United States Army Annual Financial Statement

"The Army in Transformation—Responsive to the Needs of the Nation"

The picture of the digitized soldier on the front cover was taken by Mr. Dennis Steele, ARMY Magazine, published in ARMY Magazine, November 2000. Copyright 2000 by the Association of the U.S. Army and reproduced with their permission.

In FY 1991 the United States Army became a pilot agency for the implementation of the Chief Financial Officers Act of 1990. By law, the Army is required to report annually on the financial position and operating results for its three entities-General Fund, Working Capital Fund, Civil Works Fund. This document combines the three major reporting entities of the Army into a single comprehensive report. The FY 2000 United States Army Annual Financial Statement is intended to inform government officials; Army officers, soldiers and civilians; and other interested parties. In an effort to improve our Annual Financial Statement, we ask that you provide us your comments by completing, detaching, and mailing the postage paid comment card enclosed at the back of this report.

"The Army in Transformation

—Responsive to the Needs of the Nation"

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*Unless otherwise indicated, all photographs in the FY 2000 Army Annual Financial Statement are courtesy of the U.S. Army.

"The Army in Transformation—Responsive to the Needs of the Nation"

“The Army in Transformation

—Responsive to the Needs of the Nation”

Secretary of the Army

Today, the United States is at peace and enjoying a time of unprecedented prosperity. Nevertheless, the world remains a volatile and dangerous place, with our country increasingly being called upon to intervene to restore order in situations of civil strife overseas. As a result, our soldiers are often the most important symbol globally of America's commitment to its principles and ideals.

If we are to overcome the new challenges of this era, we must transform the Army into a lighter, more survivable, and more lethal force. This vision for a fully digitized force for the information age is predicated on the way that the Army is expected to serve our nation. It is indispensable to America's fulfillment of its world leadership role, with our soldiers on point for the nation. These soldiers are the best our country has to offer, and as we seek to transform the Army we must above all continue to invest in our people. Training has been the cornerstone of our strategy to ensure military readiness since the earliest days of our nation, and it will remain key to the success of our efforts to develop the Army of the future. We are committed to providing our soldiers with the training, education, and technical skills and capabilities they will need to succeed on future battlefields.

Critical to our successful transformation will be the prudent use of scarce resources. We must, for example, improve the quality of the financial information we provide our leaders, so that they may make fully informed management decisions. To this end, we have been striving to improve our financial management systems to achieve compliance with the Chief Financial Officers Act of 1990, which calls for improving our financial management systems. We are making significant progress toward receipt of an unqualified audit opinion on our financial statements that would signify that the financial information upon which we base our decisions is reliable.

In addition to its peacetime responsibilities, the Army must also remain ready to fight and win the nation's wars. We will maintain this readiness through a transformation of today's heavy forces into a lighter, more survivable, and more lethal force capable of responding quickly and effectively to fulfill all potential future missions. By focusing on people, readiness, and the transformation of our forces, we will ensure that our soldiers remain on point for the nation whenever and wherever it requires.

Louis Caldera
Secretary of the Army

“The Army in Transformation

—Responsive to the Needs of the Nation”

The year 2000 was marked by two important anniversaries for the U.S. Army. Founded in 1775, the Army proudly celebrated its 225th year of service to the nation. The year 2000 also saw the 10th anniversary of the Chief Financial Officers (CFO) Act of 1990—a law requiring the full integration of operational and financial systems and processes. Ten years of the CFO Act may seem a minor anniversary in comparison with 225 years of service, but the Act is in fact very significant to us as stewards of government resources.

The Army initially served as a pilot agency in implementing the CFO Act, and we quickly realized that full implementation of the Act was in our best interests. Although we have been unable thus far to gain the unqualified opinion we seek on our financial statements, we have made substantive improvements to the way we do business. Our goal is to integrate and improve our operational and financial processes to produce the most reliable data possible, so that we can fully support the decision-makers engaged in the continuing Army mission and the Army Transformation. Two examples of the initiatives we are undertaking to achieve full compliance with the CFO Act include introduction of the Army Single Stock Fund and implementation of the Defense Property Accountability System.

The Army's improving ability to provide reliable and relevant financial information will reinforce the trust that Congress and the American public place in us as stewards of taxpayer resources. It will also strengthen our position when Congress deliberates budget issues.

It is our responsibility to do all we can to protect our nation's interests. In our role as stewards of public resources, it is also our responsibility to make the best possible use of those resources. By doing so, we can take better care of our people, maintain our readiness, and move ahead with the Army Transformation. These are critical tasks, and working together, we will succeed.

Helen T. McCoy
Assistant Secretary of the Army
(Financial Management and Comptroller)

“The Army in Transformation

—Responsive to the Needs of the Nation”

Assistant Secretary of the Army
Civil Works

The Army Corps of Engineers has served the Nation in peace and war throughout its history. The Corps traces its origins to the construction of fortifications at Bunker Hill in 1775, service in the Revolutionary War, and peacetime service opening the Western frontier. More recently, the Corps work force and its contractors represent assets that are used in quiet times for water resources development and management, but that are also available for emergency use in the event of natural disasters or national mobilization.

In carrying out its traditional Civil Works missions, the Corps has emerged as the premier Federal agency in planning, designing, constructing and operating the Nation's water resources infrastructure. Water infrastructure has improved the quality of life for our citizens and provides a foundation for the economic growth and development of this country. Our flood protection projects, water transportation systems and environmental restoration efforts all contribute to our national prosperity and well being. The population is expected to grow by 50 million people over the next twenty years. Such growth will place even greater demands on the performance of the national water resources infrastructure.

The Corps is continually seeking ways to improve its management procedures to ensure the highest quality stewardship of America's water resources infrastructure for its growing population. Several of the Corps' more important management initiatives, along with a report on its performance record, are described in this document. Through these initiatives and performance results, we remain poised to provide environmentally sustainable projects that protect people and property across the United States.

Joseph W. Westphal
Assistant Secretary of the Army
(Civil Works)

Army Year in Review

Army Year in Review

The Army has served the United States with distinction at home and abroad, in peace and in war, for 225 years. Today's Army is much more than the sum of its tanks and helicopters. Our people are the heart of today’s Army; we depend totally on the quality of our soldiers, civilians, and their families. The two core functions governing our everyday work are the training of our soldiers and the development of the leaders who will train the next generation of soldiers. By focusing on these functions we maintain our preparedness to serve our nation's needs.

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

General Fund

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

Summary of Performance Results

The Army measures its performance against goals that we set for our people, readiness, and progress toward transformation. The following are highlights of our FY 2000 performance.

Recruiting and Retention. The Army exceeded its FY 2000 recruiting goals for enlistment by all three components—the active Army, National Guard, and Reserves. In total, the Army enlisted 23,000 more soldiers than in FY 1999, an increase of more than 14 percent. We also exceeded our quality benchmarks for the proportion of enlistees holding high school diplomas, and surpassed the Department of Defense (DoD) target of 60 percent of recruits scoring in the top half of the Armed Forces Qualification Test (AFQT). We fell slightly short of our self-imposed AFQT goal of 67 percent, however. In

Infantry platoon renders honors during a change of command ceremony.

addition, the Army exceeded its FY 2000 retention goal for first-term soldiers by 7 percent, increasing retention by 2.7 percent over the FY 1999 level. We also exceeded by almost 2 percent our goal for retention of second-term soldiers, despite experiencing a slight reduction in retention compared to FY 1999.

Deployment Tempo (DEPTEMPO). The Army was involved in numerous operations around the world during FY 2000. Wherever possible, the Army spreads deployment requirements across the force; however, the special skills of some units and soldiers mean that they are unavoidably deployed more frequently than others. Due mainly to the U.S. commitment to United Nations operations in Bosnia, Kosovo, and East Timor, the Army was unable to meet its DEPTEMPO targets for FY 2000. Of the 1,450 active Army reporting units, 123 units (8.6 percent) had a DEPTEMPO exceeding 120 days, and 5.5 percent of reporting units had a DEPTEMPO exceeding 179 days.

Soldiers are deployed throughout the world in support of U.S. commitments.

OPTEMPO is the programmed support of training readiness. Overall, Army ground training exhibited a positive trend during FY 2000. Although the active Army did not meet its home-station training target of 800 tank miles, active units logged 101 more tank miles in FY 2000 than in FY 1999, a 17 percent increase. The shortfall for the active forces was due to a combination of factors, including contingency deployments, transformation, use of the Army's Close Combat Tactical Trainer, and the diversion of resources to underfunded training enablers such as ranges. In addition, the Army National Guard (ARNG) forces experienced a slight decrease in tank miles from FY 1999 performance levels.

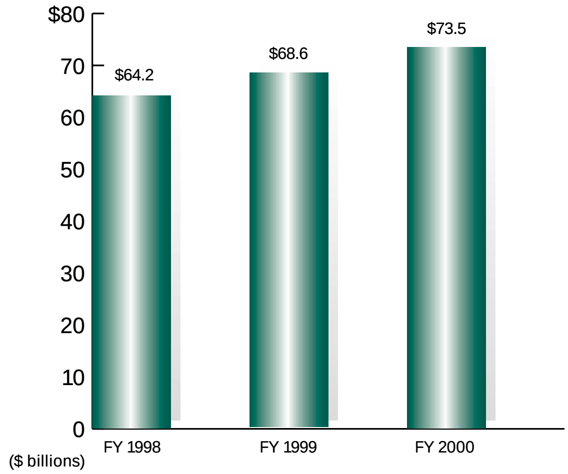
The Army also fell short of the established flying hours goals for the active, Reserve, and ARNG forces in FY 2000. This shortfall was due primarily to aircraft of all three Army components being grounded because of faulty parts. The number of Safety of Flight Messages issued in FY 2000 was 37, an increase of 300 percent from FY 1999.

Tank crews conduct live fire exercises to maintain readiness.

Streamlining Infrastructure through Business Reform. As part of its efforts to reduce infrastructure, the Army conducts regular reviews of its different functions and their associated billets. While some functions are retained in-house subsequent to these reviews, others are outsourced or reengineered. During FY 2000, the Army conducted 19 public-private sector competitions, resulting in 9 decisions to keep the function in-house and 10 contract decisions to outsource for an annual savings of $35.9 million.

Financial Resources. The Army's budget authority for FY 2000 was $73.5 billion, an increase of 7.1 percent from the previous year. The level of funding affects every aspect of Army operations, including our ability to attract high-quality people, to provide training, and to maintain equipment and infrastructure. It also governs the pace at which we are able to modernize our forces.

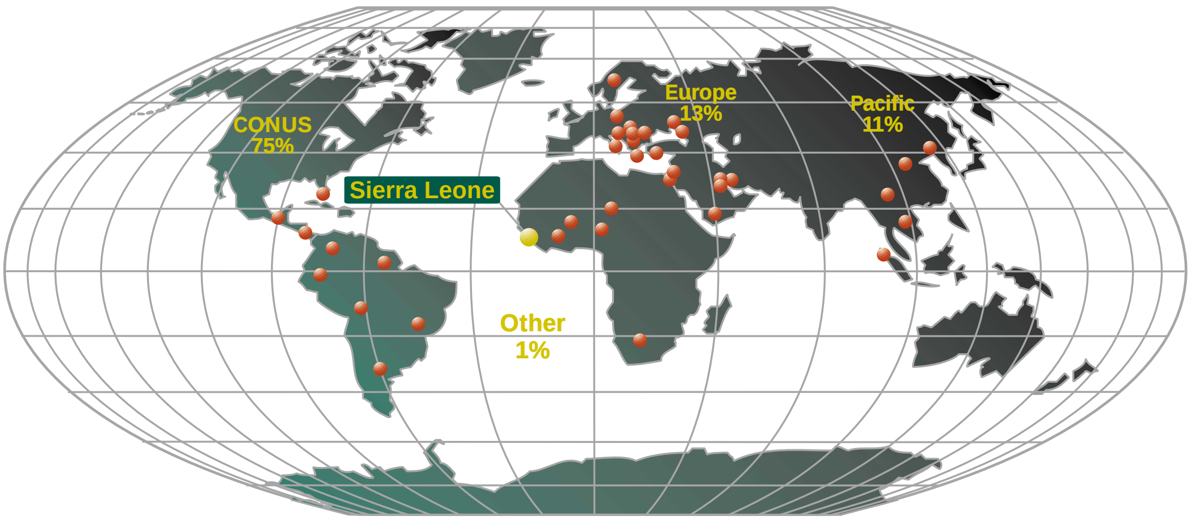
Army Budget Authority



Army Deployments. Today's Army has the ability to deploy anywhere in the world, on short notice, a ground force trained and ready to conduct decisive operations. The map below marks deployments and "hot" areas on September 30, 2000—a typical day in the life of the Army.

Where Your Army Is Today...

Nearly 27,000 soldiers deployed in over 70 countries, plus 121,000 forward-stationed



Current Deployments
Recent Flash Points

Engaged around the world—protecting national interests, supporting the National Security Strategy, and lending humanitarian assistance at home and abroad

Working Capital Fund

The Working Capital Fund finances the Army's working capital businesses: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services. These businesses help the Army to maintain constant readiness by providing the equipment, supplies, ordnance, and information services necessary to maintain readiness and to provide combat-ready forces to support National Security and National Military Strategies.

Summary of Performance Results

The following are highlights relating to the operations of the Army Working Capital Fund's four business units in FY 2000.

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

Supply Management, Army (SMA). The Army began demonstration of the Single Stock Fund (SSF) during FY 2000. This initiative is designed to aggregate the wholesale and retail elements of SMA into a single, nationally managed fund. Conducted at Forts Sill and Lewis and the Redstone Arsenal, the demonstration effort is the culmination of extensive planning across the Army's major commands. The streamlining that will result from full implementation of SSF will increase the efficiency with which Supply Management operations are conducted, allowing for instant and full visibility of all stocks. This will eliminate duplicate and other unnecessary procurements.

In FY 2000, Supply Management made capital investments of $65.7 million in programs aimed at increasing operational efficiency, including $34.3 million invested in the Single Stock Fund and $4.8 million in the Common Operating Environment (COE). COE is designed to gradually introduce more efficient business procedures and supporting technology to the wholesale logistics system. When complete, COE will enable us to reduce inventory, offset procurements, and react faster to meet our customers' needs.

Depot Maintenance. Depot Maintenance achieved a $10.2 million net operating result in FY 2000, far exceeding the $27.6 million loss anticipated for the activity. Increased earnings at Corpus Christi associated with unbudgeted safety of flight repairs, and delayed posting of expenses until FY 2001 for helicopter engines which caused FY 2000 expenses to be suppressed, are the principle reasons for this performance. While the net operating result was positive, the October 1, 1999, transfer of Ammunition Storage units to the Ordnance activity produced a reduction in Depot Maintenance's operating results of $55.4 million compared to prior years. The transfer reassigned to Ordnance five ammunition storage depots and the ammunition storage missions of the Anniston, Letterkenny, and Red River Army depots. Depot Maintenance's remaining five depots now have three missions: maintenance, missile recertification (Red River), and tenant support (all but Corpus Christi). This streamlining of functions will improve the ability of the commodity commands and depot commanders to focus on improving production, reducing repair cycle time, and controlling costs.

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

Other programs to enhance operational efficiency include the group's FY 2000 implementation of an Energy Savings Performance Contract (ESPC) at the Tobyhanna Army Depot—the largest single-installation ESPC within the entire federal government. In addition to ensuring compliance with mandated energy reductions, the ESPC will generate energy cost savings that will ultimately help pay for the project.

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

Ordnance. In FY 2000, the Operations Support Command (OSC) took responsibility for all ammunition storage depots formerly handled by the Depot Maintenance activity group. This transfer has brought all ammunition-related goods and services under a single manager, enabling the OSC to establish consistent pricing across all ammunition activities. OSC was able to absorb their new missions without increasing staff levels. Acquisition of the ammunition storage depots has contributed to an increase in the activity group’s revenue of $159.9 million, representing a 38 percent increase over FY 1999.

Net cash for OSC increased in FY 2000 by $4.5 million, well above the anticipated $32 million loss projected for the activity. The increase is due in large part to lower than expected disbursements during the fiscal year.

Information Services. The Information Services Activity Group experienced a net operating loss of $1.6 million in FY 2000, versus a planned loss of $0.14 million. This was primarily due to a decline in workload at Software Design Center (SDC)-Lee, which resulted in unplanned, unbudgeted payments associated with personnel separations that increased expenses. SDC-Washington also experienced greater losses than anticipated, due to a small decrease in workload caused by the SDC's move to Fort Meade, Maryland, from Fairfax, Virginia.

In December 1999, the Army signed a contract with Computer Science Corporation, which initiated the Wholesale Logistics Modernization Program (WLMP).

With this contract the Army has acquired a service to modernize the Army's wholesale logistics business processes through the adoption of best commercial practices. Under this contract the two CDAs located in Chambersburg, Pennsylvania, and St. Louis, Misssouri, will no longer maintain the current logistics systems. The contractor is sustaining the current systems along with developing the modernized services. As a result of this outsourcing, the staffing level at the two CDAs was reduced to a small Retained Government Organization (RGO) of 79.

Civil Works Fund

For more than 70 years, the Corps of Engineers Civil Works Program has been responsible for the development, management, protection, and enhancement of our nation's water and related land resources for commercial navigation, flood damage reduction, environmental restoration, and allied purposes. The program provides stewardship of America's water resources infrastructure and associated natural resources, and also provides emergency services for disaster relief. The Civil Works Program supports the Army in peacetime pursuits, during national emergencies, and in times of war.

The Civil Works Program employs more than 25,000 people, including engineers, architects, economists, biologists, archeologists, and other technical experts. Through the program, we are able to provide a broad range of engineering services, from planning a project to operating it once completed. We also maintain a comprehensive contract management capability that ensures the nation receives value for each dollar it spends on civil works contracts.

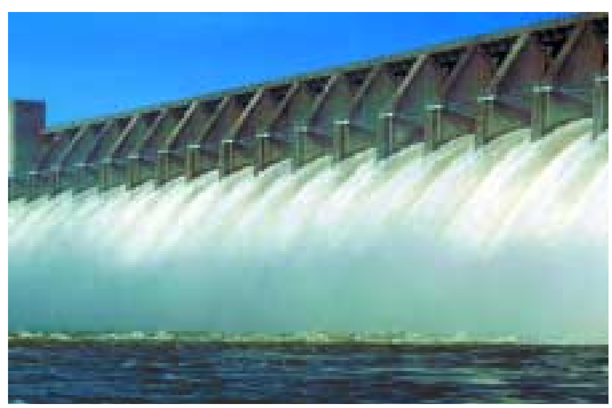
Summary of Performance Results

The Civil Works Program is divided into eight distinct business programs. All programs contribute to the military strength of the United States, but more important, they also contribute to the economic well-being and quality of life of the nation's citizens. We have established key performance goals for our business programs. The following are highlights of our FY 2000 performance.

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

Most Corps flood and coastal storm damage reduction projects are constructed as joint ventures between the federal government and nonfederal sponsors and are subsequently owned, operated, and maintained by the nonfederal sponsor. A few projects, mostly reservoirs, are operated and maintained by the Corps. Prior to FY 2000, the nation had invested $42 billion ($119 billion, adjusted for inflation) in flood damage reduction projects, successfully preventing an estimated $416 billion ($706 billion, adjusted for inflation) in flood damage. Adjusted for inflation, these figures show a return on investment of nearly $6 in damage prevented for each dollar spent. With proper maintenance, these flood damage reduction projects will remain sound and should continue to yield additional benefits for many years to come.

During FY 1999, the Corps prevented $21.2 of flood damage. This can be compared to the 10-year moving average of $22.3 million that is used to smooth out the significant fluctuations in year-to-year flood damages prevented. Data for FY 2000 was not available for final publication.



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

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

Navigation. The Civil Works navigation program is responsible for the improvement and maintenance of the port and harbor channels that handle all of the nation's maritime commerce. Funding for this work is provided through a combination of direct appropriations and funds distributed from the Harbor Maintenance Trust Fund. The Corps of Engineers maintains navigability in 299 deep-draft harbors and 627 shallow-draft harbors and also has stewardship responsibilities for approximately 25,000 miles of navigable waterways, including approximately 11,000 miles of commercially navigable inland and intracoastal waterways and 238 lock chambers at 192 sites. Total waterborne commerce is about 2.3 billion tons annually. FY 2000 statistics were not available at time of publication.

In a typical year, more than 1 billion tons of import/export cargo worth in excess of $500 billion dollars flows through U.S. ports. More than 1 billion tons of additional cargo is shipped annually as domestic waterborne commerce.

It is the responsibility of the Corps to keep the inland navigational infrastructure available to commercial traffic for at least 95 percent of its scheduled availability. In order to do so, we must remove on average 236 million cubic yards of dredged material each year from our port and harbor channels and inland waterways. During FY 2000, the Corps removed 243 million cubic yards of dredged material, at a cost of $2.42 per cubic yard based on preliminary data. We maintained the availability of our inland navigational infrastructure at 96.0 percent during FY 2000.

Regulatory. The Corps operates a comprehensive regulatory program that, through extensive coordination and evaluation, protects navigation and the aquatic environment. Our primary program goal is to achieve no net loss in the nations wetlands. In administering the regulatory program our program objective is to minimize the amount of time taken to process decisions on requests for permits to work in U.S. waters.

Civil Works has established three performance goals for this program, requiring that (1) we achieve no net loss in the nations wetlands, (2) 85 percent of all permit decisions be completed within 60 days and (3) 70 percent of decisions on standard permits be completed within 120 days. During FY 2000, the Civil Works Program achieved no net loss in the nation’s wetlands and exceeded both permit-processing targets by completing 90 percent of all permit decisions and 90 percent of decisions on standard permits within the specified timeframes.

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

Army Systems Controls and Legal Compliance

The Army continues to place a high priority on improving its financial management processes and associated systems. To that end, we worked aggressively through FY 2000 toward our goal of ensuring that our critical feeder systems are compliant with the Chief Financial Officers (CFO) Act and that they therefore produce the requisite reliable and relevant information. The ongoing replacement or incorporation of Army feeder systems into new or evolving systems means that the number of noncompliant systems continues to diminish. Those critical feeder systems not scheduled for replacement are being evaluated for modification to achieve compliance, with each system being monitored through periodic review of the Army CFO Strategic Plan. This plan fixes responsibility and establishes a timeline for addressing and resolving problems of noncompliance, with periodic status reports going to Army leadership.

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

General Fund Table of Contents

General Fund

General Fund Overview

Deployment of the Army is the ultimate expression of American will. It is essential for deterring an enemy and maintaining the peace, or for defeating an adversary in war. In FY 2000, the Army's soldiers and civilians enabled America to safeguard its national interests, to help prevent global calamity, and to help make the world a safer place. This required a force able to reduce friction between and within nation states and able to reduce human suffering, but one also that was ready at all times to fight and win the nation's wars.

The Army performs an indispensable role in the fulfillment of the U.S. National Military Strategy. This is a role that is constantly evolving, presenting new challenges and placing new requirements upon us. Even as we met our obligations in FY 2000 to support the National Military Strategy, we announced a new vision for the new century. We are making important adjustments to ensure that the Army will be a strategically dominant force across the entire spectrum of military operations. Our success in preparing for the future while continuing to support the National Military Strategy will depend on three key elements: people, readiness, and the transformation initiative.

People

The Army is much more than just the sum of its tanks and helicopters. We depend totally on the quality of our soldiers, civilians, and families.

> ***"To be prepared for war is the most effective means of preserving peace."***
>
> ***—George Washington***

Each and every day, the Army does two things above all others: it trains soldiers and develops the leaders who will train the next generation of soldiers. In this way, the Army ensures that it is prepared at all times to serve the nation's needs.

> ***"Quality people are the cornerstone of today's Army, and will remain so in the future. Without highly skilled, competent, and dedicated people, it doesn't matter how lethal our weapons are…"***
>
> ***—GEN Eric K. Shinseki***
> ***Chief of Staff***

Soldiers on Point

Engaged Around the Globe

The Army's size and shape are dictated by its mission, which requires a constant readiness to fight and win the nation's wars. The Army must be prepared to defend American territory, to further our national interests abroad, and to defeat our enemies wherever they reveal themselves. Fulfillment of this mission often requires soldiers to be forward-stationed or -deployed.

Throughout FY 2000, the Army had more than 124,000 soldiers forward-stationed and 24,000 deployed worldwide in support of the National Military Strategy. There were 14,607 U.S. civilians forward-stationed overseas, in addition to 8,200 foreign nationals and 18,168 indirect employees hired by host nations. Putting these soldiers and civilians on the ground in challenging and sometimes dangerous environments is America's clearest statement of our determination to defend our vital interests. In FY 2000, the Army's forward deployments contributed to maintaining stability in Europe, the Middle East, and the Korean peninsula.

An assault float bridge company gives the 2nd Infantry Division's engineers the ability to span the many rivers that crisscross the division's area of responsibility.

As America seeks to ensure its continued peace and prosperity, it is the Army that is called upon most often to perform the military operations that contribute to that goal. In FY 1989, the average frequency of contingency deployments was once every four years. In FY 2000, that frequency was one deployment every 14 weeks.

Forward Presence

The presence of American soldiers abroad contributes to stability in areas where the nation's vital interests are at stake. Our soldiers are also a potent symbol of liberty and justice who can provide the safe and secure environment in which democracy can take hold.

> ***"Their mission is to keep people from killing one another…"***
>
> ***—GEN Eric K. Shinseki***
> ***Chief Of Staff***

U.S. forces played a crucial role in FY 2000 in establishing the conditions that supported compliance with lawful treaties and that enabled local authorities to rebuild areas devastated during times of conflict. Continuing the Army's key role in Operation Joint Forge in Bosnia, soldiers monitored the most important crossing points on the border between Bosnia-Herzegovina and Yugoslavia, supported the implementation of the Dayton Accords, and provided security for refugee visits. For the first time in this five-year mission, Army forces were commanded by an Army National Guard Headquarters, the 49th Armored Division from Texas. In FY 2000 in Bosnia, the Army also helped return more than 8,000 displaced families to their pre-war homes and de-mined more than 187,000 square meters of fields, roadsides, and playgrounds. All of these efforts helped to make Bosnia a little safer for its citizenry.

More than 5,000 soldiers were also heavily engaged in Kosovo, performing a vital role as part of Task Force Falcon. Operating in a complex and ethnically diverse environment, these troops were on the front line implementing American foreign policy. Their mission is peace, not war. By monitoring the provisions of the Military Technical Agreement, these soldiers are creating a safe and secure environment. In FY 2000, they continued to provide humanitarian assistance and aided in the enforcement of basic law and order. To encourage the re-establishment of core civil functions, these soldiers rebuilt schools, set up Information Operations Centers to facilitate the flow of information to the populace, and participated in numerous humanitarian aid projects.

Shaping the International Environment

America seeks, through shaping the international environment, to create conditions that support advancement of the nation's vital interests. In accordance with the National Military Strategy, in FY 2000 the Army assisted in this objective most visibly in Bosnia and Kosovo. Over the course of the year, however, the Army played a much broader role in shaping the international environment.

In most countries, the army is the dominant component of the military. Throughout FY 2000, our soldiers therefore provided the principal military-to-military contact used to influence the behavior of other nations. Supporting the Partnership for Peace in Europe, more than 49,000 soldiers led America's efforts to foster cooperation between the 19 member and 26 partner nations of NATO. In FY 2000, we conducted nine operations to promote the ability of these diverse forces to operate together on the battlefield.

United States soldiers and soldiers from the Republic of Korea participate in combined training exercises near the demilitarized zone. *(Photograph reproduced with the permission of ARMY Magazine.)*

In Korea, 25,000 U.S. soldiers stood with our allies to ensure stability and to deter aggression in this volatile area. Showing that diplomacy can succeed if deterrence remains strong, FY 2000 saw the first-ever meeting between the leaders of the Republic of Korea and the People's Republic of Korea. This was followed quickly by family visitations between the two countries and by athletes from the two states marching together at the Olympic Games for the first time in more than 50 years. These dramatic events were made possible through America's commitment to promoting peace in the region by putting troops on the ground.

Our Most Important Investment

Recruiting: An Investment in the Future

To stay on point, the Army must continue to attract and retain high-quality soldiers. Our nation's robust economy has thrown up a major challenge as the Army seeks to meet its recruiting and retention goals, by affording unprecedented opportunities to America's youth.

> ***"America today enjoys a vibrant standard of living that is the envy of the world. At significant personal sacrifice, the American soldier guarantees that way of life…"***
>
> ***—GEN Eric K. Shinseki***
> ***Chief Of Staff***

In FY 1999, only the Army National Guard met its recruiting goal. The active component fell short of its goal by more than 6,000 recruits, and the Army Reserve by more than 10,000. In FY 2000, the Army invested heavily to reverse this unacceptable trend. Recruiters were given new tools, such as laptops, pagers, and cell phones, and a new advertising campaign was launched, targeting high school graduates and college students.

The Army also invested in three new programs that have created win-win situations for both itself and its new recruits. GED-Plus allows high school dropouts to earn a diploma before basic training. College First allows recruits to finish two years of college before beginning their military service. Finally, in the Partnership for Youth Success, commercial companies partner with the Army to offer recruits preferential hiring upon completion of their term of service. In FY 2000, these programs enabled the Army to meet all its recruiting goals and to achieve a 22 percent increase in the proportion of high school graduates scoring high on the Armed Forces Qualification Test.

Well-Being

The Army defines well-being as the physical, material, mental, and spiritual state that permits soldiers, civilians, retirees, veterans, and their families to fulfill their roles in performing the Army's mission. There is a recognizable link between well-being and a strong Army, with the well-being of our personnel providing the foundation for any organizational, doctrinal, material, or technological effort we make. The logic is simple: Soldiers and families who are satisfied and informed are more likely to remain in the service.

In FY 2000, the Army included approximately 263,000 married soldiers and 36,000 single parents. The Army provides healthy, resilient, and robust communities to support these families and its unmarried soldiers. Strategic responsiveness requires that all of our personnel have the

> ***"The Army's readiness is inextricably linked to the well-being of its people. Our success depends on the whole team—our soldiers, civilians, and their family members, all of whom serve the nation."***
>
> ***—GEN Eric K. Shinseki***
> ***Chief Of Staff***

resources to be self-reliant both when the force is deployed and when it is at home station. When our soldiers deploy, they should know that their families are safe and housed and that they have access to medical care, community services, and educational opportunities.

"Our military families are the heart of our nation's Armed Forces. Time and again, military duty has called our young uniformed men and women to trouble spots around the world. And time and again, answering that call to duty has meant that families would be separated—for months and sometimes years at a time."

—Bill Clinton
President of the United States

In FY 2000, the Army sought to improve family access to services—especially at times when the soldier is deployed—by announcing the expansion to the Internet of the Army Family Team Building program. This is a program designed to educate family members, particularly those of first-term soldiers, about Army culture, family support, and other programs in order to increase family preparedness during deployments. Working through the classroom, the program has reached more than 20,000 family members since 1994. The Internet site will allow it to reach an additional 4,000 to 5,000 family members annually.

In FY 2000, the Army faced a $6 billion housing revitalization requirement, with an additional $1 billion needed to eliminate a housing shortfall. Recognizing the connection between adequate housing and readiness, the Army continued to pursue housing revitalization through such programs as the Residential Communities Initiatives. It is our goal to privatize 70 percent of all family housing in the U.S. by FY 2005.

The Army also recognizes the connection between education and well-being. In FY 2000, we launched Army University Access Online, a program that will enable eligible soldiers to study online for college degrees or professional technical certifications. The ability to study online using laptop computers is particularly important given the current high PERSTEMPO. Seeking to make easy access to college education through Internet-based courses a reality for all soldiers, the Army will commit to its education programs an estimated $48 million in FY 2001 and more than $550 million during the following five years.

The Army eases the concern of deployed soldiers by providing for their families.

"[Army University Access Online] is important for three reasons. It will help our recruiting efforts; it will help our retention efforts; and, importantly, it will help produce the educated, Information Age-capable soldiers our country will need to succeed in the missions and on the battlefields of tomorrow."

—Louis Caldera
Secretary of the Army

Readiness

In FY 2000, the Army was provided $73.5 billion in budget authority to accomplish the many tasks expected of it by the American people. In return, the Army has a non-negotiable contract to fight and win the nation's wars and to maintain its readiness at all times. Events in Bosnia and Kosovo provide immediate, visible evidence of our readiness to respond to crisis; what is less visible is the vast amount of training that takes place behind the scenes to hone the capability of the world's only superpower to respond to any crisis, anywhere in the world.

Responsive in Crisis

Ready to Respond

The Army was globally engaged in FY 2000, helping to shape the international environment. In addition to its global engagements, however, the Army was also obliged to maintain its ability to respond to other potential crises, anywhere in the world. Numerous exercises enabled our soldiers and civilians to practice the skills needed to perform their jobs in a crisis and to demonstrate America's ability to respond anywhere in the world with troops on the ground.

Soldiers of the 10th Mountain Division disembark from a C-130, demonstrating our ability to respond anywhere in the world.

In FY 2000, the Army conducted several exercises in the Balkans to practice and demonstrate its ability to augment ongoing operations in that region. Paratroopers from the Southern European Task Force conducted an airborne drop into Kosovo to demonstrate a rapid deployment capability into the area. Exercise Rapid Resolve similarly saw an airborne company, augmented with a platoon of Italian Alpini, demonstrate the capability to rapidly reinforce forces in Bosnia.

In Egypt, American soldiers joined military forces from 11 allied nations for the biennial Bright Star exercise. Bright Star tested the Army's ability to provide command and control over multinational joint land operations and tested our ability to deploy Lucky Main, America's only deployable, modular digitized command post. The exercise included an amphibious landing, air operations, surface-to-surface engagements, and data sharing, and provided Army units with experience in operating with coalition forces, a key capability for fighting and winning future wars.

Saddam Hussein remains an outlaw in his own neighborhood. Over his horizon, he should see that Bright Star demonstrates that the countries of the region, backed by the United States, Britain, and other European allies, have a different version of the future."

—William S. Cohen
Secretary of Defense

In Korea, Exercise Foal Eagle demonstrated America's ability to respond in another strategically important area. In one of FY 2000's largest training exercises, more than 530,000 South Korean and American troops tested rear area protection operations in preparation for war in Korea, should it occur. Because of North Korea's ability to deliver chemical weapons in a missile attack, the exercise required soldiers and civilian dock workers in the strategic port of Pusan to perform their duties in full chemical protective gear.

In addition to exercises and its high-profile missions in regions such as Bosnia and Kosovo, the Army also conducts live missions in areas that typically receive less international attention. In FY 2000, for example, U.S. soldiers participated in Operation Central Skies, aimed at sweeping through Costa Rica's Talamanca Valley to eradicate 1.3 million marijuana plants. Supporting the host nation's Special Support Police, the Army provided command and control and air support to get the police to the right place at the right time.

In East Timor, Indonesia, Army theater signal communications forces provided state-of-the-art command and control capability to the multinational force operating there, enabling the Australian-led force to conduct a complicated peace-support operation. The Army also provided civil affairs forces from the U.S. Army Reserve to assist the multinational force in dealing with many complex civilian issues.

U.S. Army South and the U.S. Southern Command personnel deliver water to areas in Venezuela affected by flooding and mudslides. *(Photograph reproduced with the permission of ARMY Magazine.)*

Around the world, civilians have also benefited from the Army's readiness to respond to natural disasters. In Venezuela, for example, the Army recalled hundreds of soldiers and civilians from Christmas leave for Operation Fundamental Response. Air crews, medical specialists, logistics experts, and communications specialists joined Army National Guard water purification units in a flood-relief operation that saved the lives of thousands of Venezuelans.

Domestic Aid

In addition to its overseas operations, the Army was called on repeatedly in FY 2000 to assist domestic authorities in times of crisis. From fighting fires to digging out from blizzards and protecting life and property, the Army was there when needed.

> ***"[The Army] protected the community and our natural resources, putting 500 people on the ground when we needed [them] most."***
>
> ***—Debbie Austin***
> ***Forest Supervisor***
> ***Lolo National Forest***
> ***Missoula, Montana***

The extraordinary summer wildfires, for example, became a major natural crisis for the western states. With more than 6 million acres already burned and fires racing across six states, the nation turned to the Army for help. Troops from

Soldiers of the 588th Engineer Bn., 4th Infantry Division, Fort Hood, Texas, clear a trail along the fire line on their first day of training under the watchful eye of their firefighter trainer.

Fort Hood and Fort Bragg conducted extensive mop-up operations to ensure that fires were extinguished and to prevent them from re-igniting. The troops monitored and maintained many miles of hand and bulldozer lines around the fires and laid many miles of fire hose to deliver water to areas that were inaccessible to fire engines.

On the East Coast, when blizzards crippled seven states with up to 20 inches of snow and freezing temperatures, Army National Guard soldiers transported medical personnel, evacuated patients from hospitals, helped clear roads, and rigged generators to provide emergency electrical power. And in Washington, D.C., Army National Guard soldiers stood on line near the World Bank to help preserve the peace in the face of public demonstrations. The presence of these soldiers helped local police officers, many of whom were working 16-hour days, to take a break from the stress of confrontation. The end result was that the demonstrators were able to exercise their civil rights and the rights of property holders and private citizens were protected.

> ***"The Guard gave us the additional resources we needed. Had they not been here, we'd have lost the line and the outcome would have been quite different."***
>
> *—Chief Charles Ramsey*
> *Metropolitan Police*
> *Washington, D.C.*

The Corps of Engineers

The Corps of Engineers is a unique resource that provides high-quality engineering services to the Army and the nation. Among its many capabilities, the Corps can respond to crises abroad in ways that contribute to the well-being of thousands of people worldwide.

Abroad, the Corps helps the Army respond to crisis by contributing to the life support and force protection needs of the troops in the field. In FY 2000, teams from the Baltimore and New York districts supported peacekeeping forces in Kosovo, providing services similar to a stateside director of public works—identifying, planning, and prioritizing projects; preparing scopes of work; and providing quality assurance for contractor operations.

The Corps of Engineers worked with the U.S. Agency for International Development to build a blood safety center in Kenya.

The Corps is also invaluable in helping new democracies respond to the needs of their people. By helping such governments address their infrastructure needs, the Corps can reduce the conditions for potential conflict. In FY 2000, the Corps was actively engaged in providing humanitarian aid efforts to the governments of Mozambique, Ghana, Angola, Kenya, and Tanzania.

In FY 2000, the Corps also began providing support for the Wye River Accords between the Israelis and the Palestinians, by helping Israel comply with its promise to withdraw its troops from the West Bank. The United States agreed to help Israel defray the cost of this redeployment. The Corps of Engineers will solicit, award, and administer all contracts for facilities construction and will provide defense design and construction services to the Israeli government.

Preparing for the Future

Preparing for the future demands a trained and ready force that can operate at full capacity upon arrival at the battlefield. It also requires that the Army have the ability to reach the battlefield quickly and with the right tools. Rigorous training ensures the first capability, with Army units conducting realistic training at home and deploying to combat training centers (CTCs) to hone their skills. In FY 2000, 145,000 soldiers participated in 53 CTC exercises. In addition to training, in FY 2000 the Army continued to pursue new ways of thinking to prepare for what is an uncertain future.

> ***"We are proceeding into the future with astonishing velocity, so we have to continue tearing down archaic barriers and burdens…"***
>
> ***—William S. Cohen***
> ***Secretary of Defense***

Integrating the Active and Reserve Components

The integration of active and reserve component forces is essential to the employment of the Army. FY 1999 saw the establishment of two integrated divisions that combined an active component division headquarters with three Army National Guard-enhanced Separate Brigades. The full-time planning and training management support of the active component headquarters will enhance the readiness of the subordinate reserve component brigades.

FY 2000 saw the maturation of the command integration of active and reserve component units. For the first time ever, an Army National Guard officer took command of an active component maneuver battalion, the 1st Battalion, 33rd Armor, 2nd Infantry Division, Fort Lewis, Washington. By further enhancing the relationship between the active and reserve components, this breakthrough is an excellent example of the Army's move toward seamless integration.

Seeking to mitigate significant shortfalls in the combat support and combat service support personnel that it needs to respond to crisis and to sustain operations anywhere in the world, the Army examined its options for providing this support for the active component. The result was a recommendation to convert six Army National Guard combat brigades to combat support and combat service support units. In FY 2000, six brigades were identified for conversion, with the expected result of the conversion being a more balanced integrated force able to meet future national defense needs.

Army Strategic Mobility Program:

The Army's Strategic Mobility Program is synchronized with completion of the Air Force's C-17 program and Navy's Large, Medium Speed Roll-On/Roll-Off (RO/RO) (LMSR) ships program to enhance the nation's capability to deploy Army forces rapidly. Significant progress has been made in rapid force projection capability through investments in prepositioning, strategic deployment training, automation, and deployment outloading initiatives at key CONUS Power Projection Platforms, which include sea ports, airfields, and ammunition depots/plants to facilitate movement of personnel and equipment.

With the C-17, soldiers like these from the 4th Infantry Division can rapidly deploy directly to the battlefield.

In FY 2000, three major milestones were met. First, two new construction LMSRs, the USNS Dahl and the USNS Red Cloud, were added to the prepositioned ships fleet. With the upload of these ships, the Army met the Defense Planning Guidance requirement to preposition 2 million square feet of combat and combat support equipment afloat. Second, contracts were awarded for 56 heavy lift rail cars. This acquisition completed the Army's requirement to preposition 1,092 rail cars at key Power Projection installations for early deploying units. Finally, over 1,800 unit deployment containers were purchased. Of this number, 462 were the 20-ft. containers needed to complete the 1,670 required, in conjunction with the rail cars, at key Power Projection Platforms. Other accomplishments included successful completion of two annual Sea Emergency Deployment Readiness Exercises and continued development of Transportation Coordinators Automatic Information for Movement System II (TC AIMS II).

While progress has been made, a renewed commitment to rapid deployment capability is essential to ensure that the Army can accomplish any mission.

Information Assurance

The Army's ability to respond anywhere along the operational spectrum has been greatly enhanced through its increasing use of electronic means to provide greater situational awareness. Information assurance programs ensure the reliability of information used to make decisions. In FY 2000 there were more than 4,000 information assurance incidents, compared to 3,000 in FY 1999 and 1,000 in FY 1998.

The Army is moving aggressively to protect its essential information resources. In FY 2000, there were four emergency computer response teams, in Europe, the continental United States, Hawaii, and Korea. The Army identified, secured, and actively monitored 817 critical servers and closed numerous backdoors to Army networks. We additionally trained 2,800 military, civilian, and contractor system and network managers at 12 locations, compared to the 240 trained in FY 1998.

But this is not enough. Forces unfriendly to the United States will inevitably be tempted to attack our information resources. The Army is therefore moving forward with security programs that use biometrics, which use unique physical or behavioral characteristics of an operator instead of a password that can be more easily compromised.

The Army is also preparing now to prevent attacks on our information resources in order to ensure that we retain our advantage of information dominance on future battlefields. Investments must be made for improved data and information transmission protection through various encryption schemes, the incorporation of digital signatures into legacy data and information systems, and integration of access controls for all corporate data storage and processing systems. In addition, we must make improvements to sustain current detection capabilities and advancements in dynamic response to attempted intrusions or other potential incidents. Finally, we must make further investments in multisecurity-level devices that have faster processing rates for the data being passed between various classified levels of systems.

Transformation

The Army's heavy forces are unequalled in their ability to gain and hold terrain in combat, and once deployed are the decisive element in major theater wars. Our heavy forces currently lack strategic responsiveness and deployability, however, and have a large logistical footprint and significant support requirements. In contrast, our light forces can strike quickly, but lack survivability, lethality, and tactical mobility. In sum, the Army has a gap in near-term capabilities that must be addressed as a matter of the utmost urgency.

> ***"The nation needs an Army that is capable of responding quickly and effectively to the full range of missions we will be asked to perform in the future, and not one that is optimized principally for high-intensity conflict. That's why today we are transforming the Army."***
>
> ***—Louis Caldera***
> ***Secretary of the Army***

This requirement to transform the Army is made all the more pressing by the newly emerging security challenges of the 21st century and the pressure they place on us to be able to respond rapidly across the full spectrum of operations. A fast-changing, turbulent, and unpredictable global security environment requires a high level of U.S. defense preparedness, and if we are to meet the challenges of a wider range of threats and a more complex set of operating environments, the United States must have an Army capable of rapid response and dominance across the entire spectrum of operations in a joint, interagency, and multinational environment.

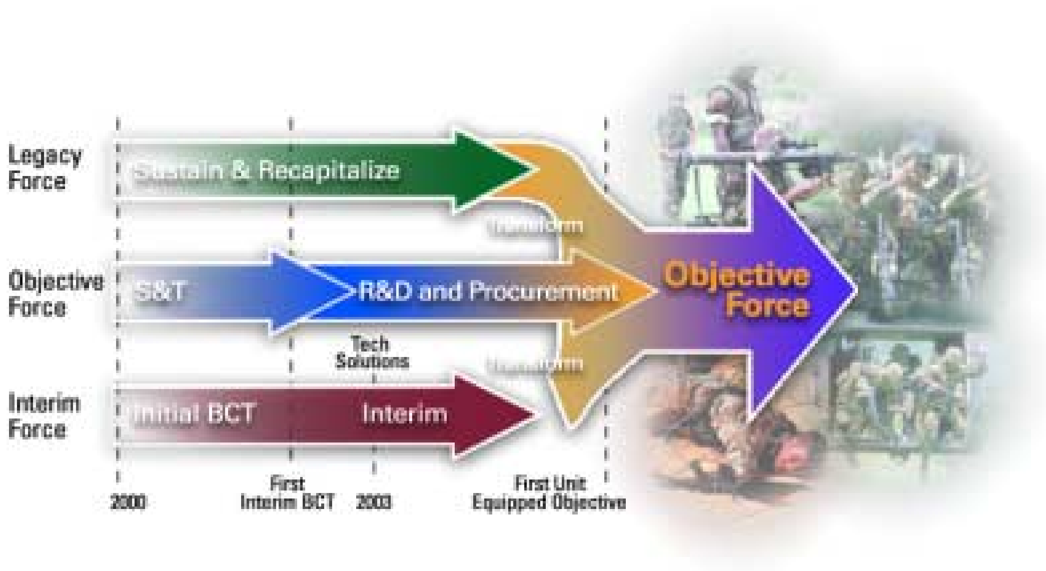
On 12 October 1999, the Secretary and the Chief of Staff of the Army articulated a vision designed to prepare the Army for the demands of the 21st century. Realizing this vision will require the comprehensive transformation of the entire Army, including the operational force and the institutional Army.

Civil War cannons at the Manassas, Virginia, battlefields.

A Phased Approach

Throughout this transformation the Army must maintain the ability to fight and win the nation's wars. To ensure we retain this capability, the Army has described a phased approach that will take it forward along three paths: the Legacy Force, the Objective Force, and the Interim Force. This concept is graphically described in Figure 1.

Figure 1: Transformation Strategy



The Legacy Force

The Legacy Force is the strategic hedge that ensures that throughout its transformation the Army retains the ability, in support of the National Command Authority (NCA) and warfighting Commanders-in-Chief (CINCs), to win the nation's wars. To guarantee this critical warfighting readiness, it is essential that the Army sustain the Legacy Force. We aim to achieve this by recapitalizing selected legacy formations, of both the active and reserve components, to enhance key armored and aviation systems, and to improve light force lethality and survivability. At the same time, we will design and field new Interim and Objective Forces to address the near-term capabilities gap described above. The long-term goal is to field an Objective Force that is strategically responsive and capable of dominating at every point on the spectrum of operations—a transformed force that meets the Army Vision of being responsive, deployable, agile, versatile, lethal, survivable, and sustainable.

The Objective Force: A More Strategically Responsive Force

The Objective Force is our transformation objective. It will be a strategically responsive Army capable of dominating at every point on the spectrum of operations and capable of rapid transition across mission requirements without loss of momentum. The Objective Force will provide the NCA with an increased range of options for regional engagement, crisis response, and sustained land force operations. It will be capable of victory in a major theater war; responsive and flexible enough for the rapid mission tailoring required of crisis response; versatile enough for success in stability and support operations; and durable enough for extended regional engagement. It will be able to operate alone or as a member of a joint, multinational, interagency team against conventional and unconventional weapons and weapons of mass destruction.

The Objective Force will capitalize on advances in science and technology to deploy the Future Combat System, Future Transport Rotorcraft, Comanche, and unmanned systems; advanced Command, Control, Computers, Communications, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems; deployment and sustainment capabilities; and the Objective Force soldier system. The advanced capabilities that these systems will afford will give us dominance across the spectrum of operations, enabling rapid response with overmatching combat power while at the same time ensuring we remain open to the adoption of new formulas that would integrate diverse systems into cohesive units of action.

The Interim Force

The Interim Force is a bridge to the future. It is a transition force that will resolve our strategic near-term capability gap, but by bringing together state-of-the-art technology and modernized legacy forces it will also advance us toward our vision of the Objective Force. It will be a full-spectrum force, effective for deployment in small-scale contingency operations but also capable of making a significant contribution in a major theater of war.

Transportable by C-130 or equivalent aircraft, Interim Force units will be highly mobile at the strategic, operational, and tactical levels. They will be equipped with a family of Interim Armored Vehicles (IAVs), lightweight artillery, and other technology designed to ensure maximum lethality and survivability.

The Army took the first step toward the Interim Force in FY 2000, fielding a two-brigade force at Fort Lewis, Washington, outfitted with off-the-shelf equipment. These units will help evaluate and refine the "operations and organization" concept for a brigade combat team, developing the tactics, techniques, and procedures that we will need to achieve Interim Force capability. The Fort

Lewis units will be designated Interim Brigades when they field the first IAVs.

Refocusing Modernization

The Army has changed from a "threat-based" force facing a monolithic foe to a "capabilities-based and threats-adaptive" force in what is today a much more complex and uncertain environment. The Army's modernization strategy has likewise changed in response to this evolving strategic environment and the new challenges that will face the United States in the future.

Our guiding strategy for transformation is to ensure that we develop the capabilities that are essential for the future while maintaining the greatest capability possible in the present, thereby guaranteeing the Army's continuing readiness. To achieve this, we must in the near term restructure or divest ourselves of some programs, while at the same time organizing and equipping to operate effectively in a full-spectrum environment in the far term.

In FY 2000, the Army terminated the Command and Control Vehicle, the Multiple Launch Rocket System Smart Tactical Rocket, the Army Tactical Missile System Block IIA, the Prophet Air program, the Grizzly, and the Wolverine. We restructured both the Crusader and the Future Scout Cavalry System.

Our modernization strategy is based on the following tenets:

1) Leverage science and technology to enable timely fielding of the Objective Force, and, in particular, develop the future combat systems that will be the foundation of that force.
2) Transform to meet immediate warfighting requirements (Interim Force).
3) Maintain and improve warfighting capabilities of the Legacy Force through selected modernization, recapitalization, and digitization, thus ensuring preservation of superiority or combat overmatch at all likely levels of conflict.

The challenge for the modernization program is to support these sweeping changes with substantially reduced resources. Modernization funding has decreased 41 percent since FY 1989, a result of the Army according higher priority instead to near-term readiness. In FY 2000, the Army spent $5,000 less per soldier on modernization than it did in FY 1989. Despite this reality, we recognize the importance of moving forward on this front so that we will be prepared for the next war. In FY 2000, Congress provided $100 million to assist in taking the initial steps. Current estimates are that the Army has sufficient funding for one-half of the additional modernization costs associated with the transformation.

A Platform Performance demonstration of 35 potential light-armored vehicles for new combat infantry brigades was conducted at Fort Knox, Kentucky.

Summary

FY 2000 was a great success for the Army. Again demonstrating their willingness to perform any task, our people could be found in any of the four corners of the globe doing the nation's heavy lifting. We again demonstrated our readiness to perform missions across the spectrum of military operations through actual missions and major training exercises. Simultaneously, we began one of the greatest transformations in our history. Not content with just being ready to fight the last war, we are methodically developing the force we will need to win the next war.

Success for any organization is never guaranteed. But with quality people leading the way the Army remains ready today even as it transforms itself into what will remain the dominant force on tomorrow's battlefields.

General Fund Performance Results: Supporting DoD Corporate Goals

The Government Performance and Results Act (GPRA) of 1993 seeks to improve government-wide program effectiveness, government accountability, and, ultimately, public confidence by requiring federal agencies to identify measurable annual performance goals, against which actual achievements can be compared. Each agency is additionally required to submit a comprehensive strategic plan that identifies its major goals and objectives. The Quadrennial Defense Review (QDR) of May 1997 serves as the DoD Strategic Plan. The DoD has developed two corporate goals that are consistent with the QDR strategy: "Shape and Respond" and "Prepare." Each of these corporate goals incorporates performance goals that are in turn supported by performance measures. The performance measures provide the Army with the means to assess our progress in key performance areas and to enable us to make the decisions that will assure our readiness for tomorrow.

DoD Corporate Goal 1: "Shape and Respond"

Three annual DoD performance goals support the Department's first corporate goal, to "shape the international environment and respond to the full spectrum of crisis by providing appropriately sized, positioned, and mobile forces." Each performance goal is supported by a quantifiable output, evaluation of the pursuit of which is made using performance measures. The three annual performance goals and the corresponding Army performance measures are:

1) Support U.S. regional security alliances through military-to-military contacts and the routine presence of ready forces overseas, maintained at force levels determined by the QDR.
   - Army Overseas Presence
   - Number of Overseas Exercises
2) Maintain ready forces and ensure they have the training necessary to provide the United States with the ability to shape the international environment and to respond to any crisis.
   - Force Levels
   - Deployment TEMPO
   - Flying Hours
   - Number of Tank Miles per Year
3) Maintain sufficient airlift and sealift capability, with adequate prepositioning, to move military forces from the United States to any location in the world.
   - Forces Supported by Land- and Sea-Based Prepositioning

Prepositioned equipment rolling off a Navy Large Medium Speed Roll-on/Roll off ship.

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

Performance Goal 1: Support U.S. Regional Security Alliances

In accordance with the national security strategy, the United States routinely maintains an extensive military presence overseas. The presence of U.S. forces where the nation has vital interests supports regional security, and interaction between forward-deployed American forces and local militaries also serves to strengthen and adapt our nation's core alliances. The U.S. Army is a strategic component of the U.S military presence overseas.

Performance Measure 1.1: Army Overseas Presence

Metric 1.1: Maintain a mechanized division in the Asia-Pacific region and two divisions with selected command, combat, and support elements in Europe. In Europe, these forces affirm the United States' commitment to its leadership role in NATO and reinforce bilateral relations with our key partners. Forward-deployed Army units in the Asia-Pacific region underscore U.S. commitments to remain a stabilizing influence in the region and to deter aggression on the Korean peninsula and elsewhere within the region.

Output 1.1: The Army met its FY 2000 performance target for overseas presence by maintaining one mechanized division in the Pacific Region and two divisions with selected command, combat, and support elements in Europe.

Table 1. Army Overseas Presence

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Mechanized Divisions in Pacific Region	1	1	1	1
Divisions with Elements in Europe	2	2	2	2

Performance Measure 1.2: Number of Overseas Exercises

Metric 1.2: The overseas exercise program demonstrates U.S. resolve and our ability to project forces to locations abroad in support of our national interests and our commitments to our allies. The program provides joint force training that emphasizes interoperability, joint warfighting doctrine, and rapid deployment. Such training provides opportunities to test and evaluate U.S. and host nation systems, lines of communication, and support agreements. Each year the Army establishes a goal (schedule of exercises) for the number of joint and combined exercises.

Output 1.2: During FY 2000, the Army conducted 71 of the 81 scheduled overseas joint and combined exercises. This is a decrease of 11 exercises, or about 13 percent, from FY 1999. The number of exercises scheduled each year is affected by various political and operational reasons. During FY 2000, several exercises were canceled for political reasons, while others were canceled due to operational requirements.

Table 2. Number of Overseas Exercises

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Number of Joint and Combined Exercises	85	82	81	71

Performance Goal 2: Maintain Trained and Ready Forces

Today's security environment presents the same pressing need for military forces that existed when the QDR was conducted. The intent then, as it is today, was to have forces that can fight and win two almost simultaneous major theater wars, while at the same time being able to respond to smaller-scale contingencies. As a result, the force structure objectives established in the QDR reflect the need for balance between investment in existing forces and adequate preparation for the future.

