscal yearend report.
3. Museum Collection Items (Objects). Museum collection items are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant technical or architectural characteristics. These items are divided into two subcategories: fine art and objects. These include museum collection items that have historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance. USACE added a net of 10 items to the Museum Collection Items for FY2012.

|                         | As of 10/01/10 | Increase | Decrease | As of 9/30/11 | Increase | Decrease | As of 9/30/12 |
|-------------------------|----------------|----------|----------|---------------|----------|----------|---------------|
| Building and Structures | 291            | 145      | (76)     | 360           | 31       | (79)     | 312           |
| Archeological Sites     | 676            | 183      | (298)    | 561           | 59       | (13)     | 607           |
| Museum Collection Items | 195            | 6        | 0        | 201           | 16       | (6)      | 211           |

### Acquisition and Withdrawal of Heritage Assets

USACE had a net decrease of two heritage assets during FY 2012 from the “eligible for” listing. USACE reported this net affect through its normal process of established regulations for identifying Heritage Asset. USACE provides this information to the keeper of the National Register of Historic Places at the Department of the Interior, National Park Service. USACE adds museum collections as items are unearthed or otherwise acquired on USACE lands. USACE removes museum collections when items are donated to museums, universities, or returned to tribes.

## NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

| As of September 30  | 2012 |           | 2011 |           |
|---|------|-----------|------|-----------|
| <i>(Amount in thousands)</i>                                |      |           |      |           |
| <b>Intragovernmental Liabilities</b>                        |      |           |      |           |
| Debt  | \$   | 4,273     | \$   | 5,114     |
| Due to Treasury - General Fund                              |      | 2,408,205 |      | 2,515,535 |
| Other   |      | 233,920   |      | 236,897   |
| <b>Total Intragovernmental Liabilities</b>                  | \$   | 2,646,398 | \$   | 2,757,546 |
| Federal Employee and Veterans' Benefits                     |      | 261,352   |      | 251,076   |
| Environmental and Disposal Liabilities                      |      | 998,241   |      | 1,078,592 |
| Contingent Liabilities                                      |      | 450,335   |      | 438,151   |
| <b>Total Liabilities Not Covered by Budgetary Resources</b> | \$   | 4,356,326 | \$   | 4,525,365 |
| <b>Total Liabilities Covered by Budgetary Resources</b>     | \$   | 2,996,689 | \$   | 3,621,268 |
| <b>Total Liabilities</b>                                    | \$   | 7,353,015 | \$   | 8,146,633 |

### Other Information

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

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

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

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

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

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

## NOTE 11. DEBT

| As of September 30<br>(Amount in thousands) | 2012              |               |                |
|---|-------------------|---------------|----------------|
|   | Beginning Balance | Net Borrowing | Ending Balance |
| <b>Agency Debt (Intragovernmental)</b>      |                   |               |                |
| Debt to the Treasury                        | \$ 5,114          | \$ (841)      | \$ 4,273       |
|   |                   |               |                |
| As of September 30<br>(Amount in thousands) | 2011              |               |                |
|   | Beginning Balance | Net Borrowing | Ending Balance |
| <b>Agency Debt (Intragovernmental)</b>      |                   |               |                |
| Debt to the Treasury                        | \$ 5,634          | \$ (520)      | \$ 5,114       |

### Other Information

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. USACE executed three promissory notes totaling \$75.0 million with the U.S. Treasury for capital improvements to the Washington Aqueduct. USACE entered into agreements with Arlington County and the City of Falls Church, Virginia to provide funding to USACE to repay the debt. USACE recognized a receivable for \$4.3 million in principal and current interest due from Arlington County and the City of Falls Church, Virginia, as of September 30, 2012. The remaining debt balance is scheduled to be paid off in FY 2023. Actual cumulative amount of funds borrowed from the U.S. Treasury is \$74.9 million of which \$4.3 million is outstanding at September 30, 2012 and \$5.1 million is outstanding at September 30, 2011. There were no withdrawals from the U.S. Treasury for FY 2012 or FY 2011. Total principal repayments in FY 2012 were \$841 thousand and total principal repayments in FY 2011 were \$520 thousand.

## NOTE 12. ENVIRONMENTAL AND DISPOSAL LIABILITIES

| As of September 30<br>(Amount in thousands)              | 2012 |         | 2011 |           |
|--|------|---------|------|-----------|
| Formerly Utilized Sites Remedial Action Program (FUSRAP) | \$   | 994,716 | \$   | 1,069,551 |
| Other  |      | 3,525   |      | 9,041     |
| <b>Total Environmental and Disposal Liabilities</b>      | \$   | 998,241 | \$   | 1,078,592 |

## Assumptions and Uncertainties

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

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

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

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

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

## Formerly Utilized Sites Remedial Action Program

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

Changes in the FUSRAP liability during the fiscal years ended September 30, 2012 and 2011 resulted from inflation adjustments to reflect changes in costs for the current year, cleanup activities performed, and adjustments to estimates of soil volumes.

## Other Environmental Liabilities

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

## NOTE 13. DUE TO TREASURY - GENERAL FUND AND OTHER LIABILITIES

| As of September 30<br>(Amount in thousands)     | 2012                |                      |                     |
|---|---------------------|----------------------|---------------------|
|   | Current Liability   | Noncurrent Liability | Total               |
| <b>Intragovernmental</b>                        |                     |                      |                     |
| Due to Treasury-General Fund                    | \$ 197,217          | 2,210,988            | 2,408,205           |
| Advances from Others                            | 550,502             | -                    | 550,502             |
| Deposit Funds and Suspense Account Liabilities  | 509                 | -                    | 509                 |
| Disbursing Officer Cash                         | 1,691               | -                    | 1,691               |
| Judgment Fund Liabilities                       | 183,443             | -                    | 183,443             |
| FECA Reimbursement to the Department of Labor   | 22,281              | 28,196               | 50,477              |
| Employer Contribution and Payroll Taxes Payable | 30,299              | -                    | 30,299              |
| <b>Total Intragovernmental</b>                  | <b>\$ 985,942</b>   | <b>2,239,184</b>     | <b>3,225,126</b>    |
| Accrued Funded Payroll and Benefits             | \$ 476,961          | -                    | 476,961             |
| Advances from Others                            | 44,748              | -                    | 44,748              |
| Deferred Credits                                | 972,087             | -                    | 972,087             |
| Deposit Funds and Suspense Accounts             | 11,161              | -                    | 11,161              |
| Contract Holdbacks                              | 68,300              | -                    | 68,300              |
| Contingent Liabilities                          | 450,335             | -                    | 450,335             |
| <b>Total Other Liabilities</b>                  | <b>\$ 3,009,534</b> | <b>2,239,184</b>     | <b>5,248,718</b>    |
|   |                     |                      |                     |
| As of September 30<br>(Amount in thousands)     | 2011                |                      |                     |
|   | Current Liability   | Noncurrent Liability | Total               |
| <b>Intragovernmental</b>                        |                     |                      |                     |
| Due to Treasury-General Fund                    | \$ 281,755          | \$ 2,233,780         | \$ 2,515,535        |
| Advances from Others                            | 705,334             | -                    | 705,334             |
| Deposit Funds and Suspense Account Liabilities  | (154)               | -                    | (154)               |
| Disbursing Officer Cash                         | 1,195               | -                    | 1,195               |
| Judgment Fund Liabilities                       | 186,274             | -                    | 186,274             |
| FECA Reimbursement to the Department of Labor   | 21,810              | 28,813               | 50,623              |
| Employer Contribution and Payroll Taxes Payable | 29,945              | -                    | 29,945              |
| <b>Total Intragovernmental</b>                  | <b>\$ 1,226,159</b> | <b>\$ 2,262,593</b>  | <b>\$ 3,488,752</b> |
| Accrued Funded Payroll and Benefits             | \$ 522,221          | \$ -                 | \$ 522,221          |
| Advances from Others                            | 164,682             | -                    | 164,682             |
| Deferred Credits                                | 1,065,817           | -                    | 1,065,817           |
| Deposit Funds and Suspense Accounts             | 11,386              | -                    | 11,386              |
| Contract Holdbacks                              | 69,212              | -                    | 69,212              |
| Contingent Liabilities                          | 438,151             | -                    | 438,151             |
| <b>Total Other Liabilities</b>                  | <b>\$ 3,497,628</b> | <b>\$ 2,262,593</b>  | <b>\$ 5,760,221</b> |

### Other Information

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

Judgment Fund Liabilities - USACE has recognized an unfunded liability arising from Judgment Fund Contract Disputes Act (CDA) settlements in accordance with a provision of the CDA requiring agencies to reimburse the Judgment Fund for payments to claimants in cases involving federal contract disputes. USACE cannot fund the CDA claims since it is funded for projects and does not receive



funding for this type of claim. USACE sought supplemental appropriations for payment of CDA claims in FY 2000, FY 2006, and FY 2007, but these requests were not approved. The FY 2012 budget does not provide funding for payment of the CDA claims.

## NOTE 14. CONTINGENCIES

### Legal Contingencies

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

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

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

### Probable Likelihood of an Adverse Outcome

USACE is subject to potential liabilities where adverse outcomes are probable, and claims ranged from \$450.3 million to \$609.7 million as of September 30, 2012. At September 30, 2011, probable claims ranged from \$438.2 million to \$536.7 million. The contingent liabilities are included in Note 13.

### Reasonably Possible Likelihood of an Adverse Outcome

USACE is subject to potential liabilities where adverse outcomes are reasonably possible, and claims ranged from \$428.8 thousand to \$8.3 billion as of September 30, 2012. At September 30, 2011, reasonably possible claims ranged from \$5.5 million to \$7.4 billion.

### Hurricane Katrina-Related Claims and Litigation

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

Concerning the Levee Master consolidated class action complaint, the Court granted the United States' motion to dismiss. By Order entered on October 14, 2010, the Court certified this decision as a final judgment. On September 24, 2012, the U.S. Fifth Circuit Court of Appeals issued a substitute ruling affirming the trial court order of dismissal.

The Government filed a motion to dismiss the MRGO case with regard to the application of the discretionary function exception to the activities performed at the East Bank Industrial Area (EBIA) on September 15, 2009. By Order entered February 2, 2010, the Court granted the motion dismissing the EBIA allegations without prejudice, allowing for the refile of those claims by those class representatives who had prematurely filed suit. Plaintiffs have subsequently refiled a new suit with the identical claims. The Court

further allowed the consolidation of a suit by the Entergy power companies that raises these same MRGO and EBIA allegations and also specifically excepted Entergy from the MRGO stay imposed on other parties and litigation. The U.S. filed its motion to dismiss the EBIA allegations on August 3, 2010, and an oral argument was held on October 13, 2010. On February 11, 2011, the court denied the United States' motion to dismiss the EBIA allegations. A 16-day trial commenced on September 12, 2012, with the Washington Group appearing as co-defendant with the Government under the terms of a Joint Defense Agreement.

In the Ingram Barge case, by Order entered June 22, 2009, the Court severed and stayed the third party claims of Lafarge against the United States until 90 days after a decision is rendered by the Fifth Circuit in Robinson or until 90 days after a final resolution of Robinson by the Supreme Court in the event that a writ of certiorari is sought, or until the passage of 18 months from the Order, whichever date is sooner. This Order grants the United States' motion brought as a result of the Court's stay issued on May 4, 2009, in the MRGO category. As a result, the United States did not participate in the trial conducted in 2010, in which the Court found that the barge did not cause the two floodwall breaches. That order is currently the subject of appeal.

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

### Other Litigation

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

### Commitments and Other Contingencies

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

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

## NOTE 15. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

| Year ended September 30          | 2012      |                    | 2011      |                    |
|----------------------------------|-----------|--------------------|-----------|--------------------|
| <i>(Amount in thousands)</i>     |           |                    |           |                    |
| Intragovernmental Costs          | \$        | 1,645,279          | \$        | 1,681,577          |
| Public Costs                     |           | 9,382,051          |           | 12,575,900         |
| <b>Total Costs</b>               | <b>\$</b> | <b>11,027,330</b>  | <b>\$</b> | <b>14,257,477</b>  |
| Intragovernmental Earned Revenue | \$        | (2,624,632)        | \$        | (2,976,802)        |
| Public Earned Revenue            |           | (893,025)          |           | (694,580)          |
| <b>Total Earned Revenue</b>      | <b>\$</b> | <b>(3,517,657)</b> | <b>\$</b> | <b>(3,671,382)</b> |
| <b>Net Cost of Operations</b>    | <b>\$</b> | <b>7,509,673</b>   | <b>\$</b> | <b>10,586,095</b>  |

### Other Information

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

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

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

## NOTE 16. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

### Other Information

Appropriations received on the Statement of Budgetary Resources (SBR) should not and do not agree with appropriations received on the Statement of Changes in Net Position (SCNP) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference is due to additional resources of \$1.9 billion during FY 2012 and \$1.5 billion during FY 2011 in appropriated trust, contributed, and special fund receipts included in Appropriation on the SBR. These funds do not update the proprietary appropriations received amount reported on the SCNP. Refer to Note 17, "Statement of Budgetary Resources," for additional disclosures and details.

## NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

| As of September 30  | 2012         | 2011         |
|---|--------------|--------------|
| <i>(Amount in thousands)</i>  |              |              |
| Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | \$ 6,928,329 | \$ 8,689,826 |

### Other Information

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

For FY 2012, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A SBR includes: \$8.2 billion for direct obligations; \$10.1 billion for reimbursable obligations; and \$51.5 million for reimbursable obligations exempt from apportionment. USACE did not report any direct obligations exempt from apportionment. USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

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

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

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

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

There are differences between amounts reported on the SBR and the SF133, Report on Budget Execution (SF133) for FY 2012 and FY 2011. Treasury account symbol 96X6094 (Advances from the District of Columbia) is not included in the SF133. This money is not from appropriated funds and is not included in the OMB’s data for budget formulation. USACE does include this appropriation in the SBR.

The President’s Budget with actual figures for FY 2012 has not yet been published. The FY 2014 President’s Budget will include actual figures for FY 2012 reporting. The FY 2014 President’s Budget can be found at: <http://www.whitehouse.gov/omb>, early in FY 2013. The following chart is a reconciliation of the FY 2013 President’s Budget actual figures for FY 2011 to FY 2011 Statement of Budgetary Resources as required by OMB Circular No. A-136.

U.S. Army Corps of Engineers - Civil Works

**Reconciliation of FY 2011 SBR to 2013 President's Budget**

| <i>(Amount in millions)</i> | Budgetary Resources | Obligations Incurred | Offsetting Receipts | Net Outlays | Explanation for reconciling differences   |
|-----------------------------|---------------------|----------------------|---------------------|-------------|---|
|                             | Line 1930           | Line 0900            | Line 0299           | Line 4190   |   |
| SBR                         | \$28,632            | \$20,103             | \$696               | \$10,851    |   |
| Reconciling Difference      | (164)               | (114)                |                     |             | Expired American Recovery and Reinvestment Act (ARRA) accounts are included in the SBR, but not the President’s Budget.   |
| Reconciling Difference      | (75)                | (60)                 |                     | (16)        | The SBR includes Treasury symbol 96X6094 for advances from the District of Columbia for work on the Washington Aqueduct. It is not included in the President’s Budget since these are not appropriated funds.   |
| Reconciling Difference      |                     |                      | (134)               |             | General funds clearing accounts are included as distributed offsetting receipts in accordance with DFAS yearend guidance. It is not included in the President’s Budget amount.  |
| Reconciling Difference      |                     |                      | 1,717               |             | The President’s Budget line 0299 includes total receipts and collections for the trust funds. The SBR includes only USACE’s distributed offsetting receipts to South Dakota Terrestrial Wildlife per Treasury Financial Manual, Federal Account Symbols and Titles (FAST Book). Other trust fund receipts are included in the budgetary resources, line 0299. |
| Reconciling Difference      |                     |                      | 9                   |             | Per the FAST Book, receipt account 96R 5125 is not a distributed offsetting receipt account and is not included in the SBR as a distributed offsetting receipt. It is included in the President’s Budget amount.  |
| Total                       | \$28,393            | \$19,929             | \$2,288             | \$10,835    |   |
| President’s Budget          | 28,391              | 19,929               | 2,288               | 10,834      |   |
| Difference                  | (2)                 | 0                    | 0                   | (1)         | Due to rounding.  |