Force structure is important, but so too is the need to ensure that our forces are properly trained. It is therefore essential that the Army maintain an appropriate level of readiness, as measured by the amount of time spent on out-of-station deployments (DEPTEMPO). To maintain pilot and crew proficiency, the Army measures the number of flying hours, including training and maintenance activities, conducted by the active and reserve components of the Army. It also measures the number of tank miles per year covered during individual tank crew and squad training, and the number of platoon-level training conducted at the Combat Training Center and the National Training Center.

A tank crew scans its sector for possible air attack.

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

Performance Measure 2.1: Army Force Levels

Metric 2.1: The force structure requirements for the Active Army Corps, Active and National Guard Divisions (including heavy and light divisions), Armored Cavalry Regiments, and Enhanced Brigades were established to meet the intent of the QDR by reflecting the need for existing forces and adequate preparation for the future.

Output 2.1: During FY 2000, Army force levels were in line with the goals established in the QDR for the Active Army Corps, Active and National Guard Divisions (including heavy and light divisions), Armored Cavalry Regiments, and Enhanced Brigades. The Army has maintained its forces at the levels established by force reductions conducted from FY 1989 through FY 1996.

Table 3. Army Force Levels

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Active Corps	4	4	4	4
Divisions (Active/National Guard	10/8	10/8	10/8	10/8
Active Armored Cavalry Regiments	2/1	2/1	2/1	2/1
Enhanced Brigades	15	15	15	15

Performance Measure 2.2: Deployment Tempo

Metric 2.2: When measuring DEPTEMPO, the Army counts every day that a unit is deployed away from home—that is, every day that the soldiers do not sleep in their bunks. DEPTEMPO is broken down into four categories:

- Local Training
- Off-Installation Training
- Joint Exercises
- Contingency Operation Participation

Output 2.2: Due almost entirely to the U.S. commitment to rotate forces as a part of United Nations operations in Bosnia, Kosovo, and East Timor, the Army was unable to meet its DEPTEMPO targets for FY 2000. During FY 2000, 8.6 percent, or 123 of the 1,450 active Army reporting units, had a DEPTEMPO exceeding 120 days; 5.5 percent of units had a DEPTEMPO exceeding 179 days.

Figure 1. Army Deployment Tempo

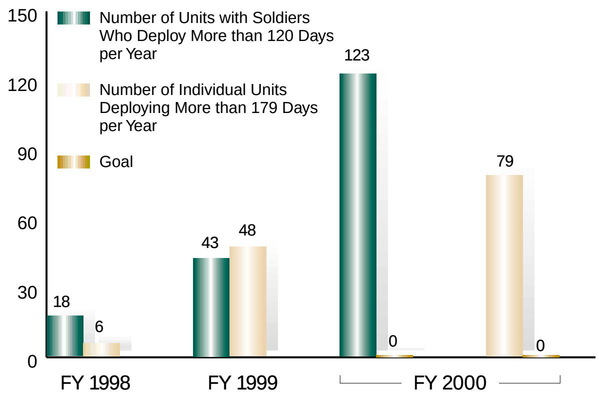
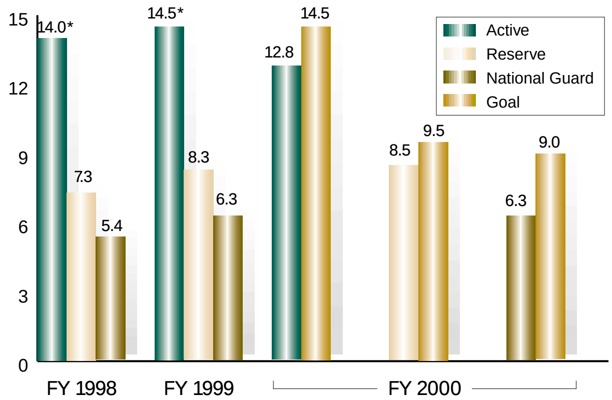


Figure 2. Flying Hours



* Aircraft OPTEMPO (hours per aircraft per month) was reported in FY 1998-FY 1999. The active Army converted to Crew OPTEMPO in FY 2000 to meet the requirements of the Aviation Restructure Initiative (ARI), which increased the number of aviators in the Modified Table of Organization and Equipment (MTOE) combat units from a 1-to-1 aircraft-to-crew ratio to 1-to-1.23.

As far as possible, the Army spreads deployment requirements across the force. Because of their skills, some units and soldiers are unavoidably deployed more often than others, however. The most frequently deployed specialties include Field Artillery Firefinder Radar Operator, Field Artillery Meteorological Crewmember, Cavalry Scout, Fighting Vehicle Infantryman, Psychological Operations Specialist, Bridge Crewmember, Attack Helicopter (AH 64) Armament/Electrical Systems Repairer, Attack Helicopter (AH 64) Repairer, Counterintelligence Agent, M1 Tank Armor Crewman, Combat Engineer, and Interrogator.

Performance Measure 2.3: Flying Hours

Metric 2.3: The number of aircraft flying hours per month reflects the flying hous required for active, reserve, and National Guard components to maintain pilot and crew proficiency, including training and maintenance activities.

Output 2.3: During FY 2000, the Army fell short of the established flying hours goals for the active, reserve, and National Guard forces. This shortfall was the result of numerous groundings of aircraft in all three Army components because of faulty parts. There were 37 Safety of Flight (SOF) messages in FY 2000, a 300 percent increase from FY 1999.

Apache crew arrives at an assembly area to await further operations.

Performance Measure 2.4: Number of Tank Miles per Year

Metric 2.4: The number of tank miles represents the average level of peacetime activity—including in-field training, combat simulations, and equipment maintenance—needed to achieve wartime proficiency standards, as defined by Army doctrine.

Output 2.4: Overall, Army ground training exhibited a positive trend during FY 2000. Although the active Army did not meet its home-station training target of 800 tank miles, active units logged 101 more tank miles in FY 2000 than in FY 1999, a 17 percent increase. In addition, the Army National Guard forces experienced a slight decrease in tank miles from FY 1999 performance levels.

The 2nd Infantry Division trains to defend freedom on the Korean Peninsula.

The shortfalls in FY 2000 for the active forces resulted from a combination of factors, including deployments for contingencies, transformation, use of the Army's Close Combat Tactical Trainer, and the diversion of resources to pay for underfunded training enablers such as ranges.

Table 4. Number of Tank Miles per Year

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Active	676[a]	601[b]	800	702
National Guard	207	160	184[c]	150

[a] Includes annual mileage for the National Training Center (NTC).

[b] Revised from 681 to 601. The previously published figure erroneously included mileage driven at the NTC, which is no longer counted against the performance target.

[c] Composite average of all National Guard units, which includes annual mileage for Enhanced Separate Brigades, including individual tank crew and squad training, platoon-level training, Combat Training Center programs, and transit to and from training areas.

Performance Goal 3: Strategic Mobility

The prepositioning of military equipment and supplies near regions where potential conflicts may arise shortens the Army's response time during contingencies. These stocks are maintained both afloat and on land, and are maintained at levels necessary to equip and sustain the operating forces for the lengths of time and levels of conflict outlined in the National Military Strategy and "The Army Plan." Prepositioned equipment gives the Army the capability to project power from CONUS, Alaska, and Hawaii to trouble spots anywhere in the world. The centerpiece of the program comprises seven armor-heavy brigade equipment sets. The provision of these units as prepositioned equipment enables US-based soldiers to fly accompanied by minimal amounts of personal and small equipment, draw a brigade set, and deploy to battle positions in just days. Prepositioning objectives are based on those forces required very early in a conflict to halt an enemy's advance.

Performance Measure 3.1: Forces Supported by Land- and Sea-Based Prepositioning

Metric 3.1: Land-based prepositioning programs are maintained in Europe, Southwest Asia, and the Pacific region. Sea-based prepositioning complements these programs, providing the flexibility to move equipment within and between theaters of operation. Additional prepositioning programs provide base, fuel, and medical support.

Output 3.1: During FY 2000, the Army achieved its goal of maintaining six land-based and one sea-based prepositioned programs.

Table 5. Forces Supported by Land- and Sea-Based Prepositioning

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Land-Based	5	5	6	6
Afloat	1	1	1	1

Off-loaded tanks are destined for Army prepositioned set 4 as part of "fight tonight" logistics. *(Photograph reproduced with the permission of ARMY Magazine.)*

DoD Corporate Goal 2: "Prepare"

Four annual DoD performance goals support the Department's second corporate goal: "Prepare now for an uncertain future by pursuing a force modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure." As with DoD Corporate Goal 1, each of the four performance goals is supported by performance measures. The performance goals and corresponding Army performance measures are:

1) Recruit, retain, and develop personnel to maintain a highly skilled and motivated force capable of meeting tomorrow's challenges.
   - Enlisted Recruiting
   - Quality Benchmarks for Enlisted Recruits
   - Active Component Retention Rates
   - Selected Reserve Attrition Rates
2) Transform U.S. forces of the future.
   - Annual Procurement Spending
3) Streamline the defense infrastructure by redesigning the DoD's support structure and pursuing business practice reforms.
   - Public-Private Sector Competitions
   - Disposal of Excess Real Property
4) Serve the needs of the combat forces more quickly and more efficiently, with products and services that work better and cost less, by improving the efficiency of the DoD's acquisition processes.
   - Successful Completion of Operational and Test Events
   - Purchase Card Micropurchases
   - Percentage of Paperless Contracting

The continued success of the Army depends on modernization, recapitalization, and the assurance of a high quality of life for our people. We must continue to research and raise our technology levels and continue with our base realignment and closures. Above all, we must seek to focus our resources on our soldiers and to ensure that our men and women are prepared for any and all duties with which they may be tasked. The following performance measures enable us to assess our success in meeting the performance goals that support the second DoD corporate goal and make the decisions necessary to ensure that tomorrow's Army is prepared for the nation's needs.

Performance Goal 1: Recruit, Retain, and Develop Personnel

The primary mission of Army personnel management is to put the right person with the right skills in the right place at the right time. As we strive to fulfill this mission today we are increasingly asking more of a smaller force, making it imperative that we have the best people available to perform our duties. No amount of technical superiority will enable the Army to respond to its future challenges if we fail to maintain the quality of our personnel by making the investments necessary to develop them to their full potential. Recruiting and training good soldiers, officers, and civilians in the proper mix of specialties and grade levels requires an adequate pay and allowance package, with bonuses, good medical care and retirement programs, and opportunities for career advancement. As a result, the Army is committed to providing adequate funding to recruit, train, and retain our personnel to Congressionally mandated strength and quality standards. The following performance measures assist us in tracking our process toward ensuring that we meet the needs of our soldiers.

An infantry squad conducts an air assault attack as part of a training exercise.

Performance Measure 1.1: Enlisted Recruiting

Metric 1.1: Enlisted recruiting represents the projected number of new personnel needed each year to maintain statutorily defined military end-strengths and the proper distribution by rank.

Output 1.1: During FY 2000, the Army exceeded its enlisted recruiting goals for all three components—active Army, National Guard, and the Reserves. As a whole, the Army enlisted 23,000 more soldiers than in FY 1999, an increase of more than 14 percent.

Table 6. Enlisted Recruiting

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Active Army	71,753	68,209	80,000	80,113
National Guard	55,401	57,090	54,034	62,015
Reserves	44,212	41,786	48,461	48,596

Performance Measure 1.2: Recruit Quality Benchmarks

Metric 1.2: The quality benchmarks for recruiting were established in 1992, based upon a study conducted by DoD and the National Academy of Sciences. The results produced a model linking recruit quality and recruiting resources to the job performance of enlistees. The Army has adopted the DoD recruiting targets that were derived from the model—90 percent high school diploma graduates and 60 percent top-half aptitude personnel (AFQT categories I-III)—as its minimum acceptable quality thresholds. Adhering to these benchmarks will reduce personnel and training costs while ensuring that the Army meets its high performance standards.

Output 1.2: During FY 2000, the Army exceeded its quality benchmarks for enlistees holding high school diplomas. While we met the DoD target requiring 60 percent of recruits to score in the top half of the Armed Forces Qualification Test (AFQT), however, we fell slightly short of our higher, self-imposed goal of 67 percent.

Table 7. Quality Benchmarks for Enlisted Recruits (percentage)

	FY1998 Actual	FY1999 Actual	FY2000 Goal[a]	FY2000 Actual (Active/Reserve)
Recruits Holding High School Diplomas	90.1/90.2	90.1/90.1	90	90.3/90.1
Recruits in AFQT Categories I-IIIA	68.1/67.6	62.9/69.3	67	63.5/61.9
Recruits in AFQT	2.0/2.0	2.0/1.9	2.0	2.0/2.0

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

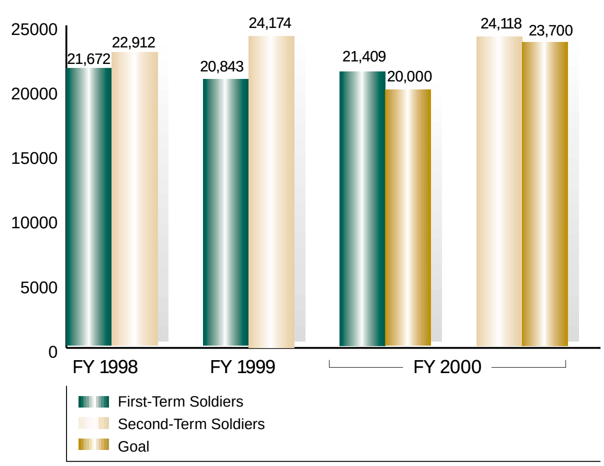
[a] Goals are the same for both the active and reserve component.

Performance Measure 1.3: Enlisted Component Retention Rates

Metric 1.3: Army retention goals have been in flux for almost a decade, as the Army moved toward the force reduction targets that followed the end of the Cold War. However, the drawdown is now effectively over, and personnel levels are stabilizing. Retention rates are based on required staffing in each pay grade; unlike the other services, the Army has historically managed retention by setting firm numeric targets for the number of personnel expected to re-enlist.

Output 1.3: The Army exceeded its FY 2000 retention goals for first-term soldiers by 7 percent, experiencing an increase of 2.7 percent from FY 1999. Although we saw a slight reduction in the retention of second-term soldiers compared to FY 1999, we nonetheless exceeded the performance goal for second-term soldiers by almost 2 percent

Figure 3. Active Component Enlisted Retention Rates



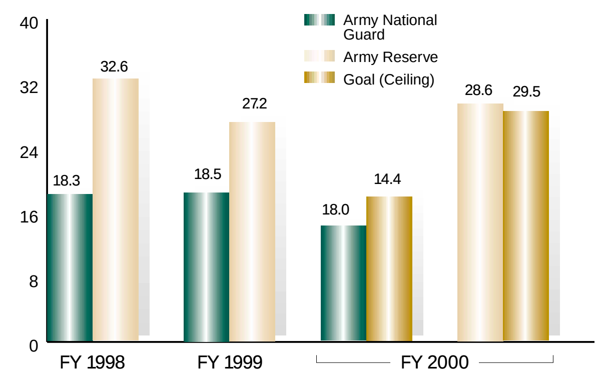
Performance Measure 1.4: Select Reserve Attrition Rates

Metric 1.4: In assessing retention trends in the Army National Guard and Army Reserve, the Army employs attrition rates rather than re-enlistment rates. Attrition is computed by dividing total losses for a fiscal year by the average personnel strength for that year. This metric is preferable because only a small portion of the entire Reserve population is eligible for re-enlistment during a given year.

National Guard soldiers practice rapelling during a drill weekend.

Output 1.4: During FY 2000, the Army National Guard had an attrition rate of 14.4 percent, well below the ceiling of 18 percent. This represents a 4.1 percent improvement over the FY 1999 rate for the National Guard. The Army Reserve had an attrition rate of 29.5 percent, which was slightly above the ceiling rate of 28.6 percent.

Figure 4. Selected Reserve Enlisted Attrition Rates (percentage)



Performance Goal 2: Transform U.S. Military Forces for the Future

U.S. military engagement overseas increased significantly during the 1990s, with operations ranging from war in the Persian Gulf to peacekeeping in Bosnia and other venues. There is today much greater pressure on the United States to maintain a strong, sustainable global presence. Complicating our ability to achieve this is the declining military budget, with the Army consequently required to streamline its operations and implement best practices if we are to reach our ultimate goal of an Army "responsive in crisis, invincible in war."

A TOW missile is unleashed during a live fire exercise.

Performance Measure 2.1: Annual Procurement Spending

Metric 2.1: To achieve the appropriate balance between modernization investments and Operations and Maintenance (O&M) expenditures, the QDR called for a substantial increase in funding for modernization. To that end, the Army tracks and reports on its annual procurement funding.

Output 2.1: Congressional funding for procurement spending for FY 2000 increased by 8.0 percent from the previous year. Since FY 1998 there has been a 22.9 percent increase in procurement funding.

Table 8. Annual Procurement Spending

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
President's Budget—Army	$6,752	$8,173	N/A	$8,569
Amount Appropriated	$7,124	$8,501	N/A	$9,241

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

Performance Goal 3: Streamline Infrastructure through Business Reform

The Army, along with all U.S. military forces and operations, is changing dramatically in response to evolving security demands and advances in technology. Effecting the changes outlined by Joint Vision 2010 and the Revolution in Military Affairs (RMA) will necessitate steadily increasing investments that can best be offset by increased efficiencies in support operations. The changes in infrastructure are designed to produce an increasingly responsive support structure, much like the combat forces, which are becoming more agile and capable. Some of the specific areas of change deal with the amount of budget spent on infrastructure (not a specific Army goal), the number of public private sector competitions, and the disposal of excess property.

Performance Measure 3.1: Public Private Sector Competitions

Metric 3.1: As part of its efforts to reduce infrastructure, the Army conducts regular reviews of various functions and their associated billets. As a result of these reviews, some functions are retained in-house, other are outsourced, and still others are reengineered.

Output 3.1: During FY 2000, the Army conducted 19 public private sector competitions, resulting in 9 decisions to keep the function in-house and 10 decisions to contract (outsource), for an annual savings of $35.9 million.

Table 9. Public Private Sector Competitions

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Number of Positions Subject to A-76 Competitions or Strategic Sourcing Reviews	181	1,004	2,804	2,624

Performance Measure 3.2: Disposal of Excess Property

Metric 3.2: Maintaining excess property places a drain on military resources that could be applied to force modernization and ensuring readiness.

Output 3.2: During FY 2000 the Army disposed of 32.6 percent of the excess Base Realignment and Closure (BRAC) acres scheduled for disposal in FY 2000. An additional 75.8 million square feet of non-BRAC excess was also disposed of during FY 2000. As a result of the disposal of excess real property by the central demolition program through FY 2000, the Army will avoid real property maintenance sustainment costs of $303.2 million, based on $4 per square foot.

Table 10. Disposal of Excess Real Property

	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
BRAC Acreage **Remaining** for Disposal	60,144	58,760	N/A	53,093
BRAC Acres **Disposed** of During the Fiscal Year	1,354	5,667	32,286	10,516
Non-BRAC Cumulative Square Feet (Millions) Disposed of in the Fiscal Year	57.7	67.6	72.1	75.8
Non-BRAC Cost ($ in millions) Disposed of in the Fiscal Year	$218.0	$318.0	$418.0	$422.0

Performance Goal 4: Improve Acquisition

As a result of the 1997 Quadrennial Defense Review, the Army has stressed the need to exploit the Revolution in Business Affairs (RBA) to reengineer its defense infrastructure and support activities. As the Army looks to the future, we foresee a need to reduce overhead and streamline infrastructure, to develop new methods of acquisition reform, privatize many support services, leverage commercial and dual-use technologies, reduce unneeded specifications, and increase cooperative developments with allied forces and nations.

The Army is in particular interested in modernizing procurement operations and in simplifying the purchase process through endeavors such as purchase cards and electronic commerce.

Performance Measure 4.1: Successful Completion of Operational Test and Evaluation Events

Metric 4.1: The Army's test and evaluation programs aim to ensure that all forces are provided with weapon systems and equipment that are effective and suitable for the missions they are designed to accomplish. In the future, combat systems will be increasingly interoperable and interdependent. New systems entering service will have to function effectively not only with other systems in the U.S. inventory but also with weaponry and equipment operated by allied and coalition forces. The increased complexity of modern warfare will demand rigorous operational assessments and testing throughout the acquisition cycle. The purpose of these assessments is to ascertain as quickly as possible how a new system or technology will perform from an operational perspective.

A Patriot missile battery provides air defense during a desert training exercise.

Output 4.1: The Army established a goal to successfully complete 41 Operational Test and Evaluation events for FY 2000. During FY 2000, the Army met its goal by completing all of the 41 scheduled tests.

Table 11. Successful Completion of Operational Test and Evaluation Events

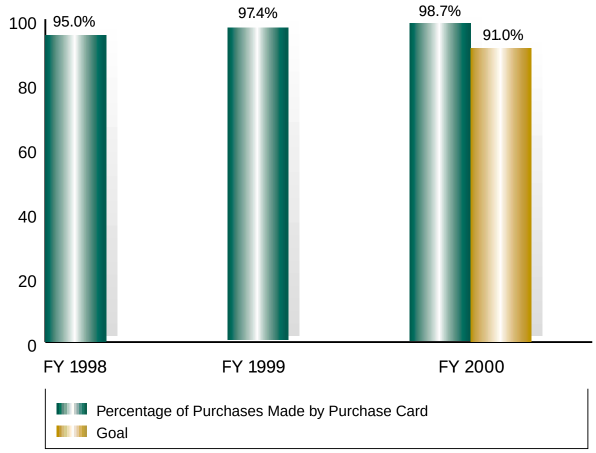
	FY1998 Actual	FY1999 Actual	FY2000 Goal/Actual	
Percentage of OT&E Events Successfully Completed	100	100	41 Tests	100

Performance Measure 4.2: Purchase Card Micropurchases

Metric 4.2: The Army Audit Agency estimates savings of $92 per transaction when supplies or services are procured using government purchase cards. Under the traditional requisition process, a requisition document is forwarded sequentially to various functional elements, such as the purchasing component's resource management office and supply manager. If a requirement cannot be filled through the component supply system, a purchase request is forwarded to a local contractor. Use of government purchase cards for micropurchases virtually eliminates this workload. Through use of the purchase card the Army can realize sizable labor-related savings that can be redirected to mission elements of the force, providing soldiers with much needed resources.

Output 4.2: During FY 2000, the Army exceeded its goal for the number of purchases made by purchase card by 7.7 percent. Since FY 1998, the Army has recorded more than 10.9 million purchase card transaction and has realized approximately $218 million in cost savings.

Figure 5. Purchase Card Micropurchases (percentage)



Performance Measure 4.3: Percentage of Paperless Transactions

Metric 4.3: The Army is committed to employing contemporary information technology and commercial best practices to reinvent its contracting processes. Contracting, and particularly contracting related to high-cost weapon systems, consumes a large portion of the defense budget and employs a significant portion of the Army workforce. Over time, paperless contracting will contribute to a reduction in acquisition cycle times and to the streamlining of the acquisition workforce.

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

Output 4.3: During FY 2000, the Army exceeded the goal for the percentage of paperless transaction relating to solicitations and awards/modifications and met the NPR goal for total electronic contracting and payment transactions. While we fell short of our goal for purchase requests, we fully expect to exceed the 90 percent goal by the end of the second quarter FY 2001. The Army also did not meet the goal for funding documents, due to interface issues with legacy financial systems. Upon retirement of legacy financial systems and final implementation of the Purchase Request Web system, Defense Procurement Payment System (DPPS) and the Defense Corporate Database (DCD), the Army anticipates meeting the 90 percent goal for paperless funding documents. The paperless transactions relating to receipt, payment, and acceptance are the responsibility of DFAS and are reported via DFAS systems.

Table 12. Percentage of Paperless Transactions

	FY1998 Actual	FY1999 Actual	FY 2000 Goal/Actual	
DRI Goals				
Purchase Requests	37%	79%	90%	81%
Funding Documents	37%	79%	90%	81%
Solicitations	27%	87%	90%	97%
Awards/Modifications	29%	90%	90%	94%
Receipts	—	—	—	—
Payments/Invoices	—	—	90%	95%
NPR Goal				
Total Electronic Contracting and Payment Transactions	50%	50%	—	50%

General Fund Management Initiatives

The Army maintains its fighting force by identifying essential core capabilities, recruiting and retaining the best soldiers, providing them the best warfighting equipment, and training those soldiers to use that equipment in support of our National Military Strategy. These services require a substantial amount of finite Army resources. It is therefore imperative that we improve the efficiency with which we conduct business. To this end, the Army participates as a full partner in myriad Department of Defense (DoD) initiatives, and also proactively and independently seeks ways to improve the efficiency of its own business processes.

Purchase Cards

Prior to the enactment of the 1995 Federal Acquisitions Streamlining Act, all Army acquisitions were subject to the same time-consuming approval process. This legislation, coupled with the management and policy reforms of an internal DoD study of the purchase card, allowed the Army to streamline its business processes in order to take maximum advantage of internal savings that would be generated using the card. The cited legislation was implemented by the Department to require use of the card for all buys $2,500 or less. Using online technology, purchase cards generate savings of approximately $92 per transaction. These savings can then be reallocated to other critical Army initiatives, such as force modernization and augmenting end strength and force support. In FY 2000, the Army used purchase cards for 98.7 percent of micropurchases, exceeding its stated goal of 91 percent.

In addition to these cost savings, U.S. Bank—the Army's card issuer—provides rebates to cardholders for timely payment of purchases, in order to offset other purchases made by these officials. For FY 2000, the Department of Defense made the proceeds of these rebates available to the services, providing added resources for use in earmarked interagency initiatives. Rebate amounts are paid quarterly and increase as purchase volume grows and the payment timeline to the bank decreases.

Two Army installations (Fort Polk and Fort Rucker) are currently serving as beta sites of an automated reconciliation and payment certification process. This initiative will generate savings to Army customers through a reduction in the processing costs that DFAS charges to pay

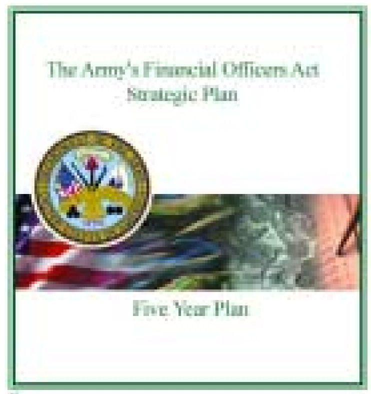
purchase card bills. More important, however, this process will enable Army cardholders to maximize the rebates earned on their purchases. The beta tests have proven very successful, with both installations now certifying purchase card transactions online. When fully operational, this process will shorten the interval between invoicing and payment to five business days. Army-wide deployment of this process will continue during FY 2001 and,with full implementation, is expected to increase rebates from the $8.5 million achieved in FY 1999 to $17 million by FY 2001.

Army Chief Financial Officers Act Compliance Initiatives

Developed in FY 1998, the Army's Chief Financial Officers (CFO) Act Strategic Plan was drafted with the cooperation of 25 organizational elements of the Army to improve financial and accounting activities. This is the first plan to integrate the efforts of different Army agencies in a way that will lead to full compliance with one of the mandates of the CFO Act of 1990: preparing auditable financial statements. Our vision is to accomplish this task by FY 2003, while simultaneously improving Army business practices.

FY 2000 marked the second year that the CFO Strategic Plan was in effect. To sustain progress toward our FY 2003 goal, the Army conducted quarterly reviews, bringing together all the functional parties whose cooperation is necessary to bring our vision to fruition. During the course of our reviews for FY 2000, we added 118 new tasks to address new reporting and internal control issues. Some of the tasks currently in the plan were deemed unnecessary or no longer relevant due to recent developments. As we worked our way through the year, we realized that many of the completion dates were unreasonable given delays in precedent tasks. We have consequently revised these dates to reflect a more feasible completion.

In addition, the Army integrated its CFO efforts for FY 2000, combining its newly developed Working Capital Strategic Plan with the General Fund Strategic Plan to produce a more comprehensive view of progress toward auditable financial statements and improved business practices. To that end, during FY 2000 we completed 54 tasks and continued to achieve progress toward full implementation.



E-Business/E-Commerce

The Army recognizes the potential of electronic business (e-business) technologies to increase efficiency. We have accordingly invested significant resources in emerging e-business technologies to improve Army operations

The use of smart cards, such as the DoD Common Access Card (CAC), is one of the most promising new technologies. The CAC, a credit card-sized device, is a revolutionary enabling technology that has the ability to store user-specific information required to take advantage of the significant capabilities of Public Key Infrastructure (PKI). By serving as the DoD PKI token, the CAC can provide for digital signature authentication and heightened data integrity through the use of electronic signatures, encryption, and network access control. The digital signature and other capabilities of smart cards like the CAC can minimize labor-intensive paper-based processes, saving time and money.

When fully implemented in FY 2002, the CAC will be issued to 1.4 million Army military and civilian personnel, and to eligible government contractors. The CAC will serve as the new personnel identification card, may be used to provide perimeter access to buildings and controlled spaces, and will be used to gain access to DoD information systems and networks. The CAC will also serve as a hardware token for PKI, enabling the use of digital signatures, which the Army anticipates will support additional uses in the future.

In FY 2000, the Army staff laid much of the groundwork for introduction of the DoD CAC or other smart cards by establishing a Department-level strategy for smart cards as an enabling technology. The Army worked diligently with the functional staff proponents, its Major Commands, the Joint Staff, and the DoD to establish consensus for the features supported by the technology and to establish a protocol for future upgrades and data allocation.

One potential use of smart cards was demonstrated in a pilot test with the 25th Infantry Division (Light) stationed in Oahu, Hawaii. The goal of the pilot was to examine ways of meeting the requirements to update individual readiness information. The project used smart card technology as a portable repository for this information, increasing the average number of individuals processed per site per day from 400 to 1,500. Using this method, the Army would theoretically be able to process an entire battalion for deployment in the time that it currently takes to process a single company, and could accomplish the task without issuing a single paper document.

In addition to smart cards, the Army has developed and deployed the Document Coordination System (DCS), a collaborative, Internet-based enabling tool that serves as a repository for the coordinated development and electronic issue of documents Army-wide. The system allows users to post comments electronically to a draft, and organizes those comments according to the command submitting them as well as by sections (the document coordinator determines into how many sections the document will be segmented for review). DCS allows all users to view feedback on a particular draft in real time, thus eliminating much of the review time necessary in publishing comments on a document. The system can thereby increase the efficiency with which documents can be generated, offering significant reductions in the time needed for the solicitation and incorporation of comments into a draft. Moreover, DCS provides a permanent record of the comments provided by various users and the reconciliation of those comments by the document coordinator.

In FY 2000, the Army also initiated a virtual Integrated Process Team (IPT), comprising members from 40 organizations from across the Army, including senior individuals representing the Offices of the Army Secretariat, the Army Staff, and the Army Major Commands (MACOMs). Using a variety of collaborative, Internet-based tools to facilitate enhanced virtual operations, the IPT will establish performance metrics to determine the success of the Army's Electronic Business/Electronic Commerce (EB/EC) projects, review and prioritize implementation activities defined in the Army EB/EC Implementation Plan, and otherwise assist the Army's EB/EC program to provide more effective support to the warfighter.

As the Army continues to seek ways to provide better, more efficient stewardship of its resources, electronic business initiatives are among the most promising. Providing centralized tools that promote efficient administration, e-business is revolutionizing today's Army business operations.

Paperless Contracting

In the past, the improving of military forces typically brought to mind an arms race. In the future, the race will be one of modernization, emphasizing continuous operational improvements in information, processes, and transactions. One way in which the Army is currently moving forward is through the use of paperless contracting systems.

By the close of FY 2000, the Army deployed its Standard Procurement System at more than 300 locations. A $9 million, 18-month effort, the effort will result in the realization of a completely paperless contracting environment in early FY 2001.

In addition to procurement efforts, the Army deployed the Interactive Business Opportunity Page, designed to serve as the key communication site between the Army and potential contractors of $100,000-plus projects. This application allows us to conduct the entire acquisition and contracting processes without paper, reducing approval of proposals by seven days and eliminating virtually all travel costs associated with the process. The Army's goal of a cost-effective virtual operation is clearly not only economically sound, but one that will be realized in the rapidly approaching future.

Travel Reengineering

The Army is moving ahead with implementation of the Defense Travel System (DTS). DTS will provide a seamless, paperless, temporary duty travel system to meet the needs of travelers and commanders, reducing costs, supporting mission requirements, and providing increased levels of customer service. At a recent pilot test site of DTS, the number of temporary duty (TDY) processing steps was reduced by more than 81 percent, TDY processing time by 85 percent, and TDY processing cycle by 90 percent, resulting in a more efficient and less costly system for active duty travel.

In FY 2000, the Army continued its transition to this system with implementation of the Defense Travel System-Limited (DTS-L) Level 1 at Aberdeen Proving Ground. Aberdeen is the first site in the Department of Defense to field DTS-L. The Army's DTS Office is working diligently to plan, train, develop, and implement DTS-L. The first 312 sites are now scheduled for DTS-L fielding, including Fort Campbell, scheduled for March 2001.

Competitive Sourcing

The Vice President's Third Report of the National Performance Review stated that Americans want to "get their money's worth," and that they desire a better managed, more business-like government. The Army responded by conducting economic studies to assess which of its activities are viable for possible outsourcing to the private sector. The goal of outsourcing is to maximize economy and productivity in the production and delivery of commercial products and services to the Army. In addition to the associated monetary benefits of reducing labor requirements, the program aims to free up the Army to focus more intensely on its core capabilities and readiness.

From Fiscal Year 1997 through 2000, the Army completed 3,904 competitive sourcing studies potentially affecting 3,784 Army civilians and 120 military personnel. Of the positions studied, 2,089 resulted in awards to commercial suppliers and 1,815 positions were retained in-house. These studies will produce $56.5 million in annual savings to the Army and reduce civilian manpower positions by approximately 46 percent.

The Army expects to continue its use of competitive sourcing for FY 2001 and beyond. Currently, the Army plans to initiate studies of 2,988 positions each year and achieve net savings of $2.8 billion dollars from FY 1999 through FY 2005.

Public Private Partnerships

To improve its base support operations, the Army has entered into partnerships with private sector contractors to perform those activities for which contractors have a greater core capacity. These partnerships support the better use of Army resources, reduce the cost of support operations, and increase readiness, morale, and welfare.

Residential Communities Initiative

In FY 2000, the Army began execution of its four Residential Communities Initiative (RCI) pilots, by transferring 1,823 family housing units at Fort Carson, awarding follow-on projects at Forts Hood and Lewis, and soliciting private sector participation for another project at Fort Meade. The initiative seeks to leverage extensive private sector expertise in construction and management, including using private sector partners to provide management and operational maintenance of units, recreational facilities, and other community amenities. When fully implemented, the pilot effort will reach roughly 14 percent of Army-owned family housing in the U.S., upgrading 13,896 current family housing units, and constructing as many as 1,800 more. Each management contract requires development of a Community Development and Management Plan, in which the private sector development partner, in coordination with the Army, has outlined the scope and specifics of the project, including the financing.

Under RCI, the Army has awarded or is conducting solicitations to award contracts for:

- Revitalization of 1,823 existing family housing units and construction of 840 new units at Fort Carson.
- Renovation and replacement of 5,622 family housing units and construction of 290 more homes at Fort Hood.
- Renovation or replacement of 3,589 units and construction of 366 new homes at Fort Lewis.
- Renovation or replacement of 2,862 houses and construction of up to 300 new units at Fort Meade, pending award.

Utilities Privatization Initiative

In partnership with the private sector, the Army also made significant progress in upgrading its utility systems in FY 2000. The Utility Privatization Program is an ambitious effort to provide sustained, reliable, and efficient utility services Army-wide. In FY 2001, we funded $10 million to meet the overall Office of the Secretary of Defense (OSD) goal to privatize all utility systems, where economically feasible by September 30, 2003. In FY2000, we completed actions for 41 systems, privatized 13, and exempted 28 for economic and security reasons. The remaining 279 systems are under various stages of evaluation for privatization. This initiative takes advantage of the economies of scale and the technological acumen of private sector utility providers. The Army Team received the annual GSA Achievement Award for Real Property Innovation in FY 2000 in recognition of its achievements toward privatization of the utility systems.

Other Initiatives

The Army's partnership efforts are not restricted to family housing and public works. We have undertaken extensive efforts to generally expand our cooperative engagements with the private sector, with the following results:

- Contracted with Boeing, Lucas Aerospace, and Borg-Warner to correct a safety problem in the AH-64 Apache helicopters. This reduced the scope of the project by several months, thus increasing readiness and reducing costs.
- Partnered with the American Red Cross at Fort Hood to train volunteers as dental assistants. The program provided free labor for Fort Hood's soldiers, but more important, delivered better care for soldiers and their

families while providing volunteers the opportunity to learn valuable career skills.

- Partnered with the local transportation system at Fort Belvoir to obtain bus service, reducing the number of vehicles in use at the fort and providing added convenience for the military community.
- Entered into reciprocal-use agreements with schools and universities for libraries, classroom, and auditorium space; audiovisual equipment; and instructors.
- Partnered with Kansas State University to obtain journalist interns for the installation newspaper. The installation receives free labor while the students receive career experience and college credits.
- In addition, the Army is seeking opportunities to purchase "green electric power" from the private sector, seeking partners who will design, construct, own, and operate wind turbines. This effort will take advantage of renewable resources while reducing greenhouse gas emissions.

As the Army continues to transform, its public private partnerships will continue to provide a realistic and resourceful means of reducing costs and harnessing technology, while enhancing the communities in which soldiers live and operate.

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Army Working Capital Fund

Working Capital Fund - Overview

The Department of the Army has historically operated many of its organic, commercial, and industrial facilities under the revolving fund concept. This encourages these activities to function in a more efficient and cost-effective manner and provides management with the flexibility necessary to operate effectively under changing workload conditions. The support services provided by the Army Working Capital Fund (AWCF) activity groups are essential to the readiness and success of the operating forces; the activity groups themselves are an integral part of the defense team.

A Critical Aspect of Readiness

The AWCF comprises four separate activity groups: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services. Each activity group plays an integral part in providing for the readiness of the operating forces. Together they ensure that critical items such as fuel, repair parts, consumable supplies, depot maintenance services, and information services get to where they are needed by the most efficient and cost-effective means available. The following is a description of the function and organization of each activity group.

The U.S. Army Communications-Electronics Command, supplies communication equipment to the field.

Supply Management, Army

The Supply Management, Army (SMA) activity group buys and stocks assigned materiel for sale to its customers, primarily Army operating units. The availability of this materiel directly affects equipment readiness, and thereby the operational readiness of all Army warfighting units. A breakdown in this business area would have an immediate impact on the ability of operating forces to sustain themselves on the battlefield.

SMA consists of separate retail divisions (Table 1) for the Army's major commands, a retail division to support the National Capital Region (Washington, D.C.), and a wholesale division (Table 2). The wholesale division is subdivided by commodity, with major subordinate commands under the U.S. Army Materiel Command managing assigned stocks. SMA also manages the critical war reserve stocks that are under Army control.

Table 1. Supply Management, Army Retail Divisions

Retail Divisions
Headquarters, U.S. Army Forces Command
Headquarters, U.S. Army Europe
Headquarters, U.S. Army Training and Doctrine Command
Headquarters, U.S. Army Korea
Headquarters, U.S. Army Pacific Command
Headquarters, U.S. Army Southern Command
Headquarters, U.S. Army Materiel Command-Installation Division
Defense Supply Service-Washington

Table 2. Supply Management, Army Wholesale Division

Wholesale Subdivisions	Materiel Managed
U.S. Army Aviation and Missile Command	Aircraft and ground support items; missile system items
U.S. Army Communications-Electronics Command	Communications and electronics items
U.S. Army Tank-automotive and Armaments Command	Combat, automotive, and construction items
U.S. Army Armament and Chemical Acquisition and Logistics Activity	Weapons, special weapons, and chemical and fire control items
U.S. Army Soldier and Biological Chemical Command	Ground support items
Prepositioned War Reserves	**Materiel Managed**
Prepositioned War Reserves Headquarters, U.S. Army Materiel Command	DLA/GSA items: repair parts, clothing, subsistence, medical supplies, industrial supplies, and ground forces supplies

Depot Maintenance

On October 1, 1999, a reorganization of the Depot Maintenance and Ordnance activity groups resulted in the transfer of five ammunition storage depots and the ammunition storage missions of Anniston, Letterkenny, and Red River from Depot Maintenance to Ordnance. All five remaining "hard iron " depots maintain major end items and depot-level reparables, providing an organic industrial capability to repair, overhaul, and upgrade weapons systems and equipment. Red River performs a unique missile recertification program. Four of the five depots (Corpus Christi is the exception) serve as host installations providing facilities and tenant support to myriad DoD organizations and missions.

The Depot Maintenance activity group is critical to Army readiness. This organic industrial capability ensures that in peacetime as well as times of crisis the Army has the ability to immediately repair everything from tanks to trucks to radios and to return them to the warfighting units or to war reserve for future use. This activity group

Depot Maintenance employees are put to the test to repair and maintain the Army's equipment.

also partners with and competes with private industry to ensure that goods and services are delivered in the most efficient and cost-effective means possible. Table 3 lists the five Army depots, their locations, and the type of work performed by each.

Table 3. Depot Maintenance Activities and Function

Depot	Location	Type of Work
Anniston	Anniston, Alabama	Maintains, overhauls, and repairs heavy tracked combat vehicles; repairs self-propelled and towed artillery; and repairs generator and rail equipment.
Corpus Christi	Corpus Christi, Texas	Maintains, repairs, overhauls, and upgrades rotary wing aircraft, engines, and components
Letterkenny	Chambersburg, Pennsylvania	Maintains, repairs, and overhauls tactical missile systems
Red River	Texarkana, Texas	Maintains and repairs light armored vehicles and select missile systems
Tobyhanna	Tobyhanna, Pennsylvania	Manufactures, maintains, tests, and fields communications-electronics systems and equipment; maintains and repairs missile guidance systems.

Ordnance

The primary business of the Ordnance Activity Group is the manufacture, renovation, and demilitarization of ordnance materiel for all services within the Department of Defense and for foreign military customers. Three arsenals and two gov-

155 Howitzer munitions demilitarized at McAlester Ammunition Plant, McAlester, Oklahoma.

ernment ammunition plants provide depot operations and maintenance, set assembly, tenant support, and national procurement services for thin- and thick-walled cannon. The activity group is also responsible for logistics management, including follow-on procurement, production, maintenance, engineering, and integrated logistics support management. The Soldier Biological and Chemical Command, located at Aberdeen Proving Ground, Maryland, manages Pine Bluff Arsenal, and the remaining installations are managed by the Operations Support Command (OSC) at Rock Island, Illinois, the Ordnance activity group provides the Army with an organic industrial capability to produce quality munitions and large-caliber weapons while providing the full range of ammunition maintenance for modern weapons across all services.

The group's facilities manufacture and sell items that are critical to the Army's readiness to meet its warfighting responsibilities. These include howitzers, tank tubes, mortars, and grenades. In addition, this activity group stores, maintains, and demilitarizes conventional ammunition. In FY 2000, OSC also took responsibility for all of the ammunition storage depots that were formerly part of the Depot Maintenance activity group. This transfer has brought all ammunition-related goods and services under a single activity group, thereby allowing for consistent pricing across all ammunition installations. Table 4 provides a list of the 10 Ordnance installations and the primary materiel responsibility of each. Two of the installations—Savanna Army Depot and Seneca Army Depot—were closed in FY 2000 under BRAC 95.

Table 4. Ordnance Activity Installations and Responsibilities

Installation	Location Primary	Materiel Responsibilities
Pine Bluff Arsenal	Pine Bluff, Arkansas	Chemical, smoke, incendiary, illumination, and other pyrotechnic munitions, agents, and mixes; chemical defensive/protective items and test equipment
Rock Island Arsenal	Rock Island, Illinois	Aircraft weapons, some infantry weapons, air defense weapons and artillery; and armament for tanks, artillery, personnel, and cargo carriers
Watervliet Arsenal	Watervliet, New York	Mortars, recoilless rifles, tank and artillery cannons, and training devices and simulators
Crane Ammunition Activity	Crane, Indiana	Produces and renovates conventional ammunition and ammunition-related components; and storage and demilitarization of ammunition
McAlester Ammunition Plant	McAlester, Oklahoma	Produces, renovates, demilitarizes, and stores ammunition and related components; loads, assembles, and packs conventional ammunition, bombs, warheads, and rockets; manufactures wood and metal pallets
Blue Grass Army Depot	Richmond, Kentucky	Stores, maintains, distributes, and demilitarizes conventional ammunition; maintains and repairs chemical defensive equipment
Sierra Army Depot	Herlong, California	Stores, maintains, distributes, and demilitarizes conventional ammunition; stores operational project stocks
Tooele Army Depot	Tooele, Utah	Stores, maintains, distributes, and demilitarizes conventional ammunition
Savanna Army Depot*	Savanna, Illinois	Stores, maintains, distributes, and demilitarizes conventional ammunition
Seneca Army Depot*	Romulus, New York	Stores, maintains, distributes, and demilitarizes conventional ammunition

*Closed in FY 2000 under BRAC 95.

Information Services

The Information Services activity group comprises four Central Design Activities (CDAs) which develop and sustain automated information and communications systems for the Army. Services include requirements analysis and definition, systems design, development, testing, integration, implementation support, and documentation. This activity group also includes the Army Small Computer Program, which provides fully competed commercial sources for the purchase of small and medium-sized computers, hardware, software, and support services. Customers include all Department of Defense components and Foreign Military Sales customers.

The Information Services group also supports a number of different systems, based on customer-funded orders. These include:

- Commodity Command Standard System (CCSS)
- Housing Operations Management System (HOMES)
- Standard Depot System (SDS)
- Standard Industrial Fund System (SIFS)
- AMC Automated Manpower Management Information System (AAMMIS)
- Integrated Facilities System (IFS)
- Standard Installation/Division Personnel System (SIDPERS-3)
- Standard Operations and Maintenance Army Research and Development System (SOMARDS)
- Standard Army Retail Supply System (SARSS)
- Global Combat Support System (GCSS-A)

Each of these systems provides the Army with information that is used daily by commanders and financial managers to make decisions concerning personnel, inventory, and financial matters. Effective June 30, 2000, CCSS, SDS, and SIFS became part of the Wholesale Logistics Modernization Program (WLMP) contract. By providing an integrated logistics management capability that enables total asset visibility, velocity management, enhanced decision support capability, and improved forecasting accuracy, WLMP will better enable the Army to deliver needed supplies to the operating forces while at the same time reducing inventories.

Table 5. Information Services, Central Design Activities

Installation	Location	Type of Work
Industrial Logistics Systems Center (now part of the Integrated Logistics Systems Office)	Chambersburg, Pennsylvania	Wholesale logistics-depot maintenance/financial systems
Logistics Systems Support Center (now part of the Integrated Logistics Systems Office)	St. Louis, Missouri	Wholesale logistics-supply/financial systems
Software Development Center, Lee	Fort Lee, Virginia	Retail logistics systems
Software Development Center, Washington	Fort Meade, Maryland	Personnel/retail logistics systems
Army Small Computer Program	Fort Monmouth, New Jersey	Provides commercial sources of automated data processing equipment and software

Changing How We Do Business

The AWCF activity group managers are engaged in improving the ways that goods and services are delivered to customers. Focusing on proposals made by the Quadrennial Defense Review (QDR) and the Defense Reform Initiative, group managers are adopting best practices that will result in more efficient and cost-effective business operations.

Reducing Logistics Support Costs

During FY 2000, the AWCF activity groups continued to focus on reducing support costs, using the $99 million capital budget to replace obsolete and unserviceable equipment, to modernize repair and manufacturing processes, and to reduce associated repair costs through productivity improvements. We also invested in the development of software that will improve managerial decision-making quality and timeliness by enabling efficient access to and use of financial and non-financial data. Specifically, investments were made for local area networks, servers, desktop computers, high-speed computers, and a variety of software products designed to enhance program integration. Other investments included several automated storage and retrieval systems.

As budgets declined and workloads changed, our managers have sought to improve efficiency while continuing cost-cutting measures. Improvements have included establishing clearer customer-provider relationships, adopting private market mechanisms for resource management, and using standard accounting policies to display full costs. Commensurate with changes to force structure and shifting workload requirements, the Army over the past several years has eliminated 7,460 staff positions by consolidating functions, closing unneeded facilities, and adopting more efficient processes.

The implementation of computer-based information systems and reporting techniques has provided total asset visibility, giving the Army better control of its worldwide $10.5 billion inventory of parts, supplies, and war reserve materiel. AWCF customers now are charged less for purchases, and the AWCF managers now have better cost data on which to base repair versus buy decisions, and thus are able to use funds more wisely. Total asset visibility has enabled us to give more timely support to customers, has helped us avoid $300 million in unneeded purchases, and has reduced customer prices, yielding $559 million in customer savings over the past three years.

Conducting Public-Private Competitions

Depot Maintenance managers are conducting public-private competitions for depot maintenance work in instances where the work does not constitute core capability and where other outsourcing criteria, as identified in the Quadrennial Defense Review, are met. In addition, our managers are exploring partnership arrangements with industry for utilizing in-house facilities in order to preserve depot-level skills and to utilize excess capacity. We anticipate savings and a reduction in excess capacity because of these competitions and partnership work.

Competing, Outsourcing, and Privatizing Infrastructure Functions

The AWCF activity groups are also trying to reduce costs by seeking the most cost-effective methods of fulfilling their infrastructure functions. For example, where the function is closely related to private enterprise, managers are exploring privatization as a way to reduce costs. From fiscal year 1997 through 2000, the Army completed competitive sourcing studies of 3,904 positions, potentially affecting 3,784 Army civilians and 120 military personnel. Of these, 1,375 positions were at AWCF activities. The AWCF studies included 1,355 Army civilians and 20 military personnel. Of the positions studied, 811 resulted in awards to commercial suppliers and 564 positions were retained in-house. These studies will produce $9.2 million in annual savings to the Army.

In FY 2000, Tobyhanna Army Depot implemented the largest Energy Savings Performance Contract (ESPC) at a single installation within the entire federal government. The primary goal of the contract is to replace an aging, coal-fired central heating system with a decentralized natural gas heating system. As an additional benefit the work will also include an upgrade of the lighting in the depot's industrial areas and improvements to the air compressor system, both of which will return energy savings. The $32 million contract will facilitate the depot's mission by providing reliable heat and process steam and efficient lighting. It is expected that the ESPC will help the depot achieve a 42 percent reduction in energy consumption, a 60 percent reduction in air emissions, and a 20 percent reduction in overall water usage. The contract also requires the installation of an Energy Monitoring Control System to optimize the heating, ventilation, and air conditioning systems. In addition to ensuring compliance with mandated energy reductions, the work done will generate energy cost savings that will ultimately help pay for the project.

AWCF managers will continue to investigate cost-saving opportunities such as these. In so doing, we expect to further improve our infrastructure services through the use of better in-house procedures or privatization.

Working Capital Fund - Performance Measures

Corporate Performance

Overview

The mission of the AWCF is to provide support services to the Operating Forces in the most efficient and effective manner possible. Analyzing the performance of the AWCF through the use of financial and program performance measures is an indication of how well we are accomplishing our mission.

Performance Measures

Cash Management

The ability to generate cash is dependent on setting rates to recover full costs, including previous year losses; accurately projecting workload; and meeting established operational goals. The Army must maintain sufficient cash on hand in the

AWCF account at the U.S. Treasury to pay liabilities when due. Unlike private sector businesses, we do not have the options of using a line of credit or of borrowing funds. To minimize the cash balance required for operating and capital disbursements, the Army manages cash at the corporate level. Rather than having to maintain positive individual cash balances, the AWCF activity groups and installations manage to outlay targets by projecting collections and disbursements on a monthly basis, working within a 10 percent margin of error.

Projecting cash flows has proven problematic. The Army has the capability to estimate collections and disbursements based on estimated levels of operations, but the shortcomings of current revenue recognition and expensing policies sometimes prevent us from establishing a direct correlation between monthly revenue and collections or between monthly expenses and disbursements, making the development of forecasting models difficult.

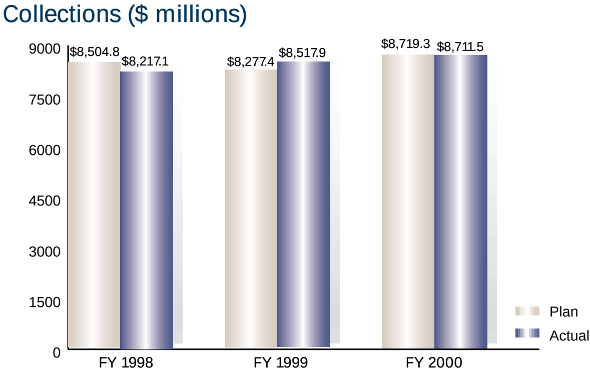
Another difficulty in predicting our cash balance has been in the category of transactions made by others which cause undistributed collections and disbursements to fluctuate dramatically throughout the year. The Defense Finance and Accounting Service (DFAS), the Army's accounting services provider, is currently implementing systems improvements that we expect will enable the Army to make more accurate projections in the future.

To ensure solvency during periods of diminished cash flow, the Army can exercise the options to conduct advance billing, curtail new obligations, impose cash surcharges on new orders, or increase its efforts to collect valid past-year bills. In FY 2000, a $4.09 per labor hour cash surcharge was imposed on all FY 2000 orders in Depot Maintenance and Ordnance. We also increased the collection of valid past-year bills in August and September. We have abstained from the practice of advance billing since March 1995.

In previous years the Army has struggled to maintain the minimum cash balance required to meet operational requirements. Currently, the AWCF is in a highly favorable cash position. This cash position has resulted from aggressive actions taken by the Army over the past several years to increase the cash balance in the AWCF. Figure 1 shows the actual versus planned activity affecting cash balances at the Army corporate level in FY 2000. The AWCF ended the year with a cash balance of $733 million, which was $16 million below plan. The Army was able to project its FY 2000 end of the year cash balance within a 2 percent variance; a quantitative improvement in forecasting over the previous two years, when we missed year end projections by over $100 million.

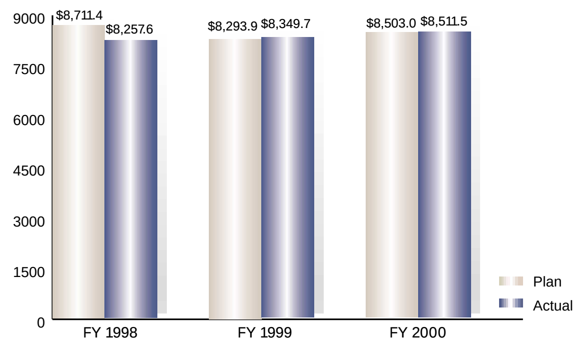
Figure 1. Cash Management ($ millions)

Collections ($ millions)



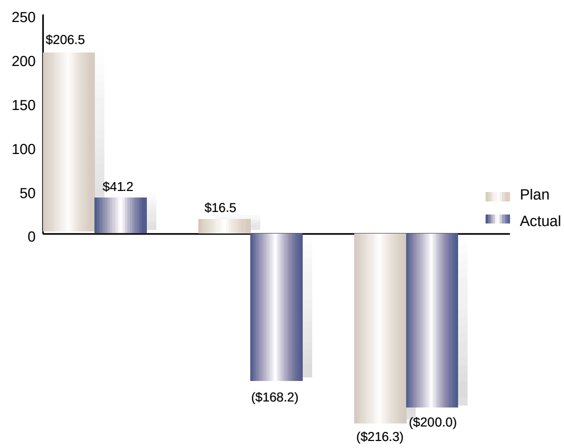
Category	FY 1998	FY 1999	FY 2000
Variance	($287.7)	$240.5	($7.8)
(percentage)	(3.4)	2.9	(0.1)

Disbursements ($ millions)



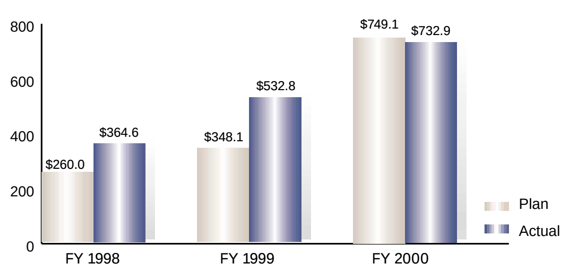
Category	FY 1998	FY 1999	FY 2000
Variance	($453.8)	$55.8	$8.5
(percentage)	(5.2)	0.7	0.1

Outlays ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	($165.3)	($184.7)	$16.3
(percentage)	(80.0)	(1,119.4)	7.5

Cash Balance ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	$104.6	$184.8	($16.2)
(percentage)	40.2	53.1	(2.2)

Total Revenue

The total revenue indicator reflects the volume of work completed by the AWCF activity groups. The total projected revenue for FY 2000 was $11.7 billion. Actual revenue was $12.0 billion, 2.6 percent greater than projected. This was primarily due to increased customer demands in the Supply Management Activity Group.