## NOTE 18. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

| Year ended September 30   | 2012                | 2011                 |
|---|---------------------|----------------------|
| <i>(Amount in thousands)</i>  |                     |                      |
| <b>Resources Used to Finance Activities:</b>  |                     |                      |
| <b>Budgetary Resources Obligated:</b>   |                     |                      |
| Obligations incurred  | \$ 18,351,033       | \$ 20,103,323        |
| Less: Spending authority from offsetting collections and recoveries   | (11,126,177)        | (12,013,865)         |
| Obligations net of offsetting collections and recoveries  | 7,224,856           | 8,089,458            |
| Less: Offsetting receipts   | (552,645)           | (696,399)            |
| Net obligations   | 6,672,211           | 7,393,059            |
| Other Resources:  |                     |                      |
| Donations and forfeitures of property   | 266                 | 3,206                |
| Transfers in/out without reimbursement  | 136,029             | 113,610              |
| Imputed financing from costs absorbed by others   | 325,537             | 342,546              |
| Net other resources used to finance activities  | 461,832             | 459,362              |
| <b>Total resources used to finance activities</b>   | <b>\$ 7,134,043</b> | <b>\$ 7,852,421</b>  |
| <b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>                                      |                     |                      |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:              |                     |                      |
| Undelivered Orders  | \$ 1,761,497        | \$ 2,594,006         |
| Unfilled Customer Orders  | (1,053,829)         | (168,471)            |
| Budgetary offsetting collections and receipts that do not affect Net Cost of Operations                             | 152,385             | 192,332              |
| Resources that finance the acquisition of assets  | (7,007)             | (16,324)             |
| Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:                |                     |                      |
| Other   | (174,835)           | (116,816)            |
| <b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>                                 | <b>\$ 678,211</b>   | <b>\$ 2,484,727</b>  |
| <b>Total Resources Used to Finance the Net Cost of Operations</b>   | <b>\$ 7,812,254</b> | <b>\$ 10,337,148</b> |
| <b>Components Requiring or Generating Resources in Future Period:</b>   |                     |                      |
| Change in environmental and disposal liability  | \$ (80,351)         | \$ 40,470            |
| Change in exchange revenue receivable from the public   | (86,645)            | 108,730              |
| Other   | 19,484              | 414,875              |
| <b>Total components of Net Cost of Operations that will Require or Generate Resources in future periods</b>         | <b>\$ (147,512)</b> | <b>\$ 564,075</b>    |
| Components not Requiring or Generating Resources:   |                     |                      |
| Depreciation and amortization   | \$ 636,732          | \$ 739,619           |
| Revaluation of assets or liabilities  | 1,424               | 2,119                |
| Other   |                     |                      |
| Cost of Goods Sold  | 373                 | 297                  |
| Operating Material and Supplies Used  | 7                   | 26                   |
| Cost Capitalization Offset  | (1,024,698)         | (1,197,685)          |
| Other   | 231,093             | 140,496              |
| Total Components of Net Cost of Operations that will not Require or Generate Resources                              | (155,069)           | (315,128)            |
| <b>Total components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b> | <b>(302,581)</b>    | <b>248,947</b>       |
| <b>Net Cost of Operations</b>   | <b>\$ 7,509,673</b> | <b>\$ 10,586,095</b> |

**Other Information**

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

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

Composition of Other Resources – Other, and Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations: Other – The FY 2012 and FY 2011 amounts include the net amount of assets transferred between USACE and other government agencies.

Composition of Components Requiring or Generating Resources in Future Periods: Other - The FY 2012 amounts include the current year increase to unfunded Judgment Fund Contract Disputes Act claims, Federal Employees' Compensation (FECA) liability and the FECA actuarial liability. The FY 2011 amount includes current year Judgment Fund Contract Disputes Act claims and current year unfunded expense for the FECA liability.

Composition of Components not Requiring or Generating Resources: Other – The FY 2012 and FY 2011 amounts include bad debt expense and cost capitalization offset expense. The cost capitalization offset account provides a mechanism to offset all direct costs in the expense accounts when those costs are subsequently capitalized into an in-process account. Current year costs associated with nonfederal cost share projects in the contributed fund and costs related to the acquisition of operating materials and supplies in the revolving fund are also recorded as other expenses not requiring budgetary resources. In FY 2012 and FY 2011 costs associated with fish mitigation studies in the general fund are also recorded as other expenses not requiring budgetary resources.

## NOTE 19. EARMARKED FUNDS

| <i>(Amount in thousands)</i>           | FY 2012          |                  |             |              |                    |
|--|------------------|------------------|-------------|--------------|--------------------|
|  | Maintenance Fund | Contributed Fund | Other Funds | Eliminations | Consolidated Total |
| <b>BALANCE SHEET</b>                   |                  |                  |             |              |                    |
| <i>As of September 30</i>              |                  |                  |             |              |                    |
| <b>ASSETS</b>                          |                  |                  |             |              |                    |
| Fund balance with Treasury             | \$ 102,746       | 979,219          | 81,458      | 4,241,096    | 5,404,519          |
| Investments                            | 7,112,147        | -                | -           | -            | 7,112,147          |
| Accounts and Interest Receivable       | 475,359          | 2,660            | 5,532       | (7,342)      | 476,209            |
| Other Assets                           | 700,665          | 30,998           | 937         | -            | 732,600            |
| Total Assets                           | \$ 8,390,917     | 1,012,877        | 87,927      | 4,233,754    | 13,725,475         |
| <b>LIABILITIES and NET POSITION</b>    |                  |                  |             |              |                    |
| Accounts Payable and Other Liabilities | 13,682           | 1,008,030        | 811         | (7,500)      | 1,015,023          |
| Total Liabilities                      | \$ 13,682        | 1,008,030        | 811         | (7,500)      | 1,015,023          |
| Cumulative Results of Operations       | 8,377,235        | 4,847            | 87,116      | 4,241,254    | 12,710,452         |
| Total Liabilities and Net Position     | \$ 8,390,917     | 1,012,877        | 87,927      | 4,233,754    | 13,725,475         |

### STATEMENT OF NET COST

*Year ended September 30*

|                        |           |           |        |          |           |
|------------------------|-----------|-----------|--------|----------|-----------|
| Program Costs          | \$ 38,739 | 464,408   | 17,146 | (53,085) | 467,208   |
| Less: Earned Revenue   | -         | (499,196) | -      | 233      | (498,963) |
| Net Program Costs      | \$ 38,739 | (34,788)  | 17,146 | (52,852) | (31,755)  |
| Net Cost of Operations | \$ 38,739 | (34,788)  | 17,146 | (52,852) | (31,755)  |

### STATEMENT OF CHANGES IN NET POSITION

*Year ended September 30*

|                                      |              |          |         |           |            |
|--------------------------------------|--------------|----------|---------|-----------|------------|
| Net Position Beginning of the Period | \$ 7,598,849 | 12,085   | 82,560  | 3,126,032 | 10,819,526 |
| Net Cost of Operations               | 38,739       | (34,788) | 17,146  | (52,852)  | (31,755)   |
| Budgetary Financing Sources          | 836,548      | -        | 24,291  | 996,135   | 1,856,974  |
| Other Financing Sources              | (19,423)     | (42,026) | (2,589) | 66,235    | 2,197      |
| Change in Net Position               | \$ 778,386   | (7,238)  | 4,556   | 1,115,222 | 1,890,926  |
| Net Position End of Period           | \$ 8,377,235 | 4,847    | 87,116  | 4,241,254 | 12,710,452 |

*(Amount in thousands)*

|  | FY 2011          |                  |             |              |                    |
|--|------------------|------------------|-------------|--------------|--------------------|
|  | Maintenance Fund | Contributed Fund | Other Funds | Eliminations | Consolidated Total |
| <b>BALANCE SHEET</b>                   |                  |                  |             |              |                    |
| <i>As of September 30</i>              |                  |                  |             |              |                    |
| <b>ASSETS</b>                          |                  |                  |             |              |                    |
| Fund balance with Treasury             | \$ 110,517       | 1,066,755        | 75,435      | 3,125,703    | 4,378,410          |
| Investments                            | 6,357,258        | -                | -           | -            | 6,357,258          |
| Accounts and Interest Receivable       | 436,204          | 703              | 5,509       | (13,425)     | 428,991            |
| Other Assets                           | 714,632          | 37,121           | 1,855       | -            | 753,608            |
| Total Assets                           | \$ 7,618,611     | 1,104,579        | 82,799      | 3,112,278    | 11,918,267         |
| <b>LIABILITIES and NET POSITION</b>    |                  |                  |             |              |                    |
| Accounts Payable and Other Liabilities | 19,762           | 1,092,494        | 239         | (13,754)     | 1,098,741          |
| Total Liabilities                      | \$ 19,762        | 1,092,494        | 239         | (13,754)     | 1,098,741          |
| Cumulative Results of Operations       | 7,598,849        | 12,085           | 82,560      | 3,126,032    | 10,819,526         |
| Total Liabilities and Net Position     | \$ 7,618,611     | 1,104,579        | 82,799      | 3,112,278    | 11,918,267         |

### STATEMENT OF NET COST

*Year ended September 30*

|                        |           |           |        |          |           |
|------------------------|-----------|-----------|--------|----------|-----------|
| Program Costs          | \$ 70,640 | 387,068   | 19,155 | (38,751) | 438,112   |
| Less: Earned Revenue   | -         | (393,274) | -      | 6        | (393,268) |
| Net Program Costs      | \$ 70,640 | (6,206)   | 19,155 | (38,745) | 44,844    |
| Net Cost of Operations | \$ 70,640 | (6,206)   | 19,155 | (38,745) | 44,844    |

### STATEMENT OF CHANGES IN NET POSITION

*Year ended September 30*

|                                      |              |         |        |           |            |
|--------------------------------------|--------------|---------|--------|-----------|------------|
| Net Position Beginning of the Period | \$ 6,957,796 | 12,644  | 76,073 | 2,145,754 | 9,192,267  |
| Net Cost of Operations               | 70,640       | (6,206) | 19,155 | (38,745)  | 44,844     |
| Budgetary Financing Sources          | 848,225      | -       | 25,629 | 926,702   | 1,800,556  |
| Other Financing Sources              | (136,532)    | (6,765) | 13     | 14,831    | (128,453)  |
| Change in Net Position               | \$ 641,053   | (559)   | 6,487  | 980,278   | 1,627,259  |
| Net Position End of Period           | \$ 7,598,849 | 12,085  | 82,560 | 3,126,032 | 10,819,526 |

## Other Disclosures

All intragovernmental activity within USACE between earmarked and non earmarked funds has been eliminated from the consolidated total column.

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

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

USACE has the following Earmarked Funds as of September 30, 2012 and 2011:

### Maintenance Fund

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

### Contributed Fund

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

### Other Funds

Coastal Wetlands Restoration Trust Fund. This fund is authorized by Title 16 USC 3951-3956. This title grants parallel authority to USACE, along with the Environmental Protection Agency, and the Fish and Wildlife Service to work with the state of Louisiana to develop, review, evaluate, and approve a plan that is proposed to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75% of project costs or 85% if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund.

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

Special Recreation Use Fees. Title 16 United States Code (USC) 4601-6a granted USACE the authority to charge and collect fair and equitable Special Recreation Use Fees at recreation facilities and campgrounds located at lakes or reservoirs under the jurisdiction of



USACE. Types of allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The revenue is received from the public and is an inflow of resources to the government. The purpose of the fund is to maintain and operate the recreation and camping facilities.

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

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

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

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

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

## NOTE 20. LEASES

**As of September 30**

*(Amount in thousands)*

| 2012                                     | Asset Category    |                 |                   |
|--|-------------------|-----------------|-------------------|
|  | Building Space    | Other           | Total             |
| <b>ENTITY AS LESSEE Operating Leases</b> |                   |                 |                   |
| Future Payments Due                      |                   |                 |                   |
| Fiscal Year                              |                   |                 |                   |
| 2013                                     | \$ 73,674         | \$ 494          | \$ 74,168         |
| 2014                                     | 74,017            | 421             | 74,438            |
| 2015                                     | 74,928            | 216             | 75,144            |
| 2016                                     | 75,791            | 209             | 76,000            |
| 2017                                     | 76,877            | 198             | 77,075            |
| After 5 Years                            | 403,993           | 707             | 404,700           |
| <b>Total Future Lease Payments Due</b>   | <b>\$ 779,280</b> | <b>\$ 2,245</b> | <b>\$ 781,525</b> |

As of September 30, 2012, USACE has various non-cancelable operating leases mainly for office space and storage facilities maintained by many USACE Districts. Many of these leases contain clauses to reflect inflation and renewal options. USACE has no assets under capital lease.

| As of September 30                 | 2012 Easements |               |
|------------------------------------|----------------|---------------|
| <i>(Amount in thousands)</i>       |                |               |
| <b>ENTITY AS LESSOR</b>            |                |               |
| Operating Leases                   |                |               |
| 2013                               | \$             | 5,113         |
| 2014                               |                | 4,422         |
| 2015                               |                | 3,300         |
| 2016                               |                | 2,739         |
| 2017                               |                | 2,018         |
| After 5 Years                      |                | 6,215         |
| <b>Total Future Lease Payments</b> | <b>\$</b>      | <b>23,807</b> |

USACE also has a small volume of operating leases for mostly easements. Private companies and individuals lease easements from USACE to operate marinas, restaurants, and other businesses on USACE lands.

## FY 2012 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI)

Unaudited, See Accompanying Auditor's Report

### NONFEDERAL PHYSICAL PROPERTY Investments in Physical Property Owned by State and Local Governments

*(Amount In millions)*

| Categories            | FY 2012 | FY 2011 | FY 2010 | FY 2009 | FY 2008 |
|-----------------------|---------|---------|---------|---------|---------|
| <b>Funded Assets:</b> |         |         |         |         |         |
| Cost Share Projects   | \$1,413 | \$2,273 | \$2,104 | \$1,198 | \$1,135 |
| <b>Total</b>          | \$1,413 | \$2,273 | \$2,104 | \$1,198 | \$1,135 |

The U.S. Army Corps of Engineers (USACE) incurs investments in Nonfederal Physical Property for the construction of physical property owned by state and local governments. USACE has the authority to enter into cost sharing agreements with nonfederal sponsors which are governed under numerous Water Resources Development Acts starting with the Act of 1986.

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

## **FY 2012 REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

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Unaudited, See Accompanying Auditor's Report

As of September 30, 2012

### **Real Property Deferred Maintenance and Repairs**

Deferred maintenance and repair is defined as maintenance and repairs not performed when it should have been or was scheduled to be but delayed for a future period. Deferred maintenance and repair for FY 2012 was \$2.9 billion for Other Structures. Operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. The O&M needs are based on inspections of project features, engineering analyses and historical experience.

### **Heritage Asset Condition**

Condition of heritage assets is based on factors such as quality of design and construction, location, adequacy of maintenance performed, and continued usefulness. The USACE's heritage assets overall condition is deemed to be fair; therefore, no significant deferred maintenance has been assessed.

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## **FY 2012 REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

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Unaudited, See Accompanying Auditor's Report

As of September 30, 2012

### **Disaggregated Schedule of Budgetary Resources by Major Fund**

Statement of Federal Financial Accounting Standard 7 *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* requires information be presented by major budget account. USACE – Civil Works presents information by major fund which USACE believes provides a better presentation, as the USACE – Civil Works is a single program and aligns with our funding and management of the program.

## US Army Corps of Engineers - Civil Works

**DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND (RSI - UNAUDITED)**For the year ended September 30, 2012  
(Amount in thousands)

|   | FUSRAP            | Special Funds      | Trust Funds         | Borrowing Authority | Revolving Funds     |
|---|-------------------|--------------------|---------------------|---------------------|---------------------|
| <b>Budgetary Resources</b>  |                   |                    |                     |                     |                     |
| Unobligated balance brought forward,<br>October 1   | \$ 4,634          | \$ 4,358           | \$ 187,726          | \$ 4                | \$ 236,319          |
| Recoveries of prior year unpaid obligation  | -                 | -                  | -                   | -                   | -                   |
| Other changes in unobligated balance  | -                 | -                  | -                   | -                   | -                   |
| Unobligated balance from prior year budget<br>authority, net  | 4,634             | 4,358              | 187,726             | 4                   | 236,319             |
| Appropriations (discretionary and mandatory)  | 109,000           | 20,709             | 1,457,597           | -                   | -                   |
| Spending authority from offsetting collections  | 4,715             | -                  | (422,779)           | 90                  | 8,747,806           |
| <b>Total Budgetary Resources</b>  | <b>\$ 118,349</b> | <b>\$ 25,067</b>   | <b>\$ 1,222,544</b> | <b>\$ 94</b>        | <b>\$ 8,984,125</b> |
| <b>Status of Budgetary Resources:</b>   |                   |                    |                     |                     |                     |
| Obligations incurred  | \$ 114,411        | \$ 21,826          | \$ 1,031,308        | \$ 90               | \$ 8,481,250        |
| Unobligated balance, end of year  |                   |                    |                     |                     |                     |
| Apportioned   | 3,938             | 3,241              | 191,236             | -                   | -                   |
| Exempt from apportionment   | -                 | -                  | -                   | 4                   | 502,875             |
| Unapportioned   | -                 | -                  | -                   | -                   | -                   |
| Unobligated balance brought forward, end<br>of year   | 3,938             | 3,241              | 191,236             | 4                   | 502,875             |
| <b>Total Budgetary Resources</b>  | <b>\$ 118,349</b> | <b>\$ 25,067</b>   | <b>\$ 1,222,544</b> | <b>\$ 94</b>        | <b>\$ 8,984,125</b> |
| <b>Change in Obligated Balance:</b>   |                   |                    |                     |                     |                     |
| Unpaid obligations, brought forward,<br>October 1 (gross)   | \$ 85,882         | \$ 1,875           | \$ 272,476          | \$ -                | \$ 1,432,462        |
| Uncollected customer payments from federal<br>sources, brought forward, October 1 (-)                     | (10,690)          | -                  | -                   | -                   | (182,667)           |
| Obligated balance, start of year (net)  | \$ 75,192         | \$ 1,875           | \$ 272,476          | \$ -                | \$ 1,249,795        |
| Obligations incurred  | 114,411           | 21,825             | 1,031,308           | 90                  | 8,481,251           |
| Outlays (gross) (-)   | (151,888)         | (17,901)           | (1,000,664)         | (90)                | (8,697,182)         |
| Change in uncollected customer payments<br>from federal sources (+ or -)                                  | 7,437             | -                  | -                   | -                   | 42,703              |
| Recoveries of prior year unpaid obligations (-)   | -                 | -                  | -                   | -                   | -                   |
| Obligated balance, end of year  |                   |                    |                     |                     |                     |
| Unpaid obligations, end of year (gross)   | 48,404            | 5,799              | 303,121             | -                   | 1,216,531           |
| Uncollected customer payments from<br>federal sources, end of year (-)                                    | (3,254)           | -                  | -                   | -                   | (139,965)           |
| Obligated balance, end of year  | <b>\$ 45,150</b>  | <b>\$ 5,799</b>    | <b>\$ 303,121</b>   | <b>\$ -</b>         | <b>\$ 1,076,566</b> |
| <b>Budget Authority and Outlays, Net:</b>   |                   |                    |                     |                     |                     |
| Budget authority, gross (discretionary and<br>mandatory)  | \$ 113,714        | \$ 20,709          | \$ 1,034,819        | \$ 90               | \$ 8,747,806        |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (12,151)          | -                  | -                   | (931)               | (8,790,509)         |
| Change in uncollected customer payments<br>from federal sources (discretionary and<br>mandatory) (+ or -) | 7,437             | -                  | -                   | -                   | 42,703              |
| Budget authority, net (discretionary and<br>mandatory)  | <b>\$ 109,000</b> | <b>\$ 20,709</b>   | <b>\$ 1,034,819</b> | <b>\$ (841)</b>     | <b>\$ -</b>         |
| Outlays, gross (discretionary and mandatory)  | 151,888           | 17,901             | 1,000,664           | 90                  | 8,697,182           |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (12,151)          | -                  | -                   | (931)               | (8,790,509)         |
| Outlays, net (discretionary and mandatory)  | <b>139,737</b>    | <b>17,901</b>      | <b>1,000,664</b>    | <b>(841)</b>        | <b>(93,327)</b>     |
| Distributed offsetting receipts   | -                 | (60,045)           | -                   | -                   | -                   |
| Agency outlays, net (discretionary and<br>mandatory)  | <b>\$ 139,737</b> | <b>\$ (42,144)</b> | <b>\$ 1,000,664</b> | <b>\$ (841)</b>     | <b>\$ (93,327)</b>  |