Table 6 displays total revenue by customer. The largest customer for the AWCF is Operations and Maintenance, Army (OMA), which accounted for revenues of $5.5 billion. Table 7 displays total revenue by activity group. Supply Management, Army (SMA) is the largest, accounting for over $10 billion in revenue, or 83 percent of all AWCF revenue.

Table 6. Total Revenues by Customer ($ millions)

Customer	FY 1998	FY 1999	FY 2000
Operations and Maintenance, Army	$5,479.2	$5,002.7	$5,488.7
Army Procurement	432.7	466.6	400.1
AWCF	2,591.2	3,063.4	3,030.6
Other Army	842.0	1,108.9	1,491.1
Other Services	500.1	449.6	398.4
Other DoD	827.7	1,045.7	919.1
Foreign Military Sales	393.7	455.5	316.5
Non-DoD	79.6	76.3	44.1
Total Revenue	$11,146.2	$11,668.7	$12,088.6

Table 7. Total Revenue by Activity Group ($ millions)

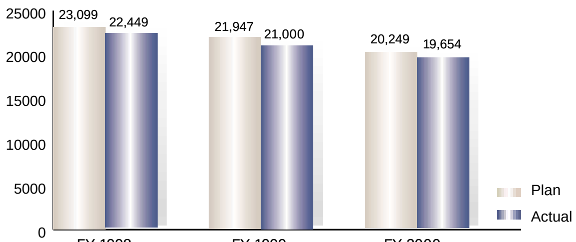
Appropriation	FY 1998	FY 1999	FY 2000
Supply Management, Army	$8,995.3	$9,631.7	$10,003.8
Depot Maintenance	1,573.4	1,498.6	1,291.8
Ordnance	434.2	416.9	658.1
Information Services	143.3	121.5	134.9
Total Revenue	$11,146.2	$11,668.7	$12,088.6

Personnel Resources

The AWCF activities continue an overall downward trend as workload decreases and other initiatives streamline the infrastructure. Part of the FY 2000 personnel decreases was the outsourcing of workload performed at the two Central Design Activities, the Industrial Logistics Systems Center (ILSC) and Logistics Systems Center (LSSC), under the Wholesale Logistics Modernization Program initiative.

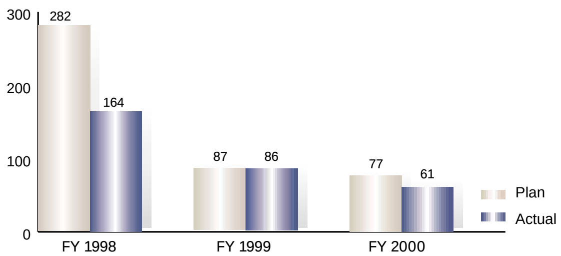
Figure 2. Personnel Indicators

Civilian Full-Time Equivalents



Category	FY 1998	FY 1999	FY 2000
Variance	(650)	(947)	(595)
(percentage)	(2.8)	(4.4)	(2.6)

Military End Strength



Category	FY 1998	FY 1999	FY 2000
Variance	(118)	(1)	(16)
(percentage)	(42.2)	(1.1)	(14.3)

As Figure 2 shows, there has been a 12.5 percentage reduction over the last three fiscal years in the number of civilian full-time equivalents employed by the AWCF activity groups. In FY 2000, the AWCF exceeded its planned reduction in civilian full-time equivalents by 2.3 percent.

Supply Management, Army

Customer Revenue

The revenue from customer sales in FY 2000 was $10.0 billion, exceeding the planned amount for wholesale. This increase was directly related to unexpected increases in customer demands.

Table 8. Total Revenue by Customer ($ millions)

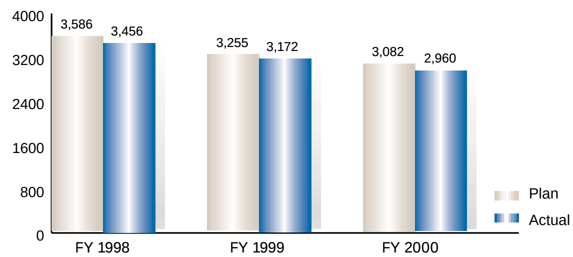
Appropriation	FY 1998	FY 1999	FY 2000
Operations and Maintenance, Army	$4,535.7	$4,219.0	$4,742.4
Army Procurement	112.7	173.8	103.1
AWCF	2,261.0	2,601.8	2,468.8
Other Army	784.9	1,028.9	1,422.1
Other Services	327.9	358.8	308.5
Other DoD	610.7	797.4	667.2
Foreign Military Sales	296.8	393.2	271.9
Non-DoD	65.6	58.8	19.8
Total Revenue	$8,995.3	$9,631.7	$10,003.8

Personnel

A key objective of the SMA activity group is to make sure that the appropriate number of skilled workers are employed in the right places to meet the requirements of the group’s workload. Over the last three fiscal years, the actual number of civilian full-time equivalents has decreased 14.3 percent.

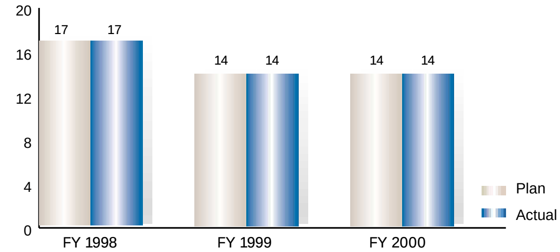
Figure 3. Personnel Indicators

Civilian Full-Time Equivalents



Category	FY 1998	FY 1999	FY 2000
Variance	(130)	(83)	(122)
(percentage)	(3.6)	(2.5)	(4.0)

Military End Strength



Category	FY 1998	FY 1999	FY 2000
Variance	0	0	0
(percentage)	0.0	0.0	0.0

Reductions in personnel have been achieved through a combination of Voluntary Separation Incentive Programs and hiring freezes. The last three fiscal years have seen a downward trend in personnel levels consistent with the requirements of the QDR. The AMC Integrated Materiel Management Centers continue to develop more efficient and effective ways of doing business.

Performance Measures

Financial Performance

The financial performance of the SMA activity group is evaluated on five key fiscal measures. The primary measure, unit cost, is defined as cost per dollar of sales. Other measures are total gross wholesale and retail sales; revenue, cost, and net operating results; capital investment; cash management as measured by collections, disbursements, and outlays; and program measures of stock availability and stock turn.

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

Supplies being loaded onto rail-beds for transportation to Bosnia in support of the International Forces (IFOR).

In FY 2000, the wholesale division achieved a \$1.007 unit cost goal (UCG). Target UCG was \$0.99. The over-execution of the UCG was due to higher than expected credit. Credit was over plan as a result of the Retail activities turning in more items than expected, in preparation of conversion to a Single Stock Fund, and more credit was granted to customers as a result of the “safety of flight” issues.

Table 9. Actual Cost per Dollar of Sales

	FY 1998	FY 1999	FY 2000
Wholesale ($)	$1.00	$0.97	$1.007
Retail ($)	$1.00	$1.01	$0.982

Retail Unit Costs. Retail divisions sell to authorized customers within their local geographic areas. The retail division buys and sells stock at standard prices; over time, the unit cost therefore approximates 1.00. In FY 2000, retail gross materiel costs were lower than planned, resulting in a UCG of 0.982 that was slightly below the normal goal of \$1.00. Gross materiel costs were lower than planned due to reduced purchases in preparation for conversion to single stock fund.

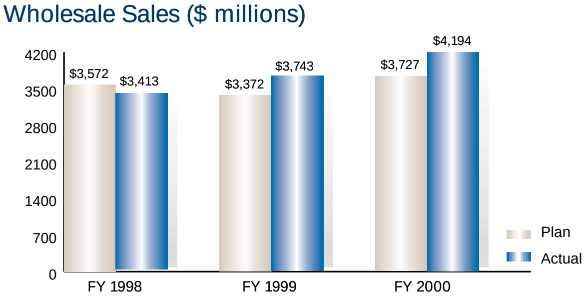
Gross Sales. Attaining projected sales levels is key to achieving goals in inventory management and operations management, as well as to recouping operations costs.

Sales for the wholesale division were above plan for FY 1999 and FY 2000. Additional sales were instrumental in generating the earnings to cover needed procurements and repairs.

Retail division sales were higher than expected in FY 1999 as a result of the unexpectedly high requirement for support of contingency operations and humanitarian relief operations. Retail division sales in FY 2000 were below plan as the retail divisions prepared for conversion to single stock fund.

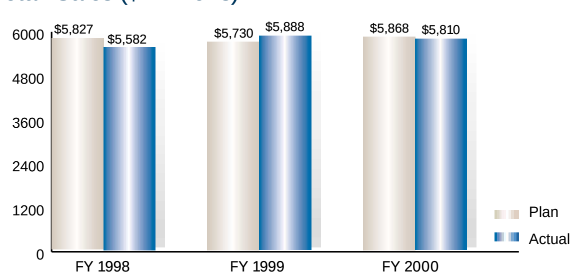
Figure 4. Gross Sales

Wholesale Sales ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	($159)	$371	$467
(percentage)	(4.5)	11.0	12.5

Retail Sales ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	($245)	$158	($58)
(percentage)	(4.2)	2.8	(1.0)

Financial Operating Measures. Revenue, cost, and net operating results are the financial measures of operations. Revenue is gross sales at standard price, which is based on stabilized rates set eight or more months before the beginning of a fiscal year. Budgetary guidance requires the activity group to recover its operating costs and fees while achieving zero accumulated operating results at the end of the budget period. In FY 2000, the rates were set to achieve a net operating result (NOR) of ($3.3) million. Because of a shortfall in sales, the actual NOR was ($1.4) million. Results of operations, computed according to budget guidance, are presented in Table 10.

Results of operations, when computed according to financial accounting standards, vary for reasons including valuation of inventory, timing of cost recognition, transfer fees, and inclusion of non-recoverables such as planned inventory reductions.

Table 10. Results of Operations ($millions)

FY 1998	Plan	Actual	Variance (%)
Revenue	$8,995.0	$9,414.0	4.7
Cost of Goods Sold	9,017.0	9,414.0	4.4
Net Operating Results	($22.0)	$0.0	
Accumulated Operating Results	($17.1)	$4.6	

FY 1999	Plan	Actual	Variance (%)
Revenue	$9,632	$9,652	0.2
Cost of Goods Sold	9,583	9,588	0.0
Net Operating Results	$49.0	$64.0	
Accumulated Operating Results	$31.9	($22.4)	

FY 2000	Plan	Actual	Variance (%)
Revenue	$9,595.4	$10,003.8	4.3
Cost of Goods Sold	9,598.7	10,005.2	4.2
Net Operating Results	(3.3)	(1.4)	
Accumulated Operating Results	27.7	(0.9)	

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

Table 11. Capital Budget Obligations ($ millions)

Category	FY 1998	FY 1999	FY 2000
Equipment	$0.7	$0.0	$0.0
ADPE and Telecom	1.2	0.0	$0.0
Software	56.9	48.6	$65.8
Total	$58.8	$48.6	$65.8

Two important Capital Investment Program (CIP) projects for FY 2000 include purchase of the following:

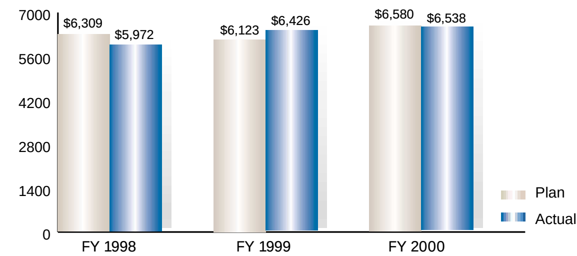
- Single Stock Fund ($34.3 million) integrates retail and wholesale inventory, management, and financial accounting functions to produce business process improvements and inventory efficiencies.
- Common Operating Environment (COE) ($4.8M) provides a Windows-based common technology architecture for the various wholesale logistics processes.

Cash Management

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

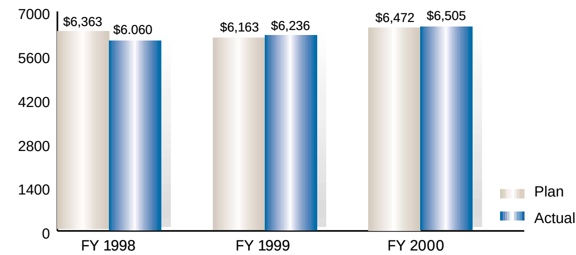
Figure 5. Cash Management ($ millions)

Cash Collections



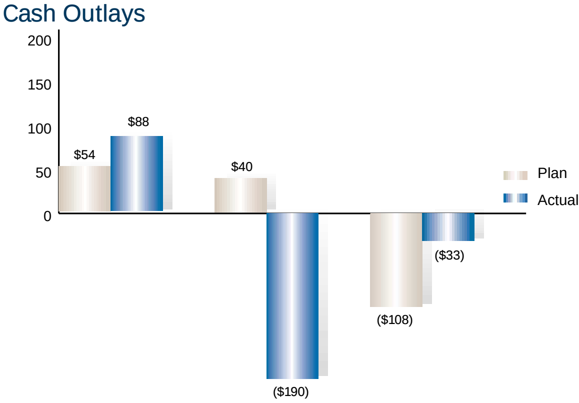
Category	FY 1998	FY 1999	FY 2000
Variance	($337)	$303	($42)
(percentage)	(5.3)	4.9	0.0

Cash Disbursements



Category	FY 1998	FY 1999	FY 2000
Variance	($303)	$73	$33
(percentage)	(4.8)	1.2	0.1

Cash Outlays



Category	FY 1998	FY 1999	FY 2000
Variance	($34)	$230	$75
(percentage)	(63.0)	(575)	69.4

FY 2000 collections were below plan, and disbursements were above plan. The SMA activity group collected $42 million less than planned and disbursed $33 million more than planned. Collections were below plan as a result of increased credits in the retail area. Disbursements were above plan due to increased costs associated with increased sales.

Program Performance

There are two program performance measures for supply management: stock availability and stock turn.

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

Table 12. Stock Availability (percentage)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
FY 1998	78.0	80.0	82.0	83.0
FY 1999	85.1	86.9	85.5	85.1
FY 2000	84.4	82.9	83.2	83.9

Stock Turn. Stock turn is the ratio of annual sales to average inventory value. Consumable items constituted 20.5 percent of our wholesale sales in FY 2000. Inventory value excludes non-demand-based inventory held for reasons other than anticipated demand, such as insurance items, war reserves, and goods held for economic or contingency reasons. The Army's Velocity Management Stockage Determination Process Improvement Team has identified stock turn as one measure of inventory mass. Stock turn in FY 2000 is shown in Table 13.

Table 13. Stock Turn

	FY 1998	FY 1999	FY 2000
Gross Sales ($ millions)	$869	$861	$858
Average Inventory ($ millions)	$1,143	$1,223	$1,057
Stock Turn	0.7	0.70	0.81

Depot Maintenance

Customer Revenue (Program Size)

Customer requirements and funding govern the magnitude and type of Depot Maintenance workload. The revenue from customer sales in FY 2000 was $1,291.8 million. Table 14 displays customer revenue for the past three fiscal years.

Table 14. Total Revenue by Customer ($ millions)

Appropriation	FY 1998	FY 1999	FY 2000
Operations and Maintenance, Army	$699.4	$564.1	$427.5
Army Procurement	202.2	176.6	115.5
AWCF	279.6	386.0	447.2
Other Army	30.5	51.5	37.1
Other Services	152.2	76.5	65.1
Other DoD	120.0	178.9	163.0
Foreign Military Sales	85.5	56.0	27.7
Non-DoD	4.0	9.0	8.7
Total Revenue	$1,573.4	$1,498.6	$1,291.8

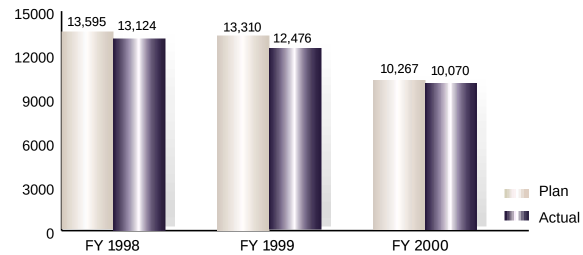
Discounting revenues generated by the quarterly rate increase ($71.5 million in FY 1999), total revenue decreased by $135.3 million, or 9.0 percent, between FY 1999 and FY 2000. Rates increased 5.9 percent.

Personnel

Declining workload and increased productivity have resulted in reductions in the size of the depot workforce. Previous efforts to rely on hiring freezes, voluntary separation incentives, and "reductions-in-force" to reduce staff levels have often resulted in skill imbalances and understaffing in critical areas. Because of past concerns over the Army's inability to accurately match its workforce to workload, we have developed the Army Workload Performance System (AWPS). On June 28, 1999, the Assistant Secretary of the Army (Manpower and Reserve Affairs) certified that AWPS was fully operational for the maintenance mission and authorized its use in efforts to resize the depot workforce. The Army has used AWPS in the last three budget cycles to identify and defend the required Depot Maintenance manpower resources. For Depot Maintenance, AWPS incorporates mission-specific modules for maintenance and base operations. These modules track program status, cost and schedule conformance, and resource utilization, and will forecast personnel requirements.

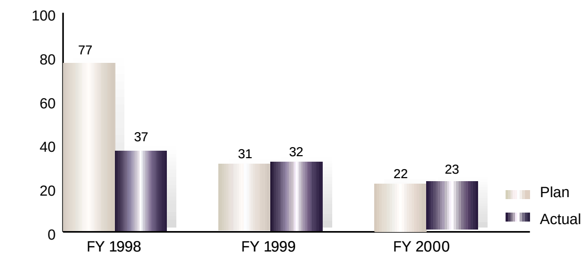
Figure 6. Personnel Indicators

Civilian Full-Time Equivalents



Category	FY 1998	FY 1999	FY 2000
Variance	(471)	(834)	(197)
(percentage)	(3.5)	(6.3)	(1.9)

Military End Strength



Category	FY 1998	FY 1999	FY 2000
Variance	(40)	1	1
(percentage)	(51.9)	3.2	4.5

Performance Measures

Financial Performance

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

Cost per Direct Labor Hour. The cost per direct labor hour (DLH) represents total cost for a given year divided by total DLHs for that year.

Table 15. Cost per Direct Labor Hour

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual
Cost per Direct Labor Hour	$125.47	$113.26	$116.64
Change from Prior Year (%)	23.8	(9.7)	3.0
Direct Labor Hours (000s)	13,606	12,618	10,598

Table 16 breaks down DLH costs into their component parts. Direct costs include civilian labor, materiel, supplies, equipment, and other costs that are directly related to a funded order (travel, training, and purchased services). The indirect and G&A elements comprise all costs not directly related to an order and that are recovered as overhead expenses. These include administrative personnel costs, base support costs, support personnel costs, and facility repair and maintenance costs.

Table 16. FY 2000 Costs ($ millions)

Elements	FY 1998	FY 1999	FY 2000
Direct Labor	$356.2	$345.7	$296.9
Indirect Labor	283.0	282.9	233.3
General and Administrative Labor	30.1	23.9	10.7
Direct Materiel	563.3	361.6	382.1
Indirect Materiel	224.6	63.0	48.4
Indirect Other	32.8	348.3	263.6
Total	$1,490.0	$1,425.4	$1235.0
Direct Labor Hours	13,606	12,618	10,598
Cost per Hour ($)	$109.5	$112.96	$116.53
Change in Work in Process	($217.1)	($3.7)	($1.2)
Cost of Goods Sold ($ millions)	$1,707.1	$1,429.1	$1,236.2
Cost per Direct Labor Hour (unit cost $)	$125.47	$113.26	$116.64

Financial Operating Measures. Under the full-cost recovery concept, stabilized rates are set such that they should cover all costs and achieve a zero accumulated operating result (AOR) at the end of the budget year. During execution, the activity group may experience either a positive or negative net operating result (NOR). The gain or loss shown in the NOR is added to the AOR from prior years. Stabilized rates are included in the President's Budget, published approximately

Table 17. Financial Operating Measures ($ millions)

	FY 1998		FY 1999		FY 2000	
	Plan	Actual	Plan	Actual	Plan	Actual
Revenue	$1,690.7	$1,573.4	$1,603.2	$1,500.1	$1,216.3	$1,291.8
Cost of Goods Sold	1,743.3	1,707.1	1,529.1	1,429.1	1,190.5	1,236.2
Operating Results	($52.6)	($133.7)	$74.1	$71.0	$25.8	$55.6
(less Capital Surcharge)	20.6	0.0	73.7	51.95	2.5	45.5
(less Extraordinary Items)	0.0	0.0	(15.9)	0.0	0.0	0.0
Net Operating Results	($73.2)	($133.7)	($15.5)	$19.1	($26.7)	$10.1
Beginning AOR	(22.0)	102.4	(36.1)	(35.9)	85.1	26.7
(Prior Year Adjustment)	90.4	4.6	51.7	101.9	(58.4)	(164.6)
(Non-Recoverable)				90.6		183.0
AOR Adjusted	68.4	97.8	15.6	66.0	26.7	45.1
AOR (NOR plus adjusted AOR)	($4.8)	($35.9)	$0.0	$85.1	$0.0	$55.2

Note: In FY 2000, Seneca, Sierra, Savanna, Tooele, and Blue Grass Army Depots were transferred to the Ordnance Business Activity. The transfer took $55.4 million in prior year AOR away from the Depot Maintenance Business Activity.

eight months in advance of the year of execution. The rates are stabilized so that customers' programs will not be affected during execution, even though the actual costs of the AWCF activity may be higher or lower than planned.

Deviations from the plan affect the activity group to the extent that an unplanned gain or loss must be included in the following budget year's rates to bring the AOR to zero. Any change in rates will be followed by a commensurate change in customer funding to maintain buying power.

Table 17 shows the financial operating measures for the past three fiscal years. Both the FY 2000 revenue and costs were above plan. Revenue was above plan mainly as a result of the repairs required for the safety of flight effort.

Customer Revenue Rate. In Depot Maintenance, customer revenue rates are set per direct labor hour. These rates are stabilized so that the customer's buying power is protected in the year of execution. Table 18 shows the stabilized revenue rates per DLH.

Table 18. Stabilized Rates

Direct Labor Rate	FY 1998	FY 1999	FY 2000
Customer Revenue Rate ($)	$93.71	$105.61	$111.87
Customer Rate Change (%)	4.0	12.7	5.9

The FY 2000 rates included a $4.09 per DLH cash surcharge, imposed as we sought to rebuild the AWCF cash reserves. The revenue rate was $111.87, representing a 5.9 percent increase from FY 1999. This rate of increase is less than that of a year ago and comparable to that of FY 1998.

Capital Investment. The Depot Maintenance activity group seeks to maintain and develop its capabilities through the acquisition of new equipment and the execution of minor construction projects. The capital budget provides for equipment acquisitions to replace obsolete and unserviceable equipment, to eliminate environmental hazards, and to decrease costs through improvements in productivity. Table 19 represents the obligation authority of the capital budget.

Table 19. Capital Budget ($ millions)

Category	FY 1998	FY 1999	FY 2000
Equipment	$21.2	$7.5	$4.4
Minor Construction	4.2	3.9	1.9
ADPE and Telecom	1.9	0.0	.8
Software	16.4	20.4	10.2
Total	$43.6	$31.8	$17.3

FY 2000 Capital Investment Program (CIP) projects include purchase of the following:

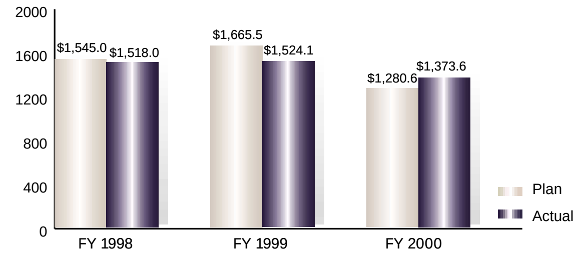
- Wholesale Logistics Modernization Program ($6.9 million), to modernize current systems.
- Vacuum Furnace ($0.9 million), to provide a means to vacuum-braze parts and components.
- Automated Liquid Penetrant Inspection System ($0.9 million), used for the inspection of critical turbine engine components.

Cash Management. The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays, rather than in terms of cash balances. Depot Maintenance collections and disbursements in FY 2000 were $1,373.6 million and $1,262.8 million, respectively.

Both collections and disbursements were over plan and reflect the revenue and expense positions of Depot Maintenance activity group. When revenue and expenses are over plan, collections and disbursements will most likely be over plan, as was the case in FY 2000. Contributing to the overall corporate AWCF positive cash position was the $4.09 per DLH cash surcharge on the Depot Maintenance rates for FY 2000 and the $8.00 surcharge on the FY 1999 DLH rates.

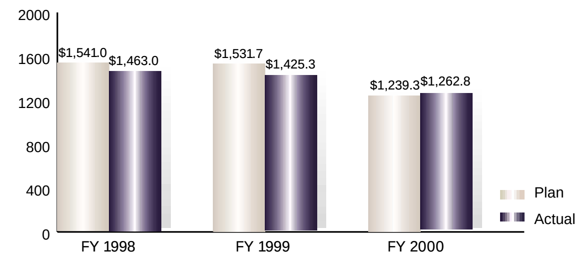
Figure 7. Cash Management ($ millions)

Collections ($ millions)



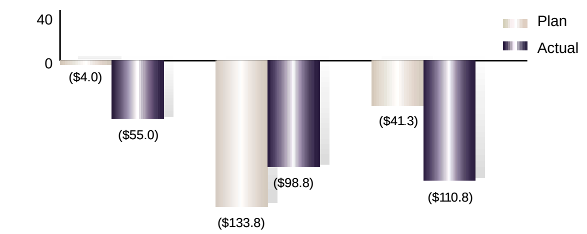
Category	FY 1998	FY 1999	FY 2000
Variance	($27.0)	($141.4)	$93
(percentage)	(1.7)	(8.5)	7.3

Disbursements ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	($78.0)	($106.4)	$23.5
(percentage)	(5.1)	(6.9)	1.9

Outlays ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	($51.0)	$35.0	($69.5)
(percentage)	(1,275.0)	26.2	(168.3)

Program Performance

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

Production Output. Table 20 lists the quantity and customer price for five representative end items for the last three fiscal years. The table

Table 20. Production Output

Item (Installation)	FY 1998 Actual Quantity	FY 1998 Unit Price ($)	FY 1999 Actual Quantity	FY 1999 Unit Price ($)	FY 2000 Proposed Quantity	FY 2000 Actual Quantity	FY 2000 Deviation (%)	FY 2000 Unit Price ($)
Rear Module, M1A1 (ANAD)	413	57,887	453	61,515	419	419	0	51,308
Engine, Turbine, T700-GE (CCAD)	4	124,878	31	103,265	81	40	(50.6)	150,728
Paladin Chassis (LEAD)	143	172,762	71	172,762	60	60	0	180,728
Wheel, Solid Rubber (RRAD)	6,789	211	7,703	252	5,721	5,721	0	246
Visual Display Unit, AH64 (TYAD)	58	10,493	110	10,464	60	60	0	10,188

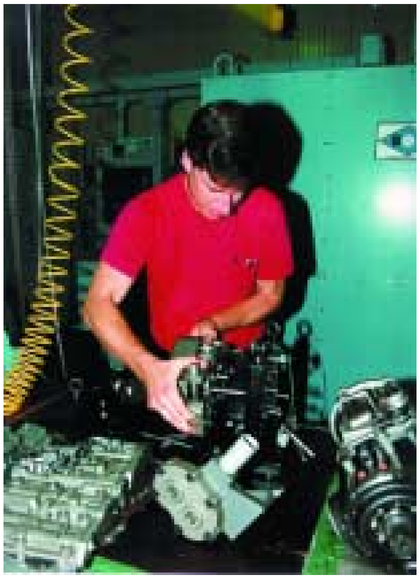
highlights one specific item at each of the major repair depots that is receiving A1 (cyclic, normal overhaul, rebuild) work. The prices indicated are the unit prices by year for this type of work; price fluctuations are due to changes in materiel and labor costs, distribution of overhead costs, AOR recovery, and the cash surcharge.

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

Table 21. Schedule Conformance (percentage)

	FY 1998	FY 1999	FY 2000
Plan	90	93.5	90
Actual	88	80	83
Variance (percentage)	(2.0)	(14.4)	(7.8)

While the Depot Maintenance performance in FY 2000 did not meet the planned scheduled conformance, we did improve upon the FY 1999 performance by 3 percent. During FY 2000, individual depot performance ranged from a low of 74 percent to a high of 95 percent.



Experts at Red River maintain sensitive missile system components.

Ordnance

Customer Revenue Rate (Program Size)

Customer requirements and funding govern the magnitude and type of Ordnance workload. The revenue from customer sales in FY 2000 was $576.8 million.

The increase in revenue is due to FY 1999 realignment of the ammunition storage depots (Sierra, Tooele, Blue Grass, Savanna, and Seneca) and the ammunition storage missions at Anniston, Red River, and Letterkenny to Ordnance from the Depot Maintenance. This realignment consolidates all ammunition-related functions under a single manager.

Table 22. Total Revenue by Customer ($ millions)

Appropriation	FY 1998	FY 1999	FY 2000
Operations and Maintenance, Army	$144.2	$152.7	$265.4
Procurement, Army	117.3	116.2	177.2
AWCF	34.7	42.7	52.4
Other Army	20.4	24.5	29.9
Other Services	20.0	14.3	24.8
Other DoD	76.8	52.1	80.1
Foreign Military Sales	10.8	5.9	16.9
Non-DoD	10.0	8.5	11.4
Total Revenue	$434.2	$416.9	$658.1

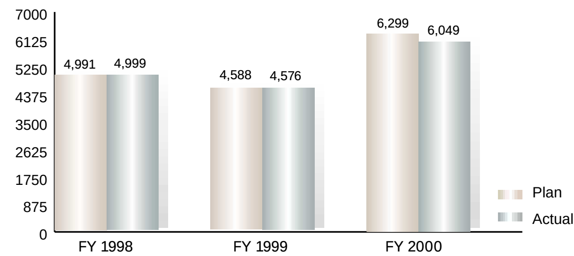
Personnel

A key objective of the Army is to have the correct number of appropriately skilled people in the right places to meet workload requirements. As workload has declined, staffing levels have also been reduced, through a combination of involuntary separations, voluntary separation incentive programs, and hiring freezes. Figures for FY 2000 show an increase in personnel levels over FY 1999.

The changes in military end strength between FY 1998 and FY 2000 reflect the 1998 QDR initiative that seeks to reduce the number of military positions.

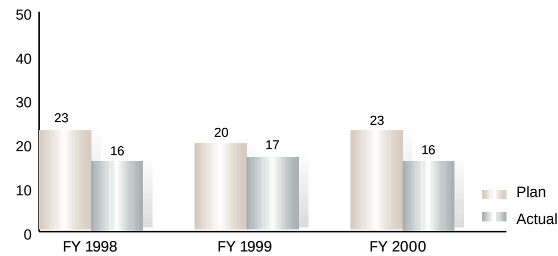
Figure 8. Personnel Indicators

Civilian Full-Time Equivalents



Category	FY 1998	FY 1999	FY 2000
Variance	8	(12)	(250)
(percentage)	0.2	(0.3)	(4.0)

Military End Strength



Category	FY 1998	FY 1999	FY 2000
Variance	(7)	(3)	(7)
(percentage)	(30.4)	(15.0)	(30.4)

Performance Measures

Financial Performance

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

Cost per Direct Labor Hour. The cost per direct labor hour (DLH) represents total cost for a given year divided by total DLHs for that year.

Table 23. Cost per Direct Labor Hour

	FY 1998	FY 1999	FY 2000
Cost per Direct Labor Hour ($)	$103.47	$119.12	$112.75
Change from Prior Year (%)	1.0	15.1	(5.3)
Direct Labor Hours (000s)	4,697	3,981	6,158

Table 24. Financial Operating Measures

	FY 1998		FY 1999		FY 2000	
	Plan	Actual	Plan	Actual	Plan	Actual
Revenue	$473.7	$434.2	$471.0	$416.9	$660.3	$658.1
Cost of Goods Sold	$512.1	$496.6	$487.4	$474.2	$708.2	$694.3
Operating Results	($38.4)	($62.4)	($16.4)	($573)	($47.9)	($36.2)
(less Capital Surcharge)	0.0	0.0	0.0	0.0	24.1	18.3
(less Extraordinary Items)	0.0	0.0	0.0	12.3	0.0	0.0
Net Operating Results	($38.4)	($62.4)	($16.4)	($69.6)	($72.0)	($54.5)
Beginning AOR	16.8	16.8	37.1	30.3	(0.3)	55.1
(Prior Year Adjustment)	16.0	75.8	9.3	32.2	58.4	41.2
(Non-Recoverable)				6.9		16.8
AOR Adjusted	32.8	92.6	46.4	69.4	58.1	113.1
AOR (NOR plus adjusted AOR)	($5.6)	$30.2	$30.0	($0.3)	($13.9)	$58.6

Note: In FY 2000, Seneca, Sierra, Savanna, Tooele, and Blue Grass Army Depots transferred to the Ordnance Business Activity. The transfer added $55.4 million in prior year AOR to the Ordnance Business Activity.

The number of DLHs executed in FY 2000 was 89 fewer than planned, but was 2,164 more than were executed during FY 1999. The transfer on 1 October 1999 of five ammunition storage depots (Seneca, Sierra, Savanna, Tooele, and Blue Grass Army Depots) and the ammunition storage missions at Anniston, Red River, and Letterkenny to Ordnance from the Depot Maintenance Activity was the primary cause of the FY 2000 increase. The DLH total for FY 2000 (Table 23) shows an increase of almost 31 percent over the FY 1998 figure, reflecting the rise in workload.

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

Deviations from the plan affect the activity group to the extent that an unplanned gain or loss must be included in the following budget year's rates to bring the AOR to zero. Any change in rates will be followed by a commensurate change in customer funding to maintain buying power.

Table 24 shows the operation measures for the past three fiscal years. Both the FY 2000 revenue and costs were slightly below plan.

Manufacturing artillery components at the Rock Island Arsenal.

Table 25 breaks down the overall costs for FY 2000. Direct costs are the costs of civilian labor, materiel, supplies, equipment, and others that are directly related to a funded order. Indirect costs are those not directly related to an order, such as administrative personnel costs, base support costs, support personnel costs, and facility repair and maintenance costs.

Table 25. FY 2000 Cost Estimates ($ millions)

Elements	FY 1998	FY 1999	FY 2000
Direct Labor	$122.1	$108.0	$185.4
Indirect Labor	79.4	90.7	198.0
General and Administrative Labor	54.8	57.6	64.4
Direct Materiel	92.8	102.7	70.3
Indirect Materiel	62.0	56.3	97.2
Indirect Other	49.7	50.7	76.4
Total	$460.8	$470.4	$691.7
Direct Labor Hours	4,697	3,981	6,158
Cost per Hour ($)	$98.11	$117.6	$112.47
Change in Work in Process	(25.2)	(3.8)	(2.6)
Cost of Goods Sold ($)	$486.0	$474.2	$694.3
Cost per Hour (unit cost, $)	$103.47	$119.12	$112.75

Customer Revenue Rate. The Ordnance activity group sets customer revenue rates per direct labor hour. These rates are stabilized so that the customer's buying power is protected in the year of execution. Table 26 shows the revenue rate per DLH, and indicates a 5.73 percent rate reduction between FY 1999 and FY 2000.

Table 26. Stabilized Direct Labor Hours

Direct Labor Rate	FY 1998	FY 1999	FY 2000
Customer Revenue Rate ($)	$81.72	$105.12	$99.10
Customer Rate Change (%)	(8.1)	28.6	(5.7)

Capital Investment Program. The Ordnance group seeks to maintain and develop its capabilities through the acquisition of equipment and the execution of minor construction projects. The capital budget provides for equipment acquisition to replace obsolete and unserviceable equipment, to eliminate environmental hazards, and to decrease repair costs by improving productivity. Table 27 represents the obligation authority of the capital budget.

Table 27. Capital Budget ($ millions)

Category	FY 1998	FY 1999	FY 2000
Equipment	$11.9	$10.6	$7.0
Minor Construction	3.1	1.9	3.4
ADPE and Telecom	1.1	0.8	2.8
Software	0.0	3.3	8.7
Total	$16.1	$16.2	$22.9

FY 2000 capital investment program (CIP) projects include purchase of the following:

- Bulk Dunnage Incinerator ($1 million) for waste incineration.
- The Army Workload and Performance System (AWPS) ($4.7 million), a means of managing complex workload and employment strategies.

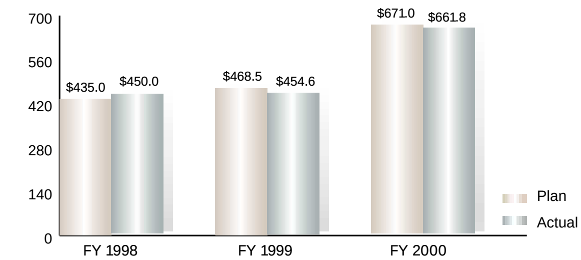
Cash Management. The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays, not against cash balances. The FY 2000 plan projected a drain on cash of $32 million, but the actual impact was an increase to cash of $4.5 million. Both collections and disbursements were under plan as a result of revenue and expenses being under plan. The increase to AWCF corporate cash was more a result of disbursements being under plan than collections.

Table 28. Production Output

Item (Installation)	FY 1998		FY 1999		FY 2000			
	Actual Quantity	Unit Price ($)	Actual Quantity	Unit Price ($)	Proposed Quantity	Actual Quantity	Variance (%)	Unit Price ($)
155MM M804A1 Practice (Crane)	NA	NA	5,391	244.48	35,512	35,512	0	244.48
Bomb, 500lb, BDU 45 (McAlester)	8,721	88.02	5,655	86.99	10,914	10.914	0	77.48
G982 M83Training Grenade (Pine Bluff)	134,710	20.53	249,872	35.73	330,234	302,304	8.48	19.98

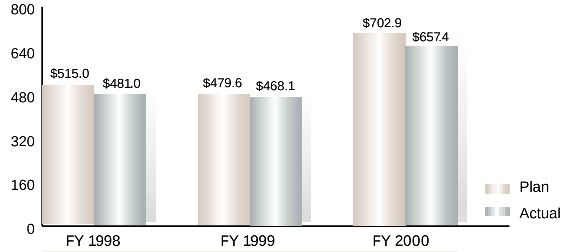
Figure 9. Cash Management ($ millions)

Collections ($ millions)



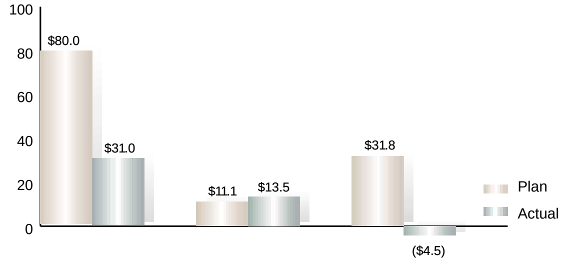
Category	FY 1998	FY 1999	FY 2000
Variance	$15.0	($13.9)	($9.2)
(percentage)	3.4	(3.0)	(1.4)

Disbursements ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	($34.0)	($11.5)	($45.5)
(percentage)	(6.6)	(2.4)	(6.5)

Outlays ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	($49.0)	$2.4	($36.3)
(percentage)	(61.3)	21.6	(114.0)

Program Performance

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

Production Output. Table 28 shows the quantities and unit prices for three ordnance items produced by the group during the last two fiscal years. For FY 2000, plan amounts are also listed.

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

Table 29. Schedule Conformance (percentage)

	FY 1998	FY 1999	FY 2000
Plan	96.0	96.0	150.0
Actual	93.0	77.2	121.0
Variance (percentage)	(3.0)	(18.8)	(19.3)

For FY 2000, the deviation from plan was primarily due to technical data problems at Crane and McAlester; for Pine Bluff, the deviation was primarily due to production slippages caused by a delay in receipt of Government Furnished Material and technical problems.

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

Table 30. Ammunition Short Tons

	FY 1998	FY 1999	FY 2000		
	Actual	Actual	Plan	Actual	Variance (%)
Receipts	62,783	108,503	142,544	142,544	0
Issues	56,953	159,775	140,445	140,445	0
Demilitarized	7,711	24,973	41,103	42,446	3.3

[a] FY98-99 show short tons for CAAA, MCAAP, and PBA only.
[b] FY00 shows short tons for all AWCF Ordnance installations.

Information Services

Customer Revenue (Program Size)

Customer requirements dictate the workload of the Information Services activity group. Customers of the group's four Central Design Activities (CDAs) sign letters of intent, followed by support agreements that estimate the number of work years required and the anticipated costs for each project. Revenue from customer orders in FY 2000 totaled $134.9 million. Table 31 provides a breakdown of orders by customer for FY 1998 through FY 2000.

Table 31. Total Revenue by Customer ($ millions)

Appropriation	FY 1998	FY 1999	FY 2000
Operations and Maintenance, Army	$99.9	$66.9	$53.4
Procurement, Army	0.5	0.0	4.3
AWCF	15.9	32.9	62.2
Other Army	6.2	4.0	2.0
Other DoD	20.2	17.3	8.8
Foreign Military Sales	0.6	0.4	0.0
Non-DoD	0.0	0.0	4.2
Total Revenue	$143.3	$121.5	$134.9

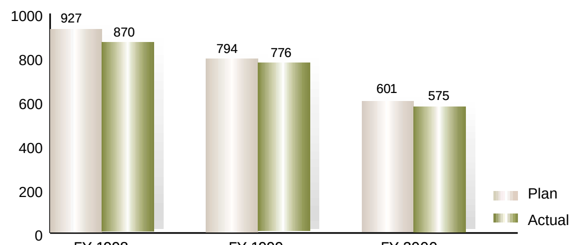
Army customers continue to provide the largest source of revenue, accounting for 88 percent of total revenue in FY 2000. The Defense Finance and Accounting Service (DFAS) is also an important customer because of its needs for design, maintenance, and testing services for its financial systems.

Personnel

Civilian end strength and work years were below plan due to personnel losses as a result of impending privatization/A76 plans at the Industrial Logistics Systems Center (ILSC) and the Logistics Systems Support Center (LSSC), as well as to BRAC relocation plans at SDC-Washington. The downsizing is expected to continue into the future. The military deviation was due to the plan being overstated.

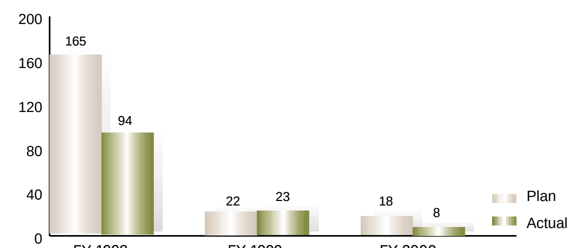
Figure 10. Personnel Indicators

Civilian Full-Time Equivalents



Category	FY 1998	FY 1999	FY 2000
Variance	(57)	18	(26)
(percentage)	(6.2)	(2.3)	(4.3)

Military End Strength



Category	FY 1998	FY 1999	FY 2000
Variance	(71)	1	(10)
(percentage)	(43.0)	4.5	(55.6)

Performance Measures

Financial Performance

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

Table 32. Financial Operating Measures

	FY 1998		FY 1999		FY 2000	
	Plan	Actual	Plan	Actual	Plan	Actual
Revenue	$172.7	$143.2	$120.3	$121.5	$159.6	$134.9
Expense	174.5	153.7	120.0	122.2	159.7	136.2
Operating Results	($1.8)	($10.5)	($0.3)	($0.7)	($0.1)	($1.3)
(less Non-Recoverable)	0.0	0.0	0.0	0.0	0.0	0.3
Net Operating Results	($1.8)	($10.5)	($0.3)	($0.7)	($0.1)	($1.6)

Net Operating Results. The activity experienced a loss of $1.6 million versus a planned loss of $0.1 million. This was due to the decreased workload at SDC-Lee, which resulted in an unplanned, unbudgeted RESHAPE (reduction in personnel) action. SDC-Washington also lost more than planned due to a small decrease in workload, a result of the move to Fort Meade, Maryland.

Cost per Direct Labor Hour. The DLH rate is computed by dividing the sum of all activity labor and non-labor expenses (direct, indirect, and general and administrative) incurred during the fiscal year by the total number of direct labor hours executed. Excluded from this computation are contractor support costs, ASCP expenses, and direct labor hours, which are treated as direct reimbursable costs.

Table 33. Cost per Direct Labor Hour

	FY 1998	FY 1999	FY 2000
Cost per Direct Labor Hour ($)	$70.14	$75.56	$115.12
Change from Prior Year (%)	(11)	7.7	52.4
Direct Labor Hours	1,096	928*	596*

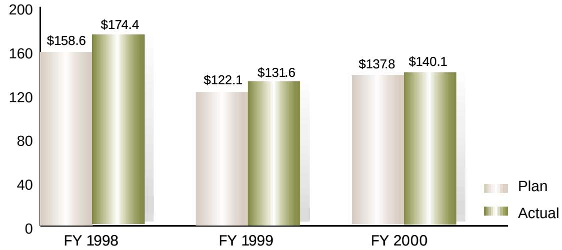
*Note: These amounts exclude ASCP direct labor hours

From FY 1999 to FY 2000, the unit cost of operations increased 52.4 percent because hours worked went down by 36 percent, while expenses went down only 2 percent. Hours were reduced because of decreased workload at SDC-Lee and completion of the development of the Wholesale Logistics Modernization Program. Since associated personnel reductions could not occur, expenses stayed about the same.

Cash Management. The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays, not against cash balances. A positive outlay means the activity group is losing cash; a negative outlay means the activity group is generating cash. The actuals in the charts reflect beyond the cash transactions reported to Treasury for the activity group, to $11 million, including residual transactions from Fort Huachuca. Fort Huachuca moved out of the AWCF several years ago. The Information Services activity group (excluding Fort Huachuca) ended the year with $5.7 million of outlays versus planned outlays of $4.4 million. The primary cause of the high outlay was the decreased workload at SDC-Lee, which necessitated a RESHAPE action late in the fiscal year. This resulted in accruing expenses for unbudgeted voluntary early retirement authority, voluntary separation incentive pay, and reduction in force (VERA/VSIP/RIF) costs.

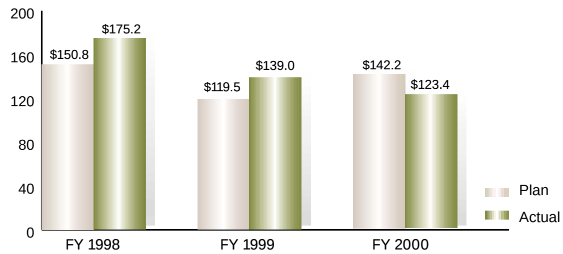
Figure 11. Cash Management ($ millions)

Collections ($ millions)



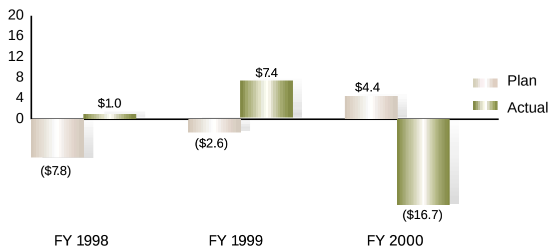
Category	FY 1998	FY 1999	FY 2000
Variance	$15.8	$9.5	$2.3
(percentage)	9.0	7.8	1.7

Disbursements ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	$24.4	$19.5	($18.8)
(percentage)	14.0	16.3	(13.2)

Outlays ($ millions)



Category	FY 1998	FY 1999	FY 2000
Variance	8.8	$10	($21.1)
(percentage)	(112.8)	(384.6)	(479.5)

Program Performance

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

Direct Labor Hours. The number of DLHs achieved in FY 2000 was 609,000, 50,000 fewer than planned. ILSC/LSSC was 72,000 DLHs above plan, due to "direct" personnel staying on the rolls longer than planned while more "indirect" personnel than planned left. A decreased workload saw SDC-Lee return 93,000 DLHs fewer than planned; SDC-Washington, 23,000 fewer; and the ASCP, 6,000 DLHs fewer than planned. In all four cases, the unexpected returns were due to implementation of the WLMP.

Table 34. Direct Labor Hours ($ thousands)

	FY 1998	FY 1999	FY 2000
Plan	1,213	1,015	659
Actual	1,111	943	609
Variance	102	(72)	(50)
Variance (percentage)	(9.2)	(7.2)	(7.6)

Working Capital Fund - Management Initiatives

Supply Management, Army

The Single Stock Fund (SSF) is a major business process reengineering initiative to improve the logistics and financial processes in the Supply Management, Army (SMA), business area. It represents one of the most sweeping changes to logistics and business processes of the past 25 years, and has been described by the Chief of Staff, Army, as a fundamental element of the Army's Revolution in Military Logistics

SSF is merging the wholesale and retail elements of SMA into a single, nationally managed fund. This will streamline current operations that in the past have caused numerous inefficiencies, including multiple points of sale and credit, multiple ledgers/billing accounts, and instances of duplicate automated systems managing the same inventory.

The Army has been working to fully implement SSF since the approval of the SSF Campaign Plan in November 1997. In FY 2000, the Army successfully conducted a demonstration of SSF at Fort Sill, Fort Lewis, and Redstone Arsenal, representing the culmination of more than two years of planning across major commands. During this demonstration the Army tracked problems through to resolution, identifying lessons that will be applied in future implementations of the fund.

The demonstration successfully showed the Army's ability to operate a single point of sale with a single credit process, to run a national maintenance management operation, and to integrate requirements determination processes. These capabilities will enable us to manage more streamlined operations that will provide instant visibility of all stocks, which in turn will simplify inventory management and help eliminate unnecessary procurements. In FY 2001, the Army will take the next step and, in a six-month phased process, will convert installation retail inventories to SSF operations.

Depot Maintenance

FY 2000 marked the completion of the command reorganization that transferred five maintenance depots from the management control of the Operations Support Command (OSC) to the commodity commands. These depot transfers were undertaken in recognition of the added incentive commodity commands, as the major customers of the depots, have to improve operational performance and control costs. Failure to do so directly and negatively impacts the commodity commands' programs and ability to support Army Readiness.

In addition to the transfers, the Army Materiel Command headquarters (HQ-AMC) initiated a series of quarterly Depot/Arsenal Conferences designed to assess program performance, identify operational issues, and provide and receive feedback from across the Army logistic community and the Defense Logistics Agency (DLA). DLA participates in these reviews to help resolve parts problems negatively impacting production schedules and program completion.

Related to parts availability, AMC granted approval for the re-establishment of the Installation Supply Accounts (ISA) during FY 2000, permitting the maintenance depots to build and retain $28 million inventory of critical, long lead-time items. This action will reduce the chance that production schedules will slip due to a backlog of requisitions in the supply system, with the Army expecting the benefits expected to materialize in FY 2001.

Also during FY 2000, design specifications were completed for four component modules of AWPS. When fully implemented in FY 2001, the AWPS will be able to track, by individual cost center, the revenue and expenses associated with each customer order, will provide a more accurate determination of resource requirements, will track repair parts consumption by individual item, and will provide tracking of the number of direct labor hours required for each individual technical skill. This added visibility will provide management the capability to identify and act on problems leading to cost overruns, providing a more timely and accurate statement of the actual quantity and value of the parts used in repair, and will improve pricing and repair parts forecasting. These efforts, and others planned for the future, increase the utility of AWPS as an integrated management tool to plan, evaluate, and manage workload, production, cost and schedule, and the depot workforce, on a real time basis.

Finally, the AMCOM was successful in transitioning the Corpus Christi depot from a 4-day, 10-hours-per-day workweek to a normal 5-day, 8-hours-per-day workweek beginning in February 2000. This change increased each employee's available hours by 20 per year by reducing paid holiday leave from 100 hours per employee to 80.

Overall it has resulted in a measurable increase in the productive yield of labor for the installation.

Ordnance

The Army recognizes that since the end of the Cold War workloads at ordnance facilities has been dramatically reduced while facility downsizing has lagged. This anomaly has led to steadily increasing customer rates. A major reorganization transferred the ammunition storage depots and the ammunition storage functions from the Depot Maintenance activity group to the Ordnance activity group. In addition, the Army is seeking to reduce unutilized capacity, which will ultimately lead to higher utilization rates and lower unit costs.

In FY 2000, the Army conducted a study that focused on projected workload requirements to support peacetime and mobilization missions at Rock Island and Watervliet arsenals, with an emphasis on reducing excess capacity. As a result of its study, the Army will reduce equipment at Rock Island by 22 percent and space by 29 percent. At Watervliet, the Army will reduce equipment by 43 percent and space by 31 percent.

In FY 2001, the Army will complete its analysis and make recommendations pertaining to all of the installations with the Ordnance activity group. The analysis will consider private sector capabilities to meet requirements, the risk in near-peer warfighting scenarios, and alternative management structures and business models. The Army expects to make specific recommendations in FY 2001 concerning optimum ways to maximize mission accomplishment while eliminating excess capacity.

Civil Works Fund Table of Contents

Civil Works Fund

Civil Works Fund - Overview

The missions carried out under the Civil Works Program provide major benefits to the nation. Harbor projects, for example, are vital to the import-export trade, on which one in every seven American jobs depends. The thousands of miles of waterways maintained under the Civil Works Program move one-sixth of the nation's inter-city cargo, at a fraction of the cost of rail or truck transportation. And the Civil Works Program provides one-quarter of the nation's hydroelectric power, serving 10 million citizens, and protects people and property from flood damage, preventing $6 of damage for every dollar spent.

History and Legal Basis

Navigation

The major early civil works mission of the Corps of Engineers, dating back to the Rivers and Harbors Act of 1824, was port and waterway improvement. The Civil Works Program developed and today maintains 12,000 miles of commercial inland waterways, including 235 locks. Navigation work includes deepening and maintaining harbor channels at 297 deep-draft ports

> ***"A strong water resources development program can be a sound investment in our nation's security, economic future, and environmental stability. Communities across the country rely on water resources projects to reduce flood damages, compete more efficiently in world trade, provide needed water and power, and protect and restore our rich environmental resources."***
>
> ***—Joseph W. Westphal***
> ***Assistant Secretary of the Army (Civil Works)***

and at more than 500 other coastal and inland ports. With more than 15 million American jobs dependent on the import-export trade, these ports are vital to the nation's economy. They are also vital to national security: practically all of the heavy equipment and supplies bound for Operations Desert Shield and Desert Storm moved by ship through ports maintained by the Civil Works Program.

Tugboats assist a ship on the Mississippi River at Head of Passes, Louisiana.

In a typical year, more than 1 billion tons of commercial traffic moves through our ports, providing work for 15 million Americans and generating $150 billion in federal taxes. It is essential that we maintain this commercial link with our trading partners with properly managed, modern port facilities. In FY 2000, we began 10 new construction projects aimed at improving our ports.