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

US Army Corps of Engineers - Civil Works

**DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND (RSI - UNAUDITED)****For the year ended September 30, 2012**  
(Amount in thousands)

|   | Contributed Funds | General Funds        | FUSRAP ARRA      | General ARRA      | 2012 Combined        |
|---|-------------------|----------------------|------------------|-------------------|----------------------|
| <b>Budgetary Resources</b>  |                   |                      |                  |                   |                      |
| Unobligated balance brought forward,<br>October 1   | \$ 592,889        | \$ 7,450,596         | \$ 4             | \$ 51,958         | \$ 8,528,488         |
| Recoveries of prior year unpaid obligation  | -                 | 93,459               | -                | 24                | 93,483               |
| Other changes in unobligated balance  | -                 | (1,664)              | -                | -                 | (1,664)              |
| Unobligated balance from prior year budget<br>authority, net  | 592,889           | 7,542,391            | 4                | 51,982            | 8,620,307            |
| Appropriations (discretionary and mandatory)  | 400,260           | 5,654,287            | -                | -                 | 7,641,853            |
| Spending authority from offsetting collections  | 2,283             | 2,368,560            | -                | (1,725)           | 10,698,950           |
| <b>Total Budgetary Resources</b>  | <b>\$ 995,432</b> | <b>\$ 15,565,238</b> | <b>\$ 4</b>      | <b>\$ 50,257</b>  | <b>\$ 26,961,110</b> |
| <b>Status of Budgetary Resources:</b>   |                   |                      |                  |                   |                      |
| Obligations incurred  | \$ 331,713        | \$ 8,334,115         | \$ 4             | \$ 36,316         | \$ 18,351,033        |
| Unobligated balance, end of year  |                   |                      |                  |                   |                      |
| Apportioned   | -                 | 7,213,526            | -                | 12                | 7,411,953            |
| Exempt from apportionment   | 663,719           | 17,585               | -                | -                 | 1,184,183            |
| Unapportioned   | -                 | 12                   | -                | 13,929            | 13,941               |
| Unobligated balance brought forward, end<br>of year   | 663,719           | 7,231,123            | -                | 13,941            | 8,610,077            |
| <b>Total Budgetary Resources</b>  | <b>\$ 995,432</b> | <b>\$ 15,565,238</b> | <b>\$ 4</b>      | <b>\$ 50,257</b>  | <b>\$ 26,961,110</b> |
| <b>Change in Obligated Balance:</b>   |                   |                      |                  |                   |                      |
| Unpaid obligations, brought forward,<br>October 1 (gross)   | \$ 473,871        | \$ 7,252,680         | \$ 13,367        | \$ 872,844        | \$ 10,405,457        |
| Uncollected customer payments from federal<br>sources, brought forward, October 1 (-)                     | (4)               | (2,825,007)          | -                | (79,333)          | (3,097,701)          |
| Obligated balance, start of year (net)  | \$ 473,867        | \$ 4,427,673         | \$ 13,367        | \$ 793,511        | \$ 7,307,756         |
| Obligations incurred  | 331,713           | 8,334,115            | 5                | 36,315            | 18,351,033           |
| Outlays (gross) (-)   | (489,971)         | (9,322,392)          | (13,332)         | (594,855)         | (20,288,275)         |
| Change in uncollected customer payments<br>from federal sources (+ or -)                                  | (109)             | 806,446              | -                | 64,497            | 920,974              |
| Recoveries of prior year unpaid obligations (-)   | -                 | (93,459)             | -                | (24)              | (93,483)             |
| Obligated balance, end of year  |                   |                      |                  |                   |                      |
| Unpaid obligations, end of year (gross)   | 315,613           | 6,170,944            | 39               | 314,281           | 8,374,732            |
| Uncollected customer payments from<br>federal sources, end of year (-)                                    | (113)             | (2,018,559)          | -                | (14,836)          | (2,176,727)          |
| Obligated balance, end of year  | <b>\$ 315,500</b> | <b>\$ 4,152,385</b>  | <b>\$ 39</b>     | <b>\$ 299,445</b> | <b>\$ 6,198,005</b>  |
| <b>Budget Authority and Outlays, Net:</b>   |                   |                      |                  |                   |                      |
| Budget authority, gross (discretionary and<br>mandatory)  | \$ 402,543        | \$ 8,022,846         | \$ -             | \$ (1,725)        | \$ 18,340,802        |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (2,174)           | (3,085,131)          | -                | (62,772)          | (11,953,668)         |
| Change in uncollected customer payments<br>from federal sources (discretionary and<br>mandatory) (+ or -) | (109)             | 806,446              | -                | 64,497            | 920,974              |
| Budget authority, net (discretionary and<br>mandatory)  | <b>\$ 400,260</b> | <b>\$ 5,744,161</b>  | <b>\$ -</b>      | <b>\$ -</b>       | <b>\$ 7,308,108</b>  |
| Outlays, gross (discretionary and mandatory)  | 489,971           | 9,322,392            | 13,332           | 594,855           | 20,288,275           |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (2,174)           | (3,085,131)          | -                | (62,772)          | (11,953,668)         |
| Outlays, net (discretionary and mandatory)  | 487,797           | 6,237,261            | 13,332           | 532,083           | 8,334,607            |
| Distributed offsetting receipts   | (400,260)         | (92,340)             | -                | -                 | (552,645)            |
| Agency outlays, net (discretionary and<br>mandatory)  | <b>\$ 87,537</b>  | <b>\$ 6,144,921</b>  | <b>\$ 13,332</b> | <b>\$ 532,083</b> | <b>\$ 7,781,962</b>  |

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

## US Army Corps of Engineers - Civil Works

**DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND (RSI - UNAUDITED)**For the year ended September 30, 2011  
(Amount in thousands)

|   | FUSRAP            | Special Funds    | Trust Funds         | Borrowing Authority | Revolving Funds     |
|---|-------------------|------------------|---------------------|---------------------|---------------------|
| <b>Budgetary Resources</b>  |                   |                  |                     |                     |                     |
| Unobligated balance brought forward,<br>October 1   | \$ 12,846         | \$ 8,325         | \$ 155,451          | \$ 4                | \$ 101,725          |
| Recoveries of prior year unpaid obligation  | -                 | -                | -                   | -                   | -                   |
| Other changes in unobligated balance  | -                 | -                | -                   | -                   | -                   |
| Unobligated balance from prior year budget<br>authority, net  | 12,846            | 8,325            | 155,451             | 4                   | 101,725             |
| Appropriations (discretionary and mandatory)  | 129,740           | 15,456           | 885,489             | -                   | -                   |
| Spending authority from offsetting collections  | 22,299            | -                | 82,388              | 125                 | 8,777,671           |
| <b>Total Budgetary Resources</b>  | <b>\$ 164,885</b> | <b>\$ 23,781</b> | <b>\$ 1,123,328</b> | <b>\$ 129</b>       | <b>\$ 8,879,396</b> |
| <b>Status of Budgetary Resources:</b>   |                   |                  |                     |                     |                     |
| Obligations incurred  | \$ 160,251        | \$ 19,423        | \$ 935,602          | \$ 125              | \$ 8,643,077        |
| Unobligated balance, end of year  |                   |                  |                     |                     |                     |
| Apportioned   | 4,634             | 4,358            | 187,367             | -                   | -                   |
| Exempt from apportionment   | -                 | -                | -                   | 4                   | 236,319             |
| Unapportioned   | -                 | -                | 359                 | -                   | -                   |
| Unobligated balance brought forward, end<br>of year   | \$ 4,634          | \$ 4,358         | \$ 187,726          | \$ 4                | \$ 236,319          |
| <b>Total Budgetary Resources</b>  | <b>\$ 164,885</b> | <b>\$ 23,781</b> | <b>\$ 1,123,328</b> | <b>\$ 129</b>       | <b>\$ 8,879,396</b> |
| <b>Change in Obligated Balance:</b>   |                   |                  |                     |                     |                     |
| Unpaid obligations, brought forward,<br>October 1 (gross)   | \$ 82,162         | \$ 1,602         | \$ 296,626          | \$ -                | \$ 1,603,928        |
| Uncollected customer payments from federal<br>sources, brought forward, October 1 (-)                     | (9,639)           | -                | -                   | -                   | (164,365)           |
| Obligated balance, start of year (net)  | \$ 72,523         | \$ 1,602         | \$ 296,626          | \$ -                | \$ 1,439,563        |
| Obligations incurred  | 160,251           | 19,423           | 935,602             | 125                 | 8,643,077           |
| Outlays (gross) (-)   | (156,531)         | (19,150)         | (959,752)           | (125)               | (8,814,543)         |
| Change in uncollected customer payments<br>from federal sources (+ or -)                                  | (1,051)           | -                | -                   | -                   | (18,302)            |
| Recoveries of prior year unpaid obligations (-)   | -                 | -                | -                   | -                   | -                   |
| Obligated balance, end of year  |                   |                  |                     |                     |                     |
| Unpaid obligations, end of year (gross)   | 85,882            | 1,875            | 272,476             | -                   | 1,432,462           |
| Uncollected customer payments from<br>federal sources, end of year (-)                                    | (10,690)          | -                | -                   | -                   | (182,667)           |
| Obligated balance, end of year  | \$ 75,192         | \$ 1,875         | \$ 272,476          | \$ -                | \$ 1,249,795        |
| <b>Budget Authority and Outlays, Net:</b>   |                   |                  |                     |                     |                     |
| Budget authority, gross (discretionary and<br>mandatory)  | \$ 152,039        | \$ 15,456        | \$ 967,877          | \$ 125              | \$ 8,777,671        |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (21,248)          | -                | -                   | (645)               | (8,759,370)         |
| Change in uncollected customer payments<br>from federal sources (discretionary and<br>mandatory) (+ or -) | (1,051)           | -                | -                   | -                   | (18,302)            |
| Budget authority, net (discretionary and<br>mandatory)  | \$ 129,740        | \$ 15,456        | \$ 967,877          | \$ (520)            | \$ (1)              |
| Outlays, gross (discretionary and mandatory)  | 156,531           | 19,150           | 959,752             | 125                 | 8,814,543           |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (21,248)          | -                | -                   | (645)               | (8,759,370)         |
| Outlays, net (discretionary and mandatory)  | 135,283           | 19,150           | 959,752             | (520)               | 55,173              |
| Distributed offsetting receipts   | -                 | (58,392)         | -                   | -                   | -                   |
| Agency outlays, net (discretionary and<br>mandatory)  | \$ 135,283        | \$ (39,242)      | \$ 959,752          | \$ (520)            | \$ 55,173           |

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



US Army Corps of Engineers - Civil Works

**DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND (RSI - UNAUDITED)****For the year ended September 30, 2011**  
(Amount in thousands)

|   | Contributed Funds   | General Funds        | FUSRAP ARRA      | General ARRA        | 2011 Combined        |
|---|---------------------|----------------------|------------------|---------------------|----------------------|
| <b>Budgetary Resources</b>  |                     |                      |                  |                     |                      |
| Unobligated balance brought forward,<br>October 1   | \$ 504,203          | \$ 10,123,348        | \$ 332           | \$ 162,918          | \$ 11,069,152        |
| Recoveries of prior year unpaid obligation  | -                   | 117,161              | -                | 13                  | 117,174              |
| Other changes in unobligated balance  | -                   | (2,542)              | -                | -                   | (2,542)              |
| Unobligated balance from prior year budget<br>authority, net  | 504,203             | 10,237,967           | 332              | 162,931             | 11,183,784           |
| Appropriations (discretionary and mandatory)  | 504,067             | 3,840,649            | -                | -                   | 5,375,401            |
| Spending authority from offsetting collections  | 3,513               | 3,182,486            | -                | 4,144               | 12,072,626           |
| <b>Total Budgetary Resources</b>  | <b>\$ 1,011,783</b> | <b>\$ 17,261,102</b> | <b>\$ 332</b>    | <b>\$ 167,075</b>   | <b>\$ 28,631,811</b> |
| <b>Status of Budgetary Resources:</b>   |                     |                      |                  |                     |                      |
| Obligations incurred  | \$ 418,894          | \$ 9,810,505         | \$ 328           | \$ 115,118          | \$ 20,103,323        |
| Unobligated balance, end of year  |                     |                      |                  |                     |                      |
| Apportioned   | -                   | 7,435,698            | -                | 853                 | 7,632,910            |
| Exempt from apportionment   | 592,889             | 14,879               | -                | -                   | 844,091              |
| Unapportioned   | -                   | 20                   | 4                | 51,104              | 51,487               |
| Unobligated balance brought forward, end<br>of year   | \$ 592,889          | \$ 7,450,597         | \$ 4             | \$ 51,957           | \$ 8,528,488         |
| <b>Total Budgetary Resources</b>  | <b>\$ 1,011,783</b> | <b>\$ 17,261,102</b> | <b>\$ 332</b>    | <b>\$ 167,075</b>   | <b>\$ 28,631,811</b> |
| <b>Change in Obligated Balance:</b>   |                     |                      |                  |                     |                      |
| Unpaid obligations, brought forward,<br>October 1 (gross)   | \$ 450,731          | \$ 8,340,350         | \$ 63,230        | \$ 2,295,976        | \$ 13,134,605        |
| Uncollected customer payments from federal<br>sources, brought forward, October 1 (-)                     | (11)                | (2,664,104)          | -                | (227,286)           | (3,065,405)          |
| Obligated balance, start of year (net)  | \$ 450,720          | \$ 5,676,246         | \$ 63,230        | \$ 2,068,690        | \$ 10,069,200        |
| Obligations incurred  | 418,894             | 9,810,505            | 328              | 115,118             | 20,103,323           |
| Outlays (gross) (-)   | (395,754)           | (10,781,015)         | (50,191)         | (1,538,236)         | (22,715,297)         |
| Change in uncollected customer payments<br>from federal sources (+ or -)                                  | 7                   | (160,903)            | -                | 147,953             | (32,296)             |
| Recoveries of prior year unpaid obligations (-)   | -                   | 117,161              | -                | 13                  | 117,174              |
| Obligated balance, end of year  |                     |                      |                  |                     |                      |
| Unpaid obligations, end of year (gross)   | 473,871             | 7,252,680            | 13,367           | 872,844             | 10,405,457           |
| Uncollected customer payments from<br>federal sources, end of year (-)                                    | (4)                 | (2,825,007)          | -                | (79,333)            | (3,097,701)          |
| Obligated balance, end of year  | <b>\$ 473,867</b>   | <b>\$ 4,427,673</b>  | <b>\$ 13,367</b> | <b>\$ 793,511</b>   | <b>\$ 7,307,756</b>  |
| <b>Budget Authority and Outlays, Net:</b>   |                     |                      |                  |                     |                      |
| Budget authority, gross (discretionary and<br>mandatory)  | \$ 507,580          | \$ 7,023,135         | \$ -             | \$ 4,144            | \$ 17,448,027        |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (3,519)             | (2,927,517)          | -                | (152,096)           | (11,864,395)         |
| Change in uncollected customer payments<br>from federal sources (discretionary and<br>mandatory) (+ or -) | 7                   | (160,903)            | -                | 147,953             | (32,296)             |
| Budget authority, net (discretionary and<br>mandatory)  | <b>\$ 504,068</b>   | <b>\$ 3,934,715</b>  | <b>\$ -</b>      | <b>\$ 1</b>         | <b>\$ 5,551,336</b>  |
| Outlays, gross (discretionary and mandatory)  | 395,754             | 10,781,015           | 50,191           | 1,538,236           | 22,715,297           |
| Actual offsetting collections (discretionary and<br>mandatory) (-)  | (3,519)             | (2,927,517)          | -                | (152,096)           | (11,864,395)         |
| Outlays, net (discretionary and mandatory)  | 392,235             | 7,853,498            | 50,191           | 1,386,140           | 10,850,902           |
| Distributed offsetting receipts   | (504,067)           | (133,940)            | -                | -                   | (696,399)            |
| Agency outlays, net (discretionary and<br>mandatory)  | <b>\$ (111,832)</b> | <b>\$ 7,719,558</b>  | <b>\$ 50,191</b> | <b>\$ 1,386,140</b> | <b>\$ 10,154,503</b> |