Figure 1. Comparison of Transportation Capacities

Barge
1,300 Tons
52,500 Bushels
453,640 Gallons

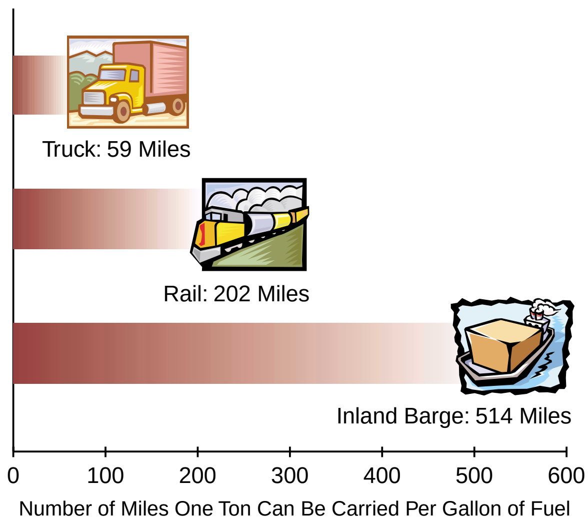
Jumbo Hopper Car
100 Tons
5,500 Bushels
30,246 Gallons

Large Semi
25 Tons
310 Bushels
7,286 Gallons

In FY 2000, 650 million tons of commercial traffic traversed our inland waterways, compared to 575 million tons in FY 1999. In simple terms of energy consumption, the economic efficiency of waterborne traffic far exceeds that of road or rail (Figures 1 and 2). In order to provide for the continued growth of this traffic, in FY 2000 we initiated three major rehabilitation navigation projects to improve our inland waterways. The three projects are at Lock and Dam 12, Mississippi River, Iowa; Lock and Dam 24, Part 2, Mississippi River, Illinois and Missouri ; and London Locks and Dam, Kanawha River, West Virginia.

Figure 2. Comparison of Transportation Efficiencies

Relative Energy Efficiencies



Flood and Coastal Storm Damage Reduction

The involvement of the Civil Works Program in flood damage reduction began in the Mississippi River valley in the mid-19th century, when Congress recognized the relationship between navigation and flood damage reduction and called upon the program to devise solutions to the problem of flooding along the Mississippi. In subsequent legislation, the Flood Control Act of 1936 was passed after a series of disastrous floods affected wide areas of the United States. The act directed that the Civil Works Program devise flood solutions for problems that were too large or complex for the states or localities to handle, thereby assigning to the program authority for flood damage reduction work across the entire country. Most of these projects are turned over to non-federal authorities for operation and maintenance once construction is complete. However, the Civil Works Program does provide flood damage reduction for 383 major lakes and reservoirs that were constructed prior to the revised cost-sharing legislation enacted in the Water Resources Development Act of 1986. The Civil Works Program's flood damage control projects today prevent more than $20 billion per year in flood damage in the United States, representing $6 in damages prevented for every dollar spent.

Aerial view of South Williamson, Kentucky. The project consists of floodplain evacuation, resettlement, and floodproofing activities.

Flood damage reduction is also important in coastal areas, where beach erosion makes developed areas prone to flooding from high tides and storm surges. Civil Works beach erosion control measures include pumping sand onto eroded beaches and building barriers to prevent the lateral movement of sand along the beach. The dynamic nature of coastal processes also requires that beaches at risk be periodically renourished with additional sand.

In recent years, non-structural flood damage reduction measures, such as moving buildings out of floodplains, have also become increasingly viable and have been implemented alongside more traditional measures. In FY 2000, we completed the design of the Cypress Creek non-structural project in Harris County, Texas, and construction is scheduled to begin in FY 2001. The most frequently flooded homes will be purchased and demolished within the five-year floodplain.

One recent example of a successful traditional structural protection project is the ongoing Corps of Engineers flood-control project in Los Angeles County, California. This project has enabled the Federal Emergency Management Agency (FEMA) to drop its requirement for mandatory flood insurance for the more than 100,000 businesses and families that are situated in what is now a former floodplain.

Hydropower

Many Civil Works flood damage reduction or navigation projects are multiple-purpose projects, providing additional benefits such as hydroelectric power. The Civil Works Program's involvement in hydropower generation began with the Rivers and Harbors Acts of 1890 and 1899, which called upon the Civil Works Program to approve the sites and plans for all dams and to issue permits for their construction. The Rivers and Harbors Act of 1909 further directed that the Civil Works Program consider various water uses,

Turbines inside the Bonneville Dam powerhouse, Oregon.

including the generation of power, for all potential projects.

The Civil Works Program today operates 75 hydropower facilities, producing approximately 25 percent of the nation's hydroelectric power. The program's role in hydropower is changing, however, and one of its main tasks now is to plan for the rehabilitation or replacement of aging hydropower equipment. We began a major rehabilitation program in 1992 because of the need to address aging hydropower facilities and other aspects of the Civil Works infrastructure. Since then we have accomplished major rehabilitation of 13 hydropower projects. Program managers are currently developing a rational, staged plan to achieve the most cost-effective upgrade of the program's equipment.

Water Supply

The Army's involvement in public water supply dates to 1853, when it began building the Washington Aqueduct. To this day, the aqueduct is operated by the Corps on a cost-reimbursable basis and continues to provide water to the District of Columbia and to Arlington and Alexandria, Virginia. National policy concerning the Corps' role in water supply has evolved over many years, and continues to be clarified and extended through budgetary guidance and by legislation enacted through various water resources development acts.

The Water Supply Act of 1958 authorizes the Civil Works Program to include storage for municipal and industrial (M&I) water supply in both new and existing reservoir projects at 100 percent non-federal cost. Modification of an existing reservoir to add or increase storage requires separate Congressional authorization if it would significantly impact the existing authorized use of the reservoir or involve major structural or operational changes. By policy, the Civil Works Program's discretion for any such reallocation is limited to 15 percent of total usable storage or 50,000 acre-feet, whichever is the lesser. Sponsors must contract to provide 100 percent reimbursement of costs, including operations and maintenance and repairs, reconstruction, major rehabilitation, and replacement as required.

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

The Civil Works Program has approximately 9.5 million acre-feet currently dedicated to M&I water supply storage, in 118 reservoir projects nationwide. (Dedicated M&I storage space in a reservoir can be increased through a formal reallocation procedure.) Approximately 72 percent of dedicated M&I storage is contained in reservoir projects in the Southwestern Division. The vast majority (92 percent) of M&I storage is contracted under either a present- or future-use storage agreement. There is approximately 780,000 acre-feet of reservoir storage space that could be made available for M&I water supply that is not under contract. It is located in 21 Civil Works Program reservoir projects in five states.

Under the provisions of the Flood Control Act of 1944 and upon the recommendation of the Secretary of the Interior, the Civil Works Program has special procedures governing the use of surplus water and the provision of emergency water supply. Users are required to repay the government for such water. For example, FY 2000 marked the second time in the past 20 years that a drought-stricken Atlanta would have run out of water but for the emergency supply provided by the Civil Works Program's Lake Sidney Lanier.

Recreation

The Civil Works Program provides more than 30 percent of the recreational facilities offered on federal lands, and is the largest provider of water-based recreation, with more than 25 million individuals visiting a Civil Works project at least once each year. The Flood Control Act of 1944, the Federal Water Project Act of 1965, and the language in specific project authorization acts permit the construction, maintenance, and operation of public park and recreational facilities at Civil Works projects. In addition, these acts permit the opening for public use of water areas of Civil Works projects for boating, fishing, and other recreational purposes.

There are more than 2,500 recreation areas at Civil Works projects, with another 1,800 recreation areas leased for operation by non-federal agencies. In FY 2000, these areas received more than 212 million visitor days and supported more than 600,000 full-time and part-time jobs. For many visitors, the ranger they meet at a recreation area will be their only contact with the Department of the Army. The Corps strives to make that contact meaningful and provide a quality recreation experience for each of its visitors.

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

Environment

The environment has been a priority of the Civil Works Program since passage of the National Environmental Protection Act of 1969. The Civil Works Environment Program provides the active stewardship for nearly 12 million acres of federal land and water. Among its stewardship responsibilities, the Civil Works Program manages thousands of square miles of forest and wildlife habitat, monitors water quality at its dams, and operates fish hatcheries in cooperation with state wildlife agencies.

> ***"Today, protecting the environment and mitigating the impacts of Corps projects is an important part of the Civil Works mission."***
>
> ***—Joseph W. Westphal***
> ***Assistant Secretary of the Army***
> ***(Civil Works)***

In some cases, as provided for in the Water Resources Development Act of 1986, the Civil Works Program will restore the environment at projects built before the current environmental requirements came into effect. Examples of restoration work include the use of dredged material to create nesting sites for waterfowl and the modification of water control structures to improve downstream water quality for fish. One such project provided a protected nesting site for the threatened bald eagle at Raystown Lake Dam, Pennsylvania. In FY 2000, three eaglets that hatched in the spring at Raystown successfully fledged, are growing rapidly, and appear to be healthy.

The Civil Works Environment Program has a range of authorities that enable it to protect existing wetlands, restore impaired or degraded wetlands, and create new ones. One of the program's largest projects is the restoration of the hydrologic regime of the Florida Everglades, where work is being done in cooperation with the National Park Service and other federal, state, and local agencies. Additionally, the Civil Works Program is protecting the drinking water of 27 million people in New York City and State by imposing stricter regional controls on the development of sensitive areas of the New York watershed. The new rules are protecting wetlands as small as one-tenth of an acre in the area east of the Hudson River.

> ***"…the Everglades are an American treasure that is in serious trouble…we have a responsibility to protect and restore [it] for generations to come."***
>
> ***—Joseph W. Westphal***
> ***Assistant Secretary of the Army***
> ***(Civil Works)***

Another element in the Civil Works Environment Program is the restoration of lands contaminated with nuclear wastes. In FY 1998, the Department of Energy (DOE) transferred to the Civil Works Program responsibility for the Formerly Utilized Sites Remedial Action Program. This program addresses the problem of residual radioactive contaminants at sites that were involved with early atomic energy development activities, including the Manhattan Project. At the time of the transfer, work still needed to be done at 21 of the 46 sites in the program. DOE has since referred nine additional sites to the Corps for possible inclusion in the program. Since taking over the program, we have remediated three sites.

Regulatory

An important goal of the Civil Works Environmental Regulatory Program is "no net loss of wetlands." The Clean Water Act of 1972 broadened the regulatory authority of the Civil Works Program over all construction, dredging, and fill operations in the navigable waters of the United States. In a typical year, the Civil Works Program processes 8,000 individual permit applications and authorizes 90,000 activities through the issuance of national or regional general permits.

FY 2000 saw important changes to the nationwide and general permit program that will benefit the aquatic environment by increasing protection of critical water resources within the 100-year floodplain. Projects that threaten minimal adverse effects will continue to be permitted. The changes deal mainly with certain discharges made into the nation's headwaters and isolated waters, and will lower the maximum permissible acreage affected by any such discharge from three acres to one-half acre. In addition, the Civil Works Program must be notified of any activity impacting one-tenth of an acre, a reduction from the previous requirement of one-third of an acre.

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

Emergency Response

The Civil Works Program provides emergency response to natural disasters under Public Law 84–99, performing disaster preparedness work; emergency operations such as flood fighting, rescue, and emergency relief; rehabilitation of flood damage reduction works threatened or destroyed by flood; and protection of federally authorized shore protection works threatened or destroyed by coastal storms. Under this law, the Civil Works Program can also provide emergency supplies of clean water in cases of drought or contamination of water supplies.

Fighting the flood in Fort Wayne, Indiana.

The Civil Works Program also assists other agencies, particularly the Federal Emergency Management Agency (FEMA), under the Stafford Act (Public Law 93–288). Working directly for the states with funding provided by FEMA, the Civil Works Program provides temporary repair and construction of roads, bridges, and utilities; temporary shelter; and the removal and destruction of debris. The Corps is also the lead federal agency tasked by FEMA to provide engineering, design, construction, and contract management in support of recovery operations.

The Corps of Engineers is divided by drainage basins into regional divisions, with each division subdivided by smaller drainage basins into districts. Corps personnel are also assigned to various field offices scattered throughout each district. The geographically diverse location of Civil Works offices nationwide assures an immediate response to disaster in any area, with the rapid mobilization of personnel from outside the affected locale assisting in response and recovery work. Emergency Operations Managers are appointed to each division and district to carry out all emergency actions. Each manager is responsible for maintaining an organization of trained specialists to respond to emergencies, but most important also provides a single point of contact within each district for all emergency activities.

"The Army Corps of Engineers is a part of the greatest Army in the world. We will work hard to play our role as a vital link between the American public and its Army."

—LTG Robert B. Flowers
Chief of Engineers

The wildfires that swept the nation in FY 2000 provided ample opportunity for the Civil Works Program to serve those in need. For example, the program provided temporary housing to approximately 165 families made homeless by the Cerro Grande forest fire, the largest fire in New Mexico’s history. The Civil Works Program provided victims of the fire with fully furnished 16-by-70-feet mobile homes, each with three bedrooms and two baths. Civil Works employees also addressed the potential for flooding as a result of increased rainwater runoff in the burned watershed, beginning construction of various flood control structures. In addition, a Civil Works team met with representatives of the San Ildefonso Pueblo to find ways to mitigate the impact of the disaster on their reservation.

Benefits to National Security

The Civil Works Program also contributes to national security, maintaining a workforce of approximately 300 military personnel and 25,000 civilians, supported by tens of thousands of contractor employees. The program provides the nation with a breadth of experience and a capacity for work in dozens of specialized fields that would otherwise not be available in times of crisis.

The Civil Works Program allows the nation to mobilize Corps of Engineers and contractor assets and expertise for the construction and repair of critical facilities and of the transportation arteries needed to deploy military forces. The civil infrastructure plays a vital role in this process, and Civil Works personnel work closely with the Military Traffic Command and local authorities to ensure all ports are ready when the need arises.

> ***"There isn't any job that you can give us that we can't accomplish."***
>
> ***—LTG Robert B. Flowers***
> ***Chief of Engineers***

Strategic Mobility

Many of the harbor and waterway projects built and operated by the Civil Works Program have direct military uses, serving strategic mobility. The program's waterways permit the Army to move equipment to port by barge, enabling it to maintain its critical ability to rapidly project forces from its base in the continental United States to any overseas theater of operations. Elements of the Oklahoma, Texas, Arkansas, and Indiana National Guard (see box) have trained for this eventuality by conducting successful movements on the Arkansas, Mississippi, and Illinois Rivers to their summer training areas. In addition, the 101st Airborne (Airmobile) Division conducts annual movements by waterway from Fort Campbell, Kentucky, to Louisiana. These movements save thousands of dollars over the cost of other modes of transportation. Because of the multi-purpose characteristics of many Civil Works projects, many of these same projects also contribute to force protection, providing flood damage reduction protection for the key highways and railroads upon which our forces would rely in times of crisis.

Navigation Contributes to National Security

In May 2000, the Indiana Army National Guard completed the largest-ever Army National Guard deployment by barge. More than 1,100 pieces of equipment were transported on 64 barges from Indiana to the port of Alexandria, Lousiana.

The 76th Infantry Brigade (Separate), headquartered in Indianapolis, shipped the cargo in connection with a high-priority two-week training rotation at the Joint Readiness Training Center (JRTC) at Fort Polk, Lousiana. The Canal Barge Company, Inc., of New Orleans, Louisiana, loaded the military vehicles: 45 barges were loaded in Clarksville, Indiana; 15 in Evansville, Indiana; and four in Peoria, Illinois.

The seven-day, 800-mile voyage took the barges through three river systems-the Ohio, Mississippi, and the Red River-and 13 locks. Moving 24 hours a day, the barges traveled at an average speed of 8 knots.

According to brigade logistics officer Major Jim Callahan, barge shipment saved valuable time over rail by eliminating the need to shackle vehicles to rail cars and to cover windows with tape. "With barges, you drive on and you drive off," Callahan said.

The barge operation was also praised by Richard Lolich of the Maritime Administration, Department of Transportation. "We just took hundreds and hundreds of heavy military vehicles and their crews off the interstate highway system," he said. "That represents a big savings in fuel and driver costs."

Seventeen barges of military vehicles arrive in Alexandria, Louisiana.

Helping Developing Nations

Experienced Civil Works engineers play a major role in improving the infrastructure of developing nations. At the host nation's request, these engineers can help improve economic conditions and strengthen democratic institutions by enabling emerging democratic governments to better provide for the needs of their people. By engaging in politically sensitive areas and improving the circumstances for often impoverished populations, the Civil Works Program can also foster goodwill between governments—sometimes with an unexpected bonus. In the 1970s and 1980s, a Civil Works team managed the construction of port and other facilities in Saudi Arabia. The trust that developed as a result of this joint effort, which was financed by Saudi Arabia, proved vital in negotiating agreements between the United States and Saudi Arabia that were needed to support Operations Desert Shield and Desert Storm. The infrastructure constructed under this program additionally played a key role in supporting the movement of troops and equipment through ports and airfields to military installations—installations that were also developed under the program.

Civil Works professionals also help address other national goals. Civil Works cultural resource archeologists have been of great value, for example, in helping locate the remains of American service members killed in Southeast Asia. Others are assisting nuclear demilitarization in the former Soviet Union.

How a Water Resources Project Takes Shape

Water projects are extremely important to the citizens of the United States, impacting commerce, public safety, and the environment. The Civil Works Program is responsible for reviewing all proposed water projects in order to ensure that the project does the greatest good for the most people.

Initiated by Non-Federal Interests

Civil Works water resource projects are initiated by non-federal interests through requests made to Congressional representatives. If approved, the project is then authorized by Congress, funded by a combination of federal and non-federal sources, constructed under the Civil Works program, and operated and maintained by the non-federal sponsoring agency. Passage of the Water Resources Development Act of 1986 established as a general principle that project costs should be shared with non-federal interests. The Act also established the general principle that non-federal interests should operate and maintain the project at the completion of its construction.

> ***"The work we do for the nation requires more than just the Corps of Engineers. It is important that we build consensus among our partners and our stakeholders."***
>
> ***—LTG Robert B. Flowers***
> ***Chief of Engineers***

Should local interests feel there is a need for improved navigation, flood protection, or other water resources development, they would normally petition their Congressional representatives. Upon receipt of such a petition, Congress might authorize a study of all problems identified in the request. The study would normally be conducted by the Civil Works Program, in partnership with non-federal sponsors.

The only exceptions to this rule are studies concerning the inland waterway navigation system that are not local by nature. The Water Resources Development Act of 1986 established an Inland Waterways Users Board, composed of representatives of waterway transportation companies and shippers of major commodities. The board makes recommendations to the Secretary of the Army on priorities for new inland navigation projects. Fifty percent of the construction costs for these projects are financed from the Inland Waterways Trust Fund, which in turn is funded by a tax on fuel used in the inland waterways navigation system. In FY 2000, the Civil Works program pursued

Tow on the Tennessee-Tombigbee Waterway.

209 feasibility studies, which were funded for either inland waterway navigation or in partnership with non-federal sponsors, into such problems as flood and coastal storm damage reduction, environmental restoration, and harbor projects.

The Planning Phase

The planning process for a water resource problem normally starts with a brief reconnaissance study to determine if the problem meets federal interest criteria. In FY 2000, the Civil Works Program initiated 82 reconnaissance studies. The Corps district in which the project is located next performs a feasibility study to identify possible alternatives to the project and to recommend a solution for implementation. The study is done in partnership with any non-federal government organization that can fulfill the requirements of project sponsorship. The Corps of Engineers will recommend to Congress that the project be authorized if the proposed project benefits exceed the costs, the engineering design is sound, the project would solve the problem it addresses, and the project promises to protect or enhance the environment.

Funding the Project

Once the district has completed its feasibility study, it submits its report and a final environmental impact statement to all interested agencies and to the governors of affected states for review and recommendations. The Chief of Engineers then prepares his report and forwards both the report and the environmental impact statement to the Secretary of the Army. The Office of Management and Budget reviews the Secretary of the Army's proposals to ensure they are consistent with the policies and programs of the President before they are sent to the Congress.

Projects are normally authorized for construction by inclusion in a biennial Water Resources Development Act. Before construction can begin, the federal government and the non-federal project sponsor must enter into an agreement, and each must provide funds. A federal budget recommendation for a project is based on evidence of support by the state and of the ability and willingness of any non-federal sponsors to provide their share of the project cost. Appropriation of money to build a particular project is normally included in the annual Energy and Water Development Appropriations Act.

Civil Works Fund - Performance Results

The Government Performance and Results Act (GPRA) of 1993 seeks to improve government-wide program effectiveness, government accountability, and ultimately public confidence by requiring federal agencies to identify measurable annual performance goals against which actual achievements can be compared. In addition, each agency is required to submit a comprehensive strategic plan that identifies its major goals and objectives.

The Army Corps of Engineers Civil Works strategic goals comply with the requirements of the GPRA. The goals provide a framework for identifying and reporting on measurable outcomes, focusing on results achieved rather than on the efforts expended. The following strategic goals define our vision for the future and describe how we aim to strengthen and improve our performance in our traditional mission areas to ensure that we continue to meet the needs of the nation. These goals and their supporting business program performance measurements together provide the framework for our future direction.

Strategic Goals

Strategic Goal 1: Provide Water Resources Infrastructure to Ensure the Nation's Economic Well-Being

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

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

To accomplish our goal and to ensure that we continue to manage our water resources effectively and maintain our waterway infrastructure, the Army Corps of Engineers Civil Works Program pursues a consistent program investment objective applied to developing and managing water resources infrastructure:

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

Performance Measure 1.1: The benefit-to-cost ratio at the completion of project construction should at least equal the benefit-to-cost ratio at the time of initial project funding. A performance target of achieving a benefit-to-cost ratio at the completion within 10 percent of the initial benefit-to-cost ratio was set for FY 2000.

Performance Result 1.1: In FY 2000, eight navigation construction projects were completed. All eight were completed with benefit-to-cost ratios within 10 percent of the benefit-to-cost ratio estimate used to justify initial project construction funding. In four instances the projects were completed with benefit-to-cost ratios exceeding what was forecasted prior to initiation of construction.

Performance Measure 1.2: The benefit-to-cost ratio at the completion of project construction should at least equal the benefit-to-cost ratio at the time of initial project funding.

Performance Result 1.2: In FY 2000, 13 flood damage reduction projects were completed. Eleven of the thirteen projects were completed with benefit-to-cost ratios within 10 percent of the benefit-to-cost ratio estimate used to justify initial project construction funding. In only one instance was a project completed where the estimated benefit-to-cost ratio at completion fell below a ratio of 1:1; i.e., costs of the project over the economic life of the project would exceed the benefits. In contrast, eight of the projects were completed with benefit-to-cost ratios exceeding what was forecasted prior to initiation of construction.

Strategic Goal 2: Lead in the Management, Protection, and Restoration of the Nation's Water and Related Land Resources

This strategic goal has two programs: The Corps Natural Resources Program and the Corps Regulatory Program.

- The Corps Natural Resources Program manages the lands retained in public ownership at Corps-owned and -operated project facilities. A key program performance objective is to assure that Corps mitigation outputs meet the environmental requirements of authorizing legislation or relevant Corps decision documents. The objective is to promote environmental stewardship of Corps projects and to assure that environmental mitigation at Corps projects meets the requirements of authorizing legislation or of the relevant Corps decision documents.

Aerial view of wetlands around Cape May Villas, New Jersey.

Performance Measure 2.1: The acreage of designated Corps-administered mitigation lands meeting mitigation requirements is divided by the total acreage of designated Corps-administered mitigation lands. (Project mitigation lands are those lands on which measures are taken to compensate for any unavoidable adverse ecological impact caused by Corps projects or activities. These lands are designated by Congress or approved by Corps Headquarters in a formally documented decision.)

Performance Result 2.1: In FY 2000, the area of Corps-administered mitigation lands amounted to 712,933 acres. The Corps achieved the required mitigation requirements for 552,441 acres, or 77 percent.

- The Corps Regulatory Program focuses on the protection aspect of its Environment Program. The Regulatory Program requires the preservation, restoration, creation, and/or enhancement of wetlands to compensate for wetlands lost to projects approved under the permit application evaluation process. The Regulatory Program objective is to achieve zero net loss of wetlands, in support of the Administration's goal of no net loss.

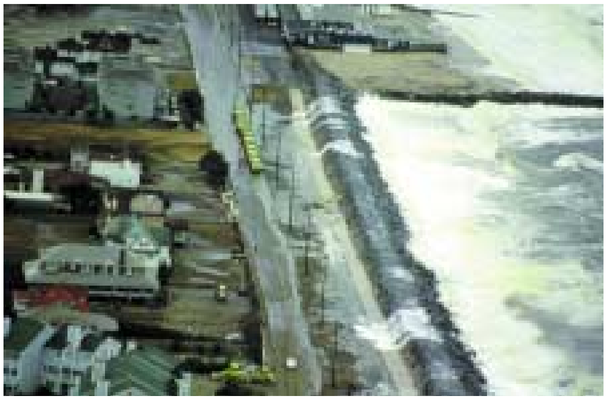
Performance Measure 2.2: Acreage of wetlands created, enhanced, restored, and preserved, as reported quarterly.

Performance Result 2.2: In FY 2000, the program required the mitigation (preservation, restoration, creation, and enhancement) of 44,757 acres of wetlands to compensate for 18,900 acres of wetlands permitted to be filled.

Strategic Goal 3: Provide Timely, Effective, and Efficient Disaster Mitigation, Response, and Recovery

By developing and implementing new ways to improve floodplain management, the Corps is able to reduce potential flood damage and save our nation billions of dollars. Every year we strive to further reduce the risks associated with flooding and to increase our responsiveness to natural disasters.

Performance measures for this strategic goal have not been fielded.



View of Sea Bright, New Jersey, coastline as a storm attacks the seawall.

Business Programs Performance Results

The Civil Works Program aims to accomplish its three strategic goals by providing services in eight business programs. Program performance goals have been established to demonstrate our progress toward achievement of the strategic goals. The measures used in FY 2000 to assess our performance in pursuit of our program goals are described below.

Business Program 1: Emergency Management

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

Through our emergency preparedness planning and disaster response capability we are able to make a significant and direct contribution to U.S. national security objectives. In support of those objectives we have established four program strategies to support the strategic goals of the Corps. They are as follows:

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

Performance measures for this business program are being developed, but none have been implemented.

A Corps-led sandbag operation in Portland, Oregon.

Business Program 2: Navigation

The navigation program includes improvement and maintenance of the port and harbor channels that handle all of the nation's maritime commerce. The Corps combines direct appropriations with funds distributed from the Harbor Maintenance Trust Fund to maintain navigability in 299 deep-draft harbors and 627 shallow-draft harbors. The Corps also has stewardship responsibilities for approximately 25,000 miles of navigable waterways, including approximately 11,000 miles of commercially navigable inland and intracoastal waterways and 238 lock chambers at 192 sites. Major improvements to inland waterway facilities are financed in part by the Inland Waterways Trust Fund. In 1998, 2.3 billion tons of commerce moved through these ports, harbors, and navigable channels, comprising 1.2 billion tons of foreign trade, valued at $664 billion, and 1.1 billion tons of domestic traffic. Maintaining the port and harbor channels and the inland waterways of our navigation system requires the removal of 236 million cubic yards on average of dredged material each year.

Two program objectives have been established to support pursuit of the strategic goals. They are as follows:

- New investments will be undertaken that meet the criteria for federal participation and that, by providing low-cost commercial transportation, promise benefits in excess of costs.
- Existing navigation infrastructure will be operated and managed to maximize the value of the services provided, given the funds available. The Corps strives to keep the inland navigation infrastructure (waterways, harbors, channels, and structures) available for 95 percent of the time it is scheduled for availability to commercial traffic. Dredging must therefore be kept to the minimum level that assures safe and reliable harbor and channel availability.

Performance Measure 2.1: Compare the volume of commerce and the operational cost of the fuel-taxed waterways component of the navigation system.

Performance Result 2.1: During Calendar Year (CY) 1999, the Corps provided 276 ton-miles of low-cost transportation of commodities to world markets.

Table 1. Volume of Commerce and Operational Cost

	FY 1998	FY 1999	FY 2000
Ton-Miles of Commerce Carried (billions)[1]	263	276	N/A[2]
Cost per Ton-Mile	$0.0018	$0.0018	N/A[2]

[1]Ton-mile data are reported on a calendar basis. Costs are on a fiscal year basis.

[2] Data for FY 2000 were not available at time of printing.

Performance Measure 2.2: Percentage of time Corps facilities that are open to commercial traffic.

Performance Result 2.2:. During FY 2000, the availability of inland navigational infrastructure was 96.0 percent.

Table 2. Availability of Navigational Infrastructure

Performance Achieved	FY 1998	FY 1999	FY 2000
Actual Availability	96.1%	96.2%	96.0%

Performance Measure 2.3: The volume of material dredged is largely dependent upon acts of nature and factors beyond the control of man. No performance target has therefore been established. The depth of material to be dredged and the disposal of dredged material are the two main factors influencing the cost of dredging.

Performance Result 2.3: Based upon preliminary information, the Corps removed 243 million cubic yards of dredged material at a cost of $589 million for maintenance dredging during FY 2000. This reflects virtually no increase in quantities since FY 1999.

Table 3. Volume and Cost of Material Dredged

	FY 1998	FY 1999	FY 2000
Cubic Yards Removed (millions)[1]	211	242	243
Cost per Cubic Yard	$2.53	$2.40	$2.42[2]

[1] Volume of material dredged reflects maintenance dredging only, and does not include dredging done for new construction projects.

[2] FY 2000 dredging data are preliminary and subject to revision when finalized.

Business Program 3: Environment

The environment program is similar to the preceding two programs in that it has a new-investment component as well as an operation and maintenance component for existing projects. New investment is used either to restore ecosystems that were degraded prior to project development or to mitigate the adverse consequences of project construction. The Corps is authorized to incorporate ecosystem restoration into plans for new projects and for the modification of existing projects, and into determination of the placement of dredged material from authorized navigation projects. In this context, restoration is treated as a project benefit. Investment in mitigation differs from restoration in that measures are developed to compensate for or replace environmental losses that may be unavoidable in the construction of new projects. In this context, mitigation is treated as a cost of project development. The Corps also has new authority for restoring ecosystems in settings not associated with an existing Corps project. Operation funds are used to achieve environmental goals at completed projects that have been retained by the Corps for operation and maintenance. At existing Corps-operated projects, we provide stewardship of the environment and natural resources in accordance with authorizing decision documents and the Environmental Review Guides for Operations. The Review Guides are management documents that outline the location and corrective action that should be taken where environmental compliance has been deficient. District authorities, regulatory agencies, and private contractors offer support to facility managers, who are responsible for monitoring the environmental compliance of operations at Corps projects.

Kissimmee River C-38 Restoration Project, Florida.

Three program objectives have been established to support the Corps' strategic goals. They are as follows:

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

Table 4. Corps-Administered Mitigation Land

	FY 1998	FY 1999	FY 2000
Total Acreage Designated as Corps-Administered Mitigation Land	1,109,063	724,224	712,933
Mitigation Land for Which Requirements Were Met (acres)	618,535	553,191	552,441
Percentage of Corps-Administered Mitigation Lands for Which Mitigation Requirements Were Met	56%	76%	77%

Performance Measure 3.1: The percentage of Corps-administered mitigation land meeting the requirements of the authorizing legislation or of the relevant Corps of Engineers decision document. The target for FY 2000 was to the meet requirements for 70 percent of mitigation lands. This measure is calculated as a percentage of all designated Corps-administered mitigation land for which the Corps meets mitigation requirements.

Performance Result 3.1: During FY 2000, the Corps administered 712,933 mitigation acres, representing a slight decrease over the previous fiscal year. The decrease was the result of inventory records for mitigation lands being revised to remove land not administered for mitigation purposes. The Corps achieved 77 percent of mitigation requirements, exceeding the performance target of 70 percent. The figure of 70 percent was set as an initial target to give the Corps experience in both baseline measurement and in linking performance levels to resourcing levels.

Performance Measure 3.2: The percentage of the total opportunities to participate in Recovery Plan projects for federally listed species in which the Corps engaged should be not less than 30 percent.

Performance Result 3.2: During FY 2000, the Corps participated in recovery programs for 73 federally listed species, engaging in 503 separate opportunities to benefit these species or their habitats.

Table 5. Recovery Plan Projects

	FY 1998	FY 1999	FY 2000
Number of Opportunities to Participate in Recovery of Federally Listed Species	465	484	503
Number of Opportunities Taken	418	450	470
Percentage of Opportunities Taken to Assist in the Recovery of Federally Listed Species	90%	93%	93%

Performance Measure 3.3: To correct 100 percent of all significant findings and 70 percent of all major findings annually. The Corps measure the success rate of correcting significant and major findings annually.

Performance Result 3.3: During FY 2000, the Corps corrected 4 of 5, or 80 percent of the significant findings and 70 percent of the major findings. This represented a significant improvement in the number of significant findings correct over the previous fiscal year. The performance goal for major findings was raised from 65 percent to 70 percent in FY 2000. The Corps achieved a 30 percent increase in number of major findings corrected from the previous year. The Corps made partial correction to the one open significant finding to eliminate the immediate threat posed to human health, safety, or environment by the end of FY 2000 and expects to complete corrective action in FY 2001. In addition, we continue to place a high priority on meeting both performance objectives in FY 2001.

Table 6. Number of Significant and Major Environmental Findings

	FY 1998	FY 1999	FY 2000
Number of Significant Findings	18	10	5
Percentage Corrected	72%	50%	80%
Number of Major Findings	597	528	555
Percentage Corrected	56%	41%	70%

Business Program 4: Flood and Coastal Storm Damage Reduction

There are two general approaches to reducing flood damage. The first approach calls for the use of large-scale engineering projects to prevent floodwaters from inundating property. The second approach calls for the modification of property susceptible to flooding to minimize the risk of damage. Corps projects usually use a combination of both approaches. Most Corps flood and coastal storm damage reduction projects are constructed as joint ventures between the federal government and non-federal sponsors, and are subsequently owned, operated, and maintained by the non-federal sponsor, although some older projects, mostly reservoirs, are still operated and maintained by the Corps. Through FY 1999, the nation had invested $42.0 billion ($119 billion, adjusted for inflation) in flood damage reduction projects, and has successfully prevented an estimated $416 billion ($706 billion, adjusted for inflation) in flood damage. Adjusted for inflation, these figures show a return on investment of more than $6 in damage prevented for each dollar spent. With proper maintenance, these flood damage reduction projects will remain sound and should continue to yield additional benefits for many years to come.

Two program objectives have been established in this area to support pursuit of the Corps' strategic goals:

- New investments will be undertaken that meet the criteria for federal participation and that produce benefits in excess of costs.
- Existing federal infrastructure will be operated and managed to provide justified levels of service.

Essential to the success of both program objectives is the requirement to maintain Corps facilities to ensure that flood damage reduction continues at the levels originally conceived.

Performance Measure 4.1: Actual performance of Corps facilities in reducing damage where flooding would otherwise have been experienced.

Performance Result 4.1: During FY 1999, the Corps prevented $21.2 billion in flood damages. This can be compared to the 10-year rolling average of $22.3 billion, which is used to smooth out the significant fluctuations in year-to-year flood damages prevented.

New Orleans to Venice Hurricane Project.

Table 7. Flood Damage Savings

(Dollars in billions)	FY 1998	FY 1999	FY 2000
Flood Damage Prevented	$13.4	$21.2	N/A*
10-Year Rolling Average	$21.0	$22.3	N/A*

*Not available at time of printing.

Business Program 5: Hydropower

The Corps operates 75 hydroelectric power-generating units at its multi-purpose reservoirs, providing a significant supply of renewable-source energy to the nation. The electricity is distributed by federal power-marketing agencies. To ensure that we continue to provide much needed energy to the nation, we have established a single program strategy to support pursuit of the Corps' strategic goals. That strategy is to maintain a high level of hydroelectric power production at a competitive cost.

Performance Measures 5.1: Two measures are operative: kilowatt-hours generated (in billions), for total power generation, and cost per kilowatt-hour, to measure generating efficiency. No performance targets were set for FY 2000.

Performance Result 5.1: During FY 1999, the Corps generated 99.1 billion kilowatt-hours, representing an increase in of 14.1 percent from FY 1998 (within normal annual variations). The cost per kilowatt-hour was 2.36 cents.

Table 8. Kilowatt-Hours Generated (in billions)

	FY 1998	FY 1999	FY 2000
Kilowatt-Hours Generated (in billions)	84.7	99.1	N/A*
Cost per Kilowatt-Hour	2.80¢	2.36¢	N/A*

*Not available at time of printing.

Performance Measure 5.2: Maintain a high degree of hydroelectric power availability at Corps multi-purpose reservoir projects. Our goal is to keep the forced (unplanned) outage rate at less than 3.69 percent. The lower the force outage rate, the more reliable and the less expensive is the electricity service we provide to our customers.

View of Ice Harbor Lock and Dam turbines.

Performance Result 5.2: During FY 1999, the Corps had a forced (unplanned) outage rate of 4.5 percent. Although it increased slightly, the general trend is a decrease from a high of 5.98 percent in FY 1995.

Table 9. Hydroelectric Power Availability

	FY 1998	FY 1999	FY 2000
Performance Target	4.5%	4.5%	N/A*
Actual Availability	3.15%	3.69%	N/A*

*Not available at time of printing.

Business Program 6: Recreation

The Corps has built 4,338 recreation areas at its multi-purpose reservoirs, of which we operate and maintain 2,487. These areas provide facilities for camping, swimming, boating, picnicking, and other related activities. Most federal lakes were originally built exclusively for one or two primary purposes, and benefited mainly the local population. Public needs and values have changed, however, and we have sought to serve the evolving public interest by adapting our reservoirs for multiple uses provided there is sufficient legislative authority to do so. Lake managers have also found that by so doing they can stretch their resources further, and can successfully conserve and re-use water. From the same lake resources, the public is thus receiving a wider range of benefits.

Rafting at Lost Creek Dam.

To support the broader strategic goals of the Corps and to achieve maximum cost-effectiveness in the provision of outdoor recreation services, we have established the following program objectives:

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

Performance Measure 6.1: Cost per visitor-day of providing outdoor recreation facilities. The cost per visitor day is determined by a number of variables. While the Corps is able to manage the cost of providing recreation facilities, the number of visitors who use these facilities is governed in large part by external factors such as the weather and prevailing economic conditions. Historically, no management performance target has therefore been specified.

Program Result 6.1: During FY 2000, the number of visitor days at our outdoor recreation areas decreased from 224 to 212 million. Preliminary estimates indicate our cost per visitor day increased from $0.88 to $1.24, which is consistent with our expectations. The decrease in visitation in FY 2000 was due to the drought conditions experienced over much of the south and southeast regions of the United States, where many Corps facilities are located. The increase in costs per visitor day reflects the decline in visitation and increased funding required to begin correcting deferred maintenance work.

Table 10. Recreation Usage

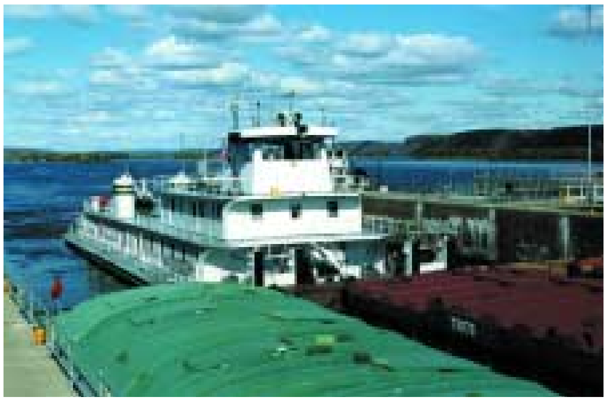
	FY 1998	FY 1999	FY 2000
Visitor Days (millions)	217	224	212
Cost per Visitor Day	$0.83	$0.88	$1.24

Business Program 7: Regulatory

The Corps operates a comprehensive regulatory program, which through extensive coordination and evaluation protects navigation and the aquatic environment. A primary objective of the program is to assure no net losses to the nation's wetlands. Additional program management objectives relate to minimizing the amount of time taken to process decisions on requests for permits to work in U.S. waters.

Table 11. Wetland Acreage Impacts

	FY 1998	FY 1999	FY 2000
Wetland Acres Permitted	31,090	21,556	18,900
Wetland Acres Mitigated	46,630	46,433	44,757



Operating on the waterways requires proper regulatory approval.

The following program objectives have been established to support the pursuit of the Corps' strategic goals:

- Administer the Regulatory Program to achieve no net loss of wetlands in the Nation.
- Administer the Regulatory Program in a manner that renders fair and reasonable decisions for applicants.
- Administer the Regulatory Program in a manner that enables efficient decision-making.

Performance Measure 7.1: Acres of wetlands required to be restored, created, enhanced, and preserved to offset wetlands impacts resulting from permitted development.

Performance Result 7.1: During Fiscal Year 2000, 44,757 acres of wetlands were restored, created, enhanced, and preserved to offset 18,900 acres permitted for development, which achieved the performance objective of no net loss to the nation's wetlands.

Performance Measure 7.2: The number of all permit decisions completed within 60 days, expressed as a percentage of all permit decisions. Target is to complete 85 percent of all actions within 60 days.

Performance Result 7.2: During FY 2000, the Corps completed 80,035 permit actions in 60 days or less, representing a 90 percent success rate. While this figure exceeds the performance target of 85 percent, it is a 2 percent decrease from the performance level achieved in FY 1999.

Table 12. Permit Actions Completed Within 60 Days

	FY 1998	FY 1999	FY 2000
Number of Permit Actions Completed Within 60 Days	880,333	83,413	80,035
Percentage of Actions Completed Within 60 Days	94%	92%	90%

Performance Measure 7.3: The number of standard permit decisions completed within 120 days expressed as a percentage of all standard permit decisions. Standard permits are those for larger projects that require extensive review. Target is to complete 70 percent of decisions on standard permits within 120 days.

Performance Result 7.3: During FY 2000, the Corps completed 90 percent of all standard permit actions in less than 120 days. The results exceeded the performance measure and represented an 18 percent improvement from the FY 1999 performance level.

Table 13. Permit Actions Completed Within 120 Days

	FY 1998	FY 1999	FY 2000
Number of Standard Permit Actions Completed Within 120 Days	4,066	3,175	3,096
Percentage of Actions Completed Within 120 Days	80%	72%	90%

Civil Works Fund - Management Initiatives

The Civil Works Program is continually seeking to improve the way it does business, moving forward in FY 2000 with important management initiatives in both the operational and resource management arenas. By capitalizing on technological advances and introducing modern business processes, we aim to enhance our efficiency, provide better service to our customers, and thereby better serve the needs of the nation.

Project Management Business Process

FY 2000 saw the continued maturation of the Civil Works Program's Project Management Business Process (PMBP). Prior to the FY 1998 introduction of PMBP, Civil Works projects were typically conducted using a "stovepipe" business structure, whereby the different organizations engaged on the project would separately manage their own resources, despite ultimately working toward the same goal. This approach did not clearly establish accountability for project success, nor did it efficiently synchronize the efforts of the various organizations engaged on the project. Aiming to achieve much greater efficiency, PMBP sought to shift the focus of project management to the delivery process rather than place it on the individual organizations.

PMBP employs a single project manager with responsibility for overseeing the project as a whole and for coordinating a team of representatives of each of the project organizations. This has concentrated the focus of project management on the end result rather than on individual products or phases, specifically emphasizing program delivery and customer satisfaction. The new business process also enables the integration of related projects, by centralizing programmatic information in one location to allow for corporate oversight by commanders and their staffs.

With project resources increasingly pulled from across district and divisional boundaries, the key to seamless project delivery under PMBP is teamwork, as coordinated by the project manager. The manager assembles the team and ensures that it works effectively toward the shared goal of project completion. He or she is also the primary interface between the customer and the functional members of the team.

PMBP Imperatives

- Consistent project definition
- One project manager
- The manager is a team leader
- Each project has a plan
- Managers manage resources, data, and commitments
- Work will be managed using automation
- Programmatic oversight is at corporate level

The PMBP team's focus in FY 2000 has been primarily on the development of the Corporate Business Processes (CBP) and P2, the supporting automated information system. Establishment of a universal system of business processes is essential to both PMBP and P2, and when completed CBP will define standard, uniform business processes and consistent management throughout the U.S Army Corps of Engineers (USACE). Groups from across USACE have begun collating current business procedures, from which a focus team will establish the best practices that will provide the basis for CBP. A new process manual is scheduled for implementation in FY 2001.

Regional Business Centers

Consistent with our efforts to eliminate the "stovepipe" approach to doing business, the Civil Works Program has established a network of Regional Business Centers (RBCs) to improve the access of project managers to resources across a region. This represents a cultural change for us, establishing the division rather than the district as our basic business unit. Divisional commanders will act as chief executive officers and the Deputy for Project Management, who has oversight of projects across all districts, will serve as Chief Operating Officer. These officials will work with the Chief Financial Officer to ensure that there is an appropriate division-wide allocation of resources and workload to support all customer requirements on each project.

> ***"To improve responsiveness and in accordance with our 'One Corps' philosophy, we will empower project delivery teams with the right talent and authority with members from the resident office level through the Headquarters in Washington."***
>
> ***—LTG Robert B. Flowers***
> ***Chief of Engineers***

By facilitating the optimal use of resources and by enabling the region-wide deployment of manpower to local projects, this corporate-level approach to project management will increase the efficiency of each district. It will also enable corporate assessment of the potential risks and benefits of each project.

Implementation of the RBCs was hampered in FY 2000 by the lack of a structured process by which to monitor, integrate, and evaluate initial efforts made under the new system. In July 2000, the Corps of Engineers Resource Manager was therefore assigned to establish a steering group to develop and distribute guidance and policy and to promote the sharing of best business practices across all RBCs. We expect to make significant progress next year toward full and effective implementation of the RBCs.

Strategic Planning and Management

Two key components of our drive to improve the management of the Civil Works Program are the Strategic Management Board (SMB) and the Civil Works Strategic Planning effort. The former poses a series of strategic performance questions that cut across all Corps of Engineers missions, establishes corporate goals that address those questions, and measures progress toward achievement of the goals established. Civil Works strategic planners, in coordination with the SMB, then seek to make changes today in order to meet the nation's needs and challenges of tomorrow.

A defining objective of the Civil Works Program is to deliver customer satisfaction. If the program is to be able to meet the needs of its customers, it must have a workforce that is capable of fulfilling its missions, and it must be led by competent leaders. The Strategic Management Board is

> ***"Four years from now, people will look back and say . . . that we've been wise advocates for water resources, that we've been excellent stewards of the environment, that we have always sought consensus, and [that] we did what was right."***
>
> ***—LTG Robert B. Flowers***
> ***Chief of Engineers***

therefore sponsoring an effort to identify the skills that the program needs, and will shortly conduct a capability assessment of all employees to ensure that the program's workforce is equipped with those skills in appropriate measure. The board is also sponsoring a 360-degree survey of Civil Works managers in which the performance of each manager will be assessed using feedback from their superiors, peers, and subordinates. The Strategic Management Board has a clear interest in measuring and improving results in this area. In FY 1999, the board found that Civil Works project managers were meeting only 30 percent of negotiated commitments with project sponsors. We subsequently introduced a program to stress the importance of meeting these commitments and firmly expect project managers to perform better in FY 2001.

Emerging Themes

- Holistic watershed management
- Rural water supply infrastructure
- Better use of floodplains
- Streamlined regulatory processes
- Effective partnership among diverse interests
- Better cooperation among federal agencies
- Consider environmental sustainability

The principal strategic planning goal for Civil Works concerns the management of the nation's water resources. The Civil Works Strategic Planning effort is seeking to define the critical needs in this area, and then outline a series of programs and partnerships to meet these needs. In FY 2000, the Corps sponsored 14 regional and 2 national listening sessions to elicit the concerns of environmental groups, the navigation industry, farmers, academia, state and local governments, and others, in places as far apart as Massachusetts and Hawaii. From these sessions emerged a series of themes that Civil Works Program managers will use to outline proposed programs to answer national water resource needs.

Managerial Accounting Initiative

The Managerial Accounting Initiative has been introduced by the Director of Resource Management in order to assess the accounting requirements of the future. The accounting community is undergoing significant change as it strives to keep pace with information technology and evolving customer requirements, and we are seeking to identify the skills and competencies that Corps accountants will need to meet these new requirements. We will use these findings to subsequently establish a development plan for the Corps accountants.

Accounting services for the Corps of Engineers are currently centralized at our USACE Finance Center, with the districts responsible only for managerial-level accounting functions. The future will require a change in approach by the district accounting community, from day-to-day accounting operations to a more analytical function. This change is necessary so that we can provide project managers with the information that will enable them to determine the impact of their decisions on current and future projects. We have identified the needs of project managers by gathering feedback from senior managers from within the Corps.

In FY 2000, we completed Phase I of this effort, identifying the future skills and competencies required of managerial accountants at the entry, journeyman, and senior levels. We have also developed a roadmap for achieving these skills and competencies, and have incorporated feedback from Corps resource managers and senior managers at the Defense Finance and Accounting Service–Indianapolis Center.

We are now ready to plan Phase II in FY 2001. We will partner with academia to establish appropriate benchmarks for the transition, based on standards set for future accounting professionals by the private sector. We will also institute an Advanced Managerial Accounting Course for all Corps accountants to help them develop the requisite skills to support the Project Management Business Process. We will formulate an implementation plan early in FY 2001 and expect to execute the plan mid-year.

Improving Maintenance Management

The Civil Works Program is introducing the Department of Defense Facilities and Equipment Maintenance System (FEM) to provide a single automated maintenance system for real and personal property. FEM is a customization of the MAXIMO Enterprise Base System, which is a commercial off-the-shelf system (COTS system). To date, Civil Works has had no uniform method to manage the maintenance operations associated with real and personal property—and in many cases has lacked even a manual system. FEM will correct this.

Benefits Provided by FEM

- Will provide density of equipment and facilities needing maintenance
- Will extend service life of assets
- Costing module will help identify and reduce maintenance labor costs
- Will link on-hand spare/repair parts to requirements
- Will provide uniform business process and system

The need for an automated maintenance management system was formally identified in 1992, and in 1996 an independent study by Howard University concluded that FEM would meet 97 percent of Civil Works requirements. FEM consists of 10 integrated modules with customized screens and interfaces. The focus of the modules is on industrial plant facility planning, equipment planning, maintenance management, and repair parts management. There is also a warehouse module that will enable the capture of all property not already included in the Corps of Engineers Financial Management System (CEFMS) module, which will enable us to minimize the duplicative warehousing of consumable materiel.

FEM integrates several plant maintenance functions into a cost-effective asset management program able to support and consolidate into a single management environment such functions as equipment preventive and corrective maintenance, equipment installation planning and execution, facility modification, and equipment calibration. The system will also support the optimization of asset use through improving budget management of corrective and preventive equipment maintenance, asset calibration, inventory, and property and maintenance.

FEM will supersede our existing Vehicle Information Management System (VIMS), enabling us to eliminate VIMS and the cost of supporting it while at the same time enhancing access to and use of the associated data. It will do this in part by delivering the capability to track lifecycle costs of all assets, thus providing real-time accountability. In addition, FEM will improve our ability to manage spare parts inventories, material purchases, maintenance labor (in-house and contracted), and capital equipment acquisition.

The FEM data will reside on two databases at separate centers, facilitating analysis of the Corps' maintenance program and thereby supporting improved decision-making as it regards the maintenance of real and personal property. It will replace local-unique applications at several field activities and will automate facility and equipment maintenance management at an estimated 80 percent of Corps facilities that previously had lacked automation in support of their maintenance management program. Equally important, FEM will interface with legacy systems to share common data and will standardize the maintenance business process Corps-wide.

The implementation of this COTS system will be completed in three years at an estimated cost of $11 million. Development of a comparable system in-house would cost a projected $20–$23 million and take five years. In FY 2000, we obtained two unlimited site licenses for FEM at a cost of $750,000—versus an estimated cost of $6 million if we had pursued other avenues. The annual maintenance cost for the MAXIMO software is approximately 20 percent of the purchase price and includes all future upgrades to the application. In October 1997, the Joint Logistics Systems Center, Directorate of Project Management, prepared a cost-benefit analysis that indicated a positive cost-benefit ratio for FEM and projected annual savings of $3.8 million.

We have reached an agreement with the Navy Systems Support Group under which they will implement FEM, train operators, and perform configuration management. When FEM is fully implemented, we expect that all project sites currently using CEFMS will be able to also use FEM in support of their facilities and equipment maintenance management efforts. The new system will provide a number of both tangible and intangible benefits, the most evident of which will be visibility of all assets requiring maintenance and therefore much greater ability on our part to ensure full operability of the Civil Works infrastructure.

Corps of Engineers Financial Management System

The U.S. Army Corps of Engineers continues to upgrade its financial management systems and tools. It is essential that we properly manage and account for our resources. To do so we have developed a proprietary financial tool known as the Corps of Engineers Financial Management System. Designed and built by the Corps with the aid of external contractors, the system delivers a broad range of functionality. It integrates our financial management processes with internal program and project management processes and provides automated linkage to the Department of the Army, the DoD, and the Office of Management and Budget.

We invested approximately $76 million in development of the CEFMS. The process of implementation and gaining acceptance of the system among our Corps family has required a major cultural adjustment. Our efforts have proven extremely successful, and today CEFMS is a powerful financial tool that has become a key component of successful program execution and customer care.

CEFMS was developed in-house using a rapid application development (RAD) approach. The system was built within MS-DOS, a character-based environment. On June 5, 2000, the USACE Finance Center (UFC) introduced a graphical user interface (GUI), a more intuitive, user-friendly program, to enhance user productivity and application integrity and to lower maintenance costs. More than just a program upgrade, the shift from character base to GUI marked a move to a newer and different technology. The character-based user interface within CEFMS was an environment in which the software developer dictated the order in which the end user navigated through the form. With the mouse-enabled capability of GUI, the end user controls the order of navigation.

Principal Financial Statements/Notes

Principal Statements/Notes

Limitations of the Financial Statements

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

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

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

Limitations Concerning National Defense PP&E Stewardship

- As of the date that these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for ND PP&E. Therefore, the Department elected to report ND PP&E in fiscal year (FY) 2000 in a manner similar to how it was reported in FY 1998 and FY 1999. The Department implemented early for FY 1998, as encouraged by the FASAB, the then proposed amendments to the accounting standards that required the reporting of quantities, condition and investment trends for major types of ND PP&E. At subsequent FASAB meetings, the Board chose not to implement the proposed amendments to the SFFAS No. 6, "Accounting for Property, Plant and Equipment," and SFFAS No. 8, "Supplementary Stewardship Reporting," but, rather, chose to continue studying various alternatives for reporting ND PP&E. These studies were ongoing in FY 2000.

- Since the FASAB did not adopt the proposed amendments, the Department is not in full compliance with the existing reporting requirements that require the Department to report the value of ND PP&E. The Department cannot fully comply with the existing reporting requirement, because many of the Department's ND PP&E accountability and logistics systems do not contain a value for the ND PP&E assets. These systems were designed for purposes of maintaining accountability and meeting other logistics requirements, and not for reporting the value of ND PP&E.

- Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing those temporary reporting requirements and the interim nature of the temporary reporting requirements, the Department is continuing to use the prior year reporting disclosure. Further, the Department believes the most reasonable and responsible course of action is to report quantity and investment information for ND PP&E until such time that the FASAB adopts permanent reporting requirements.