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

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

November 15, 2012

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

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2012 and FY 2011  
Basic Financial Statements (Report No. DODIG-2013-023)

We contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of U.S. Army Corps of Engineers, Civil Works (USACE CW), as of September 30, 2012 and 2011, for the years then ended. The contract required that KPMG LLP, conduct the audit in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008. KPMG LLP's audit resulted in an unqualified opinion. The results of KPMG LLP's audit are presented in the attached report.

KPMG LLP concluded that the financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. KPMG LLP's report identified no material weaknesses and three significant deficiencies related to USACE CW internal controls. KPMG LLP's report also identifies two instances of non-compliance with laws and regulations and a possible Anti-deficiency Act violation that USACE CW management self-reported.

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

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8938 (DSN 664-8938).

Handwritten signature of Richard B. Vasquez in black ink.

Richard B. Vasquez, CPA  
Acting Assistant Inspector General  
Financial Management and Reporting



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Commanding General, Chief of Engineers,  
United States Army Corps of Engineers – Civil Works; and,  
United States Department of Defense Inspector General:

We have audited the accompanying consolidated balance sheets of the United States Army Corps of Engineers – Civil Works (USACE – Civil Works) as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended (hereinafter referred to as “consolidated financial statements”). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered the USACE – Civil Works’ internal control over financial reporting and tested the USACE – Civil Works’ compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

### Summary

As stated in our opinion on the consolidated financial statements, we concluded that the USACE – Civil Works’ consolidated financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, the USACE – Civil Works changed its presentation for reporting the Statement of Budgetary Resources in fiscal year 2012.

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

- A. Financial Management System
- B. Financial Oversight and Reporting
- C. General Property, Plant, and Equipment

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

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



USACE – Civil Works  
November 13, 2012  
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Noncompliance:

D. *Federal Managers Financial Integrity Act of 1982*

E. *Federal Financial Management Improvement Act of 1996*

Other Matter:

F. *Antideficiency Act*

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of the USACE – Civil Works as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the USACE – Civil Works as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1.X to the consolidated financial statements, the USACE – Civil Works changed its presentation for reporting the Combined Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the USACE – Civil Works' Combined Statement of Budgetary Resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



USACE – Civil Works  
November 13, 2012  
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**Internal Control Over Financial Reporting**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Exhibit III presents the status of prior year significant deficiencies and material weakness.

We noted certain additional matters that we have reported to management of the USACE – Civil Works in a separate letter dated November 13, 2012.

**Compliance and Other Matters**

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

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

The results of our tests of FFMIA disclosed instances, described in Exhibit II, where the USACE – Civil Works’ financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

\* \* \* \* \*

**Responsibilities**

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



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**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2012 and 2011 consolidated financial statements of the USACE – Civil Works based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the USACE – Civil Works' internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2012 audit, we considered the USACE – Civil Works' internal control over financial reporting by obtaining an understanding of the USACE – Civil Works' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USACE – Civil Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the USACE – Civil Works' internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the USACE – Civil Works' fiscal year 2012 consolidated financial statements are free of material misstatement, we performed tests of the USACE – Civil Works' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the USACE – Civil Works. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.



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The USACE – Civil Works’ written responses to the findings identified in our audit and presented in Exhibits I and II were not subjected to the auditing procedures applied in the audit of the USACE – Civil Works’ consolidated financial statements and, accordingly, we express no opinion on them.

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

**KPMG LLP**

November 13, 2012



## Exhibit I

**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Significant Deficiencies**  
**September 30, 2012**

**A. Financial Management System**

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

Access Control Deficiencies

USACE – Civil Works management needs to strengthen access controls at the application, database, operating system and physical security levels. At the application level, USACE – Civil Works has not implemented a process to ensure that Corps of Engineers Financial Management System (CEFMS) user access rights are re-certified annually, and prior to March 2012, they did not enforce adequate justification for granting CEFMS application system administrator access. At the database level, USACE – Civil Works has not established a formalized process for logging and monitoring database administrator activity, and they did not adequately restrict user access to sensitive database privileges. At the operating system level, USACE – Civil Works has not established a formalized process for logging and monitoring operating system administrator access, they did not use system-generated listings to perform monthly recertification of CEFMS operating system accounts, and they granted privileged operating system access without documenting supervisory authorization. Lastly, USACE – Civil Works has not established adequate physical security controls over the server rooms where the CEFMS application is hosted. By not implementing appropriate processes and procedures, there is an increased risk that financial data could be modified inappropriately, which may have an adverse affect on the availability and integrity of financial data.

Further, USACE – Civil Works management did not appropriately authorize and restrict access to the CEFMS development environment. Specifically, privileged access was granted without documented authorization, application database administrators were granted operating system privileges that were not required on a full-time basis in order to perform their job responsibilities, and operating system privileges were assigned to system and application database administrators that resulted in improper configuration management segregation of duties. This increases the risk that individuals can create and authorize changes to application programs and data to the production environment that have adverse affects on the availability or processing/data integrity of the application without management's awareness/approval.

Configuration Management Control Deficiencies

USACE – Civil Works management does not properly document configuration changes made to the operating system and database environments supporting CEFMS. Specifically, existing configuration management documentation does not describe how these changes are formally tracked, including the retention of evidence to support successful testing and approvals prior to release into production. Further, documentation is not retained to support that successful testing was performed for operating system changes. Lack of established change management procedures could result in an increased risk that change

**Exhibit I, continued**

management activities will be performed inconsistently and that unauthorized and/or invalid infrastructure changes may be implemented into the production environment, which may adversely impact system availability and the processing and data integrity of supported applications.

**Security Management Control Deficiencies**

USACE – Civil Works Chief Information Officer (CIO) management does not periodically monitor Information Technology (IT) Plans of Action and Milestones (POA&Ms) for current remediation status and compliance with the Federal Information Security Management Act (FISMA) and Department of Defense (DoD) guidance. The lack of periodic monitoring and awareness by the USACE – Civil Works CIO for identified IT security weaknesses may result in the weaknesses not being remediated in a timely fashion.

These control deficiencies have occurred because USACE – Civil Works management has not allocated resources to develop and implement detailed access control, configuration management and security management procedures and routinely monitor them to ensure adherence. Management should make monitoring the progress of these matters a priority.

***Recommendations***

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

1. Develop and formally document procedures for ensuring CEFMS application user access rights are re-certified on an annual basis.
2. Develop and formally document procedures for logging and monitoring both database and operating system administrator activity.
3. Enhance the existing monthly operating system recertification process, enforce existing privileged user access management policies, enforce existing server room physical access procedures, and implement a periodic review process that requires the use of system-generated physical access listings.
4. Review, on a periodic basis, privileged operating system access to the CEFMS development server, implement logical segregation of duties on the CEFMS development server, and implement one or more independently operated monitoring controls over the activities of the individuals with administrative access to the CEFMS development server.
5. Develop and formally document configuration management procedures for operating system and database changes; periodically communicate these procedures to individuals performing the control.
6. Require system and agency POA&Ms be submitted at least quarterly to USACE – Civil Works CIO management for review.

**Management Response**

USACE concurs with the finding and will take corrective action to cure all significant deficiencies.

**B. Financial Oversight and Reporting**

Maintaining effective financial oversight and reporting controls assist management to prevent, detect, and correct errors in a timely manner. In the performance of our FY 2012 procedures we identified deficiencies in budgetary accounting, financial reporting, and the processing/recording of journal vouchers.