Department of Defense • Department of the Army
As of September 30, 2000 • ($ in thousands)

	FY 2000
1. ASSETS (Note 2)	
A. Intragovernmental:	
1. Fund Balance with Treasury (Note 3)	$34,507,584
2. Investments (Note 4)	1,369
3 Accounts Receivable (Note 5)	688,543
4. Other Assets (Note 6)	49,135
5. Total Intragovernmental Assets	$35,246,631
B. Cash and Other Monetary Assets (Note 7)	$215,916
C. Accounts Receivable (Note 5)	317,261
D. Loans Receivable (Note 8)	0
E. Inventory and Related Property (Note 9)	25,030,644
F. General Property, Plant and Equipment (Note 10)	17,163,789
G. Other Assets (Note 6)	2,746,806
2. TOTAL ASSETS	$80,721,047
3. LIABILITIES (Note 11)	
A. Intragovernmental:	
1 Accounts Payable (Note 12)	$763,996
2. Debt (Note 13)	114
3. Environmental Liabilities (Note 14)	0
4. Other Liabilities (Note 15 & Note 16)	918,710
5. Total Intragovernmental Liabilities	$1,682,820
B. Accounts Payable (Note 12)	$6,895,405
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,574,402
D. Environmental Liabilities (Note 14)	39,319,345
E. Loan Guarantee Liability (Note 8)	0
F. Other Liabilities (Note 15 & Note 16)	4,733,555
4. TOTAL LIABILITIES	$54,205,527
5. NET POSITION	
A. Unexpended Appropriations (Note 18)	$25,887,329
B. Cumulative Results of Operations	628,191
6. TOTAL NET POSITION	$26,515,520
7. TOTAL LIABILITIES AND NET POSITION	$80,721,047

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. Program Costs	
A. Intragovernmental	$17,326,170
B. With the Public	76,428,945
C. Total Program Cost	$93,755,115
D. (Less: Earned Revenue)	(6,001,117)
E. Net Program Costs	$87,753,998
2. Costs Not Assigned to Programs	0
3. (Less:Earned Revenue not attributable to Programs)	0
4. Net Costs of Operations	$87,753,998

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1 Net Cost of Operations	$87,753,998
2. Financing Sources (other than exchange revenues)	
A. Appropriations Used	71,097,838
B. Taxes and Other Nonexchange Revenue	154,618
C. Donations - Nonexchange Revenue	0
D. Imputed Financing (Note 20)	689,226
E. Transfers - In	1,208,397
F. Transfers - Out	(1,335)
G. Other	2,760,069
H. Total Financing Sources (other than Exchange Revenues)	$75,908,813
3. Net Results of Operations	($11,845,185)
4. Prior Period Adjustments (Note 20)	(204,454)
5. Net Change in Cumulative Results of Operations	($12,049,639)
6. Increase (Decrease) in Unexpended Appropriations	1,162,855
7. Change in Net Position	($10,886,784)
8. Net Position-Beginning of the Period	37,402,304
9. Net Position-End of the Period	$26,515,520

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES	FY 2000
A. Budget Authority	$72,451,449
B. Unobligated Balance - Beginning of Period	4,875,650
C. Net Transfers Prior-Year Balance, Actual (+/-)	1,404,943
D. Spending Authority from Offsetting Collections	11,147,197
E. Adjustments (+/-)	7,091,601
F. Total Budgetary Resources	$96,970,840
STATUS OF BUDGETARY RESOURCES	
A. Obligations Incurred	$91,023,588
B. Unobligated Balances - Available	4,611,248
C. Unobligated Balances - Not Available	1,336,004
D. Total Status of Budgetary Resources	$96,970,840
OUTLAYS	
A. Obligations Incurred	$91,023,588
B. Less: Spending Authority from Offsetting Collections and Adjustments	(19,361,765)
C. Obligated Balance, Net - Beginning of Period	27,399,671
D. Obligated Balance Transferred, Net	0
E. Less: Obligated Balance, Net - End of Period	(28,509,309)
F. Total Outlays	$70,552,185

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. OBLIGATIONS AND NON-BUDGETARY RESOURCES:	
A. Obligations Incurred	$91,023,588
B. Less: Spending Authority from Offsetting Collections and Adjustments	(19,361,765)
C. Donations Not in the Entity's Budget	0
D. Financing Imputed for Cost Subsidies	689,226
E. Transfers-In (Out)	18,384
F. Less: Exchange Revenue Not in the Entity's Budget	0
G. Nonexchange Revenue Not in the Entity's Budget	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(65)
I. Other	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$72,369,368
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease	($514,768)
B. Change in Unfilled Customer Orders	(29,862)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(4,512,949)
D. Financing Sources that Fund Costs of Prior Periods	(343,315)
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0
G. Other - (Increases)/Decrease	0
H. Total Resources That Do Not Fund Net Costs of Operations	($5,400,894)
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES	
A. Depreciation and Amortization	$837,805
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0
D. Loss of Disposition of Assets	1,416
E. Other - (Increases)/Decrease	0
F. Total Costs That Do Not Require Resources	$839,221
4 FINANCING SOURCES YET TO BE PROVIDED	$19,946,306
5. NET COST OF OPERATIONS	$87,754,001

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

A. Basis of Presentation.

These financial statements have been prepared to report the financial position and results of operations of the Army, as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Army in accordance with the "Department of Defense Financial Management Regulation" ("DoDFMR") as adapted from the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and to the extent possible the Statements of Federal Financial Accounting Standards (SFFASs). The Army's financial statements are in addition to the financial reports also prepared by the Army pursuant to OMB directives that are used to monitor and control the Army's use of budgetary resources.

The Army is unable to fully implement all elements of the SFFASs due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the Army's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than applying the current emphasis of business-like financial statements. As a result, the Army cannot currently implement every aspect of every SFFAS. The Army continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems.

There are other instances when the Army has reviewed the intent of the standard and applied it in a manner consistent with the intent of the standard, but the auditors interpret the standard differently. Financial statement elements impacted include financing payments under firm fixed price contracts, operating materials and supplies (OM&S) and disposal liabilities.

A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

B. Mission of the Reporting Entity.

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

The accompanying financial statements account for all resources for which the Army is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified.

When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For fiscal year (FY) 2000, the Army's financial management systems are unable to meet all the requirements for full accrual accounting. Efforts are underway to bring the Department of Defense's (DoD) systems into compliance with all elements of the SFFASs.

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

General funds represent financial transactions arising under Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

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

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

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

D. Basis of Accounting.
The Army generally records transactions on a budgetary basis and not an accrual accounting basis as is required by the SFFASs. Many of the Army's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of the SFFASs and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as is required by the SFFASs. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (SGL). Until such time as all of the Army's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by the SFFASs, the Army's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. One example of information presented on the budgetary basis is the data on the Statement on Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

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

E. Revenues and Other Financing Sources.

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

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the Army's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Army's operations. Unexpended appropriations are reflected in the net position. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is made.

F. Accounting for Intragovernmental Activities.

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

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

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

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

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. However, the Army, as well as the rest of the federal government cannot accurately identify all intragovernmental transactions by customer. For FYs 1999 and 2000, the Army provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Internal DoD intragovernmental balances were then eliminated. In addition, the Army implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide" for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

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

G. Funds with the U.S. Treasury and Cash.

The Army's financial resources are maintained in U.S. Treasury accounts. Cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS) and Military Services and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Army's recorded balance in the FBWT account and Treasury's FBWT often result and are reconciled. Material Disclosures are provided in note 3.

H. Foreign Currency.

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

I. Accounts Receivable.

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

J. Loans Receivable. Not applicable.

K. Inventories and Related Property.

Inventories are reported at approximate historical cost based on Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The LAC method is used because inventory data is maintained in logistics systems designed for material management purposes. For the most part, these systems value inventory at selling prices or LAC and reported amounts must be adjusted, using a formula to approximate historical costs.

The related property portion of the amount reported on the Inventory and Related Property line includes OM&S and stockpile materials. The OM&S are valued at standard purchase price. Ammunition and munitions that are not held for sale are treated as OM&S. The Department is using both the purchase and the consumption method of accounting for OM&S, as defined in the SFFAS No. 3, "Accounting for Inventory and Related Property."

Material disclosures related to inventory and related property are provided in note 9.

L. Investments in U.S. Treasury Securities.

Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Army'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. Material disclosures are provided in note 4.

M. General Property, Plant and Equipment (PP&E).

General property, plant, and equipment (PP&E) assets are recorded when an asset has a useful life of 2 or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. The DoD contracted with two certified public accounting (CPA) firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. At the conclusion of the studies, both CPA firms recommended that the DoD retain its current capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

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

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

Material disclosures are provided in note 10.

N. Advance and Prepayments.

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

O. Leases.

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

P. Other Assets.

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

Q. Contingencies and Other Liabilities.

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

The Army's liabilities also arise as a result of range preservation and management activities. Range preservation and management activities are those precautions considered necessary to protect personnel and to maintain long-term range viability. These activities may include the removal and disposal of solid wastes, clearance of unexploded munition, and efforts considered necessary to address pollutants and contaminants. The reported amounts for range preservation and management represent the current cost basis estimates of required range preservation and management activities, beyond recurring operating and maintenance, for active and inactive ranges at active installations. The estimated costs are recognized systematically based on the estimated use of physical capacity.

R. Accrued Leave.

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

S. Net Position.

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred. Cumulative results of operations represents the difference, since inception of an activity, between expenses and losses and financing sources including appropriations, revenue, and gains. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

T. Treaties for Use of Foreign Bases.

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

U. Comparative Data.
Beginning in FY 2001, the DoD will present the current and previous year's financial data for comparative purposes. This data will be presented in the financial statements, as well as, in the footnotes to the principal statements.

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

Note 2. Nonentity Assets

As of September 30, 2000 (Amounts in thousands)

1. Intragovernmental Nonentity Assets:	
A. Fund Balance with Treasury	$60,561
B. Investments	0
C. Accounts Receivable	0
D. Other Assets	0
E. Total Intragovernmental Nonentity Assets	$60,561
2. Nonfederal Nonentity Assets:	
A. Cash and Other Monetary Assets	$215,916
B. Accounts Receivable	58,248
C. Loans Receivable	0
D. Inventory & Related Property	0
E. Other Assets	0
F. Total Nonfederal Nonentity Assets	$274,164
3. Total Nonentity Assets	$334,725
4. Total Entity Assets	80,386,322
5. Total Assets	$80,721,047

6. Other Information:

The balance of $60,561 thousand in Non-Entity Fund Balance with Treasury consists of $60,410 thousand in Deposit Funds and $151 thousand in reconciling items with the Department of Treasury over 90 days old.

Non-Entity Cash includes disbursing officer's cash of $145,619 thousand. The remainder of the Non-Entity Cash balance represents Undeposited Collections of $437 thousand, Imprest Funds of $12,112 thousand, and Foreign Currency of $57,748 thousand.

The $58,248 thousand in Non-Entity Assets Receivable represents accounts receivable of $65,107 thousand and interest, penalty, and administrative fees receivable of $8,719 thousand; less the allowance for loss on accounts receivable of $8,128 thousand and the allowance for loss on interest receivable of $7,450 thousand.

Note 3. Fund Balance with Treasury

As of September 30, 2000 (Amounts in thousands)

1. Fund Balances:	
A. Appropriated Funds	$34,216,483
B. Revolving Funds	154,195
C. Trust Funds	2,320
D. Other Fund Types	134,586
E. Total Fund Balances	$34,507,584
2. Fund Balances Per Treasury Versus Agency:	
A. Fund Balance per Treasury	$34,496,706
B. Fund Balance per Army General Fund	34,507,584
C. Reconciling Amount	($10,878)

3. Explanation of Reconciliation Amount:

The reconciling amount contains ($10,673) thousand in DoD IG auditor's recommended adjustments for Treasury Trial Balance Reconciliation items over 90 days old.

Efforts are on-going with the Department of Treasury to correct the Army's Gift Funds ($205) thousand variance.

4. Other Information Related to Fund Balance with Treasury:

The Other Fund Types includes a balance of $60,410 thousand in Deposit Funds.

The Department of the Army had six overdisbursed accounts:

($ in thousands)

(1) 91/95 Military Construction, Army	($122,383)
(2) 93/97 Military Construction, Army	($195,836)
(3) 94/98 Military Construction, Army National Guard	($128,332)
(4) 00 Chemical Agents and Munitions, Army O&M	($3,409,813)
(5) X Savings Bond Account (6050)	($3,573)
(6) X National Science Center (5286)	($45)

Over-disbursements were caused by uncollected receivables, source of funds deficiencies, and timing differences. Efforts are underway with Army's customers to make corrective actions in the first quarter of FY 01.

DFAS prepares manual SF133 reports to accommodate the State Department's system deficiency in reporting multi-appropriations to Treasury. Currently, Treasury accepts the transactions and reports them as a single year on the Treasury Trial Balance (TTB). In FY 00, the adjustment amount is ($13,140) thousand, net.

In accordance with Treasury's year-end guidance, on September 30 of each fiscal year, most of the uncleared suspense/budget clearing account balances are reduced to zero by transferring the balances to Army's Operation and Maintenance account (21 2020). For FY 00, the Department of Army closed the following:

($ in thousands)

21 F 3875	($435,310)
21 F 3880	$9,264
21 F 3885	($66,335)
21 F 3886	$4,569

The Online Payment and Collection (OPAC) differences represent amounts reported by an organization but not reported by its trading partner. As of September 30, 2000 and 1999 there were $6,187 thousand and $7,591 thousand, respectively, of OPAC differences greater than 180-days old. In DFAS's efforts to aid the Army in clearing suspense account balances and establishing better internal controls over the OPAC process, DFAS developed an automated program to reconcile all OPAC transactions to Treasury. In addition, the accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2000.

The Army has ($14,942) thousand net or $50,343 thousand absolute check issue discrepancies greater than 180-days old. The remaining check issue discrepancies are the result of timing differences between the Army and Treasury in processing checks. Furthermore, no empirical evidence has been presented that demonstrates check issue discrepancies adversely affect the FBWT.

Comparison Report Check Issue Differences

Days	30-Sep-00	30-Sep-00	30-Sep 99	30-Sep-99
TOTALS:	NET	ABSOLUTE	NET	ABSOLUTE
0-30	397,425	397,827	790,759	790,763
31-60	51,848	55,631	65,559	227,321
61-180	28,570	42,334	172,822	183,590
>180	(14,942)	50,343	(56,547)	323,715
Total	462,901	546,13	972,593	1,525,389

Between fiscal year 1999 and 2000, the Army's Check Issue differences in totals over 60 days decreased by an absolute value of $414, 627 thousand (an 81.73% reduction) and a net reduction of $102,646 thousand (an 88.28% reduction).

Note 4. Investments

As of September 30, 2000 (Amounts in thousands)

1. Intragovernmental Securities:	Cost	Amortized Discount Method	(Premium)/ Discount	Market Value Disclosure
A. Marketable	$0	$0	$0	$0
B. Non-Marketable, Par Value	0	0	0	0
C. Non-Marketable, Market-Based Interest	1,357	(3)	1,354	0
D. Subtotal	$1,357	($3)	$1,354	$0
E. Accrued Interest	15	0	15	0
F. Total Intragovernmental Securities	$1,372	($3)	$1,369	$0

2. Other Information:

The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army and the receipt of interest arising from investment of such donations. The related earnings are allocated to appropriate Army activities to be used in accordance with the directions of the donor. As of September 30, 2000, the Army reported $1,369 thousand of investments.

Note 5. Accounts Receivable

As of September 30, 2000 (Amounts in thousands)

	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables:	$688,543	N/A	$688,543
2. Nonfederal Receivables (From the Public):	$366,003	($48,742)	$317,261
3. Total Accounts Receivables:	$1,054,546	($48,742)	$1,005,804

4. Allowance method:

The allowance for estimated uncollectible accounts was calculated by using the three-year average of FY 1998 to FY 2000 actual write offs. This method was treated as a change in accounting estimate and is believed to provide a better estimate of Army's Accounts Receivable (net).

The change in the allowance method resulted in prior period adjustments of $ 156,982 thousand.

5. Other information:

Nonfederal Receivables (From the Public) reported in the financial statements differ from the Report on Accounts Receivable Due from the Public (Schedule 9) because of the process used for eliminating intragovernmental accounts receivable.

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

Note 6. Other Assets

As of September 30, 2000 (Amounts in thousands)

1. Intragovernmental Other Assets:	
A. Advances and Prepayment	$49,135
B. Other Assets	0
C. Total Intragovernmental Other Assets	$49,135
2. Nonfederal Other Assets:	
A. Outstanding Contract Financing Payments	$2,310,397
B. Other Assets (With the Public)	436,409
C. Total Nonfederal Other Assets	$2,746,806
3. Total Other Assets:	$2,795,941

4. Other Information Related to Other Assets:

The Army has reported outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, the Army becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Army is not obligated to reimburse the contractor for his costs and the contractor is liable to repay the Army for the full amount of the advance. The Army does not believe that the SFFAS No. 1, Accounting for Selected Assets and Liabilities addresses this type of financing payment. The auditors disagree with the Army's application of the accounting standard pertaining to advances and prepayments because they believe that SFFAS No. 1 is applicable to this type of financing payment.

The buyer-side "advances to others" balances were adjusted to agree with seller-side "advances from Others" on the books of the other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of the other DoD reporting entities.

Other Assets (with the public) consists of advances to contractors of $387,321 thousand and other assets of $49,088 thousand.

Note 7. Cash and Other Monetary Assets

As of September 30, 2000 (Amounts in thousands)

1. Cash	$158,168
2. Foreign Currency	57,748
3. Other Monetary Assets	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$215,916

5. Other Information Pertaining to Entity Cash & Other Monetary Assets:
The value of Disbursing Officers' Cash included in non-entity cash is $145,619 thousand. The remainder of the non-entity cash balance represents Undeposited Collections of $437 thousand and Imprest Funds of $12,112 thousand.

Note 8. Direct Loan and/or Loan Guarantee Programs

1. Direct Loan and/or Loan Guarantee Programs:
The entity operates the following direct loan and/or Loan guarantee program(s):
Military Housing Privatization Initiative
No Applicable Direct Loan Or Loan Guarantee Programs

2. Other Information:
An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections of this note.

Note 8.B. Direct Loans Obligated After FY 1991

Not applicable

Note 8.C. Defaulted Guaranteed Loans from Post-1991 Guarantees

Not applicable

Note 8.D. Guaranteed Loans Outstanding

Not applicable

Note 8.E. Subsidy Expense for Post- FY 1991 Direct Loans

Not applicable

Note 8.F. Subsidy Expense for Post- FY 1991 Loan Guarantees

Not applicable

Note 8.G. Administrative Expense

Not applicable

Note 9. Inventory and Other Related Property

As of September 30, 2000 (Amounts in thousands)

1.	Inventory, Net (Note 9.A.)	$291,047
2.	Operating Materials & Supplies, Net (Note 9.B.)	24,739,597
3.	Stockpile Materials, Net (Note 9.C.)	0
4.	Forfeited Property	0
5.	Goods Held Under Price Support and Stabilization Programs	0
6.	Total	$25,030,644

Note 9.A. Inventory, Net

As of September 30, 2000 (Amounts in thousands)

1. Inventories Categories:	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
A. Available and Purchased for Resale	$270,214	($250,337)	19,877	Adj. LAC
B. Held in Reserve for Future Sale	0	0	0	
C. Held for Repair	0	0	0	
D. Excess, Obsolete, and Unserviceable	0	0	0	
E. Raw Materials	0	0	0	
F. Work in Process	271,170	0	271,170	SP
G. Total	$541,384	($250,337)	291,047	

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

2. Restrictions of Inventory Use, Sale, or Disposition:
No restrictions on inventory use, sale, or disposition.

3. Definitions of Titles:
Inventory, Gross Value represents the standard value used for inventory transactions in the financial system. Revaluation Allowance is the total difference between standard inventory values and either historical cost or net realizable value. Inventory, Net is approximate historical cost or net realizable value.

4. Other Information:
Conventional Ammunition, appropriation 21 4528, contains the Inventory "Available and Purchased for Resale" and "Work in Process."

Inventory data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the Statement of Federal Financial Accounting Standards (SFFASs) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over inventory items, the timeliness at which this information is provided creates issues regarding the categorization of Inventory as held for use, held in reserve for future use, or excess, obsolete, and unserviceable. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Note 9.B. Operating Materials and Supplies, Net

As of September 30, 2000 (Amounts in thousands)

1. OM&S Categories:	OM&S Amount	Revaluation Allowance	OM&S, Net	Valuation Method
A. Held for Use	$866,702	$0	$866,702	SP
B. Held in Reserve for Future Use	23,860,697	0	23,860,697	SP
C. Held for Repair	0	0	0	
D. Excess, Obsolete, and Unserviceable	12,198	0	12,198	NRV
E. Total	$24,739,597	$0	$24,739,597	

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

2. Restrictions on Operating Materials and Supplies:
No restrictions on operating materials and supplies.

3. Definitions of Titles:
OM&S Amount represents the standard value used for OM&S transactions in the financial system. Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S, Net is approximate historical cost or net realizable value.

4. Other Information:
The OM&S data reported on the financial statements is derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timeliness at which this information is provided creates issues regarding the categorization of OM&S as held for use, held in reserve for future use, held for repair, or excess, obsolete, and unserviceable. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements.

The Army attempts to use the consumption method of accounting for OM&S unless the Army believes the OM&S to be in the hands of the end user for use in normal operations. As stated above, current financial and logistics systems can not fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, and (3) identifying feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method. However for fiscal year (FY) 2000, significant portions of the Army's OM&S were reported under the purchase method because either the systems could not support the consumption method of accounting or because management believes the items to be in the hands of the end user. In some cases, the auditors disagree with the Department's determination that the items are in the hands of the end user.

The Standard General Ledger (SGL) does not include an account for OM&S held for repair, nor does OMB's government-wide Form and Content guidance provide for specific footnote disclosure of the OM&S held for repair. Accordingly, OM&S held for repair is included in OM&S held for use until a separate account is established to record OM&S held for repair.

In FY 2000, OM&S "Held in Reserve for Future Use" consists of $6,400 thousand that represents progress payments against cost reimbursable contracts for munitions that will become OM&S "In Process". Per guidance from OUSD(C), dated November 17, 2000, the munitions related amount should be reported because the DoD FMR, Volume 6B, Chapter 4, Paragraph 040203H does not recognize the difference between General PP&E, National Defense PP&E, Inventory, and OM&S.

Note 9.C. Stockpile Materials, Net

Not applicable.

Note 10. General PP&E, Net

As of September 30, 2000 (Amounts in thousands)

1. Major Asset Classes:	Depreciation/ Amortization Method	Service Life	2000 Acquisition Value	(Accumulated Depreciation Amortization	Net Book Value
A. Land	N/A	N/A	$381,743	N/A	$381,743
B. Buildings, Structures, Facilities	SL	20 to 40	32,657,536	($20,855,978)	11,801,558
C. Leasehold Improvements	SL	10 to 2	7,958	(6,469)	1,489
D. Software	SL	2 to 10	1,660	(462)	1,198
E. Equipment	SL	5 to 10	2,946,277	(1,798,261)	1,148,016
F. Assets Under Capital Lease[1]	SL	Lease term	166,069	(93,906)	72,163
G. Construction-in-Progress	N/A	N/A	3,738,999	N/A	3,738,999
H. Other			18,623	0	18,623
I. Total General PP&E			$39,918,865	($22,755,076)	$17,163,789

[1] Note 15.B for additional information on Capital Leases

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

2. Other Information:
The following Base Realignment and Closure (BRAC) assets are excluded from totals above:

(Amounts in thousands)	Acquisition Value	Accumulated Depreciation	Net Book Value
Land	$12,703		$12,703
Buildings	794,884	($612,264)	182,620
Other Facilities	530,940	(498,041)	32,900
Leasehold Improvements	250	(250)	
BRAC MISSION CLOSURE TOTAL	$1,338,777	($1,110,555)	$228,223

BRAC Mission Closures includes BRAC installations where the mission is closed and under caretakership. All BRAC sites are now closed and are disclosed in the Army General Fund statements; this includes all Army-managed, Defense Logistics Agency (DLA), Military Transportation Management Command (MTMC), and Army Working Capital Fund BRAC sites. Based upon Office of Secretary Defense's guidance, depreciation was stopped in FY 1999 for all pervious year mission closures. The FY 2000 financial statements do not contain depreciation expense for any BRAC sites. Building and Structures depreciation expense of $452 thousand for three BRAC that closed in FY 2000 are disclosed.

The value of the Army General Fund General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the Office of Management and Budget, the General Accounting Office and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

To bring the field activities' general ledger into agreement with the General PP&E data call and to avoid duplication of reporting an adjustment of $ 3,659,015 thousand was made to remove field-reported equipment in the possession of contractors from the financial statements. The General PP&E data call includes some equipment in the possession of the contractors. This adjustment resulted in an increase in the amount reported for other losses (general ledger account 7290).

The $18,623 thousand amount for Other represents Natural Resources (Value of Timber Reserves).

Note 10.A. Assets Under Capital Lease

As of September 30, 2000 (Amounts in thousands)

1. Entity as Lessee, Assets Under Capital Lease:

A. Land and Buildings	$166,069
B. Equipment	0
C. Other	0
D. Accumulated Amortization	(93,906)
E. Total Capital Leases	$72,163

2. Description of Lease Arrangements:

The current portion of the liability, as shown on footnote 15A, is $9,139 thousand and the noncurrent portion is $91,874 thousand. Future executory costs of $28,643 thousand are estimates based on historical data. The use of estimates for these costs has been deemed adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases.

Other Information:

An adjustment of $4,760,952 thousand was made to remove amounts reported as capital leases not in Section 801 Family Housing, appropriation 7025 from the financial statements. This adjustment resulted in an increase in the amount reported for other losses (general ledger account 7290).

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30, 2000 (Amounts in thousands)

1. Intragovernmental Liabilities:	
A. Accounts Payable	$0
B. Debt	114
C. Environmental Liabilities	0
D. Other	427,996
E. Total Intragovernmental Liabilities	$428,110
2. Nonfederal Liabilities:	
A. Accounts Payable	$0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,574,402
C. Environmental Liabilities	36,670,367
D. Loan Guarantee Liability	0
E. Other Liabilities	2,413,716
F. Total Nonfederal Liabilities	$40,658,485
3. Total Liabilities Not Covered by Budgetary Resources:	$41,086,595
4. Total Liabilities Covered by Budgetary Resources:	13,118,932
5. Total Liabilities:	$54,205,527

6. Other Information:

The $114 thousand in Debt is Interest Payable resulting from a trading partner adjustment with the DoD Education Benefits Trust Fund.

Other Intragovernmental Liabilities consists of $287,757 thousand attributable to Worker's Compensation Reimbursement and $140,239 thousand to the Judgment Fund.

The $1,574,402 thousand in Military Retirement Benefits and Other Employment-Related Actuarial Liabilities pertains to estimated future Worker's Compensation benefits.

Noncurrent Environmental Liabilities total $37,289,469 thousand and consist of $13,883,200 thousand for chemical weapons disposal, $13,036,129 thousand for explosives, $4,632,427 thousand for Active Environmental, $3,977,075 thousand for Restoration Costs Formerly Used Defense Sites, $1,204,439 thousand for Restoration Costs Active Installations, and $556,199 thousand for Restoration Costs Base Realignment and Closures (BRAC) Installations. The differences of ($619,102) thousand between noncurrent costs and unfunded liabilities relates to inconsistencies in the definition of covered by budgetary resources and funded liabilities in guidance from Treasury, OMB, and GAO.

Other Nonfederal Liabilities consists of $2,273,201 thousand attributable to Accrued Unfunded Annual Leave, $101,014 thousand to Capital Lease Liability, $5,180 thousand to Cancelled Accounts Payable and $34,321 thousand to Contingent Liabilities. Contingent Liabilities consists of $4,314 thousand for German Tax Liability and the remaining $30,007 thousand applies to Litigation, Claims, and Assessments.

Note 12. Accounts Payable

As of September 30, 2000 (Amounts in thousands)

	Accounts Payable	Interest, Penalties and Administrative Fees	Total
1. Intragovernmental:	$763,996	$0	$763,996
2. With the Public:	6,895,405	0	6,895,405
3. Total	$7,659,401	$0	$7,659,401

4. Other Information:

For the majority of buyer-side transactions, the Army's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army was unable to reconcile intragovernmental accounts payable balances with its trading partners. During this reconciliation, the Army identified a difference of $5,762 thousand with the DoL. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

Note 13. Debt

As of September 30, 2000 (Amounts in thousands)

	Beginning Balance	Net Borrowings	Ending Balance
1. Public Debt:			
A. Held by Government Accounts	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A
2. Agency Debt:			
A. Debt to the Treasury	$0	$0	$0
B. Debt to the Federal Financing Bank	0	0	0
C. Debt to Other Federal Agencies	114	0	114
D. Total Agency Debt	$114	$0	$114
3. Total Debt:	$114	$0	$114
4. Classification of Debt:			
A. Intragovernmental Debt			$114
B. Nonfederal Debt			N/A
C. Total Debt			$114

5. Other Information:

The Army's proportionate share of public debt is not included in the financial statements. The Army's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuances, tax revenues).

The amount of $114 thousand in Agency Debt is a result of trading partner adjustments with the Education Benefits Trust Fund.

Note 14. Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities

As of September 30, 2000 (Amounts in thousands)

1. Environmental Liabilities:

A. Intragovernmental:	Current Liability	Noncurrent Liability	Total
1. Accrued Environmental Restoration (Cleanup) Costs:			
a. Active Installations - Defense Environmental Restoration Program Funds	$0	$0	$0
b. Active Installation - Other Funds	0	0	0
c. Base Realignment and Closure Installations	0	0	0
d Formerly Used Base Sites	0	0	0
e. Closed, Transferred and Transferring Ranges	0	0	0
f. Other Nonrange Sites - Unexploded Ordnance	0	0	0
2. Other Environmental Disposal Liabilities:			
a. Nuclear Powered Aircraft Carriers	0	0	0
b. Nuclear Powered Submarines	0	0	0
c. Other Nuclear Powered Ships	0	0	0
d. Other National Defense Weapons Systems	0	0	0
e. Chemical Weapons Disposal	0	0	0
f. Conventional Munitions Disposal	0	0	0
g. Other	0	0	0
3. Total Intragovernmental Environmental Liabilities	$0	$0	$0

As of September 30, 2000 (Amounts in thousands)

B. Nonfederal:	Current Liability	Noncurrent Liability	Total
1. Accrued Environmental Restoration (Cleanup) Costs:			
a. Active Installations Defense Environmental Restoration Program Funds	$379,032	$4,632,427	$5,011,459
b Active Installations-Other Funds	156,897	1,204,439	1,361,336
c. Base Realignment and Closure Installations Systems	259,318	556,199	815,517
d. Formerly Used Defense Sites	178,051	3,977,075	4,155,126
e. Closed, Transferred and Transferring Ranges	64,978	13,036,129	13,101,107
f. Other Nonrange Sites-Unexploded Ordnance	0	0	0
2. Other Environmental Disposal Liabilities:			
a. Nuclear Powered Aircraft Carriers	0	0	0
b. Nuclear Powered Submarines	0	0	0
c. Other Nuclear Powered Ships	0	0	0
d. Other National Defense Weapon Systems	0	0	0
e. Chemical Weapons Disposal	991,600	13,883,200	14,874,800
f. Conventional Munitions Disposal	0	0	0
g. Other	0	0	0
3. Total Nonfederal Environmental Liabilities	$2,029,876	$37,289,469	$39,319,345
2. Total Environmental Liabilities:	$2,029,876	$37,289,469	$39,319,345

3. Other Information Related to Environmental Liabilities:

The Department of the Army

For FY 2000, the Army has estimated and reported all of its environmental liabilities. In those instances when the Army's systems could not be used to estimate the liability, the Army based the reported amount on a methodology presented by the GAO in previous audit reports. During FY 2001 the Army will more closely evaluate those proposed methodologies to determine their precision.

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Superfund Amendments and Reauthorization Act (SARA) require the Department of Defense to cleanup contamination resulting from past waste disposal practices, leaks, spills, and other activity which has created a risk to public health or the environment. Under the terms of CERCLA, the Army enters into negotiations with the Environmental Protection Agency and state regulatory agencies to reach agreement on standards and methods for cleanup and to establish performance schedules. Failure to comply with these agreements puts the Army at risk of fines and penalties. For the Department of the Army, active installations restoration (cleanup) costs; BRAC; Formerly Used Defense Sites (FUDS); closed, transferred, and transferring ranges; and chemical weapons disposal liabilities total $39.3 billion

Active Installations-DERP funds.

The Department of the Army reported environmental liabilities of $5.0 billion for cleanup of Hazardous, Toxic and Radioactive Waste sites (HTRW).

Active Installations-Other funds.

The Department of the Army reported environmental liabilities of $1.4 billion associated with environmental restoration that uses funding other than Defense Environmental Restoration Program funding. This $1.4 billion includes seven elements (asbestos, Resource Conservation and Recovery Act (RCRA) corrective actions, RCRA closure plans, lead in drinking water, polychlorinated Byphenols, radon and underground storage tanks) and an environmental liability associated with the ultimate disposition of some ongoing DoD operations (reference the GAO request from OSD dated 11 Sep 2000). The data on the seven elements was obtained from the Fall 2000 Army Environmental Program Requirements (EPR) database.

The $1.4 billion includes $892.8 million for the 7 elements mentioned above and $468.6 million associated with the ultimate disposition of some ongoing DoD operations (i.e., operations having environmental hazards at 12 ammunition plants, and closures of 50 Open Burning/Open Demolition (OB/OD) sites).

Base Realignment and Closure Installations.

The Department of the Army reported BRAC environmental liabilities of $815.5 million. (Note: An additional $231.5 million liability for BRAC ordnance and explosives (OE) work (transferring ranges, OE disposal sites, and OE manufacturing facilities) is included in line B.1.e. Closed, Transferred and Transferring Ranges.)

Formerly Used Defense Sites.

The Department of the Army reported FUDS environmental restoration liabilities of $4.2 billion for cleanups such as HTRW, building demolition/debris removal (BD/DR), and potentially responsible party. (Note: An additional $8.0 billion liability for FUDS to cover all OE work, e.g., transferred ranges, OE disposal sites, OE manufacturing facilities, is included in line B.1.e. Closed, Transferred and Transferring Ranges.)

Closed, Transferred and Transferring Ranges.

At this time, the Army is unable to provide a complete environmental liability estimate for active and inactive (A/I) ranges because a comprehensive survey is not yet completed. The survey will include A/I, closed, transferring and transferred (CTT) training ranges. There are three ongoing survey initiatives to delineate the range universe and requirements for the Department of the Army and the other Services: 1) the Army advance range survey is to be completed by 1 Dec 00 and will provide a total inventory of ranges and impacted acreage; 2) the OSD Senate Report that is due 1 Mar 01; and 3) the Army's full inventory of ranges that is to be completed by June 02 and will include a site specific inventory of all Army ranges.

For fiscal year 2000, the Department of the Army reported environmental liabilities for CTT ranges totaling $13.1 billion. This liability is comprised of $4.9 billion associated with the cleanup of closed ranges (i.e., $10 million to begin the range inventory process for active, inactive, transferring and closed Army ranges; $50 million for inventory of closed ranges and $4.8 billion for actual cleanup of closed ranges), $8.0 billion to cover all OE work at FUDS (i.e., transferred ranges, OE disposal sites, OE manufacturing facilities), and $231.6 million to cover all BRAC ordnance and explosives (OE) work (i.e., transferring ranges, OE disposal sites, and OE manufacturing facilities).

For the $4.9 billion associated with the cleanup of closed ranges, it was assumed for the low cost estimate that there would be some improvements in UXO detection technologies ($4 thousand/acre versus $10 thousand/acre). In developing the range of estimates, different assumptions were used in the percentage of sites requiring study and cleanup, and in the level of cleanup effort (4 foot clearance at $25 thousand/acre versus 10 foot clearance at $60 thousand/acre). Cost for the Site Specific Range Response was based on the Army's Regulatory Impact Analysis of the range rule. A worst-case scenario was not developed, as it is assumed to be an unlikely event. It was assumed that small arms ranges would only require lead removal under an accelerated response. The accelerated response for major weapons ranges used the Corps of Engineers cost scenarios delineated in the FUDS management plan.

For the $8.0 billion associated with OE work at FUDS, the FUDS program office performed a property-to-property analysis of its explosive projects, and used a more sophisticated estimating tool (i.e., the Remedial Action Cost Engineering and Requirements (RACER) 2000 model). This estimate is based on slightly more than 8 million acres of range land.

The $13.1 billion is a level of effort programmed until an inventory of all ranges is completed and regulatory requirements are finalized.

Chemical Weapons Disposal.
It was estimated that $14.9 billion would be reported as a liability for the Chemical Weapons Disposal program. This program was formally established to oversee the mission of disposing of chemical weapons that, due to aging, presents a storage risk for the communities and for the depot workers who help keep the weapons secure.

Note 15.A Other Liabilities

As of September 30, 2000 (Amounts in thousands)

1. Intragovernmental:	Current Liability	Noncurrent Liability	Total
A. Advances from Others	$72,347	$0	$72,347
B. Deferred Credits	0	0	0
C. Deposit Funds and Suspense Account Liabilities	60,409	0	60,409
D. Resources Payable to Treasury	57,292	0	57,292
E. Disbursing Officer Cash	217,615	0	217,615
F Nonenvironmental Disposal Liabilities:			
(1) ND PP&E (Non-nuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
G. Accounts Payable-Cancelled Appropriations	0	0	0
H. Judgment Fund Liabilities	0	140,239	140,239
I. Workman's Compensation Reimbursement to the Department of Labor	122,124	165,634	287,758
J. Capital Lease Liability	0	0	0
K. Other Liabilities	83,050	0	83,050
L. Total Intragovernmental Other Liabilities	$612,837	$305,873	$918,710

As of September 30, 2000I (Amounts in thousands)

2. Nonfederal:			
A. Accrued Funded Payroll and Benefits	$1,148,686	$0	$1,148,686
B. Advances from Others	482,682	0	482,682
C. Deferred Credits	0	0	0
D. Loan Guarantee Liability	0	0	0
E. Liability for Subsidy Related to Undisturbed Loans	0	0	0
F Deposit Funds and Suspense Accounts	0	0	0
G. Temporary Early Retirement Authority	39,478	0	39,478
H. Nonenvironmental Disposal Liabilities:			
(1) NP PP&E (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
I. Accounts Payable-Cancelled Appropriations	0	5,180	5,180
J. Accrued Unfunded Annual Leave	2,273,201	0	2,273,201
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0
L. Capital Lease Liability	9,139	91,874	101,013
M. Other Liabilities	683,315	0	683,315
N. Total Nonfederal Other Liabilities	$4,636,501	$97,054	$4,733,555
3. Total Other Liabilities	$5,249,338	$402,927	$5,652,265

4. Other Information Pertaining to Other Liabilities:

Based upon the Army's interpretation of the SFFAS No. 5, a nonenvironmental disposal liability is recognized for all assets when management makes a decision to dispose of the assets. The Department's auditors disagree with this interpretation of the standards. Their interpretation that the nonenvironmental liability recognition should begin at the time the asset is placed in service. This issue raised by the auditors is one that has government-wide implications for assets of all agencies. Until the issue is resolved consistently on a Government-wide basis, the DoD has entered into an agreement with OMB, GAO, and the DoD IG to continue to adhere to the explicit literal provisions of SFFAS Nos. 5 and 6. Based upon that agreement entered into in August 1999, the Office of the Secretary of Defense (OSD) prepared and issued policy and procedures on how and when to estimate expected disposal costs for excess and obsolete structures and ND PP&E scheduled for disposition.

The Department has agreed to recognize the Nonenvironmental Disposal Liability for ND PP&E nuclear powered assets when the asset is initially placed in service. The nonevironmental cost are included with the environmental disposal cost and reported in note 14.

The Intragovernmental Other Liabilities balance of $83,050 thousand is comprised of three amounts: Other Accrued Liabilities of $24,387 thousand; payments due to the Department of Labor for delinquent Workman's Compensation claims for $20,795 thousand; and accrued liabilities owed to the Office of Personnel Management for government employee benefits (CSRS/FERS, FEGLI, FEHB, and VSIP) of $37,868 thousand.

Nonfederal Accrued Funded Payroll and Benefits consist primarily of Military Personnel costs of $718,320 thousand and Civilian Personnel costs of $367,517 thousand.

Nonfederal Accrued Unfunded Annual Leave consist primarily of Military Personnel costs of $1,334,128 thousand and Civilian Personnel costs of $884,479 thousand.

The Army is subject to various asserted claims for over $100 thousand. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding the likely outcome or possible loss associated with specific claims, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote.

Of the $683,315 thousand balance for Nonfederal Other Liabilities, $408,987 thousand represents Contract Holdbacks. The remainder consists of Employer Contribution and Payroll Taxes Payable for $149,561 thousand; Contingent Liabilities for $92,932 thousand (funded) and for $34,321 thousand (unfunded) and Other Liabilities for ($2,486) thousand.

Note 15.B. Capital Lease Liability

As of September 30, 2000 (Amounts in Thousands)

1. Future Payments Due:				
A. 2001	$20,785	$0	$0	$20,785
B. 2002	20,785	0	0	20,785
C. 2003	20,785	0	0	20,785
D. 2004	20,785	0	0	20,785
E. 2005	20,785	0	0	20,785
F. After 5 Years	66,075	0	0	66,075
G. Total Future Lease Payments Due	$170,000	$0	$0	$170,000
H. Less: Imputed Interest Executory Costs	(68,987)	0	0	(68,987)
I. Net Capital Lease Liability	$101,013	$0	$0	$101,013

2. Capital Lease Liabilities Covered by Budgetary Resources:	$9,139
3. Capital Lease Liabilities Not Covered by Budgetary Resources:	$91,874

4. Other Information:

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:
The Army is subject to various asserted claims for over $100 thousand. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding the likely outcome or possible loss associated with specific claims, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote. As of September 30, 2000, the Army has approximately $165,775,499 thousand in claims that are considered to have a remote possibility of resulting in a loss.

In addition, the Army has various other estimated contingent liabilities totaling $123,581,808 thousand which have been deemed possible liabilities. Appropriately, they have not been accrued as liabilities in the financial statements. These contingent liabilities consist of $103,305,322 thousand for Environmental Disposal-FUDS, $11,464,907 thousand for Environmental Restoration, $8,700,000 thousand for the Non-Stockpile Chemical Material Program (NSCMP) and litigating cases having a possible chance or resulting cumulative estimated losses of $111,579 thousand.

Based upon the Army's interpretation of the SFFAS No. 5, a nonenvironmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Department's auditors disagree with this interpretation of the standard. Their interpretation is that the nonenvironmental liability should begin at the time the asset is placed in service. This issue raised by the auditors is one that has government-wide implications for all agencies. Until the issue is resolved on a government-wide basis, the Department of Defense (DoD) continues to adhere to the explicit literal provisions of SFFAS No. 5.

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

As of September 30, 2000 (Amounts in Thousands)	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
1. Pension and Health Benefits:				
A. Military Retirement Pensions	$0		$0	s $0
B. Military Retirement Health Benefits	0		0	0
C. Total Pension and Health Benefits	$0		$0	$0
2. Other:				
A. Workmen's Compensation (FECA)	$1,574,402	6.15	$0	$1,574,402
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D.	0		0	0
E. Total Other	$1,574,402		$0	$1,574,402
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$1,574,402		$0	$1,574,402

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

Actuarial Cost Method Used: The portion of the military retirement benefits actuarial liability applicable to the Army is reported on the financial statements of the Military Retirement Fund. Health benefits are funded centrally at the DoD level. As such, the portion of the health benefits actuarial liability that is applicable to the Army is reported only on the DoD Agency-wide financial statements.

Assumptions: The Army's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability 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 to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments are then discounted to present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting are as follows:

Year 1	6.15%
Year 2	6.28%
Year 3 and thereafter	6.30%

To provide for the effects of inflation on the liability for future workers compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars.
The compensation COLAs and CPIMs used in the projects are as follows:

	COLA	CPIM
FY 2000	1.97%	3.69%
FY 2001	2.83%	4.24%
FY 2002	2.90%	4.10%
FY 2003	2.53%	4.16%
FY 2004	2.60%	4.16%

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis was based on three tests:

(1) a comparison of the new model's prior projected payments for the current year to the actual payments; (2) a comparison of the change in the liability amount by agency to the change in the aggregate liability; and (3) a comparison of the historical payment data imported into the new model to the benefit payments in prior years.

Note 18 Unexpended Appropriations

As of September 30, 2000 (Amounts in Thousands)

1. Unexpended Appropriations:	
A. Unobligated, Available	$3,028,733
B. Unobligated, Unavailable	1,335,731
C. Unexpended Obligations	21,522,865
D. Total Unexpended Appropriations	$25,887,329

2. Other Information Pertaining to Unexpended Appropriation:

Unexpended obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received of the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

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

Disclosures Related to the Statement of Net Cost:

The amounts presented in the Statement of Net Cost are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The Army generally records transactions on a cash basis and not an accrual basis as is required by the SFFASs. Therefore, the Army's systems do not capture actual costs. As such, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems and adjusted to record known accruals for major items such as payroll expenses, accounts payable, environmental liabilities, etc.

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

Not applicable

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

Not applicable

Note 19.D. Imputed Expenses

As of September 30, 2000 1999 (Amounts in thousands)

1. Civilian (CSRS/FERS) Retirement	$235,328
2. Civilian Health	381,029
3. Civilian Life Insurance	1,594
4. Military Retirement Pension	0
5. Military Retirement Health	0
6. Judgement Fund/Litigation	71,275
7. Total Imputed Expenses	$689,226

Note 19.E. Benefit Program Expenses

Not applicable

Note 19. F. Exchange Revenue

Not applicable

Note 19.G. Amounts for FMS Program Procurements from Contractors

Not applicable

Note 19.H. Stewardship Assets Disclosures Related to Stewardship Assets:

Stewardship assets include National Defense PP&E, Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The cost of acquiring, constructing, improving, reconstructing or renovating stewardship assets are included in the Statement of Net Cost. Material amounts related to stewardship assets are provided in the Required Supplemental Stewardship Information section of this financial statement.

Note 19.I. Reconciliation of Intragovernment Revenue

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

Note 19.J. Suborganization Program Costs

Not Applicable

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

As of September 30, 2000 (Amounts in thousands)

1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:	
A. Changes in Accounting Standards	$0
B. Errors and Omission in Prior Year Accounting Reports	(376,309)
C. Other Prior Period Adjustments	171,855
D. Total Prior Period Adjustments	($204,454)
2. Imputed Financing:	
A. Civilian CSRS/FERS Retirement	$235,328
B. Civilian Health	381,029
C. Civilian Life Insurance	1,594
D. Military Retirement Pension	0
E. Military Retirement Health	0
F. Judgment Fund/Litigation	71,275
G. Total Imputed Financing	$689,226

3. Other Information:

The Other Prior Period Adjustments of $171,855 thousand consists of $156,982 thousand due to changing the method used for determining doubtful accounts to the average of the actual write-off for the last three years. The method is in accordance with guidance, "Concept of Operations for Recording and Reporting Receivables Due from the Public." The other $14,873 thousand represents the distribution of prior years FECA liability recorded in Army GF to Army WCF.

Errors and Omission in Prior Year Accounting Reports of ($376,309) thousand consists of ($40,909) thousand in prior years accrual for employer contributions to the Office of Personnel and Management, ($6,694) thousand in prior years accrual for Voluntary Separation Incentive Payments, ($151,522) thousand for priors years accumulated depreciation of an asset previously recorded with the Ballistic Missile Defense Organizations that should have been recorded with the Army, ($2,395) thousand for prior years United States Corps of Engineers (USACE) FECA liability previously recorded with the USACE and currently recorded in the Army General Fund financial statements, and ($174,789) thousand in errors with the FECA actuarial liability. The FECA actuarial liability contains $1,296 thousand not recorded in prior years and ($176,085) thousand for the prior years USACE actuarial liability assumed by Army.

"Other" on the Statement of Net Position consists of other gains and losses of ($2,760,069) thousand. The other gains and losses consists of $51,329 thousand to adjust the transfers - in/out to agree with other intragovernmental agencies, $3,659,015 thousand to bring equipment in the hand of contractors submitted by the field into agreement with the data call, $4,760,952 thousand to bring capital leases into agreement with Section 801 Family Housing appropriation 7025, and ($11,231,365) thousand to adjust the FY 2000 beginning balance net position received from the accounting systems to the published FY 1999 ending balance. The accounting systems do not have the same net position as the published FY 1999 statements because the accounting systems do not record all of the prior years adjustments made for the published financial statements.

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

As of September 30, 2000 (Amounts in thousands)

1. Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period	$26,475,614
2. Available Borrowing and Contract Authority at the End of the Period	$0

3. Other Information:

FY 00 begins the first year in which the Federal Agencies' Centralized Trial Balance System II (FACTS II) populated the Army's Statement of Budgetary Resources. FACTS II collects pre-closing, adjusted trial balance (ATB) data by U.S. Standard General Ledger (SGL) accounts and SGL attributes for each fund symbol. The SGL accounts reported by FACTS II are budgetary, 4000 series SGL accounts. The FACT II also collects a small number of proprietary accounts to reconcile cash; however, the Army did not use those accounts. The list of SGL accounts that FACTS II collects is in the Treasury Financial Manual T/L S2 99-01, section IV, "SGL account attributes required for FACTS II reporting of detailed financial information."

The Statement of Budgetary Resources is not a mirror image of the monthly Report on Budget Execution (SF 133). Exceptions that preclude the mirror image of the SF 133 consists of the following: (1) Reporting Requirements for the FACT II submission - The Army's FACT II submission did not include the transfers from US Corps of Engineers to the Army, (Transfer 96 21 X2020), this data is reported by the US Corps of Engineers. However, the Army's Report on Budget Execution did include the transfer amounts of $120 thousand in the Unexpended Balance, $353 thousand in Undelivered Orders, ($287) thousand in Accounts Payable, and $371 thousand in Beginning Balances; (2) The Elimination Process and the FECA & Employee Benefit adjustments - In total, the effect of the adjustments did not affect bottom-line totals to the Statement of Budgetary Resources; however, those adjustments changed the original amounts reported on the SF 133 for Undelivered Orders and Accounts Payables; and (3) Guidance for Program Budget Decision - Based on this guidance, the adjustments caused variances between the Statement of Budgetary Resources and the Report on Budget Execution by changing the Standard General Ledger (SGL) accounts 4610 and 4901 by $23,509 thousand.

Transfers In (Out) reported in the SF 133 consist only of cash transfers. The spending authority from offsetting collections during the period of execution is based upon the approved President's budget estimate of anticipated customer orders. During the fiscal year, actual orders received could potentially exceed the estimated orders that create negative anticipated orders for the rest of the year. At September, the actual customer orders are used to populate this line on the SF 133 since actual execution experience replaces the estimated value. Total outlays reported on the SF 133 includes undistributed disbursements and collections and agrees with the Fund Balance with Treasury as provided in the FMS 2108.

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available are not included in Spending Authority From Offsetting Collections and Adjustments of the Statement of Budgetary Resources or Statement of Financing.

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both Direct and Reimbursable Funds. The Statement of Budgetary Resources does include Undelivered Orders-paid. The Undelivered Orders-paid relates to the Army's advances, SGL 4802.

The Statement of Budgetary Resources does not include intra-entity transactions because the statements are presented as combined and combining.

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

As of September 30, 2000 (Amounts in thousands)	1998	1999	2000	(Decrease)/ Cumulative Increase
1. Problem Disbursements	$1,119,766	$1,196,726	$285,257	($834,509)
2. In-transit Disbursements, Net	$2,093,515	$1,100,355	$968,597	($1,124,918)

3. Other Information Related to Problem Disbursements and In-transit Disbursements:
The Army has $285,257 thousand in problem disbursements and $968,597 thousand in-transit disbursements that represent disbursements of Army's funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements.

Problem disbursements generally fall into one of two major categories - unmatched disbursements (UMD's) or negative unliquidated obligations (NULOs). A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. A NULO occurs when a payment is made against a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system.

In-transit disbursements generally represent payments made by a DoD disbursing activity on behalf of an accountable activity that has not attempted to post the disbursement to the accounting system.

The elimination of both problem disbursements and aged in-transits is one of the highest financial management priorities of the Under Secretary of Defense (Comptroller). Problem disbursements and in-transits represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increase. .

4. Suspense/Budget Clearing Accounts

Account	Sep 1998	Sep 1999	Sep 2000	(Decrease)/Increase
F3875	$0	$0	$0	$0
F3880	8,600	1,900	2,600	(6,000)
F3885	0	0	0	0
F3886	0	0	0	0
Total	$8,600	$1,900	$2,600	($6,000)

5. Other Information Related to Suspense/Budget Clearing Accounts:
The Army has made a concerted effort to reduce balances in the suspense/ budget clearing accounts, and to establish an accurate and consistent use of these accounts. During the year, DFAS issued messages to accounting activities providing guidance and establishing policies to clear account balances.

In accordance with Treasury year-end guidance, on September 30 of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero by transferring the balances to Army's Operation and Maintenance account (21 2020). For FY 00, the Department of Army closed the following:

($ in thousands)	
21 F 3875	($435,310)
21 F 3880	$9,264
21 F 3885	($66,335)
21 F 3886	$4,569

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:
Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority from Offsetting Collections and Adjustments on the Statement of Budgetary Resources or on the Statement of Financing.

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. This causes a difference in Net Cost between the Statement of Net Cost and the Statement of Financing. Statement of Financing "Costs Capitalized on the Balance Sheet" has been decreased by $20,301,949 thousand to make the two statements match. Differences between budgetary and proprietary data for Department of the Defense General Funds is a previously identified deficiency. During FY 2001, DoD will develop alternative procedures to better prepare the Statement of Financing for FY 2001 Reporting.

The Statement of Financing does not include intra-entity transactions because the statements are presented as combined and combining.

Note 23. Disclosures Related to the Statement of Custodial Activity

Not Applicable

Note 24. Other Disclosures

1. ENTITY AS LESSEE-Operating Leases
   - A. Description of lease arrangements:
     Operating lease amounts are for Section 801 Family Housing.

As of September 30, (Amounts in thousands)

B. Future Payments Due:	Category 1	Category 2	Category 3	Total
2001	$0	$13,695	$0	$13,695
2002	0	11,186	0	11,186
2003	0	8,917	0	8,917
2004	0	7,610	0	7,610
2005	0	6,613	0	6,613
After 5 Years	0	37,509	0	37,509
Total Future Lease Payments Due	$0	$85,530	$0	$85,530

2. ENTITY AS LESSOR:
   - A. Capital Leases:
     Not applicable
   - B. Operating Leases:
     Not applicable

Note 24.A. Other Disclosures

Not Applicable

Department of Defense • Department of the Army
As of September 30, 2000 • ($ in thousands)

	Active Army	Army Reserve	Army National Guard
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	$31,224,591	$1,144,782	$2,138,211
2. Investments (Note 4)	1,369	0	0
3. Accounts Receivable (Note 5)	765,641	13,583	43,744
4. Other Assets (Note 6)	48,485	174	486
5. Total Intragovernmental Assets	$32,040,086	$1,158,539	$2,182,441
B. Cash and Other Monetary Assets (Note 7)	$215,916	$0	$0
C. Accounts Receivable (Note 5)	296,084	5,504	15,673
D. Loans Receivable (Note 8)	0	0	0
E. Inventory and Related Property (Note 9)	25,030,644	0	0
F. General Property, Plant and Equipment (Note 10)	15,694,178	1,064,357	405,254
G. Other Assets (Note 6)	2,680,274	4,148	62,384
2. TOTAL ASSETS	$75,957,182	$2,232,548	$2,665,752
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$735,095	$57,418	$105,904
2. Debt (Note 13)	114	0	0
3. Environmental Liabilities (Note 14)	0	0	0
4. Other Liabilities (Note 15 & Note 16)	869,373	10,880	38,471
5. Total Intragovernmental Liabilities	$1,604,582	$68,298	$144,375
B. Accounts Payable (Note 12)	$6,194,708	$336,042	$364,655
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,325,145	39,412	209,845
D. Environmental Liabilities (Note 14)	39,319,345	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0
F. Other Liabilities (Note 15 & Note 16)	4,146,891	241,441	345,223
4. TOTAL LIABILITIES	$52,590,671	$685,193	$1,064,098
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$23,616,199	$630,150	$1,640,980
B. Cumulative Results of Operations	(249,688)	917,205	(39,326)
6. TOTAL NET POSITION	$23,366,511	$1,547,355	$1,601,654
7. TOTAL LIABILITIES AND NET POSITION	$75,957,182	$2,232,548	$2,665,752

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
As of September 30, 2000 • ($ in thousands)

	Combined Total	Intraentity Eliminations	Consolidated Totals
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	$34,507,584	$0	$34,507,584
2. Investments (Note 4)	1,369	0	1,369
3. Accounts Receivable (Note 5)	822,968	134,425	688,543
4. Other Assets (Note 6)	49,145	10	49,135
5. Total Intragovernmental Assets	$35,381,066	$134,435	$35,246,631
B. Cash and Other Monetary Assets (Note 7)	$215,916	$0	$215,916
C. Accounts Receivable (Note 5)	317,261	0	317,261
D. Loans Receivable (Note 8)	0	0	0
E. Inventory and Related Property (Note 9)	25,030,644	0	25,030,644
F. General Property, Plant and Equipment (Note 10)	17,163,789	0	17,163,789
G. Other Assets (Note 6)	2,746,806	0	2,746,806
2. TOTAL ASSETS	$80,855,482	$134,435	$80,721,047
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$898,417	$134,421	$763,996
2. Debt (Note 13)	144	0	114
3. Environmental Liabilities (Note 14)	0	0	0
4. Other Liabilities (Note 15 & Note 16)	918,724	14	918,710
5. Total Intragovernmental Liabilities	$1,817,255	$134,435	$1,682,820
B. Accounts Payable (Note 12)	$6,895,405	$0	$6,895,405
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,574,402	0	1,574,402
D. Environmental Liabilities (Note 14)	39,319,345	0	39,319,345
E. Loan Guarantee Liability (Note 8)	0	0	0
F. Other Liabilities (Note 15 & Note 16)	4,733,555	0	4,733,555
4. TOTAL LIABILITIES	$54,339,962	$134,435	$54,339,962
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$25,887,329	0	$25,887,329
B. Cumulative Results of Operations	628,191	0	628,191
6. TOTAL NET POSITION	$26,515,520	$0	$26,515,520
7. TOTAL LIABILITIES AND NET POSITION	$80,855,482	$134,435	$80,721,047

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

1. Program Costs	Active Army	Army Reserve	Army National Guard
A. Military Personnel			
1. Intragovernmental	$4,099,939	$311,851	$515,833
2. With the Public	17,662,351	2,028,078	3,441,642
3. Total Program Cost	$21,762,290	$2,339,929	$3,957,475
4. (Less: Earned Revenue)	(171,089)	(17,167)	(6,718)
5. Net Program Costs	$21,591,201	$2,322,762	$3,950,757
B. Operation and Maintenance			
1. Intragovernmental	$10,581,061	$972,565	$905,818
2. With the Public	36,402,887	495,411	2,371,961
3. Total Program Cost	$46,983,948	$1,467,976	$3,277,779
4. (Less: Earned Revenue)	(3,878,892)	(50,386)	(75,215)
5. Net Program Costs	$43,105,056	$1,417,590	$3,202,564
C. Procurement			
1. Intragovernmental	$538,912	$0	$0
2. With the Public	5,040,525	0	0
3. Total Program Cost	$5,579,437	$0	$0
4. (Less: Earned Revenue)	(244,475)	0	0
5. Net Program Costs	$5,334,962	$0	$0
D. Research, Development, Test & Evaluation			
1. Intragovernmental	$160,834	$0	$0
2. With the Public	5,687,134	0	0
3. Total Program Cost	$5,847,968	$0	$0
4. (Less: Earned Revenue)	(1,571,390)	0	0
5. Net Program Costs	$4,276,578	$0	$0
E. Military Construction/Family Housing			
1. Intragovernmental	$8,276	$6,524	$786
2. With the Public	2,616,850	22,947	11,300
3. Total Program Cost	$2,625,126	$29,471	$12,086
4. (Less: Earned Revenue)	(1,131,052)	0	0
5. Net Program Costs	$1,494,074	$29,471	$12,086
F. Other			
1. Intragovernmental	$375,834	$0	$0
2. With the Public	647,859	0	0
3. Total Program Cost	$1,023,693	$0	$0
4. (Less: Earned Revenue)	(6,796)	0	0
5 Net Program Costs	$1,016,897	$0	$0
G. Total Program Costs			
1. Intragovernmental	$15,764,856	$1,290,940	$1,422,437
2. With the Public	68,057,606	2,546,4367	5,824,903
3. Total Program Cost	$83,822,462	$3,837,376	$7,247,340
4. (Less: Earned Revenue)	(7,003,694)	(67,553)	(81,933)
5. Net Program Costs	$76,818,768	$3,769,823	$7,165,407

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

1. Program Costs	Combined Total	Eliminations	Consolidated Totals
A. Military Personnel			
1. Intragovernmental	$4,927,623	$25,252	$4,902,371
2. With the Public	23,132,071	0	23,132,071
3. Total Program Cost	$28,059,694	$25,252	$28,034,442
4. (Less: Earned Revenue)	(194,974)	(29,656)	(165,318)
5. Net Program Costs	$27,864,720	($4,404)	$27,869,124
B. Operation and Maintenance			
1. Intragovernmental	$12,459,444	$1,114,370	$11,345,074
2. With the Public	39,270,259	0	39,270,259
3. Total Program Cost	$51,729,703	$1,114,370	$50,615,333
4. (Less: Earned Revenue)	(4,004,493)	(1,078,740)	(2,925,753)
5. Net Program Costs	$47,725,210	$35,630	$47,689,580
C. Procurement			
1. Intragovernmental	$538,912	$3,750	$535,162
2. With the Public	5,040,525	0	5,040,525
3. Total Program Cost	$5,579,437	$3,750	$5,575,687
4. (Less: Earned Revenue)	(244,475)	(415)	(244,060)
5. Net Program Costs	$5,334,962	$3,335	$5,331,627
D. Research, Development, Test & Evaluation			
1. Intragovernmental	$160,834	$681	$160,153
2. With the Public	5,687,134	0	5,687,134
3. Total Program Cost	$5,847,968	$681	$5,847,287
4. (Less: Earned Revenue)	(1,571,390)	(5,941)	(1,565,449)
5. Net Program Costs	$4,276,578	($5,260)	$4,281,838
E. Military Construction/Family Housing			
1. Intragovernmental	$15,586	$4,783	$10,803
2. With the Public	2,651,097	0	2,651,097
3. Total Program Cost	$2,666,683	$4,783	$2,661,900
4. (Less: Earned Revenue)	(1,131,052)	(37,311)	(1,093,741)
5. Net Program Costs	$1,535,631	($32,528)	$1,568,159
F. Other			
1. Intragovernmental	$375,834	$3,227	$372,607
2. With the Public	647,859	0	647,859
3. Total Program Cost	$1,023,693	$3,227	$1,020,466
4. (Less: Earned Revenue)	(6,796)	0	(6,796)
5 Net Program Costs	$1,016,897	$3,227	$1,013,670
G. Total Program Costs			
1. Intragovernmental	$18,478,233	$1,152,063	$17,326,170
2. With the Public	76,428,945	0	76,428,945
3. Total Program Cost	$94,907,178	$1,152,063	$93,755,115
4. (Less: Earned Revenue)	(7,153,180)	(1,152,063)	(6,001,117)
5. Net Program Costs	$87,753,998	$0	$87,753,998

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	Active Army	Army Reserve	Army National Guard
2. Costs Not Assigned to Programs	$0	$0	$0
3. (Less:Earned Revenue not attributable to Programs)	0	0	0
4. Net Costs of Operations	$76,818,768	$3,769,823	$7,165,407
5. Deferred Maintenance (See Required Supplementary Information)			

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	Combined Total	Eliminations	Consolidated Totals
2. Costs Not Assigned to Programs	$0	$0	$0
3. (Less:Earned Revenue not attributable to Programs)	0	0	0
4. Net Costs of Operations	$87,753,998	$0	$87,753,998
5. Deferred Maintenance (See Required Supplementary Information)			

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	Active Army	Army Army Reserve	Army National Guard
1. Net Cost of Operations	$76,818,769	$3,769,823	$7,165,406
2. Financing Sources (other than exchange revenues)			
A. Appropriations Used	60,289,148	3,819,372	6,989,318
B. Taxes and Other Nonexchange Revenue	154,618	0	0
C. Donations - Nonexchange Revenue	0	0	0
D. Imputed Financing (Note 20)	689,226	0	0
E. Transfers - In	1,208,397	0	0
F. Transfers - Out	(24)	0	(1,311)
G. Other	2,887,833	(139,895)	12,131
H. Total Financing Sources (other than Exchange Revenues)	$65,229,198	$3,679,477	$7,000,138
3. Net Results of Operations	($11,589,571)	($90,346)	($165,268)
4. Prior Period Adjustments (Note 20)	(196,151)	6,996	(15,299)
5. Net Change in Cumulative Results of Operations	($11,785,722)	($83,350)	($180,567)
6. Increase (Decrease) in Unexpended Appropriations	1,316,977	(118,374)	(35,748)
7. Change in Net Position	($10,468,745)	($201,724)	$216,315
8. Net Position-Beginning of the Period	33,835,256	1,749,078	1,817,970
9. Net Position-End of the Period	$23,366,511	$1,547,354	$1,601,655

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	Combined Total	Eliminations	Consolidated Totals
1. Net Cost of Operations	$87,753,998	$0	$87,753,998
2. Financing Sources (other than exchange revenues)			
A. Appropriations Used	71,097,838	0	71,097,838
B. Taxes and Other Nonexchange Revenue	154,618	0	154,618
C. Donations - Nonexchange Revenue	0	0	0
D. Imputed Financing (Note 20)	689,226	0	689,226
E. Transfers - In	1,208,397	0	1,208,397
F. Transfers - Out	(1,335)	0	(1,335)
G. Other	2,760,069	0	2,760,069
H. Total Financing Sources (other than Exchange Revenues)	$75,908,813	$0	$75,908,813
3. Net Results of Operations	($11,845,185)	$0	($11,845,185)
4. Prior Period Adjustments (Note 20)	(204,454)	0	(204,454)
5. Net Change in Cumulative Results of Operations	($12,049,639)	$0	($12,049,639)
6. Increase (Decrease) in Unexpended Appropriations	1,162,855	0	1,162,855
7. Change in Net Position	($10,886,784)	$0	($10,886,784)
8. Net Position-Beginning of the Period	37,402,304	0	37,402,304
9. Net Position-End of the Period	$26,515,520	$0	$26,515,520

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	Active Army	Army Reserve	Army National Guard	Combined Totals
BUDGETARY RESOURCES				
A. Budget Authority	$61,280,113	$3,936,754	$7,234,582	$72,451,449
B. Unobligated Balance - Beginning of Period	3,984,453	333,141	558,056	4,875,650
C. Net Transfers - Prior Year Balance, Actual	1,404,943	0	0	1,404,943
D. Spending Authority from Offsetting Collections	10,972,622	65,984	108,591	11,147,197
E. Adjustments	5,716,796	1,077,736	297,069	7,091,601
F. Total Budgetary Resources	$83,358,927	$5,413,615	$8,198,298	$96,970,840
STATUS OF BUDGETARY RESOURCES				
A. Obligations Incurred	$78,338,870	$5,084,132	$7,600,586	$91,023,588
B. Unobligated Balances - Available	4,294,245	102,604	214,399	4,611,248
C. Unobligated Balances - Not Available	725,812	226,879	383,313	1,336,004
D. Total Status of Budgetary Resources	$83,358,927	$5,413,615	$8,198,298	$96,970,840
OUTLAYS				
A. Obligations Incurred	$78,338,870	$5,084,132	$7,600,586	$91,023,588
B. Less: Spending Authority from Offsetting Collections and Adjustments	(17,402,939)	(1,275,470)	(683,356)	(19,361,765)
C. Obligated Balance, Net - Beginning of Period	25,135,972	788,084	1,475,615	27,399,671
D. Obligated Balance Transferred, Net	0	0	0	0
E. Less: Obligated Balance, Net - End of Period	(26,153,789)	(813,738)	(1,541,782)	(28,509,309)
F. Total Outlays	$59,918,114	$3,783,008	$6,851,063	$70,552,185

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	Active Army	Army Reserve	Army National Guard	Combined Totals
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:				
A. Obligations Incurred	$78,338,870	$5,084,132	$7,600,586	$91,023,588
B. Less: Spending Authority from Offsetting Collections and Adjustments	(17,402,939)	(1,275,470)	(683,356)	(19,361,765)
C. Donations Not in the Entity's Budget	0	0	0	0
D. Financing Imputed for Cost Subsidies	689,226	0	0	689,226
E. Transfers-In (Out)	18,384	0	0	18,384
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0	0
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(65)	0	0	(65)
I. Other	0	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$61,643,476	$3,808,662	$6,917,230	$72,369,368
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease	($597,733)	$9,674	$73,291	($514,768)
B. Change in Unfilled Customer Orders	(27,504)	(2,308)	(50)	(29,862)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(4,388,854)	(149,288)	(25,193)	(4,512,949)
D. Financing Sources that Fund Costs of Prior Periods	(310,272)	(5,136)	(27,907)	(343,315)
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decrease	0	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	($5,324,363)	($147,058)	$70,527	($5,400,894)

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

	Active Army	Army Reserve	Army National Guard	Combined Totals
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	$766,315	$48,121	$23,369	$837,805
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	0
D. Loss of Disposition of Assets	1,416	0	0	1,416
E. Other - (Increases)/Decrease	0	0	0	0
F. Total Costs That Do Not Require Resources	$767,731	$48,121	$23,369	$839,221
4. FINANCING SOURCES YET TO BE PROVIDED	$19,731,927	$60,099	$154,280	$19,946,306
5. NET COST OF OPERATIONS	$76,818,771	$3,769,824	$7,165,406	$87,754,001

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT

For Fiscal Year Ended September 30, 2000

(Stated in Number of Systems or Items)

(a) National Defense PP&E	(b) as of 10/01/99*	(c) Additions	(d) Deletions	(e) as of 09/30/00	(f) Condition % Operational
1. Aircraft					
A. Combat	2,184	0	10	2,174	80.2%
B. Airlift	3,168	21	79	3,110	88.9%
C. Other	22	0	0	22	100.0%
2. Ships					
A. Submarines					
B. Aircraft Carriers					
C. Surface Combatants					
D. Amphibious Warfare Ships					
E. Mine Warfare Ships					
F. Support Ships					
G. Other Ships	188	8	26	170	99.3%
3. Combat Vehicles					
A. Tracked	43,991	183	775	43,399	87.1%
B. Wheeled	108,551	1,627	692	109,486	99.2%
C. Towed	2,714	0	235	2,479	72.9%
D. Other					
4. Guided, Self-propelled Ordnance					
A. Missiles	312,429	5,497	19,542	298,384	74.7%
B. Torpedoes					
5. Space Systems					
A. Satellites					
6. Other					
A. Other Weapon Systems					

*Adjustments have been made to the beginning FY 2000 balances and are explained in the narrative.

Narrative Statement:

1. Adjustments from the FY 99 ending balances to new FY 00 beginning balances in the Stewardship Report were due to correction of errors found in the FY 99 Stewardship ending balances. Adjustments were made in the FY 00 beginning balances to preserve the display of actual adds and deletes to and from the inventory during FY 00. Reasons for these adjustments and actual adds and deletes are as follows:

   a. Combat aircraft—The beginning balance for this category was restated by 213 additional units, because these aircraft were either in storage or contractor facilities and accidentally excluded from the FY 99 report. During the year, 56 AH-64A aircraft were modified to the AH-64-D model, five aircraft were given to Grant Aid or sold to Foreign Military Sales (FMS), and five were lost to training operations.

b. **Airlift aircraft—**The beginning balance for this category was restated by 81 additional units, because these aircraft were either in storage or contractor facilities and accidentally excluded from the FY 99 report. Further, 21 UH-60 aircraft were added to the inventory due to new procurement, and five UH-60 aircraft were given to Grant Aid or sold to FMS. One C-12C was given to other service/agency. The USAMC Aircraft and Missile Command (AMCOM) deleted 73 aircraft from the inventory due to retirement of 52 UH-1H and 21 UH-1V aircraft. Retirement is similar to disposal, except that aircraft are stripped to their frames for parts and other useful items, and, while still owned by the Army, are no longer considered viable end items.

c. **Other aircraft—**The beginning balance for this category was restated by 115 less units, due to a correction of an error in FY 99 reporting. No aircraft in this category were added to or deleted from the inventory during FY 00.

d. **Other ships (Other Watercraft)—**The beginning balance for this category was restated by 23 less units, due to these watercraft being in Operational Readiness Float storage and accidentally excluded from the FY 99 report and due to an Integrated Materiel Management Center (IMMC) adjustment to accountable wholesale records. During the year, there were eight watercraft added to the inventory due to new procurement. Five were deleted due to items being given to other services/agencies, and one was deleted due to disposal. The IMMC also made deletions of –20 for other reasons.

e. **Tracked Combat Vehicles—**The beginning balance for this category was restated by 2,460 additional units. This was due to 2,443 vehicles in ORF storage that were accidentally excluded from last year's report. Six were added due to consolidation of Stewardship reports this year. Ninety-two direct fire MBT vehicles and 880 direct fire MLRS vehicles were added due to inclusion of new NSNs to this year's report. One hundred and seventy six vehicles were added due to IMMC adjustments to accountable records, and 13 were added because other reasons. Further, 197 assets were deleted due to two previously reported NSNs not being reported this year due to one being obsolete and the other being non-NDE. Also, 953 were deleted due to adjustment of wholesale records in the Continuing Balance System – Expanded (CBS-X). During the fiscal year, there were 51 vehicles added due to new procurement; 132 were added due to other reasons; 219 were deleted because of disposal; and, 200 vehicles were given to Grant Aid or sold to FMS. There were 451 vehicles changed from one model to another due to modification and 356 were deleted by the IMMC for other reasons.

f. **Wheeled Combat Vehicles—**The beginning balance for this category was restated by 201 less units. There were 802 Avenger vehicles added due to the addition of two NSNs to this year's report. In addition, 1,837 HMMWV vehicles were also added due to the addition of one new NSN to this year's reporting. There were 1,655 vehicles in ORF storage added that were accidentally excluded from last year's report; 744 were added due to IMMC adjustments to accountable wholesale records; and, 34 were added to correct errors in last year's report. Fifty were deleted due to IMMC adjustment of accountable wholesale records; 16 were deleted due to a double count of a HMMWV NSN; and, five were deleted due to an NSN not being reported in the FY 00 report due to obsolescence. An administrative adjustment of –5,202 was made to correct double counting errors in last year's report. During the year, 1,627 vehicles were added due to new procurement, and 99 were modified to a newer model. There were 36 given to Grant Aid or sold to FMS; 77 were deleted due to demilitarization/disposal; and, 579 vehicles were deleted by the IMMC because of other reasons.

g. **Towed Combat Vehicles—**The beginning balance for this category was restated by 491 additional units. Further, 483 Patriot launchers were added due to addition of the NSN being reported this year for the first time. There was an addition of 81 vehicles in ORF storage that were accidentally not reported last year, and 23 were added due to consolidation of reports. Two were deleted because two NSNs were deleted from this year's reporting due to obsolescence and 94 were deleted by the IMMC adjustment of accountable wholesale records. During the last fiscal year, nine vehicles were modified, and nine were deleted due to disposal. Four vehicles were lost in military operations; 20 were deleted due to being given to other service/agency; and, 202 were deleted by the IMMC for other reasons.

h. **Guided, Self-propelled Ordinance (Missiles)—**The beginning balance for this category was restated by 13,701 less units, due to an administrative deletion being made to correct errors in the FY 99 report. During the fiscal year, 2,032 missiles were added to the inventory because of new procurements, and 4,442 were modified to newer models. There were 3,274 gained from other services/agencies and 191 were added because of other reasons. There were 262 missiles given to Grant Aid or sold to FMS. Further, 11,838 missiles were deleted due to demilitarization/disposal, 72 were given to other services/agencies, 16 were deleted for other reasons, 715 were lost to testing, and 6,655 were lost to training operations.

2. The low "percent operational" numbers for "Combat Vehicle, Towed" and "Guided, Self-propelled Ordinance, Missiles" categories are due to the inclusion of older, obsolete, or almost obsolete weapons systems that have large numbers of assets stored in depots but have no maintenance programs to repair them. There are no maintenance programs due to the fact that the Army will not repair items that are going out of the inventory and are never again to be used in the war fight. These make up a significant portion of the entire asset population for these items, and skew their categories toward a lower operational percentage.

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT
YEARLY INVESTMENTS[3]
For FY 1998, FY 1999 and FY 2000
(In Millions of Dollars)

(a) National Defense PP&E	(b) FY 1998	(c) FY 1999	(d) FY 2000
1. Aircraft			
A. Combat	$543	$657	$709
B. Airlift	346	347	364
C. Other	27	20	71
D. Aircraft Support Principal End Items	359	404	69
E. Other Aircraft Support PP&E	0	0	0
2. Ships			
A. Submarines	$0	$0	$0
B. Aircraft Carriers	0	0	0
C. Surface Combatants	0	0	0
D. Amphibious Warfare Ships	0	0	0
Mine Warfare Ships			
F. Support Ships	$0	$0	$0
G. Other Ships	0	0	0
H. Ship Support Principal End Items	0	0	0
I. Other Ship Support PP&E	0	0	0
3. Combat Vehicles			
A. Tracked	$182	$290	$1,356
B. Wheeled	270	155	691
C. Towed	3	0	28
D. Other	0	0	0
E. Combat Vehicles Support Principal End Items	842	1,187	2
F Other Combat Vehicles Support PP&E	0	0	6
4. Guided, Self-propelled Ordnance			
A. Missiles	$0	$0	$937
B. Torpedoes	0	0	0
C. Guided, Self-propelled Ordnance Support Principal End Items	925	791	0
D. Guided, Self-propelled Ordnance Support PP&E	0	0	0
5. Space Systems			
A. Satellites			
B. Space Systems Support Principal End Items			
6. Other			
A. Other Weapon Systems	$81	$72	$93
B. Other Weapon Systems Support Principal End Items	29	37	72
C. Other Weapon Systems Support PP&E	0	0	4

(a) National Defense PP&E	(b) FY 1998	(c) FY 1999	(d) FY 2000
7. Weapon Systems Support Real Property (1)			
A. Active Ammunition Bunkers	0	0	0
B. Active Missile Silos	0	0	0
C. Active Satellite Ground Stations	0	0	0
8. General Mission Support PP&E (2)	$3,176	$3,117	$2,362

Notes:

1. Currently Army real property information systems are not designed to provide annual dollar investments information for bunkers or silos at the HQDA level but is maintained at the installation level. Army real property information systems are being redesigned to meet this reporting requirement.

2. General Mission Support PP&E includes tactical and support vehicles, communication and electronic equipment and other support equipment.

3. Investment values included in this report are based on outlays (expenditures). Outlays are used, instead of acquisition costs, because current DOD systems are unable to capture and summarize Procurement Appropriation acquisition costs in accordance with accounting standards.

4. Differences between the FY 2000 versus the FY 1998 and FY 1999 dollar investments for the specific subcategories of major items is attributable to subcategory classification errors in prior year reporting.

HERITAGE ASSETS
For Fiscal Year Ended September 30, 2000

(a)	(b) Measurement Quantity	(c) as of 10/01/99	(d) Additions	(e) Deletions	(f) as of 9/30/00
Museums (Note 4)	Each	186	28	5	209
Monuments & Memorials (Note 5)	Each	668	68	94	642
Cemeteries	Sites	312	207	5	514
Archeological Sites (Note 6)		n/a	n/a	n/a	n/a
Buildings (Note 2)	Each	4,721	1,603	408	5,916
Structures (Note 3)	Each	86	20	12	94
Major Collections	Each	n/a	n/a	n/a	n/a

Narrative Statement:

Due to a requirement by DoDIG to report all property that Army manages, other defense agencies and working capital fund have been combined under the General Fund. The beginning totals for museums, monuments, memorials, cemeteries, buildings and structures has increase over the ending totals for FY 1999 Annual Financial Statements. This increase, although small, is the reason for differences between the ending prior year balance and the beginning current year balance.

In most cases, additions/deletions are the result of: combining AWCF and Army-managed DOD property with the Army General Fund report; including historical ammo bunkers and missile silo buildings on report; installations defining cemeteries and historical facilities located on their installations as a result of CFO 1999 audits; and, as a result of disposing of BRAC'd property.

Notes:

1. Includes government-owned (ownership code (OC) 1), in-leases (OC2 and 6), military permits (OC4), other permits (OC3), NATO (OC5), and agreements (OC7).

2. Historical Buildings: buildings designated as historical (excludes museums and National PP&E buildings). For FY 1999, National PP&E buildings (ammo bunkers and missile silos) were excluded from this report. However in FY 2000, the ammo bunkers and missile silos portion of the National PP&E report was eliminated; therefore, these buildings became eligible for inclusion in Heritage and/or the General PP&E Reports.

3. Historical Structures: structures designated as historical; excludes monuments and memorials.

4. Museums: includes category code 76010.

5. Memorial/Monuments: only Monuments and Memorials are included (76020).

6. Cemeteries: includes category code 76030.

7. Exclusions/Inclusions: With the exception of Active Historical Buildings and Structures, Heritage Assets are excluded from the General PP&E Report.

STEWARDSHIP LAND

For Fiscal Year Ended September 30, 2000

(Actual Acres)

(a) Land Use	(b) as of 10/01/99	(c) Additions	(d) Deletions	(e) as of 09/30/00
1. Mission (Note 1)	7,047,547	51,218	35,383	7,063,383
2. Parks & Historic Sites (Note 2)	830	57	4	883
3. Wildlife Preserves	0	0	0	0

Narrative Statement:

Due to a requirement by DoDIG to report all property that Army manages, other defense agencies and working capital fund have been combined under the General Fund. The beginning totals for mission, Parks and Historical Sites has increased over the ending totals for FY 1999 Annual Financial Statements. This increase, although small, is the reason for differences between the ending prior year balance and the beginning current year balance

Additions/deletions may be the result of: combining AWCF and Army-managed DOD property with the Army General Fund report; acquiring additional land through donation or withdrawal from public domain; identification of missing land records; and, disposal of BRAC'd property.

Notes:

1. Mission Land: includes the following category codes: 91120, 91131, 91141, 91210, 91310, 91320, 91330, 91410, 92111, 92121, 92131, 92190. These category codes represent land that was not purchased, but was either donated or withdrawn from public domain.

2. Parks/Historic Sites: Includes all cemeteries (category code 76030). Unable to determine if cemeteries are purchased, donated or transferred property. This value could be double reported within Mission Related; therefore; this report should not be totaled.

NONFEDERAL PHYSICAL PROPERTY
Yearly Investment in State and Local Governments
For Fiscal Years (Preceding 4th Fiscal Year) through FY 2000
(In Millions of Dollars)

(a) Categories	(b) FY 1996	(c) FY 1997	(d) FY 1998	(e) FY 1999	(f) FY 2000
Transferred Assets:					
1 National Defense Mission Related	$61.984	$37.881	$34.406	$20.229	$4.7
2. Environmental Improvement	0	0	0	0	0
3. Base Closure and Realignment	0	0	0	0	0
4. Other	0	0	0	0	0
Total	$61.984	$37.881	$34.406	$20.229	$4.7
Funded Assets:					
1. National Defense Mission Related	0	0	0	0	0
2. Environmental Improvement	0	0	0	0	0
3. Base Closure and Realignment	0	0	0	0	0
4. Other	0	0	0	0	0
Total	$0	$0	$0	$0	$0
Grand Total	$61.984	$37.881	$34.406	$20.229	$4.7

Narrative Statement:

Investments in Nonfederal Physical Property refers to those expenses incurred by the Army for the purchase, construction, or major renovation of physical property owned by State and Local Governments, including major additions, alterations and replacements; the purchase of major equipment; and the purchase of improvement of other physical assets. The following is a schedule of estimated investments value of state-owned properties that are used by the Federal Government.

Notes:

1. Investment values included in this report are based on outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the accounting standards.

2. Data provided here are significant because these are properties that are owned by the various United States Property SPFOs and are essential in accomplishing the mission of the Army National Guard.

3. Costs of maintenance of these non-federal assets are included in the budgetary resources of Army National Guard.

4. These properties represent non-cash items that were transferred to State and local governments.

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development
For Fiscal Years (Preceding 4th Fiscal Year) through FY 2000
(In Millions of Dollars)

(a) Categories	(b) FY 1996	(c) FY 1997	(d) FY 1998	(e) FY 1999	(f) FY 2000
1. Basic Research	$178,755	$195,258	$178,314	$175,355	$187,081
2. Applied Research	519,359	472,240	540,172	574,260	677,610
3. Development:					
Advanced Technology Development	625,553	644,149	635,816	685,783	701,230
Demonstration and Validation	383,607	523,917	515,450	498,607	476,518
Engineering and Manufacturing Development	1,203,790	1,051,941	1,094,535	1,221,107	1,326,362
Research, Development, Test and Evaluation Management Support	1,226,355	1,162,182	1,171,461	1,192,893	961,927
Operational Systems Development	803,381	714,305	657,189	656,229	605,415
Total	$4,940,800	$4,763,992	$4,792,937	$5,004,234	$4,936,143

Narrative Statement:

Basic Research:

Defense Research Sciences**:** This program element sustains U.S. Army scientific and technological superiority in land war fighting capability, provides new concepts and technologies for the Army's Objective Force, and provides the means to exploit scientific breakthroughs and avoid technology surprise. This program responds to the scientific and technological requirements of the Department of Defense Basic Research Plan, the Army Science and Technology Master Plan, and the Army Modernization Plan by enabling the technologies that can significantly improve joint war fighting capabilities. The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to expeditiously transition knowledge and technology into the appropriate developmental activities. The extramural program leverages the research efforts of other government agencies, academia, and industry. This translates to a coherent, well-integrated program which is executed by the five primary contributors: 1) the Army Research Laboratory (ARL), which includes the Army Research Office; 2) the Army Materiel Command Research, Development and Engineering Centers (RDECs); 3) the Army Corps of Engineers Research and Development Center (ERDC); 4) the Army Medical Research and Materiel Command laboratories; and 5) the Army Research Institute. The Army's research program promotes quality through activities such as in-depth reviews of the entire basic research program at all levels and the establishment of Strategic Research Objectives. The Army broadened its research base by expanding its basic research investments at Historically Black Colleges and Universities and Minority Institutions (HBCU/MIs) to 5% of its individual investigator program. The basic research program is coordinated with the other Services via the Joint Directors of

Laboratories panels, Project Reliance, and other interservice working groups. The projects in this Program Element involve basic research efforts directed toward providing fundamental knowledge for the solution of military problems related to long-term national security needs.

University and Industry Research Centers: This program element leverages research in the private sector through Federated Laboratories, Collaborative Technology Alliances (CTA), Centers of Excellence, and the University Affiliated Research Centers. Federated Laboratories are an innovative and forward thinking approach to focusing the talents of industry and academia on critical technology needs of the Army. They involve partnerships between the Army Research Laboratory (ARL) and industry/university consortia with recognized competencies in specific technology areas where the centers of expertise are outside of the government (i.e. telecommunications). Under the Federated Laboratory approach, ARL formed associations with consortia consisting of at least one each of an industrial company, a major university, and a Historically Black College or University/Minority Institution (HBCU/MI). Long-term cooperative agreements (5 years) were established in three key areas with consortia that have become "virtual labs" within ARL and function as any other ARL division. Research is jointly planned and executed and Army scientists and engineers are intermingled with consortia researchers through long-term rotational assignments. The Federated Laboratories will complete their contracts and will be replaced by Collaborative Technology Alliances (CTAs) in late FY 2001. The CTAs will establish alliances among government, industry, and academic organizations to exploit scientific and technological breakthroughs and to transition these breakthroughs to exploratory development and applied research. CTAs will be competitively established in the areas of Advanced Sensors, Advanced Decision Architecture, Communications and Networks, Power and Energy, and one applied research CTA in Robotics. This program element includes the Army's Centers of Excellence, which couple state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in materials science, electronics and rotary wing technology. The Army's Institute of Creative Technologies (ICT) is also included in this program element. The ICT is a partnership with academia and the entertainment industry to leverage innovative research and concepts for training and design. Examples of specific research of mutual interest to the entertainment industry and the Army are technologies for realistic immersion in synthetic environments, networked simulation, standards for interoperability, and tools for creating simulated environments. The cited work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and the DOD Basic Research Plan.

Applied Research:

Environmental Quality Technology: This program element researches and applies technologies that will improve the Army's ability to comply with regulations mandated by all federal, state and local environmental/health laws and to reduce the cost of this compliance. This PE provides the Army with a capability to decontaminate or neutralize Army-unique hazardous and toxic wastes at sites containing waste ammunition, explosives, heavy metals, propellants, smokes, chemical munitions, and other organic contaminants. This PE also provides technology to avoid the potential for future hazardous waste problems, by reducing hazardous waste generation through process modification and control, materials recycling and substitution. This PE develops pollution control technology, which assists installations in complying with environmental regulations at less cost. The PE also provides technology to mitigate noise impacts and maneuver area damage resulting from Army training activities. The work in this program element is aligned with the Chief of Staff of the Army's vision for the Objective Force and adheres to Defense Reliance Agreements on civil engineering and environmental quality with oversight provided by the Joint Engineers and Armed Services Biomedical Research Evaluation and Management. The cited work is also consistent with the Army Science and Technology Master Plan (ASTMP) and the Army Modernization Plan.

Medical Technology: The primary goal of medical research and development is to sustain medical technology superiority to improve the protection and survivability of U.S. forces on conventional battlefields as well as in potential areas of low intensity conflict and military operations short of war. This program element funds applied research in Department of Defense (DOD) medical protection against naturally occurring diseases of military importance and combat dentistry, as well as applied research for Department of Army care of combat casualties, health hazard assessment of military materiel, and medical factors enhancing soldier effectiveness. This program element is the core DOD technology base to develop: methods and materials for infectious disease prevention and treatment (i.e. vaccines, prophylactic and therapeutic drugs); insect repellents; methods of diagnosis and identification of naturally occurring infectious diseases; prevention and treatment of combat maxillofacial (face and neck) injuries; essential dental treatment on the battlefield; combat casualty care of trauma and burns due to weapons; organ system survival; shock treatments resulting from blood loss and infection; blood preservation; potential blood substitutes for battlefield care; assessment of the health hazards of military materiel; and the sustainment or enhancement of soldier performance. The cited work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan and Project Reliance.

Advanced Technology Development:

Aviation Advanced Technology: This project is to mature and demonstrate through competitively performed design, fabrication, and testing, advanced technology engines and integrated components achievable improved performance levels for current and future DoD rotary wing vehicles (RWVs). RWVs offer practical solutions to many of the Army's / DoD current and future operational needs by their ability to accomplish tasks and missions that no other air or ground vehicle can perform (e.g., takeoff and land vertically, operate at or below tree-top level for Nap-of-the-Earth (NOE) missions). RWV configurations require significantly different analysis, integration, and design challenges from traditional fixed wing vehicles that fly at higher altitudes. Technology areas for development / demonstration include aeromechanics, aerodynamics, structures, propulsion, reliability and maintainability, safety and survivability, mission support equipment integration, aircraft subsystems, advanced helicopter rotors and flight control, flight simulation, aircrew-aircraft system integration, aircraft weapons integration for air-to-air / air-to-ground, aircraft avionics for command and control, communications, controls and displays, digital avionics and architectures, NOE navigation, mission planning, and air traffic management. These technologies are continuously being demonstrated for applications that will improve and correct deficiencies in current Army / DoD RWV systems, and to improve the capabilities of future rotorcraft. This program adheres to DoD Reliance Agreements on Aero propulsion and Air Vehicles (Rotary Wing). Technology demonstrated in this PE will support the Future Transport Rotorcraft (FTR). Upgrade activities [as applicable] of Army systems such as the AH-64 Apache, RAH-66 Comanche, UH-60 Blackhawk, Navy SH-60 Seahawk and USMC AH-1 Cobra are supported as well.

Combat Vehicle and Automotive Advanced Technology: The goal of this Program Element (PE) is to mature and demonstrate new and improved combat vehicle and automotive technologies to enable transformation of the Army to the Objective Force. Future Combat Systems (FCS), the Army's top priority S&T program, is the primary emphasis of work funded in this PE to support Army Transformation. The Army's vision calls for strategic dominance across the spectrum of operations. This spectrum of likely operations describes the need for a force that is deployable, agile, versatile, lethal, survivable, and sustainable. In addition to system demonstrations, like FCS, this PE supports the following component technology areas: survivability (e.g., Active Protection Systems (APS)), mobility, and intra-vehicular digital electronics. It also integrates diverse vehicle technologies developed by the Army, other DoD agencies, and industry. These technologies are demonstrated in coordination with Army war fighter organizations through vehicle component and system level technology demonstrations. A large portion of the funds in this PE support the collaborative Army/Defense Advanced Research Projects Agency (DARPA) FCS program. A Memorandum of Agreement signed by the Army and DARPA delineates the approach, funding, and responsibilities. This program adheres to Tri-Service Reliance Agreements on advanced materials; fuels and lubricants; and ground vehicles; with oversight and coordination provided by the Joint Directors of Laboratories. The cited work is consistent with the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan and Project Reliance.

Demonstration and Validation:

Artillery Systems: This program supports the Crusader - Advanced Development Program. The Crusader system is comprised of the Army's next generation self-propelled howitzer (SPH), and artillery resupply vehicles (RSVs) designed to support Army XXI, Joint Vision 2010 and the Future Army. Crusader will significantly increase lethality, mobility, survivability, resupply, command and control, and sustainability capabilities, capitalizing on emerging, advanced technologies. In consonance with the New Army Vision/Transformation, the Crusader is being restructured to improve its transportability and relevance to the Army's objective force. The focus of the revised Crusader program is to increase all modes of deployability while retaining all Key Performance Parameters.

Army Missile Defense Systems Integration: This program funds missile defense systems integration efforts for both the Army Space and Missile Defense Command (SMDC) and the Program Executive Office for Air and Missile Defense (PEO-AMD). This includes funding of the Space and Missile Defense Battle Lab (SMDBL), which is chartered to develop warfighting concepts, focus military science and technology research, and conduct warfighting experiments. It also resources the Force Development and Integration Center (FDIC), a major support element of USASMDC. FDIC was created to execute the specified proponency role of the USASMDC. The FDIC develops space and NMD solutions to Doctrine, Training, Leader Development, Organization, Materiel, and Soldiers (DTLOMS) and executes their implementation. Additionally, this program supports the United States Army Program Executive Office for Air and Missile Defense (PEO AMD), whose mission is to develop, acquire, and field Theater Air and Missile Defense (TAMD) systems. These systems provide the capabilities needed to defend friendly forces and assets against attack by enemy aircraft, cruise missiles, and theater ballistic missiles (TBMs). The Army is developing and procuring individual TAMD weapon systems that must be integrated to form a Family of Systems (FoS). The PEO must integrate Army and Joint requirements in order to satisfy all needs.

Engineering and Manufacturing Development:

Comanche: This program provides for the development and operational testing and evaluation of the RAH-66 Comanche and the T801 growth engine. The Comanche is a multi-mission aircraft optimized for the critical battlefield mission of tactical armed reconnaissance. It provides a globally self-deployable attack platform for light/contingency forces. Comanche provides the solution to reconnaissance deficiencies and is a key component on the digitized battlefield in winning the information war. The Comanche is the Army's technology leader and provides significant horizontal technology transfer within the Army and DoD.

BAT: The BAT is the submunition in the Block II missile system supporting the Army's deep fire doctrine. It calls for the destruction and disruption of threat forces, and weapons at ranges in excess of 100 kilometers so they can not influence the maneuver battle. In the past, the only options were to engage these targets with attack helicopters or fixed wing aircraft. While effective, these options placed critical resources, particularly aircrews at risk. The BAT system significantly reduces this risk through its autonomous acquisition and terminal guidance capabilities, attacking well-defended armored forces behind enemy lines. BAT is a dual-sensor (acoustic and infrared) submunition that autonomously seeks out and destroys moving armored vehicles without human interaction.

Research, Development, Test and Evaluation Management Support:

Army Test Ranges and Facilities: This program provides the institutional funding required to assure a developmental test capability is available for Department of Defense (DoD) Program Executive Officers, Program and Product Managers, and Research, Development, and Engineering Centers. All functions and resources associated with this program are managed by the Developmental Test Command (DTC), a subordinate command of the Army Test and Evaluation Command (ATEC) established in October 1999. DTC manages the Yuma Proving Ground in Arizona, the Aberdeen Test Center, Aberdeen Proving Ground, in Maryland, and the White Sands Missile Range in New Mexico (to include the Electronic Proving Ground (EPG) at Fort Huachuca, Arizona). Developmental test capabilities at each range have been uniquely established and are in place to support test and evaluation (T&E) requirements of funded weapons programs, assuring technical performance, adherence to safety requirements, reliability, logistics supportability, and the quality of materiel in development and production. Current testing capabilities are not duplicated anywhere within DoD and they represent test capabilities needed to assure acceptable risks to the soldier as new technologies emerge into fielded weapons systems.

Support of Operational Testing: This program finances the operational testing of developmental materiel systems to include support to Army Transformation. Provides for direct operational and joint test costs, including Multi-Service, First Digitized Division, and Automated Information Systems (AIS), the development and acquisition of non-major systems and sustaining instrumentation necessary to conduct credible and robust operational tests demanded by DoD and Congress, and the replacement and improvement of existing obsolete inventory and development of new technologies to keep abreast of new weapons advancements.

Operational Systems Development:

Industrial Preparedness: This program works with industry to find new ways to improve readiness and reduce Total Ownership Cost for the Army through new manufacturing technologies and enhancements/improvements to legacy systems. The technologies introduced through this PE support the Army transition to the Objective Force. This program element comprises four projects: Manufacturing Technology (ManTech); Reliability, Maintainability and Supportability (RM&S); the National Defense

Center for Environmental Excellence (NDCEE); and the Commercial Operations and Support Savings Initiative (COSSI). The goal of the Army ManTech program is to provide essential manufacturing technologies that will enable the affordable production and sustainment of future weapon systems. The RM&S program funds projects reducing operations and support costs through reliability, maintainability, and/or supportability improvements to fielded weapons systems or major end items. The NDCEE is a Congressionally directed project which has the mission to demonstrate and export new environmentally-acceptable technology to the industrial base, train them, perform research and development, where necessary, mature it, and assist DoD in the transfer. The mission of the COSSI program is to reduce operation and support costs through the development, test, and implementation of a method to insert commercial items into fielded military systems on a routine and expeditious basis.

Combat Vehicle Improvement Programs: This program responds to vehicle deficiencies identified during Desert Storm, continuing technical system upgrades and addressing needed evolutionary enhancements to tracked combat (Abrams and Bradley) and tactical (Bradley Fire Support (FIST)) vehicles. This PE provides combat effectiveness and Operating and Support (O&S) cost reduction enhancements for the Abrams Tank, through a series of product improvements to the current M1A1 and M1A2 vehicles. Additional improvements allow the M1A2 System Enhancement Package (SEP) tank to operate effectively with the M2A3 Bradley. This PE also addresses future product improvements to the M2A3, and the Abrams tank fleet. Common Digitization (CD) efforts included in this program will work towards the resolution of concerns that impact all current and future Ground Combat Support Systems (GCSS). The CD efforts include a Common Ground Combat Support System Architecture (CGA), a Real Time Common Operating Environment (RTCOE) Expansion, a Common Electronic Obsolescence Avoidance (EOA), and Systems Engineering Integrated Data Environment (IDE) programs.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES	Military Personnel	Operation and Maintenance	Procurement	Research Development Test & Evaluation
A. Budget Authority	$28,010,719	$26,759,623	$9,596,838	$5,383,712
B. Unobligated Balance - Beginning of Period	430,742	914,397	1,475,906	869,929
C. Net Transfers Prior-Year Balance, Actual	(183,964)	1,544,589	(12,044)	1,300
D. Spending Authority from Offsetting Collections	218,696	6,462,475	498,171	1,685,743
E. Adjustments	1,021,295	4,991,143	298,267	441,555
F. Total Budgetary Resources	$29,497,488	$40,672,227	$11,857,138	$8,382,239
STATUS OF BUDGETARY RESOURCES				
A. Obligations Incurred	$29,032,115	$39,518,221	$9,821,812	$7,464,559
B. Unobligated Balances - Available	142,036	266,939	1,965,288	886,622
C. Unobligated Balances - Not Available	323,338	887,067	70,039	31,059
D. Total, Status of Budgetary Resources	$29,497,489	$40,672,227	$11,857,139	$8,382,240
OUTLAYS				
A. Obligations Incurred	$29,032,115	$39,518,221	$9,821,812	$7,464,559
B. Less: Spending Authority from Offsetting Collections and Adjustments	(1,630,476)	(11,835,179)	(991,772)	(2,228,281)
C. Obligated Balance, Net - Beginning of Period	3,084,189	10,776,989	9,307,154	2,343,859
D. Obligated Balance Transferred, Net	0	0	0	0
E. Less: Obligated Balance, Net - End of Period	(1,779,435)	(11,746,852)	(10,032,390)	(2,788,764)
F. Total Outlays	$28,706,393	$26,713,179	$8,104,804	$4,791,373

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES	Military Construction/Family Housing	Other	2000 Combined
A. Budget Authority	$1,585,187	$1,115,369	$72,451,448
B. Unobligated Balance - Beginning of Period	980,159	204,517	4,875,650
C. Net Transfers Prior-Year Balance, Actual	52,562	2,500	1,404,943
D. Spending Authority from Offsetting Collections	2,228,152	53,960	11,147,197
E. Adjustments	272,752	66,588	7,091,600
F. Total Budgetary Resources	$5,118,812	$1,442,934	$96,970,838
STATUS OF BUDGETARY RESOURCES			
A. Obligations Incurred	$3,933,769	$1,253,112	$91,023,588
B. Unobligated Balances - Available	1,161,538	188,825	4,611,248
C. Unobligated Balances - Not Available	23,504	997	1,336,004
D. Total, Status of Budgetary Resources	$5,118,811	$1,442,934	$96,970,840
OUTLAYS			
A. Obligations Incurred	$3,933,769	$1,253,112	$91,023,588
B. Less: Spending Authority from Offsetting Collections and Adjustments	(2,543,095)	(132,962)	(19,361,765)
C. Obligated Balance, Net - Beginning of Period	1,302,122	585,359	27,399,672
D. Obligated Balance Transferred, Net	0	0	0
E. Less: Obligated Balance, Net - End of Period	(1,510,419)	(651,449)	(28,509,309)
F. Total Outlays	$1,182,377	$1,054,060	$70,552,186

The accompanying notes are an integral part of these statements.

General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 2000
($ in Thousands)

Property Type/Major Class	
1. Real Property	
A. Buildings	$33,050,000
B. Structures	0
C. Land	0
2. Total	$33,050,000

Narrative Statement:

The $33,050,000 thousand reflected above represents deferred RPM (Real Property Maintenance) costs for FY 2000. Shown are the quality improvement costs to C-1 for RPM funded facilities. This total excludes Non-Appropriated funded activities, dependent schools, other DOD funded facilities, Army Working Capital Fund, Commissaries and AAFES facilities.

National Defense Property, Plant and Equipment
Deferred Maintenance Amounts
As of September 30, 2000
($ in millions)

Major Type	Army Reserve	Army National Guard	Active Army	Total
1. Aircraft	$1.4	$ 9.7	$ 51.4	$ 62.5
2. Ships				
3. Missiles	0	1.7	25.1	26.8
4. Combat Vehicles	0	6.0	29.5	35.5
5. Other Weapons Systems	3.2	21.6	69.5	94.3
Total	$ 4.6	$ 39.0	$175.5	$219.1

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury	Accounts Receivable	Investments	Other
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08				
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11		$1,194		
Department of Agriculture	12		4,904		
Department of Commerce	13		731		
Department of the Interior	14		1,642		
Department of Justice	15		29,782		
Department of Labor	16		45		
Department of the Navy, General Funds (GF)	17		124,511		
United States Postal Service	18				
Department of State	19		15,696		
Department of the Treasury	20	$34,507,584	3,072	$1,369	
Department of the Army, GF	21				
Resolution Trust Corporation	22				
United States Tax Court	23				
Office of Personnel Management	24				
National Credit Union Administration	25				
Federal Retirement Thrift Investment Board	26				
Federal Communications Commission	27				
Social Security Administration	28				
Federal Trade Commission	29				
Nuclear Regulatory Commission	31				
Smithsonian Institution	33				
International Trade Commission	34				
Department of Veterans Affairs	36		3,152		
Merit Systems Protection Board	41				
Pennsylvania Avenue Development Corporation	42				
U.S. Equal Employment Opportunity Commission	45				
Appalachian Regional Commission	46				
General Service Administration	47		5,438		
Independent Agencies**	48				
National Science Foundation	49				
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury	Accounts Receivable	Investments	Other
Advisory Commission on Intergovernmental Relations	55				
Central Intelligence Agency	56				
Department of the Air Force, GF	57		41,014		$5,624
Federal Emergency Management Agency	58		4,244		
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63				
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67				
Environmental Protection Agency	68		583		
Department of Transportation	69		18,423		
Oversees Private Investment Corporation	71				
Agency for International Development	72				
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75		1,912		
Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80		27,145		
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84				
Department of Housing and Urban Development	86		1,576		
National Archives and Records Administration	88				
Department of Energy	89		6,016		
Selective Service System	90		22,353		
Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95				
U.S. Army Corps of Engineers (Civil Works)	96		15,182		
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001		7,097		18,521
Department of the Navy, WCF	97-4930-002		1,220		
Department of the Air Force, WCF	97-4930-003		2,370		1
Other Defense Organizations, GF	97		266,968		164
Other Defense Organizations, WCF	97-4930		82,274		24,824
Unidentifiable Federal Agency Entity	00				
Total		$34,507,584	$688,543	$1,369	$49,135

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Library of Congress	03			
Government Printing Office	04			
General Printing Office	05			
Congressional Budget Office	08			
Other Legislative Branch Agencies	09			
The Judiciary	10			
Executive Office of the President, Defense Security Assistance Agency	11			$14,784
Department of Agriculture	12			1
Department of Commerce	13			
Department of the Interior	14			
Department of Justice	15			266
Department of Labor	16			332,940
Department of the Navy, General Funds (GF)	17	$50,082		28,704
United States Postal Service	18			
Department of State	19			1,926
Department of the Treasury	20	8,442		477,111
Department of the Army, GF	21			
Resolution Trust Corporation	22			
United States Tax Court	23			
Office of Personnel Management	24			37,868
National Credit Union Administration	25			
Federal Retirement Thrift Investment Board	26			
Federal Communications Commission	27			
Social Security Administration	28			
Federal Trade Commission	29			
Nuclear Regulatory Commission	31			
Smithsonian Institution	33			
International Trade Commission	34			
Department of Veterans Affairs	36			371
Merit Systems Protection Board	41			
Pennsylvania Avenue Development Corporation	42			
U.S. Equal Employment Opportunity Commission	45			
Appalachian Regional Commission	46			
General Service Administration	47			
Independent Agencies**	48			
National Science Foundation	49			
Securities and Exchange Commission	50			
Federal Deposit Insurance Group	51			
Federal Labor Relations Authority	54			

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Advisory Commission on Intergovernmental Relations	55			
Central Intelligence Agency	56			
Department of the Air Force, GF	57	23,249		15,107
Federal Emergency Management Agency	58			
National Foundation on the Arts and Humanities	59			
Railroad Retirement Board	60			
Consumer Product Safety Commission	61			
Office of Special Counsel	62			
National Labor Relations Board	63			
Tennessee Valley Authority	64			
Federal Maritime Commission	65			
United States Information Agency	67			
Environmental Protection Agency	68			21
Department of Transportation	69			722
Oversees Private Investment Corporation	71			
Agency for International Development	72			
Small Business Administration	73			
American Battle Monuments Commission	74			
Department of Health and Human Services	75			1,564
Independent Agencies**	76			
Farm Credit	78			
National Aeronautics and Space Administration	80			748
Export-Import Bank of the United States	83			
Armed Forces Retirement Home	84			
Department of Housing and Urban Development	86			
National Archives and Records Administration	88			
Department of Energy	89			180
Selective Service System	90			
Department of Education	91			
Federal Mediation and Conciliation Services	93			
Arms Control and Disarmament Agency	94			
Independent Agencies**	95			
U.S. Army Corps of Engineers (Civil Works)	96	4,880		
Military Retirement Trust Fund	97-8097			
Department of the Army, WCF	97-4930-001	219,550		31
Department of the Navy, WCF	97-4930-002	14,095		
Department of the Air Force, WCF	97-4930-003	5,328		
Other Defense Organizations, GF	97	57,714	$114	6,367
Other Defense Organizations, WCF	97-4930	380,656		
Unidentifiable Federal Agency Entity	00			
Total		$763,996	$114	$918,710

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies	Treasury Index	Earned Revenue
Library of Congress	03	
Government Printing Office	04	
General Printing Office	05	
Congressional Budget Office	08	
Other Legislative Branch Agencies	09	$16
The Judiciary	10	
Executive Office of the President, Defense Security Assistance Agency	11	9,257
Department of Agriculture	12	2,784
Department of Commerce	13	1,034
Department of the Interior	14	4,263
Department of Justice	15	45,056
Department of Labor	16	3
Department of the Navy, General Funds (GF)	17	667,566
United States Postal Service	18	
Department of State	19	17,813
Department of the Treasury	20	6,689
Department of the Army, GF	21	
Resolution Trust Corporation	22	
United States Tax Court	23	
Office of Personnel Management	24	
National Credit Union Administration	25	
Federal Retirement Thrift Investment Board	26	
Federal Communications Commission	27	
Social Security Administration	28	
Federal Trade Commission	29	
Nuclear Regulatory Commission	31	
Smithsonian Institution	33	
International Trade Commission	34	
Department of Veterans Affairs	36	9,501
Merit Systems Protection Board	41	
Pennsylvania Avenue Development Corporation	42	
U.S. Equal Employment Opportunity Commission	45	
Appalachian Regional Commission	46	
General Service Administration	47	6,921
Independent Agencies**	48	
National Science Foundation	49	
Securities and Exchange Commission	50	
Federal Deposit Insurance Group	51	

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies	Treasury Index	Earned Revenue
Federal Labor Relations Authority	54	
Advisory Commission on Intergovernmental Relations	55	
Central Intelligence Agency	56	
Department of the Air Force, GF	57	833,233
Federal Emergency Management Agency	58	490
National Foundation on the Arts and Humanities	59	
Railroad Retirement Board	60	
Consumer Product Safety Commission	61	
Office of Special Counsel	62	
National Labor Relations Board	63	
Tennessee Valley Authority	64	
Federal Maritime Commission	65	
United States Information Agency	67	
Environmental Protection Agency	68	1,573
Department of Transportation	69	6,357
Oversees Private Investment Corporation	71	
Agency for International Development	72	
Small Business Administration	73	
American Battle Monuments Commission	74	
Department of Health and Human Services	75	3,952
Independent Agencies**	76	
Farm Credit	78	
National Aeronautics and Space Administration	80	52,432
Export-Import Bank of the United States	83	
Armed Forces Retirement Home	84	
Department of Housing and Urban Development	86	32
National Archives and Records Administration	88	
Department of Energy	89	10,857
Selective Service System	90	26,777
Department of Education	91	
Federal Mediation and Conciliation Services	93	
Arms Control and Disarmament Agency	94	
Independent Agencies**	95	
U.S. Army Corps of Engineers (Civil Works)	96	23,583
Military Retirement Trust Fund	97-8097	
Department of the Army, WCF	97-4930-001	441,066
Department of the Navy, WCF	97-4930-002	232,194
Department of the Air Force, WCF	97-4930-003	21,646
Other Defense Organizations, GF	97	2,409,902
Other Defense Organizations, WCF	97-4930	342,537
Unidentifiable Federal Agency Entity	00	
Total		$5,177,534

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

Schedule, Part E DoD Intragovernmental Nonexchange Revenues	Treasury Index	Revenue Transfers-in	Revenues Transfers-out
U.S. Army Corps of Engineers (Civil Works)	96		$1,335
Other Defense Organizations, GF	97	$1,208,397	
Other Defense Organizations, WCF	97-4930		
Unidentified Federal Agency Entity	00		
Total		$1,208,397	$1,335

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

February 7, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 2000 Army General Fund Financial Statements (Project No. D2000FI-0063.000)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Army Audit Agency (AAA) the audit of the FY 2000 Army General Fund financial statements. Summarized as follows are the AAA disclaimer of opinion on the FY 2000 Army General Fund financial statements and the results of our review of the AAA audit. The information provided in this memorandum contains reasons for the AAA disclaimer. We endorse the disclaimer of opinion expressed by AAA.