**Exhibit I, continued**Budgetary Accounting

Our fiscal year (FY) 2012 procedures identified deficiencies in internal controls over undelivered orders (UDO) balances (unliquidated obligations). Specifically, USACE – Civil Works' internal controls, such as the tri-annual review, are not operating effectively to identify invalid, inaccurate, and/or unsupported UDO balances and could misstate balance. The year-end UDO balance was overstated as a result.

Financial Reporting

Our procedures identified deficiencies in internal controls related to accounting for Operating Materials & Supplies (OM&S). Specifically, the OM&S detail file provided did not reconcile to the general ledger and contained items which should have been expensed when purchased in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*.

We found that while several districts followed a policy memorandum distributed throughout the Civil Works districts to remove items that had been consumed along with those items that did not meet the definition OM&S other districts had not performed their review. As a result, the balance may be incorrectly reported on the financial statements.

Management recorded a journal entry to record the transfer in/out of property to/from the Defense Reutilization and Marketing Office (DRMO) which incorrectly resulted in the recognition of a gain/loss. USACE – Civil Works indicated that DRMO does not record a transfer-in/out for certain transfers of property. Therefore, if USACE – Civil Works recorded a transfer-in/out, it would result in a reconciling item during the intra-departmental eliminations process. In order to avoid reconciling items, USACE – Civil Works determined that they would record transfers-to/from DRMO at a gain or loss.

Management's estimates for environmental liability project estimates are of not using the most current data available. There are no formal controls in place to address the documentation requirements for project managers' to complete annual updates of their project estimates. The environmental liabilities balance may be misstated.

We noted deficiencies in internal controls related to accounting for and reporting heritage assets as a result District heritage asset counts were not always accurate. This includes the omission of one heritage asset, including items no longer owned by USACE – Civil Works and the failure to include heritage assets identified during prior audits on the current year heritage asset listing.

USACE – Civil Works did not review all of its historical assets for inclusion in the heritage asset listing when completing its' data call. Accordingly, historical items at some projects may not have been considered for inclusion on the data call.

USACE – Civil Works does not consistently review lease agreements to determine whether they should be classified as operating or capital leases. While management indicated non-General Services Agency leases are reviewed for proper classification at each District our procedures to validate this information determined that policies, procedures, or further evidence that this District-level control was in place did not exist.

There is no formal policy in place to review new lease agreements to determine whether or not they should be capitalized. Management assumes that all leases are operating leases because the majority of leases are procured through the General Services Administration and are "automatically" considered operating leases.

**Exhibit I, continued**

Capital leases could be erroneously classified as operating leases, resulting in an understatement of General PP&E and misstatement of the leases footnote.

We noted the inclusion of a deposit fund which created a reconciling item between the Standard Form 133s, *Reports on Budget Execution and Budgetary Resources* used in the preparation of the President's Budget and the FY 2012 USACE – Civil Works Statement of Budgetary Resources.

We found Title 40 United State Code (USC) Section 9501 only provides USACE – Civil Works immediate superintendence rather than ownership and operational authority over the funds.

**Preparation and Related Review and Approval of Journal Vouchers**

We noted internal control deficiencies related to the completeness, existence, accuracy, obligations and rights and presentation of CEFMS and Department of Defense Reporting System (DDRS) Journal Vouchers. Further, USACE – Civil Works eliminated unreconciled variances by recording “unsupported” journal vouchers to reclassify amounts to complete the financial statement preparation process.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, Page 15, states that “transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states the following:

“Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.”

***Recommendations***

We recommend USACE – Civil Works management:

1. De-obligate invalid obligations in a timely manner (i.e., prior to fiscal year-end)
2. Strengthen policies and procedures to ensure proper accounting for OM&S, transfers, environmental liabilities, heritage assets, and leases.
3. Investigate Treasury Account Fund Symbol 96X6094 further and revise their accounting treatment of the deposit fund to be in accordance with the guidance provided under OMB Circular No. A-11.
4. Develop policies and procedures to enhance the internal controls over the completeness, existence, accuracy, rights and obligations, and presentation of journal vouchers and to identify and correct variances between federal expenses recorded in the DDRS trial balance and the trading partner activity associated with these expenses in a timely manner.

**Management Response**

USACE concurs with the finding and will take corrective action to cure all significant deficiencies.

**Exhibit I, continued****C. General Property, Plant, and Equipment**

Property, Plant & Equipment (PP&E) is the largest line item on the USACE – Civil Works financial statements. During our FY 2012 audit, we noted that USACE – Civil Works has designed and implemented controls over PP&E throughout Civil Works Districts. However, continued improvements are needed to further minimize the potential that misstatements will not be prevented or detected and corrected on a timely basis. Our specific findings are as follows.

Certain PP&E matters were not accounted for timely in CEFMS. Management did not adjust CEFMS in a timely manner for: (1) transactions management identified as those that should have been capitalized; (2) transactions that should have been expensed; and (3) transactions that should have been transferred from Construction in Progress (CIP) to completed PP&E. Management could not provide adequate supporting documentation for one PP&E adjusting entry. Additionally, USACE – Civil Works did not properly account for PP&E at specific long-term projects as we noted certain equipment items were recorded as CIP and were not placed in service as completed PP&E and depreciated. The errors identified related to transactions originating in the current and prior years.

Communications within some Districts remain inconsistent and sometimes do not occur timely. In some cases, resource management does not follow-up with operations personnel regarding unusual items related to PP&E. In other cases, operations personnel were aware of certain matters but did not communicate these matters to resource management and did not consider the accounting impact to PP&E. Additionally, USACE – Civil Works did not consistently perform or complete management reviews and reconciliations of PP&E that are designed to address these conditions.

Statement of Federal Financial Accounting Standards (SFFAS) No. 6 *Accounting for Property, Plant, and Equipment*, provides guidance for Federal entities in accounting for PP&E transactions. The Army Corps of Engineers Regulations, Engineering Regulation (ER) 37-1-30, "Financial Administration – Accounting and Reporting," contains general asset accounting policies, including accounting for CIP and PP&E. These policies include Civil Works-specific items such as accounting for cost-shared projects, the Washington Aqueduct, projects that include a hydropower element, and the revolving fund. The USACE – Civil Works FY 2012 PP&E test plan titled "Annex A Test Plan 1 PPE FY2012" provides policies and procedures to strengthen controls over PP&E reconciliations and transactions.

***Recommendations***

We recommend that USACE – Civil Works management: (1) ensure all Districts fully implement controls related to PP&E (including CIP) management reviews, reconciliations, supporting documentation, timely recording in CEFMS and communications, and (2) implement CIP controls designed to prevent capitalization and expense misclassification errors.

**Management Response**

USACE concurs with the finding and will take corrective action to cure all significant deficiencies.

**UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS**  
**Summary of Noncompliance and Other Matter**  
**September 30, 2012**

**Noncompliance**

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

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

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

***Recommendations***

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

**Management Response**

USACE concurs with the finding and will take corrective action to cure all non-compliance items.

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

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

***Recommendations***

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

**Management Response**

USACE concurs with the finding and will take corrective action to cure all non-compliance items.

**Exhibit II, continued****Other Matter****F. Antideficiency Act (ADA)**

USACE – Civil Works management has self-reported a possible infraction related to the ADA. A preliminary investigation is underway to ascertain whether or not an ADA violation occurred when the USACE Readiness Support Center (Mobile) incrementally funded an alleged non-severable service contract with various fiscal year dollars and appropriation types.

***Recommendations***

We recommend USACE – Civil Works management continue investigations to determine the possible causes for the ADA violation and upon conclusion notify appropriate officials.

**Management Response**

USACE concurs with the finding and will take corrective action to cure the other matter.

## Exhibit III

## UNITED STATES ARMY CORPS OF ENGINEERS - CIVIL WORKS

## Status of Prior Year Findings

September 30, 2012

| Title of Finding from FY11 Report      | Prior Year Status      | Current Year Status   |
|--|------------------------|---|
| Entity-wide Internal Controls          | Material Weakness      | Improvement demonstrated; Continuing deficiencies include in Significant Deficiency B |
| Financial Management Systems           | Significant Deficiency | Significant Deficiency A  |
| Financial Reporting                    | Significant Deficiency | Significant Deficiency B  |
| General Property, Plant, and Equipment | Significant Deficiency | Significant Deficiency C  |



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

## **Department of the Army**

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

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

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## THE SOLDIER'S CREED

I am an American Soldier.  
I am a Warrior and a member of a team.  
I serve the people of the United States  
and live the Army Values.

I will always place the mission first.  
I will never accept defeat.  
I will never quit.  
I will never leave a fallen comrade.

I am disciplined, physically and mentally tough,  
trained and proficient in my warrior tasks and  
drills. I always maintain my arms,  
my equipment and myself.

I am an expert and I am a professional.

I stand ready to deploy, engage, and  
destroy the enemies of the United States  
of America in close combat.

I am a guardian of freedom and the  
American way of life.

I am an American Soldier.