Disclaimer of Opinion. The AAA disclaimer of opinion on the FY 2000 Army General Fund financial statements, dated February 7, 2001, states that AAA was unable to express an opinion on the financial statements. We concur with the AAA disclaimer of opinion for the reasons summarized as follows.

AAA could not express an opinion on the financial statements primarily because of continual problems with inadequate accounting systems, insufficient audit trails, and procedural problems. The problems prevented AAA from using any practical methods to conduct audit work of sufficient scope to express an opinion on the FY 2000 Army General Fund financial statements. Also, the financial statements were not prepared in time for AAA to perform necessary audit work prior to reporting deadlines established by the Office of Management and Budget. Inadequate accounting systems required the Defense Finance and Accounting Service Indianapolis to make unsupported adjustments to force the general ledger to match status-of-funds data. For FY 2000, $237 billion of unsupported adjustments were made to force the general ledger to match status-of-funds data.

Internal Controls. The AAA tested internal controls but did not express a separate opinion because opining on internal controls was not one if its objectives. However, AAA determined that internal controls did not provide reasonable assurance of achieving the internal control objectives described in Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements," dated October 16, 2000. For example, the Army General Fund did not have effective internal controls over about $14.2 billion in inventory. The Army and the Defense Finance and Accounting Service recognized many financial reporting weaknesses and reported them in their FY 2000 Annual Statements of Assurance. Details on the internal control weaknesses will be provided in separate AAA reports.

Compliance With Laws and Regulations. The AAA determined that the Army still is unable to fully comply with laws and regulations related to the Army financial statements. The systems that support the Army financial statements did not meet the requirements of the Federal Financial Management Improvement Act of 1996. Specifically, these systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For example, financial management systems did not maintain audit trails, which is a Federal financial management system requirement. Also, the Army is not yet able to fully comply with the Chief Financial Officers Act of 1990 and related requirements. Although the Army and the Defense Finance and Accounting Service have made a concerted effort to meet the requirements of the Act, current management and accounting systems were not designed for financial statement reporting and they can not produce reliable and auditable financial statements.

Review of Army Audit Agency Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit work that AAA conducted, we reviewed the audit approach and planning and monitored progress at key points. We also performed other procedures to determine the fairness and accuracy of the approach and conclusions. For example, we independently assessed the accuracy of the FY 2000 accrued unfunded annual leave expense applicable to military personnel within the Army.

We reviewed the AAA work on the FY 2000 Army General Fund financial statements from January 7, 2000, through February 7, 2001, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the AAA disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
Office of the Auditor General
3101 Park Center Drive
Alexandria, VA 22302-1596

7 February 2001

Acting Secretary of the Army

As required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the U.S. Army prepared the accompanying General Fund financial statements for fiscal year 2000. As delegated by, and in coordination with, the Inspector General, DOD, we were engaged to audit these statements. Our responsibility is limited to auditing these statements. The financial statements are the responsibility of Army management.

We were unable to express an opinion on these financial statements because inadequate accounting systems, insufficient audit trails, and procedural problems prevented us from using any practical methods to conduct audit work of sufficient scope to support an opinion. Also, we didn't receive the official statements as of the date of this report. Therefore, we caution users that the information presented in the financial statements may not be reliable.

Internal controls weren't sufficient to ensure that the financial statements contained no material misstatements. The Army and the Defense Finance and Accounting Service have recognized many financial reporting weaknesses and included them in their FY 00 annual assurance statements.

The Army isn't yet able to fully comply with laws and regulations that directly affect the financial statements. The primary noncompliance issue relates to the Chief Financial Officers Act of 1990 and related provisions that require the preparation of auditable financial statements. In addition, the systems that support the Army's financial statements didn't meet the requirements of the Federal Financial Management Improvement Act of 1996. Specifically, these systems didn't substantially comply with established Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. However, our limited audit work didn't identify any material instances of noncompliance that had not been previously reported.

We also performed a limited review of the information in the Overview section of the report and concluded that the financial data in that section may not be reliable since it was derived from the same sources as the financial statements.

The Required Supplementary Stewardship Information (including national defense property, plant, and equipment; heritage assets; and stewardship land) is not a required part of the basic financial statements, and we did not audit and do not express an opinion on this information. However, we applied limited audit procedures prescribed by professional standards to the stewardship information and found some problems with the process and procedures used by the Army to capture and report this information.

The supplementary information for deferred maintenance is not a required part of the basic financial statements, and we did not audit and do not express an opinion on this information. We didn't apply procedures prescribed by professional standards because the official accounting guidance regarding the measurement criteria and reporting placement of deferred maintenance on the financial statements was not fully developed.

Except for the limitations described above, we performed our work in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements).

FRANCIS E. REARDON, CPA
The Auditor General

Report on Internal Controls

Internal controls didn't provide reasonable assurance that the financial statements didn't contain material misstatements. The Army and the Defense Finance and Accounting Service have recognized many material weaknesses and reported them in their FY 00 annual assurance statements on internal management controls. (We discuss this issue in the Report on Compliance with Laws and Regulations beginning on page 35.)

We evaluated and tested relevant financial internal controls related to the reporting of budgetary resources, material asset and liability balances, and the compilation process for financial statements at the Defense Finance and Accounting Service-Indianapolis. We also selectively followed up on internal control deficiencies that we previously reported. Because of accounting system deficiencies, we didn't attempt to audit the expenses reported in the Army's statements.

We noted progress in several areas to correct previously identified problems. However, we also identified additional internal control problems. We consider all these problems reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements). Reportable conditions represent significant deficiencies in the design or operation of the internal control structure. Material weaknesses are reportable conditions involving deficiencies in the design or operation of internal controls leading to an unacceptable high risk that losses, noncompliance or material misstatements in the financial statements could occur and not be detected promptly.

The Army has recognized that significant problems exist with the processes, procedures, and accounting systems used to prepare its financial statements. To address these problems, the Deputy Assistant Secretary of the Army for Financial Operations, in conjunction with functional experts within and outside the Army, has prepared a detailed plan called, "The Army Chief Financial Officers Strategic Plan." The Army is actively using this plan as a key management tool to improve its financial reporting, and it regularly reviews and updates the plan. As stated in the overview of the Annual Financial Report, the Army completed 54 of the separate tasks in the plan during FY 00, but we haven't verified the completion of these tasks. The Strategic Plan is updated quarterly, and it now covers the Working Capital Fund as well as the General Fund. The stated vision is that completing all the tasks will enable the Army to prepare auditable financial statements by FY 03. However, this vision may not be achievable since some of the tasks now have projected completion dates beyond FY 03.

In this report on internal controls, we summarize the Army's FY 00 financial statement reporting problems in three sections:

- Systems and Procedures.
- Financial Accounts.
- Property Accounts.

Additional information is in our separate supporting reports listed in Annex C.

Systems and Procedures

In this section we discuss:

- Accounting systems.
- Other systems.
- Compilation process for financial statements.
- Subordinate activity adjustments.
- Performance information.

Accounting Systems

Deficiencies in the accounting and finance systems that account for Army resources constitute the major reason for our inability to render an audit opinion on the Army's financial statements. The accounting systems lack a single standard transaction-driven general ledger-an essential element of control for sound, reliable financial reporting. In addition, the accounting systems don't produce account-oriented transaction files (subsidiary ledgers), and data for physical assets is compiled using "work-around" procedures and data from management systems not intended and not suitable for financial reporting. Consequently, the audit trails necessary to verify and reconcile account balances aren't adequate, and the statement balances aren't auditable by any practical means.

Because of system deficiencies, the Army uses a consolidation of accounting data from source documents, budgetary accounting systems, and multiple field-level and department-level entries to produce the financial statements. Army management couldn't provide reasonable assurance that the accounting and non-accounting systems used to record and report Army financial data were reliable. It also acknowledged the possible existence of material transactions that weren't properly recorded in the accounting records and included in the financial statements.

The Defense Finance and Accounting Service, as functional proponent for the Army's accounting and financial management systems, has reported inadequate general ledger control as a material weakness in its annual statement of assurance since FY 91. The FY 00 statement of assurance cites FY 03 as the estimated target date for correction.

The Accounting Service is working on a new accounting system-the Defense Joint Accounting System-that it believes will resolve many of the problems with existing systems. During FY 99 the Accounting Service conducted a test of the initial prototype at the Ballistic Missile Defense Organization. During the test we identified two weaknesses-the assignment of obligation numbers and the ability of travel clerks to potentially modify approved data. In the current DOD Financial Management Improvement Plan, the Accounting Service reported that the accounting system is not compliant with applicable requirements (including the Federal Financial Management Improvement Act) and will not achieve full operational capability until July 2005. Additionally, the latest deployment schedule shows that complete Army fielding will slip to March 2007. The Army may not have auditable financial statements until it has fielded an adequate accounting system.

Other Systems

The Army also needs to upgrade or replace many of its other systems that feed data to the accounting system so that the requirements of financial statement reporting can be met. The Army has recognized this problem and has included numerous system improvements in its strategic plan. Including these other system requirements in the strategic plan should enable Army management to coordinate and direct the needed progress in other automated systems.

Currently, the Army has identified 21 critical feeder systems. Here is the status of those systems.

Status	Description	Number of Systems
Compliant	System managers reported the system as compliant.	2
Not Compliant	System managers reported the system as not compliant.	1
Not Determined	The status of the system has not been determined.	3
Legacy System	The system's functions are to be consolidated into another system.	15
Total		21

The Army is still in the process of identifying all critical feeder systems and ensuring that each system is either compliant with the financial requirements or that it will be replaced by another system that is compliant. However, the Army doesn't have complete control over this effort because DOD owns some of these systems.

Compilation Process for Financial Statements

The Inspector General, DOD found several problems with the Defense Finance and Accounting Service's compilation of financial data from field entities and other sources. The most significant problems involved unsupported accounting entries. The magnitude of these entries meant that the FY 00 Army General Fund financial statements were materially influenced by unsupported accounting data. As a result, there is no assurance that the data in the financial statements is reliable.

The Defense Finance and Accounting Service-Indianapolis processed 458 accounting entries valued at $451.6 billion while compiling the FY 00 Army General Fund financial statements. The value of unsupported entries increased from about $290.2 billion in FY 99 to $361.5 billion in FY 00. The total unsupported value for FY 00 involved 240 accounting entries.

The Accounting Service made 143 accounting entries for about $307.8 billion to correct discrepancies between sources of accounting data without reconciling the differences between the two data sources or to determining which data source was correct.

Here are the details:

- 5 entries for $237.0 billion to force general ledger accounting data to agree with budgetary accounting data.
- 71 entries for $45.3 billion to force intragovernmental transactions between trading partners to agree.
- 67 entries for $25.5 billion to correct discrepancies between other sources of accounting data.

The remaining 97 entries for $53.7 billion were made for reasons other than to correct discrepancies between sources of accounting data-for example to correct errors in previously prepared accounting entries-but didn't include all required supporting documentation.

For more than 9 years, budgetary status-of-appropriations data and expenditure data have been used to compile financial data for the Army General Fund financial statements. This is an interim method and is not acceptable, and the Army General Fund financial statements may not be auditable until an integrated, transaction-driven accounting system is implemented Armywide.

Subordinate Activity Adjustments

The Accounting Service needed to improve the internal controls for adjustments that activities formerly called Operating Locations made to financial information during the reporting process. During our review at one such activity we found that it met established timeframes for furnishing financial information to the Accounting Service-Indianapolis, but we also found some procedural problems. For example:

- Activity personnel made unsupported adjustments to make the general ledger agree with status data. The Accounting Service's reliance on status data rather than general ledger data in developing the Army's General Fund financial statements was a long-standing unresolved problem. Also, in an effort to comply with Accounting Service directives against reporting abnormal undelivered orders, activity personnel made temporary unsupported adjustments to eliminate abnormal undelivered orders totaling about $85.6 million from status reports for 30 September 2000.

- Activity personnel made temporary adjustments with an absolute value of about $678 million to correct Tables of Abnormal Balances errors in status data reported for 30 April 2000. However, because of workload constraints they didn't determine which adjustments affected the general ledger trial balances and adjust those balances. Activity personnel followed the same procedures at 30 September 2000; however, we didn't determine the amount of the adjustments. The resulting out-of-balance condition contributed to the unsupported departmental adjustment the Accounting Service-Indianapolis made to force the 30 September 2000 general ledger to agree with status data.

As a result of such problems, the accuracy and completeness of the data were questionable.

Performance Information

We conducted only a limited review of information on performance results that was presented in the Overview section. Although we obtained a basic understanding of the internal controls related to performance information, our procedures weren't designed to provide assurance on internal control over reported performance measures. Accordingly, we do not provide an opinion on such control. However, our control and compliance testing during the audit work for our various supporting reports identified significant problems with data reliability, and these problems could also affect the reliability of performance data.

Financial Accounts

In this section we discuss:

- Reporting of budgetary resources.
- Liabilities.
- Military payroll issues.
- Civilian payroll issues.
- Fund balance with Treasury.
- Problem disbursements.
- Progress payments.

Reporting of Budgetary Resources

The Accounting Service took some corrective action to address internal control problems we previously identified, but additional action is still needed. In the FY 99 Financial Reporting of Budgetary Resources Report, we concluded that internal controls weren't fully effective over the accounting, processing, and reporting of the obligations, recoveries, collections, disbursements, and reimbursables that we tested at the accounting office level. We made five recommendations for improving internal controls. Specifically, we recommended that the Accounting Service, in coordination with the Office of the Assistant Secretary of the Army (Financial Management and Comptroller):

- Change established procedures for classifying obligations and recoveries for reporting purposes. The Accounting Service agreed with the recommendation and estimated 30 June 2000 as the date to complete implementation. Although Accounting Service personnel had done work in response to this recommendation, it was only partially implemented.

- Issue policy guidance to have accounting offices reconcile imbalances between the accounting system's fund and history databases, implement procedures to ensure the databases remain in balance, and maintain or have ready access to detail automated support and documentation for all transactions. The Accounting Service agreed and originally estimated 30 September 2000 as the date to complete implementation, but corrective action wasn't completed.

- Conduct training for staff accountants on the use of reimbursement source codes and emphasize the importance of these codes. The Accounting Service agreed and said that the accountants would be trained in the use of reimbursement source codes as part of accounting courses scheduled at the Rock Island Field Activity. We verified that this action was taken.

- Issue policy guidance that emphasizes recording accounting data promptly and correctly, basing changes and corrections on thorough research, matching disbursements with the correct obligations, and recording transactions for correct amounts and in the correct accounting periods. We verified that this action was taken.

- Develop a single database for use by the auditors of the Army's financial statements that contains the detailed transactions that support the summary transactions used to prepare the Army's Standard Form 133s, Reports on Budget Execution, and the Army's financial statements. The Accounting Service disagreed with this recommendation but has not developed an acceptable alternative.

As discussed with Accounting Service managers, implementation of these recommendations is essential prior to future detailed audit and testing of internal controls. We believe that without implementation of these recommendations, conditions will not significantly improve, similar control problems can be anticipated, and future audit may not be worthwhile.

Liabilities
Although reported liabilities included some costs that were incorrectly omitted in prior years, procedures and controls weren't adequate to ensure that all reported values were complete and accurate.

The Army's liability for environmental programs still needed improvement. Because project managers didn't have adequate documentation to support cost estimates, the $9.9 billion environmental restoration liability (Active Army) was questionable. To prevent an overstatement of some environmental compliance liabilities, the Army needed to adjust its reporting to ensure that it recorded recurring projects as expenses of the period rather than liabilities. In addition, the Army couldn't fully report liabilities for unexploded ordnance on training ranges and national defense equipment disposal costs because of a lack of definitive guidance.

The Army also needed to improve its reporting of employer entity liabilities. The financial statements understated the liability for Temporary Early Retirement Authority payments and didn't recognize about $380.4 million Voluntary Separation Incentives payments for the program's early takers. In addition, the statements didn't provide any disclosures on its Worker's Compensation liabilities. Such disclosure is necessary to adequately describe the time period reported and to ensure that the liability includes payments for Army Working Capital Fund claimants.

The Army did make progress in increasing controls for the $12.2 billion Formerly Used Defense Site projects by implementing a new system that has some built-in financial management controls. In addition, the Army included liabilities for about $409 million for contract holdbacks and $79 million of installation level legal claims. Such claims had not been recognized on the Army's statements in previous fiscal years.

Military Payroll Issues

The Defense Finance and Accounting Service processes and controls over financial reporting were not adequate to ensure that the military pay and benefits cost data was correctly reported in the Army's General Fund Principal Financial Statements for FY 99 or FY 00. Specifically, the Accounting Service didn't:

- Maintain adequate work-around processes and controls for recording the Army military pay and benefits cost data in the financial statements.
- Correctly perform all required accrual accounting for military pay and benefits cost data, and didn't document the basis or logic of the accruals it had established.

As a result, the accuracy of the military pay and benefits cost data in the Statement of Net Cost and the payroll-related liability amounts in the balance sheet was questionable and there existed an unacceptable degree of risk of materially misstating the Statement of Net Cost. Furthermore, there was no audit trail for the $25 billion of military pay and benefits in the Statement of Net Cost nor the approximately $1.5 billion of payroll-related liabilities in the balance sheet. Unless this condition is corrected, it will continue to affect financial statements in the future. Correcting the condition will reduce the risk of material misstatement, improve the audit trails, and put the Army's General Fund financial statements in a better position for a favorable audit opinion in the future.

Civilian Payroll Issues

The Accounting Service's processes and controls over financial reporting were not adequate for accrued unfunded annual leave and annual leave expense. Specifically:

- Civilian Pay transactions were not always recorded correctly to the General Ledger.
- Accrued Unfunded Annual Leave was recorded incorrectly for the National Guard.
- Equity account was understated because of the incorrect Accrued Unfunded Annual Leave recorded for the National Guard.

These conditions reduced the reliability of the related dollar values reported in the Army's principal financial statements

Fund Balance With Treasury

Unresolved suspense account balances represented a material uncertainty regarding the reported amount for Fund Balance with Treasury. However, in FY 00 there was a significant reduction of other uncertainties such as Online Payment and Collection differences.

Suspense Account Balances

The Defense Finance and Accounting Service-Indianapolis didn't have effective procedures for monitoring and resolving accounting transactions placed into suspense accounts. As of 30 September 2000, the four records of suspense account balances ranged from a high of $818.7 million to a low of $6.0 million. One of the other two records of suspense account balances included $246.7 million that had been in suspense for over one year. Differing suspense account balances and old account balances indicate problems with the validity and monitoring of suspense account transaction data. Although the Accounting Service-Indianapolis recognized in FY 97 that material management control weaknesses existed with the reconciliation of suspense account balances, no effective program to monitor and correct differences was established. As a result, suspense account balances were a material uncertainty affecting the amount reported for Fund Balance With Treasury, and there was no assurance that existing suspense account differences would be corrected or that future differences will be resolved.

Other Uncertainties
In prior years, other uncertainties such as check issue reporting discrepancies (including check detail discrepancies and "paid no issue" checks), Online Payment and Collection differences, and deposit/electronic fund transfer differences were material regarding Fund Balance With Treasury. However, the Accounting Service-Indianapolis significantly reduced these differences during FY 00. Differences not caused by timing decreased from about $279 million as of 30 September 1999 to about $28 million as of 30 September 2000. The cumulative amount of these uncertainties was not material regarding the Fund Balance with Treasury reported on the FY 00 financial statements.

Problem Disbursements
Problem disbursements represent a significant financial reporting issue for the Army, but the reported status at year end indicated that much progress occurred during FY 00. Two primary categories of problem disbursements are unmatched disbursements (UMD-disbursement transactions that accounting offices have not matched to the correct detail obligations in the accounting records) and negative unliquidated obligations (NULO-disbursement transactions that exceed the value of the matching detail obligations).

The Army's goal was to reduce these two categories of problem disbursements by 75 percent from September 1998 to September 2000. At the end of this period the Army reported unmatched disbursements of $387 million and negative unliquidated obligations of $187 million. This represented a reduction of 87 percent and 70 percent respectively.

The Accounting Service has reported multiple material weaknesses related to problem disbursements in its annual assurance statements. Resolution is expected by FY 03 according to its current assurance statement. The Army and the Accounting Service previously established a Joint Reconciliation Program to increase their combined efforts to solve this issue. These efforts are continuing during FY 01.

Progress Payments
The Accounting Service changed its procedure in FY 00 regarding the recording of contract holdbacks. During FY 96, we identified problems with recording holdbacks related to progress payments. In our report on progress payments for the FY 96 financial statements, we recommended that the Accounting Service:

- Modify Army accounting systems to provide for recording of contract holdbacks and use the systems to record holdbacks related to progress payments.
- Make sure actual progress payment rates are used when calculating contract holdback amounts.
- Review trial balances submitted by operating locations and accounting offices to make sure that stations reporting account balances for contract holdbacks also report an account balance for the corresponding asset account.

The Accounting Service agreed to test the recommendation to review trial balances, but didn't agree to modify systems to provide for recording of contract holdbacks or to make sure actual progress payment rates were used when calculating contract holdback amounts.

On 2 October 1998, the Office of Management and Budget made a decision that supported our position. However, DOD didn't implement this decision and indicated that it intended to challenge it. Although we didn't conduct detailed audit work in this area for FY 99, we estimated the effect on the financial statements would be material. We performed a similar limited review for FY 00 and found that the Accounting Service had begun recording contract holdbacks during the year. However, this limited review didn't enable us to verify the extent of the Accounting Service's action. We will evaluate this area further during future audit work.

Property Accounts

In this section we discuss:

- Real property.
- Construction-in-progress.
- General equipment.
- Inventory.
- Supplemental stewardship reporting.

Real Property

The Army made some progress during FY 00, but the progress wasn't sufficient to correct previously reported problems. As a result, there is considerable uncertainty about the reliability of the $11.8 billion reported value for real property.

The Army made definite progress in fielding the interface between automated real property systems and the Defense Property Accountability System during FY 00. For example:

- The Army fielded the software it needed to interface real property data between the Integrated Facilities System and the Defense Property Accountability System.
- Army installations began interfacing real property data with the Defense Property Accountability System at all Army activities except the Army National Guard.

However, because the Army wasn't able to completely field and test interfaces in time for the FY 00 financial statements, it continued to use the Headquarters Executive Information System for financial statement reporting. As we reported in FY 99, this system doesn't provide reliable enough information for reporting capital improvements and depreciation amounts. In addition, audit trails within the Integrated Facilities System aren't adequate to trace changes in previously recorded costs and to fully identify transactions affecting real property facility balances.

The Army also hasn't corrected the internal control issues we reported in FY 99. The Assistant Chief of Staff for Installation Management was still developing a policy memorandum to address the internal control issues we identified in our FY 99 financial statement audit. Our analysis of the policy memorandum identified an additional control that was needed to fully comply with our recommendations.

In addition, the Army does not yet have a valid beginning balance for audit purposes. The public accounting firm PricewaterhouseCoopers completed its contracted effort to assess the recorded values in the real property databases and provided a favorable recommendation to DOD. However, the General Accounting Office and the Inspector General, DOD haven't yet approved the firm's recommendation. We will continue to monitor the efforts of these audit agencies to resolve their differences with the contractor and DOD.

Construction-in-Progress

The Army National Guard did not have controls and systems in place to ensure that its construction in progress costs were accurately reported in the Army's General Fund Financial Statement.

Personnel at Army National Guard activities collected construction in progress costs. These costs were maintained and reported by each state in the standard accounting system. But, the accounting system was not a general ledger based system; and it didn't interface with the Departmental General Ledger System at the Defense Finance and Accounting Service-Indianapolis. The Army National Guard had not established an alternate process of capturing and reporting the construction in progress balance to the Accounting Service.

As a result, the Property, Plant, and Equipment balance reported on the Army's General Fund Consolidated Balance Sheet was understated by the construction in progress costs funded by the Army National Guard. At the end of FYs 99 and 00, we estimated that the Army National Guard had at least $92 million and $86 million, respectively, in unrecorded construction in progress costs.

General Equipment

Controls, procedures, and systems weren't adequate to ensure the accurate reporting of general equipment values. Standard Army systems do not capture the correct acquisition data and cost, and most current Army systems were not designed to produce required financial information. The Army reported this problem as an uncorrected material weakness in FY 00.

In FY 99, the Army began fielding the Defense Property Accountability System to meet and comply with financial reporting standards. Because fielding wasn't completed in FY 00, the Army again used an Armywide data call to determine general equipment values and calculate related depreciation for the FY 00 financial statements. A reporting team at the U.S. Army Materiel Command's Logistics Support Activity conducted the data call. To improve the reliability of reported data, the reporting team began the process of establishing a general equipment baseline. During this process it identified activities that were excluded from the FY 99 reported amounts, and identified and corrected obvious errors and omissions.

Although the timing of the data call limited our ability to perform the tests necessary to validate the general equipment values in the FY 00 financial statements, we conducted analytical tests over the reasonableness of the data from the units and the resulting values the reporting team reported. We found numerous errors and inconsistencies that led us to question the reliability and completeness of the reported $1.15 billion of general equipment.

Inventory

The Army made some reporting improvements, but internal controls were not fully effective over the reporting of wholesale munitions as inventory. Also, the Army was still evaluating the criteria for reporting additional operating materials and supplies.

Wholesale Munitions

U.S. Army Operations and Support Command (formerly U.S. Army Industrial Operations Command) had taken satisfactory corrective actions on the USAAA recommendations we reviewed. We found that U.S. Army Aviation and Missile Command operating personnel had initiated corrective actions to a recently issued General Accounting Office audit report on the FY 99 financial statements reporting of munitions inventories. However, we concluded that, based on the recent issuance date of the audit report, additional actions and time is required to fully finalize and implement the agreed to recommendations. Further, we determined that milestone target dates are needed to ensure that the recommendations are implemented timely. We found that DA generally disagreed with two recommendations in an Inspector General, DOD audit report relative to FY 99 General Fund financial statement munitions inventories. We will verify the resolution of the disagreements during future audit work.

As a part of our FY 00 audit work, we also determined that the U.S. Army Operations Support Command didn't totally fund annual physical inventory accomplishments for about $14.0 billion, or 68 percent, of the total $20.6 billion of wholesale munitions reported as Operating Materials and Supplies. The command reported unfinanced requirements, totaling about $6.3 million of workload, related to inventorying assets classified as Category III and IV munitions. Operating personnel at Operation Support Command also stated that about $4.8 million of unfinanced inventory requirements were expected for FY 01. Operating personnel at Aviation and Missile Command stated that although all FY 00 inventory requirements were accomplished, unfinanced inventory requirements totaling about $658,000 were expected for FY 01. Annual physical inventories are a significant internal control needed to support DA's financial statement assertions of existence and completeness.

Additional Operating Materials and Supplies

The Army and DOD have action ongoing to identify the types of items in addition to wholesale munitions that should be reported as operating materials and supplies. The particular issue being reviewed is determining the conditions for using the purchase method versus the consumption method. Under the purchase method, items are expensed when they are purchased. Under the consumption method, items are reported as assets when they are purchased and expensed when they are issued to an end user. This ongoing action is included in the Army's strategic plan, and the final outcome will directly affect the reported amount of operating materials and supplies.

Supplemental Stewardship Reporting

The process and procedures that the Army used to capture and report National Defense Equipment didn't provide reasonable assurance that the data was accurate and complete. Although the Army developed an action plan to capture and report National Defense Equipment in the Required Supplemental Stewardship Information section of the Army's General Fund FY 00 Financial Statements, the plan was not fully effective because the logistical systems that the Army planned to use could not be relied upon for accurate data.

Here are some of the problems we found:

- The Commodity Command Standard System-the system the Army planned to use to capture additions and deletions-either overstated or understated additions because of the time between the date equipment was received and the date the equipment was recorded in the Standard System.
- The Standard System didn't record equipment stored at contractor facilities because acquisitions frequently weren't entered into the Standard System until items were received by the Depot or using activity. Therefore, equipment accepted and held at contractor plants wasn't recorded in the Standard System.
- The Standard System didn't record equipment turned-in by units or installations directly to Defense Reutilization and Marketing Offices for disposal. This occurred because the Standard System only recorded transactions effecting the wholesale system.
- The Standard System recorded disposals (deletions) at the time disposition instruction were given instead of when the equipment was actually disposed of-which could be months later.

As a result of these system problems, the Army reverted to a manual data call to capture and report additions and deletions. However, because the Army didn't provide timely guidance or training to the persons compiling National Defense Equipment data, there were several problems related to the data call process. Specifically:

- The processes for collecting additions and deletions didn't provide an adequate audit trail. Most persons reporting the data didn't retain documentation to support the numbers they reported.
- To compute additions, personnel used contractors' shipping dates instead of actual acceptance dates, or they plugged the numbers based on the difference between the beginning and ending balances.
- To compute deletions, personnel used disposition instructions, or they plugged numbers based on the difference between the beginning and ending balances. They didn't use actual disposal dates to collect data for deletions.

As a result, the Army had no assurance that the numbers it reported for additions and deletions on the National Defense Equipment Supplemental Stewardship Report were reasonably accurate or complete.

Report on Compliance With Laws and Regulations

The Army isn't yet able to fully comply with the Chief Financial Officers Act of 1990 and related requirements. However, during our review of compliance with laws and regulations, we found no material instances of unreported legal or regulatory infractions.

We tested the Army's compliance with selected provisions of laws and regulations throughout the audit. Instances of noncompliance are reportable if they could result in material misstatements to the financial statements, or if the sensitivity of the matter would cause others to perceive it as significant.

The noncompliance problems we identified were directly or indirectly tied to internal control weaknesses and the Army's inability to fully comply with the Chief Financial Officers Act (and related implementing guidance) and Federal accounting standards. We discuss these problems in the Report on Internal Controls.

We also tested and reviewed compliance with certain key laws that affected the Army's ability to produce reliable financial statements. We provide some details in the following paragraphs. However, the objective of our audit wasn't to provide an opinion on the Army's overall compliance with laws and regulations, and we do not express such an opinion.

Chief Financial Officers Act

We evaluated the Army's compliance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, and various implementing regulations issued by the Office of Management and Budget and DOD, as they relate to presentation of information in financial statements. The Army and the Accounting Service have made a concerted effort to meet the act's requirements. But current management and accounting systems weren't designed for financial statement reporting, and they can't produce reliable and auditable financial statements. Until system deficiencies are resolved, the Army and the Accounting Service will be unable to produce statements that conform to prescribed accounting guidance. Nevertheless, we have identified areas in which the Army and the Accounting Service can achieve financial reporting improvements over the short term. We discuss these areas and the necessary corrective actions in the Report on Internal Controls and in the supporting audit reports listed in Annex C.

Anti-Deficiency Act

We evaluated the Army's compliance with the Anti-Deficiency Act as part of our review of the compilation of the financial statements at the Accounting Service-Indianapolis. Our review at that level didn't identify any potential violations of the act. However, because the Army's problem disbursements have not been resolved, we could not fully verify the Army's compliance with the act.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 requires the Army and the Defense Finance and Accounting Service to report annually to the Secretary of Defense about whether their management controls comply with the act's requirements. In their respective FY 00 annual assurance statements, the Army and the Accounting Service reported several management control weaknesses involving noncompliance with prescribed accounting principles, standards, and related requirements. The specific weaknesses most directly related to the Army's financial statements follow. Summaries of these weaknesses are in Annex B.

Army Assurance Statement
The Army reported nine uncorrected material weaknesses for FY 00. The following weaknesses most directly affect the accuracy and reliability of the Army's financial statements:

- Financial Reporting of Real Property and General Equipment.
- Information Systems Security.
- Equipment In-Transit Visibility.
- Management of Unexploded Ordnance and Other Constituents.

Defense Finance and Accounting Service Assurance Statement
The Accounting Service reported 38 uncorrected material weaknesses for FY 00. Here are examples of weaknesses that directly affect the accounting data that the Accounting Service uses to prepare the Army's principal financial statements.

- General Ledger Control and Financial Reporting.
- Reconciliation of Suspense Account Balances.
- Interface Between Contract Payment and Accounting Systems (Negative Unliquidated Obligations (NULO) and Unmatched Disbursements).
- Systems Interface Between Computerized Accounts Payable System (CAPS) and Standard Army Finance Systems Redesign (SRD-1).
- Problem Disbursements.
- Defense Joint Military Pay Systems (DJMS) Requirements and Systems Specifications Documentation.
- Fund Balances with Treasury.

Federal Financial Management Improvement Act
The Federal Financial Management Improvement Act of 1996 requires each Federal agency to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. The act also requires that we report on agency compliance with these requirements.

Financial management systems didn't meet the requirements of the Federal Financial Management Improvement Act of 1996. The lack of a single integrated general ledger and the differences between status of appropriation data and the general ledger data complicated the financial statement compilation process. The Accounting Service-Indianapolis made material adjustments to the general ledger data to make it match the status of appropriation data without knowing the reasons for the differences.

The Assistant Secretary of the Army (Financial Management and Comptroller) has stated that the Army cannot provide reasonable assurance that the accounting and non-accounting systems used to record and report Army financial data are reliable because they don't meet the standards set by the Office of Management and Budget. Therefore the Army uses a consolidation of accounting data from source documents, budgetary accounting systems, and multiple field-level and department-level data inputs to produce the financial statements.

DOD has also acknowledged the existence of problems with the financial systems. In its Annual Statement of Assurance for FY 00, the Accounting Service stated:

> The Department's financial management systems, taken as a whole, were not designed to meet various requirements and standards, many of which have been implemented within the [past] few years. Therefore, the systems are not capable of producing financial information that can fully satisfy the demands of financial audits.

The Army (primarily for the feeder systems) and the Accounting Service (primarily for the accounting systems) each have responsibilities to meet the requirements of this act.

Reported Material Weakness

In the annual assurance statements for FY 00, the Army and the Defense Finance and Accounting Service both reported uncorrected material internal control weaknesses that directly relate to the Army's financial statements.

Army Assurance Statement

The Army reported nine uncorrected material weaknesses for FY 00, and four directly related to the accuracy and reliability of the Army's financial statements. Here is a summary of these four weaknesses as reported in the assurance statement.

1. **Financial Reporting of Real Property and General Equipment.** The Army does not currently meet Federal accounting standards for the financial reporting of real property and general equipment. These standards require Federal agencies to present fairly the cost and depreciation of these assets in their financial statements. To meet this requirement, Army records must capture the correct acquisition date and cost. In most cases, current Army systems weren't designed to produce such information. As a result, information on acquisition date and cost is not always available or accurate. The Army's inability to identify an item's acquisition date and cost prevents the computation of depreciation and the determination of value for financial reporting. (Identified: FY 99. Resolution Target: FY 02.)

2. **Information Systems Security.** Unauthorized personnel have successfully attacked and penetrated the Army's unclassified automated information systems and telecommunications networks. These intrusions have lead to the identification of systemic deficiencies in systems and network security design and implementation; incident response, containment, and implementation of countermeasures; and information systems security education, training, awareness; and professional development. To correct these weaknesses, Army leadership has, in the Command and Control Protect Program Management Plan, outlined the measures it will take to ensure the Army's portion of the Defense information infrastructure is adequately protected. (Identified: FY 96. Resolution Target: FY 03.)

3. **Equipment In-Transit Visibility.** Systems interface and logistics process problems cause a significant portion of the in-transit records displayed by the Continuing Balance System-Expanded to be invalid. Equipment involved had been received and reported as on hand by the receiving units, but the receipt transactions didn't close out the shipment (in-transit) records. As a result, the Army

didn't have reliable data about the value of equipment in-transit, and the value of in-transit equipment reported in the Army's financial statements was misstated by a significant but unknown amount. (Identified: FY 96. Resolution Target: FY 01.)

4. **Management of Unexploded Ordnance and Other Constituents.** Neither the Army nor DOD has an effective, integrated and proactive unexploded ordnance management program that addresses the full life-cycle perspective of ranges, land withdrawal, munitions, and unexploded ordnance. Also, neither the Army nor DOD has ready access to necessary science and technology information to accurately assess and predict the operational, safety, health, and environmental or fiscal impacts to ensure the unexploded ordnance on ranges is being proactively managed. (Identified: FY 98. Resolution Target for Phase One: FY 02.)

Defense Finance and Accounting Service Assurance Statement

The Accounting Service reported 38 uncorrected material internal control weaknesses for FY 00. Here are summaries of some of the reported weaknesses that most directly affect the Army's financial statements as reported in the assurance statement.

1. **Inadequate General Ledger Control and Unreliable Financial Reporting.** The Accounting Service has a material internal control weakness in general ledger and financial reporting that is attributable to many factors in the control environment, accounting and related systems, and control procedures. Overall, the accounting systems don't have general ledgers that permit adequate recording and reporting of financial transactions. Each DOD accounting system has its own general ledger, and efforts to implement the U.S. Government Standard General Ledger are continuing. Effective control procedures over accounting and reporting will be impossible until a single, standard general ledger is developed and implemented in the DOD systems. (Identified: FY 91. Resolution Target: FY 03.)

2. **Reconciliation of Suspense Account Balances.** Suspense account balances require extensive reconciliations to ensure that the accounts are used properly, supported by adequate documentation, cleared in a timely manner, and are in agreement with Treasury balances. Transactions residing in suspense accounts can conceal problem disbursements and fraud. (Identified: FY 97. Resolution Target: FY 02.)

3. **Interface Between Contract Payment and Accounting Systems (Negative Unliquidated Obligations (NULO) and Unmatched Disbursements).** Both negative unliquidated obligations and unmatched disbursements are evidence of the same type of weakness: the presence of error conditions in the interface between systems and accounting systems. In DOD, payment operations for the most part are distinct from accounting, even when the payment operations are a component of the same accounting and finance office. Differences between payment systems and accounting systems are not revealed until payments are improperly recorded in the accounting systems. Large out-of-balances exist in undistributed disbursement and collection accounts and in unliquidated obligation accounts. The capabilities of the accounting systems don't permit the research of unmatched document numbers. Personnel performing reviews aren't adequately trained, and review-sampling methods are inadequate. (Identified: FY 90. Resolution Target: FY 02.)

4. **Inadequate Systems Interface Between Computerized Accounts Payable System (CAPS) and Standard Army Finance System Redesign (SRD-1).** The ASCII file used to update SRD-1 with accounts payable payment information can be changed. The file is unprotected and can be accessed by anyone who can read and/or change an ASCII file. As a result, any individual with access to the file can alter the information. Also, the Computerized Accounts Payable System does not have the capability to restrict access to the "remit to" address file for associates computing vendor payments. The lack of internal controls, edit checks, and audit trail in the Accounts Payable System has the potential for fraud and the misuse of government funds. (Identified: FY 98. Resolution Target: FY 01.)

5. **Problem Disbursements.** The Defense Finance and Accounting Service-Indianapolis is working with DOD agencies to fully identify and resolve problem disbursements. There are three categories of problem disbursements: in-transits (paid by a disbursing office but not yet received by the funded station); unmatched disbursements (disbursements that accounting stations have not matched to obligations in the accounting records); and negative unliquidated obligations (disbursements that exceed the value of the matching detail obligations). Primary causes of problem disbursements relate to the lack of integration between the entitlement systems and the accounting systems, and errors/delays in posting disbursements to accounting records. The occurrence of problem disbursements distorts fund availability. (Identified: FY 96. Resolution Target: FY 03.)

6. **Fragmented and Incomplete Defense Joint Military Pay System (DJMS) Requirements and Systems Specifications Documentation.** Comprehensive sets of requirements, business rules, and systems documentation doesn't exist for either the Active or Reserve Components of the system. Some documentation is maintained only in functional work areas and some is maintained in the programmer/analyst work areas. Not all existing information is current. Failure to have documented systems severely impairs and adversely impacts the primary mission of hosting and modifying military pay software with acceptable degrees of confidence and reliability. (Identified: FY 99. Resolution Target: FY 02.)

7. **Fund Balances with Treasury.** Appropriation balances recorded in the accounting records do not balance to the fund balances with the Treasury. (Identified: FY 99. Resolution Target: FY 01.)

Department of Defense • Army Working Capital Fund
As of September 30, 2000 • ($ in thousands)

1. ASSETS (Note 2)	FY 2000
A. Intragovernmental:	
1. Fund Balance with Treasury (Note 3)	$674,905
2. Investments (Note 4)	0
3. Accounts Receivable (Note 5)	295,179
4. Other Assets (Note 6)	42,349
5. Total Intragovernmental Assets	$1,012,433
B. Cash and Other Monetary Assets (Note 7)	$0
C. Accounts Receivable (Note 5)	5,658
D. Loans Receivable (Note 8)	0
E. Inventory and Related Property (Note 9)	10,044,220
F. General Property, Plant and Equipment (Note 10)	1,156,211
G. Other Assets (Note 4)	441,041
2. TOTAL ASSETS	$12,659,563
3. LIABILITIES (Note 11)	
A. Intragovernmental:	
1. Accounts Payable (Note 12)	$108,507
2. Debt (Note 13)	0
3. Environmental Liabilities (Note 14)	0
4. Other Liabilities (Note 15 and Note 16)	69,538
5. Total Intragovernmental Liabilities	$178,045
B. Accounts Payable (Note 12)	$219,939
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	157,276
D. Environmental Liabilities (Note 14)	0
E. Loan Guarantee Liability (Note 8)	0
F. Other Liabilities (Note 15 and Note 15)	198,999
4. TOTAL LIABILITIES	$754,259
5. NET POSITION	
A. Unexpended Appropriations (Note 18)	55,990
B. Cumulative Results of Operations	11,849,314
6. TOTAL NET POSITION	$11,905,304
7. TOTAL LIABILITIES AND NET POSITION	$12,659,563

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. Program Costs	
A. Intragovernmental	$2,725,694
B. With the Public	9,735,955
C. Total Program Cost	$12,461,649
D. (Less: Earned Revenue)	(8,909,592)
E. Net Program Costs	$3,552,057
2. Costs Not Assigned to Programs	$0
3. (Less: Earned Revenue not attributable to Programs)	0
4. Net Costs of Operations	$3,552,057

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. Net Cost of Operations	$3,552,057
2. Financing Sources (other than exchange revenues)	
A. Appropriations Used	5,689
B. Taxes and Other Nonexchange Revenue	0
C. Donations - Nonexchange Revenue	0
D. Imputed Financing (Note 20)	93,940
E. Transfers - In	6,726
F. Transfers - Out	1
G. Other	0
H. Total Financing Sources (other than Exchange Revenues)	$106,356
3. Net Results of Operations	($3,445,701)
4. Prior Period Adjustments (Note 20)	1,855,575
5. Net Change in Cumulative Results of Operations	($1,590,126)
6. Increase (Decrease) in Unexpended Appropriations	281,429
7. Change in Net Position	($1,308,697)
8. Net Position-Beginning of the Period	13,214,004
9. Net Position-End of the Period	$11,905,307

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES	FY 2000
A. Budget Authority	$328,696
B. Unobligated Balance - Beginning of Period	1,277,131
C. Net Transfers Prior Year Balance, Actual (+/-)	22,800
D. Spending Authority from Offsetting Collections	8,386,931
E. Adjustments (+/-)	299,882
F. Total Budgetary Resources	$10,315,440
STATUS OF BUDGETARY RESOURCES	
A. Obligations Incurred	$8,962,807
B. Unobligated Balances - Available	1,352,633
C. Unobligated Balances - Not Available	0
D. Total Status of Budgetary Resources	$10,315,440
OUTLAYS	
A. Obligations Incurred	$8,962,807
B. Less: Spending Authority from Offsetting Collections and Adjustments	(8,687,135)
C. Obligated Balance, Net - Beginning of Period	$488,428
D. Obligated Balance Transferred, Net	0
E. Less: Obligated Balance, Net - End of Period	($821,673)
F. Total Outlays	($57,573)

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	$8,962,807
B. Less: Spending Authority from Offsetting Collections and Adjustments	(8,687,135)
C. Donations Not in the Entity's Budget	0
D. Financing Imputed for Cost Subsidies	93,940
E. Transfers-In (Out)	0
F. Less: Exchange Revenue Not in the Entity's Budget	0
G. Nonexchange Revenue Not in the Entity's Budget	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0
I. Other	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$369,612
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease	($110,441)
B. Change in Unfilled Customer Orders	(113,188)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	611,395
D. Financing Sources that Fund Costs of Prior Periods	(137,535)
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0
G. Other - (Increases)/Decrease	0
H. Total Resources That Do Not Fund Net Costs of Operations	$250,231
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES	
A. Depreciation and Amortization	$62,612
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	2,698,681
D. Loss of Disposition of Assets	0
E. Other - (Increases)/Decrease	0
F. Total Costs That Do Not Require Resources	$2,761,293
4. FINANCING SOURCES YET TO BE PROVIDED	$170,922
5. NET COST OF OPERATIONS	$3,552,058

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

A. Basis of Presentation.
These financial statements have been prepared to report the financial position and results of operations of the Army Working Capital Fund (AWCF), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the AWCF in accordance with the "Department of Defense Financial Management Regulation" ("DoDFMR") as adapted from the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and to the extent possible generally accepted accounting principles. The AWCF financial statements are in addition to the financial reports also prepared by the AWCF pursuant to OMB directives that are used to monitor and control the AWCF's use of budgetary resources.

The AWCF is unable to fully implement all elements of generally accepted accounting principles (GAAP) and the OMB Bulletin No. 97-01 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the AWCF major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than applying the current emphasis of business-like financial statements. As a result, the AWCF cannot currently implement every aspect of GAAP and the OMB Bulletin No. 97-01. The AWCF continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems.

There are other instances when the AWCF has reviewed the intent of the standard and applied it in a manner consistent with the intent of the standard, but the auditors interpret the standard differently. Financial statement elements impacted include financing payments under firm fixed price contracts, operating materials and supplies (OM&S) and disposal liabilities.

A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

B. Mission of the Reporting Entity.
The accompanying financial statements account for all resources for which the AWCF is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified.

When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For fiscal year (FY) 2000, the AWCF financial management systems are unable to meet all the requirements for full accrual accounting. Efforts are underway to bring the Department of Defense's (DoD) systems into compliance with all elements of generally accepted accounting principles and OMB Bulletin No. 97-01.

C. Budgets and Budgetary Accounting.
The AWCF appropriations are composed of working capital (revolving funds). These accounts are used to fund and report how the resources have been used in the course of executing the AWCF missions.

Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The AWCF ("the Fund") operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

D. Basis of Accounting.
The Army WCFs generally record transactions on an accrual accounting basis as is required by GAAP. However, some of the AWCF financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis. The AWCF has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (SGL). Until such time as all of the processes are updated to collect and report financial information as required by GAAP, the AWCF financial data will be based on budgetary transactions (obligations, disbursements, collection), transactions from nonfinancial feeder systems and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. One example, is the information presented on the Statement of Net Cost. Most of this information is based on accrued costs, however, some of this information is based on obligations and disbursements.

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

E. Revenues and Other Financing Sources.
Revenue is recognized according to the percentage of completion method for depot maintenance and ordinance WCF activities. Revenue for supply management WCF activities is recognized when an inventory item is dropped from inventory for sale.

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the AWCF's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the AWCF's operations. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

F. Accounting for Intragovernmental Activities.

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

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

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

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

The AWCF reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The AWCF recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. However, the AWCF, as well as the rest of the federal government cannot accurately identify all intragovernmental transactions by customer. For FYs 1999 and 2000, the AWCF provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated. In addition, the AWCF implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide" for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

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

G. Funds with the U.S. Treasury and Cash.
The AWCF's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS) and Military Service and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. In addition, the DFAS centers and the USACE Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the AWCF's recorded balance in the FBWT account and Treasury's FBWT often result and are reconciled. Material Disclosures are provided at note 3.

H. Foreign Currency.
The AWCF engaged in no foreign currency transactions in FY 2000.

I. Accounts Receivable.
As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The AWCF does not recognize an allowance for estimated uncollectible amounts from another federal agency. Claims against another federal agency are to be resolved between the agencies. If the claim cannot be resolved between the agencies involved, it should be referred to the General Accounting Office. Material disclosures are provided at note 5.

J. Loans Receivable.
Not applicable.

K. Inventories and Related Property.
Inventories are reported at approximate historical cost based on Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The LAC method is used because inventory data is maintained in logistics systems designed for material management purposes. For the most part, these systems value inventory at selling prices or LAC and reported amounts must be adjusted, using a formula to approximate historical costs.

The related property portion of the amount reported on the Inventory and Related Property line includes OM&S and stockpile materials. The OM&S are valued at standard purchase price. The AWCF is using both the purchase and the consumption method of accounting for OM&S, as defined in the SFFAS No. 3. "Accounting for Inventory and Related Property."

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

L. Investments in U.S. Treasury Securities.
The AWCF has no investment in U. S. Government Securities.

M. General Property, Plant and Equipment (PP&E).
General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. Also, improvement costs over the DoD capitalization threshold of $100,000 for General PP&E should be capitalized. The Department contracted with two certified public accounting (CPA) firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. At the conclusion of the studies, both CPA firms recommended that the Department retain its current capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of 2 or more years was capitalized. These assets remain capitalized and reported on WCF financial statements. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998.

For entities operating as business type activities (WCFs), all PP&E used in the performance of their mission is categorized as General PP&E. Heritage Assets and Stewardship Land under the control of a WCF organization are reported on the Supplemental Stewardship Report prepared by the applicable military department.

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

O. Leases.
Generally, lease payments are for the rental of equipment, space, and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease terms. The AWCF currently has no leases.

P. Other Assets.
The AWCF conducts business with commercial contractors under two primary types of contracts—fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that these long-term contracts can cause, the AWCF provides financing payments. One type of financing payment that the AWCF makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulations, the AWCF

makes financing payments under fixed price contracts that are not based on a percentage of completion. The AWCF reports these financing payments as advances or prepayments in the "Other Assets" line item. The AWCF treats these payments as advances or prepayments because the AWCF becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the AWCF is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the AWCF for the full amount of the advance. The AWCF does not believe that the SFFAS No. 1 addresses this type of financing payment. The auditor's disagree with the AWCF's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

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

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

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

Cumulative results of operations for WCF represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

T. Treaties for Use of Foreign Bases.
The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated

whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

U. Comparative Data.

The OMB has waived the requirement to present comparative financial statements for FY 2000.

V. Undelivered Orders.

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

Note 2. Nonentity Assets

Not Applicable.

Note 3. Fund Balance with Treasury

As of September 30, 2000 (Amounts in thousands)

1. Fund Balances:	
A. Appropriated Funds	$0
B. Revolving Funds	674,905
C. Trust Funds	0
D. Other Fund Types	0
E. Total Fund Balances	$674,905

2. Fund Balances Per Treasury Versus Agency:	
A. Fund Balance per Treasury	$674,905
B. Fund Balance per Army WCF	674,905
C. Reconciling Amount	$0

3. Explanation of Reconciliation Amount:

The Fund Balance with Treasury (FBWT) does not include any amounts for which the Department of the Treasury is willing to accept corrections to cancelled appropriation accounts, in accordance with the SFFAS Number 1, "Accounting for Selected Assets and Liabilities."

4. Other Information Related to Fund Balance with Treasury:

On Line Payment and Collection (OPAC) Differences

The OPAC differences represent amounts reported by an organization but not reported by its trading partner. The amounts attributable to AWCF are included with the Army General Fund differences and cannot be broken out.

Check Issue Discrepancy.

Check issue discrepancies are reported with the Army General Fund differences and cannot be broken out.

Component Level Fund Balance.

The FBWT for the AWCF is maintained at the component level. At the end of each FY the net of reimbursements and disbursements incurred during the year by each of the individual business areas are transferred to the FBWT at the component level.

Note 4. Investments

Not Applicable

Note 5. Accounts Receivable

As of September 30, 2000 (Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Amounts Receivable, Net
1. Intragovernmental Receivables:	$295,179	N/A	$295,179
2. Nonfederal Receivables (From the Public):	$5,658	$0	$5,658
3. Total Accounts Receivables:	$300,837	$0	$300,837

4. Allowance method:

Calculation of allowance for estimated uncollectibles was based on actual uncollectible amounts written off during the past three fiscal years. The uncollectible balance is shown as zero because nothing was written off as uncollectible in FY 2000 or FY 1998 and only $14.6 thousand was recorded as bad debts in FY 1999.

5. Other information:

Accounts receivable includes accounts receivable and undistributed collections. The AWCF currently has an abnormal balance for undistributed collections in the amount of $54,577 thousand. Of this $40,796 thousand is attributable to the Component Level which results in a positive balance for accounts receivable. Efforts are underway to identify the cause.

Note 6. Other Assets

As of September 30, 2000 (Amounts in thousands)	
1. Intragovernmental Other Assets:	
A. Advances and Prepayment	$42,349
B. Other Assets	0
C. Total Intragovernmental Other Assets	$ 42,349
2. Nonfederal Other Assets:	
A. Outstanding Contract Financing Payments	$0
B. Other Assets (With the Public)	441,041
C. Total Nonfederal Other Assets	$ 41,041
3. Total Other Assets:	$483,390

4. Other Information Related to Other Assets:

The Army Working Capital Fund has reported outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, the Army Working Capital Fund becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Army Working Capital Fund is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Army Working Capital Fund for the full amount of the advance. The Army Working Capital Fund does not believe that the SFFAS No. 1, Accounting for Selected Assets and Liabilities addresses this type of financing payment. The auditors disagree with the Army Working Capital Fund application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Included in the Nonfederal Other Assets are $218,697 thousand in prepayments to contractors and $20,483 thousand in advances to public.

Note 7. Cash and Other Monetary Assets

Not Applicable. The Army Working Capital Fund held no assets in FY 2000, which could be included in this category.

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

Not Applicable.

Note 8.B. Direct Loans Obligated After FY 1991

Not Applicable.

Note 8.C. Defaulted Guaranteed Loans from Post- FY 1991 Guarantees

Not Applicable.

Note 8.D. Guaranteed Loans Outstanding

Not Applicable.

Note 8.E. Subsidy Expense for Post- FY 1991 Direct Loans

Not Applicable.

Note 8.F. Subsidy Expense for Post- FY 1991 Loan Guarantees

Not Applicable.

Note 8.G. Administrative Expense

Not Applicable.

Note 9. Inventory and Other Related Property

As of September 30, 2000 (Amounts in thousands)

1.		$9,976,985
2.	Operating Materials & Supplies, Net (Note 9.B.)	67,235
3.	Stockpile Materials, Net (Note 9.C.)	0
4.	Forfeited Property	0
5.	Goods Held Under Price Support and Stabilization Programs	0
6.	Total	$10,044,220

Note 9.A. Inventory, Net

As of September 30, 2000 (Amounts in thousands)

1. Inventories Categories:	Inventory Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
A. Available and Purchased for Resale	$10,228,739	($1,386,997)	8,841,742	Adjusted LAC
B. Held in Reserve for Future Sale	1,291,005	(265,119)	1,025,886	Adj. LAC
C. Held for Repair	2,303,082	(2,252,777)	50,305	Other
D. Excess, Obsolete, and Unserviceable	16,532	0	16,532	NRV
E. Raw Materials	0	0	0	SP
F. Work in Process	42,520	0	42,520	Adj. LAC
G. Total	$13,881,878	($3,904,893)	9,976,985	

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

2. Restrictions of Inventory Use, Sale, or Disposition:
None.

3. Definitions of Titles:
Inventory, Gross Value represents the standard value used for inventory transactions in the financial system. Revaluation Allowance is the total difference between standard inventory values and either historical cost or net realizable value. Inventory, Net is approximate historical cost or net realizable value.

4. Other Information:
Inventory Valuation. Inventory data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over inventory items, the timeliness at which this information is provided creates issues regarding the categorization of Inventory as Held for Use, Held in Reserve for Future Use, or Excess, Obsolete, and Unserviceable. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

DoD accounting policies require that inventories be valued at the Latest Acquisition Cost (LAC). The LAC is determined by subtracting appropriate surcharges from the Standard Price, as determined by the Inventory Control Point, to arrive at the price most recently paid for a carried item. The LAC is further adjusted for the effects of unrealized holding gains and losses, yielding a net value that approximates historical cost.The difference between the Inventory Held for Repair at standard and the carcass value from the above mentioned system is recorded as the revaluation allowance. Excess, Obsolete and Unserviceable Inventory is material that is awaiting shipment to the Defense Reutilization and Marketing Office for final disposition. It has been reduced to its' estimated value of 1.8% of the standard price.

Work in Process at depot maintenance activities is included as inventory work in process in note 9A because the U.S. Government Standard General Ledger does not contain an account for work in process that is not inventory. It is not revalued as the current systems for valuing work in process does not have the capability to calculate the necessary adjustment. Any adjustment to this figure would not materially affect the inventory amount.

During the 1970's, $56,774 thousand was provided to the Army and Air Force Exchange Service to provide supplies to the soldiers. The Exchange Service used this money to establish an inventory and it requisitions merchandise directly from DLA. This process is not in accordance with accounting principles or regulations. Additional transactions recorded in FY 2000 have increased this balance to approximately $65,000 thousand.

Note 9.B. Operating Materials and Supplies, Net

As of September 30, 2000 (Amounts in thousands)

1. OM&S Categories:	OM&S Amount	Revaluation Allowance	OM&S, Net
A. Held for Use	$66,713	$0	$66,713
B. Held in Reserve for Future Use	0	0	0
C. Held for Repair	0	0	0
D. Excess, Obsolete, and Unserviceable	522	0	522
E. Total	$67,235	$0	$67,235

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

2. Restrictions on Operating Materials and Supplies:
None.

Definitions of Titles:
OM&S Amount represents the standard value used for OM&S transactions in the financial system. Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S, Net is approximate historical cost or net realizable value.

4. Other Information:
Operating Materials & Supplies (OM&S) Valuation. The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timeliness at which this information is provided creates issues regarding the categorization of OM&S as held for use, held in reserve for future use, held for repair, or excess, obsolete, and unserviceable. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements.

The AWCF attempts to use the consumption method of accounting for OM&S unless the AWCF believes the OM&S to be in the hands of the end user for use in normal operations. As stated above, current financial and logistics systems can not fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S

unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, and (3) identifying feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method. However, for fiscal year (FY) 2000, significant portions of the AWCF OM&S were reported under the purchase method because either the systems could not support the consumption method of accounting or because management believes the items to be in the hands of the end user. In some cases, the auditors disagree with the Department's determination that the items are in the hands of the end user.

OM&S are reported at standard price as established by the National Inventory Control Point. It is mainly composed of inventory like assets located at maintenance and ordnance depots. Work in process at depot maintenance activities is included as inventory work in process in note 9A because the U.S. Standard General Ledger does not contain an account for work in process that is not inventory.

Note 9.C. Stockpile Materials, Net

Not Applicable.

Note 10. General PP&E, Net

As of September 30, 2000 (Amounts in thousands)

1. Major Asset Classes:	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation Amortization)	Net Book Value
A. Land	N/A	N/A	$13,014	N/A	$13,014
B. Buildings, Structures, Facilities	S/L	20 or 40	1,527,149	($1,053,458)	473,691
C. Leasehold Improvements	S/L	Lease Term	0	0	0
D. Software	S/L	2-5 or 10	54,285	(9,080)	45,205
E. Equipment	S/L	5 or 10	1,376,577	(782,537)	594,040
F. Assets Under Capital Lease [1]	S/L	Lease term	0	0	0
G. Construction -in-Progress	N/A	N/A	30,261	N/A	30,261
H. Other			0	0	0
I. Total General PP&E			$3,001,286	($1,845,075)	$1,156,211

[1] Note 15.B for additional information on Capital Leases

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

2. Other Information:

The value of the Army Working Capital Fund's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities.

During FY 2000, the Defense Property Accountability System (DPAS) was implemented by the AWCF to maintain accountability of buildings, structures, and facilities. Implementation of this system has resulted in significant differences between values reported previously and currently reported values. The acquisition value decreased by $135,798 thousand and the accumulated depreciation increased by $450,942 thousand. The amount of the resulting change in Net Book Value attributable to the implementation of DPAS cannot be determined.

The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the Office of Management and Budget, the General Accounting Office and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

The Communications and Electronics Command (CECOM) purchased computer software in the amount of $25,600 thousand for the Wholesale Logistics Modernization Program. The remaining increase in the software line was due to purchases made at Tooele, Anniston, Tobyhanna, and Corpus Christi Army Depots.

Note 10.A. Assets Under Capital Lease

Not Applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30, 2000 (Amounts in thousands)

1. Intragovernmental Liabilities:	
A. Accounts Payable	$0
B. Debt	0
C. Environmental Liabilities	0
D. Other	13,646
E. Total Intragovernmental Liabilities	$13,646
2. Nonfederal Liabilities:	
A. Accounts Payable	$0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	157,276
C. Environmental Liabilities	0
D. Loan Guarantee Liability	0
E. Other Liabilities	6,079
F. Total Nonfederal Liabilities	$163,355
3. Total Liabilities Not Covered by Budgetary Resources:	$177,001
4. Total Liabilities Covered by Budgetary Resources:	577,258
5. Total Liabilities:	$754,259

6. Other Information:

Nonfederal Liabilities - Other Liabilities consists of annual leave liability balances that were transferred to AWCF at the time of capitalization of the Information Services business area.

Note 12. Accounts Payable

As of September 30, 2000 (Amounts in thousands)	Accounts Payable	Interest, Penalties and Administrative Fees	Total
1. Intragovernmental:	$0	$108,507	$108,507
2. With the Public:	0	219,939	219,939
3. Total	$0	$328,446	$328,446

4. Other Information:

Intragovernmental Accounts Payable. For the majority of buyer-side transactions, the Army Working Capital Fund's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army Working Capital Fund was unable to reconcile intragovernmental accounts payable balances with its trading partners. However, with respect to major fiduciary balances with the Office of Personnel Management (OPM) and the Department of Labor (DOL), the Army Working Capital Fund was able to reconcile. The Department of Defense intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

The public accounts payable contains $337,288 thousand in undistributed disbursements. These are disbursements that have been identified applicable to the AWCF but had not yet been assigned to an individual account.

Note 13. Debt

Not Applicable.

Note 14. Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities

Not Applicable.

Note 15.A Other Liabilities

As of September 30, 2000 (Amounts in thousands)

	Current Liability	Noncurrent Liability	Total
1. Intragovernmental:			
A. Advances from Others	$28,689	$0	$28,689
B. Deferred Credits	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0
D. Resources Payable to Treasury	0	0	0
E. Disbursing Officer Cash	0	0	0
F Nonenvironmental Disposal Liabilities:			
(1) ND PP&E (Non-nuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
G. Accounts Payable-Cancelled Appropriations	0	0	0
H. Judgment Fund Liabilities	0	0	0
I. Workman's Compensation Reimbursement to the Department of Labor	0	13,646	13,646
J. Capital Lease Liability	0	0	0
K. Other Liabilities	27,203	0	27,203
L. Total Intragovernmental Other Liabilities	$55,892	$13,646	$69,538
2. Nonfederal:			
A. Accrued Funded Payroll and Benefits	$126,920	$0	$126,920
B. Advances from Others	37,783	0	37,783
C. Deferred Credits	4,447	0	4,447
D. Loan Guarantee Liability	0	0	0
E. Liability for Subsidy Related to Undisturbed Loans	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0
G. Temporary Early Retirement Authority	0	0	0
H. Nonenvironmental Disposal Liabilities:			
(1) NP PP&E (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
I. Accounts Payable-Cancelled Appropriations	0	0	0
J. Accrued Unfunded Annual Leave	6,079	0	6,079
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0
L. Capital Lease Liability	0	0	0
M. Other Liabilities	23,770	0	23,770
N. Total Nonfederal Other Liabilities	$198,999	$0	$198,999
3. Total Other Liabilities	$254,891	$13,646	$268,537

4. Other Information Pertaining to Other Liabilities:

Based upon the Army Working Capital Fund's interpretation of the SFFAS No. 5, a non-environmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Department's auditors disagree with this interpretation of the standard. Their interpretation is that the non-environmental liability recognition should begin at the time the asset is placed in service. This issue raised by the auditors is one that has government-wide implications for all agencies. Until the issue is resolved on a government-wide basis, the DoD continues to adhere to the explicit literal provisions of the SFFAS No. 5.

Line 1K, Other Liabilities consists of the Employers share of VSIP, CSRS, FERS, FEGLI, and FEHB liabilities. In addition, taxes payable are included in the amount.

Line 2M, Other Liabilities, includes $23,436 thousand in contract holdbacks.

Note 15.B. Capital Lease Liability

Not Applicable. The Army Working Capital Fund has no capital lease liabilities.

Note 16. Commitments and Contingencies

Not Applicable. The Army Working Capital Fund has no commitments or contingencies.

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

As of September 30, 2000 (Amounts in Thousands)	Actuarial Present Value of Projected Plan Benefits	(Less: Assets Available to Pay Benefits	Unfunded Actuarial Liability
1. Pension and Health Benefits:			
A. Military Retirement Pensions	$0	$0	$0
B. Military Retirement Health Benefits	0	0	0
C. Total Pension and Health Benefits	$0	$0	$0
2. Other:			
A. Workmen's Compensation (FECA)	$157,276	$0	$157,276
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D.	0	0	0
E. Total Other	$157,276	$0	$157,276
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$157,276	$0	$157,276

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

Actuarial Cost Method Used:

The Army Working Capital Fund's actuarial liability for workers' compensation benefits is developed by the Department of Labor (DoL) and provided to the Army Working Capital Fund at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits

Assumptions:

The portion of the military retirement benefits actuarial liability applicable to the Army Working Capital Fund is reported on the financial statements of the Military Retirement Fund.

Health benefits are funded centrally at the DoD level. As such, the portion of the health benefits actuarial liability that is applicable to the Army Working Capital Fund is reported only on the DoD Agency-wide financial statements.

Note 18 Unexpended Appropriations

As of September 30, 2000 (Amounts in Thousands)

1. Unexpended Appropriations:

A. Unobligated, Available	$25
B. Unobligated, Unavailable	0
C. Unexpended Obligations	55,965
D. Total Unexpended Appropriations	$55,990

2. Other Information Pertaining to Unexpended Appropriation:

Prior to FY 2000 Line 1B, Unobligated Balance, has shown an abnormal balance of $225,438 thousand. There is a lack of definitive, documented support for this balance. In FY 2000 it was determined that it should be written-off with an entry to GLAC 3100, Unexpended Appropriations, and the offset to GLAC 7400, Prior Period Adjustments.

During FY 2000 the AWCF Supply Management business area received a $62,000 thousand appropriation for the procurement of war reserve material. Of this $321 thousand was rescinded and $25 thousand remains available for use in FY 2001.

Unexpended obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received (line 2.A.) of the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

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

Not Applicable.

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

Not Applicable.

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

Not Applicable.

Note 19.D. Imputed Expenses

As of September 30, 2000 (Amounts in thousands)

1. Civilian (CSRS/FERS) Retirement	$42,376
2. Civilian Health	51,424
3. Civilian Life Insurance	140
4. Military Retirement Pension	0
5. Military Retirement Health	0
6. Judgement Fund/Litigation	0
7. Total Imputed Expenses	$93,940

Note 19.E. Benefit Program Expenses

Not Applicable.

Note 19. F. Exchange Revenue

Not Applicable.

Note 19.G. Amounts for FMS Program Procurements from Contractors

Not Applicable.

Note 19.H. Stewardship Assets

Not Applicable.

Note 19.I. Reconciliation of Intragovernment Revenue

Not Applicable.

Note 19.J. Suborganization Program Costs

Not Applicable.

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

As of September 30, 2000 (Amounts in thousands)

1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:	
A. Changes in Accounting Standards	$2,056,054
B. Errors and Omission in Prior Year Accounting Reports	(185,606)
C. Other Prior Period Adjustments	(14,873)
D. Total Prior Period Adjustments	$1,855,575
2. Imputed Financing:	
A. Civilian CSRS/FERS Retirement	$42,376
B. Civilian Health	51,424
C. Civilian Life Insurance	140
D. Military Retirement Pension	0
E. Military Retirement Health	0
F Judgment Fund/Litigation	0
G. Total Imputed Financing	$93,940

3. Other Information:

Line 1A includes a $2,056,054 thousand adjustment for differences occurring between the OSD Cost of Goods Sold model and the computed Cost of Goods sold for the period FY1994 to FY1999.

Line 1B contains a $225,438 thousand entry to remove an abnormal balance that has been carried as Unexpended Appropriations on the financial statements since 1991 or earlier. There is a lack of definitive, documented support for that balance.

Line 1C is mostly comprised of adjustment for prior year FECA expenses. The Army General Fund has recorded these amounts in prior years.

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

As of September 30, 2000 (Amounts in thousands)

1. Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period	$3,426,165
2. Available Borrowing and Contract Authority at the End of the Period	$1,499,401

3. Other Information:

Intra-entity transactions have not been eliminated from the Statement of Budgetary Resources therefore, the statement is presented in a combined/combining form.

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both Direct and Reimbursable funds. It does not include Undelivered Orders-Paid.

The Supply business area received an appropriation of $62,000 thousand for the purchase of war reserves. Of this, $321 thousand and was rescinded and $25 thousand and remained unobligated as of September 30, 2000.

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

Not Applicable.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:
Transfers In and Out of property for Army Working Capital Funds and transfers of collections and disbursements to the Component level for applicable Defense Working Capital Funds which are reflected on the Statement of Changes in Net Position Lines 2E and 2F, are not included in Line 1E on the Statement of Financing.

Line 2C has been adjusted by $611,395 thousand to accurately present the net cost of operations.

Note 23. Disclosures Related to the Statement of Custodial Activity

Not Applicable. The Army Working Capital Fund has no custodial activity

Note 24. Other Disclosures

Not Applicable.

Note 24.A. Other Disclosures

Not Applicable.

Department of Defense • Army Working Capital Fund
As of September 30, 2000 • ($ in thousands)

	Ordnance	Depot Maintenance	Supply Management	Information Service
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$0	$0	$0	$0
2. Investments (Note 4)	0	0	0	0
3. Accounts Receivable (Note 5)	50,283	141,747	106,006	10,074
4. Other Assets (Note 6)	1,473	36,149	52,463	2
5. Total Intragovernmental Assets	$51,756	$177,896	$158,469	$10,076
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0
C. Accounts Receivable (Note 5)	598	1,324	3,592	0
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	45,827	64,302	9,934,091	0
F. General Property, Plant and Equipment (Note 10)	538,429	543,969	71,665	2,148
G. Other Assets (Note 6)	42,304	21,261	377,201	275
2. TOTAL ASSETS	$678,914	$808,752	$10,545,018	$12,499
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$2,111	$34,731	$121,956	$3,436
2. Debt (Note 13)	0	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Note 15 and Note 16)	21,497	70,414	25,095	270
5. Total Intragovernmental Liabilities	$23,608	$105,145	$147,051	$3,706
B. Accounts Payable (Note 12)	$29,229	$35,907	$239,909	$13,175
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	88,260	69,016	0	0
D. Environmental Liabilities (Note 14)	0	0	0	0
E. Loan Guarantee Liability	0	0	0	0
F. Other Liabilities (Note 15 and Note 16)	50,382	67,704	69,721	11,192
4. TOTAL LIABILITIES	$191,479	$277,772	$456,681	$28,073
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$0	$0	$55,990	$0
B. Cumulative Results of Operations	487,435	530,980	10,032,347	(15,574)
6. TOTAL NET POSITION	$487,435	$530,980	$10,088,337	($15,574)
7. TOTAL LIABILITIES AND NET POSITION	$678,914	$808,752	$10,545,018	$12,499

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
As of September 30, 2000 • ($ in thousands)

	Component Level	Combined Total	Eliminations	2000 Consolidated
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$674,905	$674,905	$0	$674,905
2. Investments (Note 4)	0	0	0	0
3. Accounts Receivable (Note 5)	40,796	348,906	53,727	295,179
4. Other Assets (Note 6)	0	90,087	47,738	42,349
5. Total Intragovernmental Assets	$715,701	$1,113,898	$101,465	$1,012,433
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0
C. Accounts Receivable (Note 5)	144	5,658	0	5,658
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	0	10,044,220	0	10,044,220
F. General Property, Plant and Equipment (Note 10)	0	1,156,211	0	1,156,211
G. Other Assets (Note 6)	0	441,041	0	441,041
2. TOTAL ASSETS	$715,845	$12,761,028	$101,465	$12,659,563
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$0	$162,234	$53,727	$108,507
2. Debt (Note 13)	0	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Note 15 and Note 16)	0	117,276	47,738	69,538
5. Total Intragovernmental Liabilities	$0	$279,510	$101,465	$178,045
B. Accounts Payable (Note 12)	($98,281)	$219,939	$0	$219,939
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	157,276	0	157,276
D. Environmental Liabilities (Note 14)	0	0	0	0
E. Loan Guarantee Liability	0	0	0	0
F. Other Liabilities (Note 15 and Note 16)	0	198,999	0	198,999
4. TOTAL LIABILITIES	($98,281)	$855,724	$101,465	$754,259
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	0	55,990	0	55,990
B. Cumulative Results of Operations	814,126	11,849,314	0	11,849,314
6. TOTAL NET POSITION	$814,126	$11,905,304	$0	$11,905,304
7. TOTAL LIABILITIES AND NET POSITION	$715,845	$12,761,028	$101,465	$12,659,563

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	Total	Eliminations	2000 Consolidated
A. Component Level			
1. Intragovernmental	$0	$0	$0
2. With the Public	0	0	0)
3. Total Program Cost	$0	$0	$0
4. (Less: Earned Revenue)	0	0	0
5. Net Program Costs	$0	$0	$0
B. Depot Maintenance			
1. Intragovernmental	$1,041,768	($497,052)	$544,716
2. With the Public	675,484	0	675,484
3. Total Program Cost	$1,717,252	($497,052)	$1,220,200
4. (Less: Earned Revenue)	(1,299,456)	444,338	(855,118)
5. Net Program Costs	$417,796	($52,714)	$365,082
C. Information Service			
1. Intragovernmental	$19,174	($2,032)	$17,142
2. With the Public	113,741	0	113,741
3. Total Program Cost	$132,915	($2,032)	$130,883
4. (Less: Earned Revenue)	(128,874)	54,818	(74,056)
5. Net Program Costs	4,041	$52,786	$56,827
D. Ordnance			
1. Intragovernmental	$224,406	($47,495)	$176,911
2. With the Public	770,796	0	770,796
3. Total Program Cost	$995,202	($47,495)	$947,707
4. (Less: Earned Revenue)	(640,065)	41,058	(599,007)
5. Net Program Costs	$355,137	($6,437)	$348,700
E. Supply Management			
1. Intragovernmental	$2,490,505	($503,580)	$1,986,925
2. With the Public	8,175,934	0	8,175,934
3. Total Program Cost	$10,666,439	($503,580)	$10,162,859
4. (Less: Earned Revenue)	(7,891,355)	509,944	(7,381,411)
5. Net Program Costs	$2,775,084	$6,364	$2,781,448
2. Costs Not Assigned to Programs	$0	$0	$0
3. (Less:Earned Revenue not attributable to Programs)	0	0	0
4. Net Costs of Operations	$3,552,058	($1)	$3,552,057

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	Ordnance	Depot Maintenance	Supply Management	Information Service
1. Net Cost of Operations	$355,136	$417,796	$2,775,084	$4,041
2. Financing Sources (other than exchange revenues)				
A. Appropriations Used	0	0	5,689	0
B. Taxes and Other Nonexchange Revenue	0	0	0	0
C. Donations - Nonexchange Revenue	0	0	0	0
D. imputed Financing (Note 20)	20,232	56,664	14,716	2,328
E. Transfers - In	214,593	0	6,726	0
F. Transfers - Out	(50,376)	(279,736)	(32,749)	(16,759)
G. Other	0	0	0	0
H. Total Financing Sources (other than Exchange Revenues)	$184,449	($223,072)	($5,618)	($14,431)
3. Net Results of Operations	($170,687)	($640,868)	($2,780,702)	($18,472)
4. Prior Period Adjustments (Note 20)	(85,945)	(233,283)	2,056,054	(747)
5. Net Change in Cumulative Results of Operations	($256,632)	($874,151)	($724,648)	($19,219)
6. Increase (Decrease) in Unexpended Appropriations	54,962	170,477	55,990	0
7. Change in Net Position	($201,670)	($703,674)	($668,658)	($19,219)
8. Net Position-Beginning of the Period	689,106	1,234,655	10,756,996	3,645
9. Net Position-End of the Period	$487,436	$530,891	$10,088,338	($15,574)

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	Component Level	Combined Total	Eliminations	2000 Consolidated
1. Net Cost of Operations	$0	$3,552,057	$0	$3,552,057
2. Financing Sources (other than exchange revenues)				
A. Appropriations Used	0	5,689	0	5,689
B. Taxes and Other Nonexchange Revenue	0	0	0	0
C. Donations - Nonexchange Revenue	0	0	0	0
D. imputed Financing (Note 20)	0	93,940	0	93,940
E. Transfers - In	165,028	386,347	379,621	6,726
F. Transfers - Out	0	(379,620)	(379,621)	1
G. Other	0	0	0	0
H. Total Financing Sources (other than Exchange Revenues)	$165,028	$106,356	$0	$106,356
3. Net Results of Operations	$165,028	($3,445,701)	$0	($3,445,701)
4. Prior Period Adjustments (Note 20)	119,496	1,855,575	0	1,855,575
5. Net Change in Cumulative Results of Operations	$284,524	($1,590,126)	$0	($1,590,126)
6. Increase (Decrease) in Unexpended Appropriations	0	281,429	0	281,429
7. Change in Net Position	$284,524	($1,308,697)	$0	($1,308,697)
8. Net Position-Beginning of the Period	529,602	13,214,004	0	13,214,004
9. Net Position-End of the Period	$814,126	$11,905,307	$0	$11,905,307

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	Ordnance	Depot Maintenance	Supply Management
BUDGETARY RESOURCES			
A. Budget Authority	$740	$2,105	$325,851
B. Unobligated Balance - Beginning of Period	263,533	890,489	3,007
C. Net Transfers Prior-Year Balance, Actual	11,583	(11,583)	22,800
D. Spending Authority from Offsetting Collections	727,655	1,311,140	6,197,359
E. Adjustments	13,811	5,788	280,283
F Total Budgetary Resources	$1,017,322	$2,197,939	$6,829,300
STATUS OF BUDGETARY RESOURCES			
A. Obligations Incurred	$741,924	$1,228,026	$6,828,647
B. Unobligated Balances - Available	275,398	969,913	653
C. Unobligated Balances - Not Available	0	0	0
D. Total, Status of Budgetary Resources	$1,017,322	$2,197,939	$6,829,300
OUTLAYS			
A. Obligations Incurred	$741,924	$1,228,026	$6,828,647
B. Less: Spending Authority from Offsetting Collections and Adjustments	(741,467)	(1,316,928)	(6,477,963)
C. Obligated Balance, Net - Beginning of Period	(238,940)	(349,595)	1,225,322
D. Obligated Balance Transferred, Net	(2,150)	2,150	0
E. Less: Obligated Balance, Net - End of Period	235,918	325,541	(1,524,276)
F. Total Outlays	($4,715)	($110,806)	$51,730

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	Information Service	Component Level	2000 Combined Total
BUDGETARY RESOURCES			
A. Budget Authority	$0	$0	$328,696
B. Unobligated Balance - Beginning of Period	20,102	100,000	1,277,131
C. Net Transfers Prior-Year Balance, Actual	0	0	22,800
D. Spending Authority from Offsetting Collections	150,777	0	8,386,931
E. Adjustments	0	0	299,882
F Total Budgetary Resources	$170,879	$100,000	$10,315,440
STATUS OF BUDGETARY RESOURCES			
A. Obligations Incurred	$164,077	$133	$8,962,807
B. Unobligated Balances - Available	6,802	99,867	1,352,633
C. Unobligated Balances - Not Available	0	0	0
D. Total Status of Budgetary Resources	$170,879	$100,000	$10,315,440
OUTLAYS			
A. Obligations Incurred	$164,077	$133	$8,962,807
B. Less: Spending Authority from Offsetting Collections and Adjustments	(150,777)	0	(8,687,135)
C. Obligated Balance, Net - Beginning of Period	(32,259)	(116,100)	488,428
D. Obligated Balance Transferred, Net	0	0	0
E. Less: Obligated Balance, Net - End of Period	2,200	138,944	(821,673)
F. Total Outlays	($16,759)	$22,977	($57,573)

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	Ordnance	Depot Maintenance	Supply Management
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:			
A. Obligations Incurred	$741,924	$1,228,026	$6,828,647
B. Less: Spending Authority from Offsetting Collections and Adjustments	(741,467)	(1,316,928)	(6,477,963)
C. Donations Not in the Entity's Budget	0	0	0
D. Financing Imputed for Cost Subsidies	20,232	56,664	14,716
E. Transfers-In (Out)	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0
I. Other	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$20,689	($32,238)	$365,400
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:			
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease	($42,988)	($10,813)	($29,914)
B. Change in Unfilled Customer Orders	56,373	28,779	(214,232)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(49,795)	(47,931)	505,798
D. Financing Sources that Fund Costs of Prior Periods	(77,182)	(60,353)	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0
G. Other - (Increases)/Decrease	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	($113,592)	($90,318)	$261,652
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES			
A. Depreciation and Amortization	$15,083	$34,105	$13,301
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	338,324	429,958	2,134,731
D. Loss of Disposition of Assets	0	0	0
E. Other - (Increases)/Decrease	0	0	0
F. Total Costs That Do Not Require Resources	$353,407	$464,063	$2,148,032
4. FINANCING SOURCES YET TO BE PROVIDED	$94,632	$76,290	$0
5. NET COST OF OPERATIONS	$355,136	$417,797	$2,775,084

The accompanying notes are an integral part of these statements.

See Note 1 and Note 22.

Department of Defense • Army Working Capital Fund
For the Year Ended September 30, 2000 • ($ in thousands)

	Information Service	Component Level	2000 Combined Total
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:			
A. Obligations Incurred	$164,077	$133	$8,962,807
B. Less: Spending Authority from Offsetting Collections and Adjustments	(150,777)	0	(8,687,135)
C. Donations Not in the Entity's Budget	0	0	0
D. Financing Imputed for Cost Subsidies	2,328	0	93,940
E. Transfers-In (Out)	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0
I. Other	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$15,628	$133	$369,612
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:			
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease	($26,593)	($133)	($110,441)
B. Change in Unfilled Customer Orders	15,892	0	(113,188)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	6,342	196,981	611,395
D. Financing Sources that Fund Costs of Prior Periods	0	0	(137,535)
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0
G. Other - (Increases)/Decrease	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	($4,359)	$196,848	$250,231
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES			
A. Depreciation and Amortization	$123	$0	$62,612
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	(7,351)	(196,981)	2,698,681
D. Loss of Disposition of Assets	0	0	0
E. Other - (Increases)/Decrease	0	0	0
F. Total Costs That Do Not Require Resources	($7,228)	($196,981)	$2,761,293
4. FINANCING SOURCES YET TO BE PROVIDED	$0	$0	$170,922
5. NET COST OF OPERATIONS	$4,041	$0	$3,552,058

The accompanying notes are an integral part of these statements.

See Note 1 and Note 22.

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury	Accounts Receivable	Investments	Other
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08				
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11				
Department of Agriculture	12		$211		
Department of Commerce	13		3		
Department of the Interior	14		337		
Department of Justice	15		148		
Department of Labor	16		74		
Department of the Navy, General Funds (GF)	17		16,587		
United States Postal Service	18		1		
Department of State	19		94		
Department of the Treasury	20	$ 674,905	387		
Department of the Army, GF	21		219,550		$31
Resolution Trust Corporation	22				
United States Tax Court	23				
Office of Personnel Management	24				
National Credit Union Administration	25				
Federal Retirement Thrift Investment Board	26				
Federal Communications Commission	27				
Social Security Administration	28				
Federal Trade Commission	29				
Nuclear Regulatory Commission	31				
Smithsonian Institution	33				
International Trade Commission	34				
Department of Veterans Affairs	36				
Merit Systems Protection Board	41				
Pennsylvania Avenue Development Corporation	42				
U.S. Equal Employment Opportunity Commission	45				
Appalachian Regional Commission	46				
General Service Administration	47		910		
Independent Agencies**	48				
National Science Foundation	49				
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury	Accounts Receivable	Investments	Other
Advisory Commission on Intergovernmental Relations	55				
Central Intelligence Agency	56				
Department of the Air Force, GF	57		797		
Federal Emergency Management Agency	58		1,156		
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63				
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67				
Environmental Protection Agency	68				
Department of Transportation	69		779		
Oversees Private Investment Corporation	71				
Agency for International Development	72				
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75		68		
Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80		85		
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84				
Department of Housing and Urban Development	86				
National Archives and Records Administration	88				
Department of Energy	89		4		
Selective Service System	90		0		
Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95				
U.S. Army Corps of Engineers (Civil Works)	96		37		
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001				
Department of the Navy, WCF	97-4930-002		9,589		
Department of the Air Force, WCF	97-4930-003		15,187		1
Other Defense Organizations, GF	97		9,489		0
Other Defense Organizations, WCF	97-4930		19,685		42,317
Unidentifiable Federal Agency Entity	00				
Total		$ 674,905	$295,179	-	$42,349

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Library of Congress	03			
Government Printing Office	04			
General Printing Office	05			
Congressional Budget Office	08			
Other Legislative Branch Agencies	09			
The Judiciary	10			
Executive Office of the President, Defense Security Assistance Agency	11			
Department of Agriculture	12			
Department of Commerce	13			
Department of the Interior	14			
Department of Justice	15			
Department of Labor	16			$17,790
Department of the Navy, General Funds (GF)	17	$347		2,659
United States Postal Service	18			
Department of State	19			
Department of the Treasury	20			17,967
Department of the Army, GF	21	7,097		18,521
Resolution Trust Corporation	22			
United States Tax Court	23			
Office of Personnel Management	24			5,091
National Credit Union Administration	25			
Federal Retirement Thrift Investment Board	26			
Federal Communications Commission	27			
Social Security Administration	28			
Federal Trade Commission	29			
Nuclear Regulatory Commission	31			
Smithsonian Institution	33			
International Trade Commission	34			
Department of Veterans Affairs	36			0
Merit Systems Protection Board	41			
Pennsylvania Avenue Development Corporation	42			
U.S. Equal Employment Opportunity Commission	45			
Appalachian Regional Commission	46			
General Service Administration	47			131
Independent Agencies**	48			
National Science Foundation	49			
Securities and Exchange Commission	50			
Federal Deposit Insurance Group	51			
Federal Labor Relations Authority	54			

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Advisory Commission on Intergovernmental Relations	55			
Central Intelligence Agency	56			
Department of the Air Force, GF	57	374		443
Federal Emergency Management Agency	58			
National Foundation on the Arts and Humanities	59			
Railroad Retirement Board	60			
Consumer Product Safety Commission	61			
Office of Special Counsel	62			
National Labor Relations Board	63			
Tennessee Valley Authority	64			
Federal Maritime Commission	65			
United States Information Agency	67			
Environmental Protection Agency	68			
Department of Transportation	69			
Oversees Private Investment Corporation	71			
Agency for International Development	72			
Small Business Administration	73			
American Battle Monuments Commission	74			
Department of Health and Human Services	75			
Independent Agencies**	76			
Farm Credit	78			
National Aeronautics and Space Administration	80			
Export-Import Bank of the United States	83			
Armed Forces Retirement Home	84			
Department of Housing and Urban Development	86			
National Archives and Records Administration	88			
Department of Energy	89			
Selective Service System	90			
Department of Education	91			
Federal Mediation and Conciliation Services	93			
Arms Control and Disarmament Agency	94			
Independent Agencies**	95			
U.S. Army Corps of Engineers (Civil Works)	96	48		
Military Retirement Trust Fund	97-8097			
Department of the Army, WCF	97-4930-001			
Department of the Navy, WCF	97-4930-002	302		2,961
Department of the Air Force, WCF	97-4930-003	1,218		2,646
Other Defense Organizations, GF	97	659		1,069
Other Defense Organizations, WCF	97-4930	98,462		261
Unidentifiable Federal Agency Entity	00			
Total		$108,507	-	$69,538

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies	Treasury Index	Earned Revenue
Government Printing Office	04	
General Printing Office	05	
Congressional Budget Office	08	
Other Legislative Branch Agencies	09	
The Judiciary	10	
Executive Office of the President, Defense Security Assistance Agency	11	
Department of Agriculture	12	$377
Department of Commerce	13	4
Department of the Interior	14	40
Department of Justice	15	1,148
Department of Labor	16	66
Department of the Navy, General Funds (GF)	17	284,775
United States Postal Service	18	6
Department of State	19	98
Department of the Treasury	20	1,296
Department of the Army, GF	21	7,136,713
Resolution Trust Corporation	22	
United States Tax Court	23	
Office of Personnel Management	24	
National Credit Union Administration	25	
Federal Retirement Thrift Investment Board	26	
Federal Communications Commission	27	
Social Security Administration	28	
Federal Trade Commission	29	
Nuclear Regulatory Commission	31	
Smithsonian Institution	33	
International Trade Commission	34	
Department of Veterans Affairs	36	12
Merit Systems Protection Board	41	
Pennsylvania Avenue Development Corporation	42	
U.S. Equal Employment Opportunity Commission	45	
Appalachian Regional Commission	46	
General Service Administration	47	1,964
Independent Agencies**	48	
National Science Foundation	49	
Securities and Exchange Commission	50	
Federal Deposit Insurance Group	51	
Federal Labor Relations Authority	54	
Advisory Commission on Intergovernmental Relations	55	

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies	Treasury Index	Earned Revenue
Central Intelligence Agency	56	
Department of the Air Force, GF	57	35,910
Federal Emergency Management Agency	58	
National Foundation on the Arts and Humanities	59	
Railroad Retirement Board	60	
Consumer Product Safety Commission	61	
Office of Special Counsel	62	
National Labor Relations Board	63	
Tennessee Valley Authority	64	
Federal Maritime Commission	65	
United States Information Agency	67	
Environmental Protection Agency	68	
Department of Transportation	69	3,623
Oversees Private Investment Corporation	71	
Agency for International Development	72	
Small Business Administration	73	
American Battle Monuments Commission	74	
Department of Health and Human Services	75	297
Independent Agencies**	76	
Farm Credit	78	
National Aeronautics and Space Administration	80	33
Export-Import Bank of the United States	83	
Armed Forces Retirement Home	84	
Department of Housing and Urban Development	86	
National Archives and Records Administration	88	
Department of Energy	89	42
Selective Service System	90	
Department of Education	91	
Federal Mediation and Conciliation Services	93	
Arms Control and Disarmament Agency	94	
Independent Agencies**	95	
U.S. Army Corps of Engineers (Civil Works)	96	183
Military Retirement Trust Fund	97-8097	
Department of the Army, WCF	97-4930-001	
Department of the Navy, WCF	97-4930-002	125,438
Department of the Air Force, WCF	97-4930-003	341,377
Other Defense Organizations, GF	97	567,004
Other Defense Organizations, WCF	97-4930	31,375
Unidentifiable Federal Agency Entity	00	
Total		$8,531,779

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

Schedule, Part E DoD Intragovernmental Nonexchange Revenues	Treasury Index	Revenue Transfers-in	Revenues Transfers-out
Other Defense Organizations, WCF	97-4930	$6,726	
Total		$6,726	

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

February 9, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 2000 Army Working Capital Fund Financial Statements (Project No. D2001FI-0035)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Army Audit Agency (AAA) the audit of the FY 2000 Army Working Capital Fund financial statements. Summarized as follows are the AAA disclaimer of opinion on the FY 2000 Army Working Capital Fund financial statements and the results of our review of the AAA audit. The information provided in this memorandum contains reasons for the AAA disclaimer. We endorse the disclaimer of opinion expressed by AAA.

Disclaimer of Opinion. The AAA disclaimer of opinion on the FY 2000 Army Working Capital Fund financial statements, dated February 9, 2001, states that AAA was unable to express an opinion on the financial statements. We concur with the AAA disclaimer of opinion. The AAA disclaimer of opinion concludes that financial systems and processes, as well as associated internal control structures, were inadequate to produce reliable financial information. For example, accounting systems lacked adequate audit trails. In addition, the reported values in the financial statements were derived from non-financial feeder systems and budgetary systems that were not designed to report information in business-like financial statements. AAA could not verify the following:

- inventory and related property;
- the cost and depreciation recorded for property, plant, and equipment; and
- amounts reported on the Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Financing.

Internal Controls. The AAA tested internal controls but did not express a separate opinion because opining on internal controls was not one of its objectives. However, AAA determined that internal controls did not provide reasonable assurance of achieving the internal control objectives described in Office of Management and Budget Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," dated October 16, 2000. For example, the Army and the Defense Finance and Accounting Service did not do the following:

- reconcile inventory logistical and accounting records,
- complete physical inventories of inventory and related property,
- maintain support for equity transactions affecting the Statement of Changes in Net Position,
- control access to the Commodity Command Standard System, and
- adhere to procedures for compiling the financial statements.

Specifically, $44 billion of the $212.2 billion in accounting adjustments lacked audit trails. The Army and the Defense Finance and Accounting Service recognized many of the financial reporting weaknesses and reported them in their FY 2000 Annual Statements of Assurance. Details on the internal control weaknesses will be provided in separate AAA reports.

Compliance With Laws and Regulations. The AAA identified areas of noncompliance with laws and regulations. Under the Federal Financial Management Improvement Act of 1996, the AAA work showed that financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

Review of the Army Audit Agency Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit that AAA conducted, we reviewed the audit approach and planning and monitored progress at key points. We also performed other procedures necessary to determine the fairness and accuracy of the approach and conclusions.

We reviewed the AAA work on the FY 2000 Army Working Capital Fund financial statements from March 14, 2000, through February 9, 2001, in accordance with generally accepted Government auditing standards. We found no indications that we could not rely on the AAA disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

DEPARTMENT OF THE ARMY
OFFICE OF THE AUDITOR GENERAL
3101 PARK CENTER DRIVE
ALEXANDRIA, VA 22302-1596

9 February 2001

Acting Secretary of the Army

The Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, requires the Army to prepare annual financial statements for the Army Working Capital Fund. As delegated by, and in coordination with the Inspector General, DOD, we were engaged to audit the Principal Financial Statements as of and for the year ended 30 September 2000.

We weren’t able to determine whether the accompanying Balance Sheet of the Army Working Capital Fund as of 30 September 2000 and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing for the end of the year were fairly presented and reliable. The Army Working Capital Fund is unable to fully implement all elements of generally accepted accounting principles and the Office of Management and Budget Bulletin 97-01 (Form and Content of Agency Financial Statements) due to limitations of its financial management processes and systems. Therefore, the scope of our work wasn’t sufficient to enable us to express, and we do not express, an opinion on these financial statements. We discuss some of the accounting system and scope limitations in the following paragraphs.

The accounting systems lack sufficient audit trails for us to be able to satisfy ourselves that the information included in the Principal Financial Statements (Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing) were reliable. The reported values in the financial statements are derived from nonfinancial feeder systems or by budgetary systems. These systems were designed to support reporting requirements focusing on maintaining accountability for assets and reporting on the status of Federal appropriations rather than reporting the information in business-like financial statements.

We weren’t able to attest to the reasonableness of the amount reported for inventory and related property, which represented about 79 percent of total assets. There were four main issues that limited the scope of our review of inventory and prevented us from satisfying ourselves that the amount reported for Inventory, Net was reliable. These issues were accounting system deficiencies, incomplete physical inventories, and internal control weaknesses in accounting for inventory held for repair and inventory in-transit.

We weren’t able to determine if the Property, Plant and Equipment, Net account was fairly presented. During FY 00, the Army Working Capital Fund activities implemented the Defense Property Accounting System for all of its property, plant and equipment. The Army believed that the new system provided more reliable values for the Balance Sheet and depreciation expense for the Statement of Net Cost. As a result of the implementation, the net book value of property, plant and equipment was reduced by about $606 million from FY 99 to FY 00. We weren’t able to satisfy ourselves as to the reported value (about $1.2 billion or about 9 percent of total assets) for property, plant and equipment. We believe the accounting weaknesses may also affect the usefulness of information contained in the accompanying overview and any other financial management information taken from the same data sources used to prepare the financial statements.

The consolidating financial information and the information regarding transactions with other Federal agencies isn't a required part of the Principal Financial Statements, and we didn't audit and do not express an opinion on the information. The consolidating information is presented for additional analysis of the Principal Financial Statements rather than to present the financial position, net cost of operations, changes in net position, use of budgetary resources, and sources and uses of financing resources. The information regarding transactions with other Federal agencies is required supplemental information.

Francis E. Reardon

FRANCIS E. REARDON, CPA
The Auditor General

Report on Internal Controls

In planning and performing our review of the Army Working Capital Fund FY 00 Financial Statements, we considered the Army's and the Defense Finance and Accounting Service's (Defense Accounting Service's) internal controls over financial reporting by:

- Obtaining an understanding of the Army's and the Defense Accounting Office's internal controls.
- Determining whether internal controls had been placed in operation.
- Assessing control risk.
- Performing tests of the selected internal controls to help us determine our auditing procedures for the purpose of reviewing the financial statements.

We limited our internal control testing to those internal controls necessary to achieve the objectives described in Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements). We didn't test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our review was not to provide an opinion on internal controls. Consequently, we do not express an opinion on internal controls.

Our consideration of internal controls wouldn't necessarily disclose all matters that might be reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget Bulletin 01-02. Reportable conditions represent significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with assertions by management in the financial statements. Some reportable conditions are considered material weaknesses. Material weaknesses are reportable conditions involving deficiencies in the design or operation of internal controls leading to an unacceptable high risk that losses, noncompliance, or material misstatements in the financial statements may occur and not be promptly detected.

We noted certain matters involving internal controls and their operation that we considered material weaknesses. We discuss those matters in the following paragraphs.

FY 00 Audit Results

During FY 00, we focused on controls related to compiling the financial statements and to transactions affecting balance sheet accounts—accounts receivable, other assets, inventory, accounts payable, and fund equity. Both the Army and the Defense Accounting Service continued their efforts to correct problems that affected the ability to prepare reliable and useful financial statements. However, in some instances, the corrective actions may take years to complete. Until the Army and the Defense Accounting Service complete the corrective actions and minimize the impact of the poor internal controls, they will continue to have problems preparing useful financial statements. We summarize the weaknesses in the following paragraphs.

Compilation of the Financial Statements

The Defense Finance and Accounting Service-Indianapolis Center for Sustaining Forces (Indianapolis Center) didn't follow its established procedures for compiling the financial statements. Higher levels of management reviewed the adjustment vouchers as required by Defense Accounting Service procedures. But, in some instances, the reviews seemed cursory because the senior managers appeared to approve adjustment vouchers without adequately reviewing the vouchers and supporting documentation. About $44 billion of the $212.2 billion adjustments weren't supported based on our initial review. However, we were able to reconstruct the audit trail and find support for all but about $19.1 billion.

Accounts Receivable

We found that inventory management personnel could access and change—without the knowledge or approval of the Defense Accounting Service—the accounts receivable data in the Commodity Command Standard System. The Commodity Command Standard System is the automated system used to account for accounts receivable transactions for the wholesale segment of the Supply Management, Army activity group. Inventory management personnel need to have access and the ability to change logistical data. However, the ability to directly change accounting information opens the door to data manipulation and unreliable accounting information.

Inventory and Related Property, Net

Inadequate internal controls continue to affect the reliability of amounts reported for the Inventory and Related Property, Net account.

Reconciliations. The Defense Accounting Service didn't reconcile the accounting records with the logistical records to make sure they agreed. Instead it accepted the logistical records as accurate and adjusted the 30 September 2000 accounting records by about $3.9 billion to make the accounting records agree with the logistical records. Reconciliation is a key internal control to make sure transactions process to both the accounting and the logistical records.

Physical Inventories. Complete physical inventories weren't conducted during FY 00. Inventory values are used in computing the cost of goods sold for the Statement of Net Cost and are also reported on the Balance Sheet. Complete physical inventories are a key internal control to make sure that inventory quantities and values are reliable.

Inventory In-transit

The Army didn't have adequate controls over items in transit. This has been a problem for years. As we reported in prior years, inventory in transit couldn't be verified in previous years due to no audit trail and computed balance issues. Due-in records for shipments from contractors sometimes weren't properly closed out in the Commodity Command Standard System. The primary problem affecting the accuracy of in-transits is that Commodity Command personnel don't research and correct contractor shipment notices when they're rejected by the Commodity Command Standard System. Commodity Command personnel are ultimately forced to resolve uncleared due-in records during the contract closeout process. In some instances, they manually process dummy receipt transactions to correct rejected contractor shipment notices.

Accounts Payable
The Army and the Defense Accounting Service didn't have adequate control over accounts payable. We found that accounts payable transactions that rejected in the Commodity Command Standard System weren't properly researched and corrected. The Army and the Defense Accounting Service didn't reconcile accounts payable balances and they didn't follow procedures to make sure aged accounts payable-public balances were accurate. We also noted that they didn't review and correct invalid materiel receipts that affected the accounts payable amounts reported in the financial statements.

Equity Transactions
There were inadequate controls to make sure equity transactions affecting the Statement of Changes in Net Position were proper. For example, we couldn't find supporting documentation for some transactions that were automatically generated by the Commodity Command Standard System. Also, Army personnel couldn't tell us why the transactions occurred or if they should have occurred. In addition, controls weren't in place to make sure some charges to the fund equity account were proper because we found instances when activities charged depreciation directly against equity, bypassing the cost of operations for the period.

Report on Compliance With Laws and Regulations

The Army and the Defense Finance and Accounting Service (Defense Accounting Service) are responsible for complying with applicable laws and regulations. As part of our efforts to obtain reasonable assurance about whether the Army Working Capital Fund financial statements were free of material misstatement, we performed tests of the Army's and the Defense Accounting Service's compliance with certain provisions of laws and regulations. Noncompliance with these laws and regulations could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in the Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements), including the requirements referred to in the Federal Financial Management Improvement Act of 1996.

Our objective wasn't to, and we do not, express an opinion on overall compliance with laws and regulations. The results of our tests of compliance with the laws and regulations, exclusive of the Federal Financial Management Improvement Act, disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. However, in our review of compliance with laws and regulations, we found no material instances of unreported legal or regulatory infractions. For those laws and regulations that we didn't test for compliance, nothing came to our attention to indicate any material problems or noncompliance.

We discuss three pertinent laws, the Office of Management and Budget Bulletin 97-01 (Form and Content of Agency Financial Statements), and DOD Financial Management Regulation 7000.14-R in the following paragraphs.

Chief Financial Officers Act

We evaluated the Army's compliance with the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, and various implementing regulations issued by the Office of Management and Budget and DOD, as they relate to financial statement presentation. The Army and the Defense Accounting Service continued efforts to comply with the act's requirements. However, the Army and the Defense Accounting Service didn't fully comply with the Chief Financial Officers Act. The primary cause is that the management and accounting systems were designed to support reporting requirements focusing on maintaining accountability for assets and reporting the status of Federal appropriations rather than applying the current emphasis of business-like financial statements.

The Army Working Capital Fund continues to implement process improvements to help it achieve compliance with the Chief Financial Officers Act. The Army and the Defense Accounting Service developed a Chief Financial Officers Act Strategic Plan that outlines actions they must take over the next several years. These actions are to improve and integrate all functional and financial processes and systems that contribute to resolving its management control weaknesses related to complying with the Chief Financial Officers Act.

Until the deficiencies are resolved, the Army and the Defense Accounting Service will be unable to produce statements that conform to prescribed accounting guidance. Nonetheless, we have identified some areas in which the Army and the Defense Accounting Service can achieve financial reporting improvements over the short term. We discuss these areas and the necessary corrective actions in the Report on Internal Controls section in this report. We will also discuss this in separate audit reports that will be issued at a later date.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 requires the Army and the Defense Accounting Service to report annually to the Secretary of Defense on whether their management controls comply with the act's requirements. In their respective FY 00 annual assurance statements, the Army and the Defense Finance and Accounting Service-Indianapolis Center for Sustaining Forces (Indianapolis Center) included several weaknesses that affect Army Working Capital Fund operations. We summarize the specific weaknesses most directly related to the fund's financial statements in the following sections.

Army's Annual Assurance Statement

The Army 's annual assurance statement for FY 00 included two uncorrected material weaknesses that affect operations. Here's a summary of the weaknesses:

Unreliable Financial Reporting of Personal and Real Property. The Army doesn't currently meet Federal Accounting Standards for the financial reporting of Real Property and General Equipment. The Statement of Federal Financial Accounting Standard Number 6 (Accounting for Property, Plant and Equipment) identifies four categories of personal and real property and requires that the Army present fairly the cost and related depreciation of these assets in the financial statements. This weakness is scheduled for correction in FY 02.

Equipment In-transit Visibility. Because of automated system problems, the Army doesn't have reliable data on the value of equipment in transit. Therefore, the value of equipment in transit reported in the financial statements may be misstated by a significant but unknown amount. This weakness is scheduled for correction in FY 01.

The second weakness (Equipment In-transit Visibility) was also included as a subset of DOD systemic material weaknesses.

Indianapolis Center's Annual Assurance Statement

In its FY 00 annual assurance statement, the Indianapolis Center reported three internal control weaknesses that affect Army Working Capital Fund operations. Here's a summary of the weaknesses:

- Disbursements that were in transit, unmatched, or applied against specific obligations in excess of the recorded obligation amounts were problems. (Identified during FY 96, target date for completion is FY 03.)
- Suspense account balances require extensive reconciliation to ensure the accounts are properly used, supported by adequate documentation, cleared timely, and in agreement with U.S. Treasury balances. (Identified during FY 97, target date for completion is FY 02.)
- Four weaknesses identified in FY 98 relating to transportation bills and payments, and government bills of lading were consolidated in FY 99 to one weakness. Three weaknesses related to system deficiencies in the Defense Transportation Payment System and the Defense Transportation Payment System-Accounting Module. One weakness identified incomplete preaudits of transportation bills. (Identified in FY 99, target date for completion is FY 02.)

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 requires each Federal agency to implement and maintain financial management systems that comply substantially with:

- Federal financial management systems requirements.
- Statements of Federal Financial Accounting Standards.
- U.S. Standard General Ledger at the transaction level.

We are required to report on whether the agency's financial management systems substantially comply with these requirements. We found that the financial management systems that supported the Army Working Capital Fund weren't in substantial compliance with the requirements of the act. The Defense Accounting Service and the Army are working together to develop and implement a remediation plan to correct system deficiencies. We discuss compliance with the three financial management requirements in the following paragraphs.

Federal Financial Management Systems Requirements

Office of Management and Budget Circular A-127 (Financial Management Systems), 23 July 1993, revised 10 June 1999, requires financial management systems to provide complete, reliable, consistent, timely, and useful information. Agencies are required to:

- Develop and maintain an agency-wide inventory of financial management systems.
- Develop agency-wide systems plans.
- Review financial management systems.
- Develop and maintain agency financial management systems directives.

We found that the financial management systems that supported the Army Working Capital Fund weren't in substantial compliance with the requirements of the act. As discussed in the notes to the financial statements, some systems don't collect and record financial data on the full accrual accounting basis. Reported values and information for major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory and logistics systems. These systems were designed to support reporting requirements focusing on accountability rather than accrual based accounting. The Defense Accounting Service is primarily responsible for correcting deficiencies in the accounting systems. The Defense Accounting Service with the help of the Army took steps to comply with the four requirements we discussed previously. However, as discussed in other sections of this report, there were several areas where they didn't fully comply.

Statements of Federal Financial Accounting Standards

Federal agencies reporting under the Government Management Reform Act of 1994 are to follow 18 Statements of Federal Financial Accounting Standards agreed to by the Director of the Office of Management and Budget, the Comptroller General, and the Secretary of the U.S. Treasury. The Army and the Defense Accounting Service recognized that, for FY 00, the financial management systems that support the Army Working Capital Fund didn't substantially comply with Federal Accounting Standards. For example the systems didn't:

- Have documentation supporting the historical cost of Property, Plant and Equipment as required by Statement of Federal Financial Accounting Standard Number 6 (Accounting for Property, Plant and Equipment).
- Recognize accounts payable based on acceptance as required by the Statement of Federal Financial Accounting Standard Number 1 (Accounting for Selected Assets and Liabilities). Instead, the systems recognized payables based on the storage depot reporting the receipts.
- Recognize accounts receivable as required by the Statement of Federal Financial Accounting Standard Number 1. The standard required that a receivable be recognized when the goods or services were provided to the customer. The Army Working Capital Fund recognized the receivable when the message was forwarded to ship the item. The customer didn't receive the item until sometime later.

U.S. Standard General Ledger at the Transaction Level

The Office of Management and Budget requires Federal agencies to implement the U.S. Standard General Ledger in their financial systems. The general ledger must be implemented at the transaction level. Federal agencies are permitted to supplement their application of the general ledger to meet agency-specific information requirements; however, the supplement must maintain consistency.

The Army, the Defense Accounting Service, and, in some cases, other DOD activities are collectively responsible for the financial management systems that support the Army Working Capital Fund. The Army is responsible for the nonfinancial data systems that supply most of the data reported in the financial statements. This data is then fed into the accounting and finance systems that are the responsibility of the Defense Accounting Service. Therefore, the Indianapolis Center used data from the accounting systems and other sources to compile the FY 00 Army Working Capital Fund Financial Statements.

DOD, the Army, and the Defense Accounting Service have acknowledged that their financial management systems have significant procedural and systemic deficiencies. They have included discussions of those deficiencies in previous annual assurance statements and the management representation letter for the FY 00 DOD agency-wide financial statements.

Office of Management and Budget Bulletin 97-01

The Office of Management and Budget Bulletin 97-01 (Form and Content of Agency Financial Statements) provides implementing guidance for preparing the financial statements and incorporates the Statements of Federal Financial Accounting Standards. Our review of the financial statements showed that some lines in the Statement of Financing weren't prepared as required by Office of Management and Budget Bulletin 97-01. Specifically, the Statement of Financing reported a zero balance on line 1.E. Transfers-In (Out). However, line 1.E. should report $6,725,514. This $6,725,514 represents the net amount of transfers of assets without reimbursement to the Army Working Capital Fund as reported in the Statement of Changes in Net Position. The Indianapolis Center prepared this line item in accordance with the DOD Financial Management Regulation 7000.14-R, Volume 6B (Form and Content of the DOD Audited Financial Statements). However, the DOD form and content guidance isn't in agreement with:

- Statement of Federal Financial Accounting Standard Number 7 (Accounting for Revenue and Other Financing Sources). This statement states that an intragovernmental transfer of cash or another capitalized asset without reimbursement changes the resources available to both the receiving entity and the transferring entity. It states that the receiving entity should recognize a transfer-in as an additional financing source in its results of operations in the Statement of Changes in Net Position. It also discusses the use of information from the Statement of Changes in Net Position to prepare the Statement of Financing.
- Office of Management and Budget Bulletin 97-01 (Form and Content of Agency Financial Statements). Bulletin 97-01 provides implementing guidance for preparing the financial statements and incorporates the Statements of Federal Financial Accounting Standards, including the Statement of Federal Financial Accounting Standard Number 7 and also the "Implementation Guide" issued in conjunction with Statement Number 7.

DOD Financial Management Regulation 7000.14-R

The Defense Accounting Service didn't comply with the section of DOD Financial Management Regulation 7000.14-R, Volume 1 (General Financial Management Information Systems and Requirements) concerning adequate documentation to support some adjustments processed by the Indianapolis Center.

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2000 • ($ in thousands)

	FY 2000
1 ASSETS (Note 2)	
A. Intragovernmental:	
1. Fund Balance with Treasury (Note 3)	$2,404,315
2. Investments (Note 4)	2,075,561
3. Accounts Receivable (Note 5)	151,301
4. Other Assets (Note 6)	0
5. Total Intragovernmental Assets	$4,631,177
B. Cash and Other Monetary Assets (Note 7)	$965
C. Accounts Receivable (Note 5)	1,050,363
D. Loans Receivable (Note 8)	0
E. Inventory and Related Property (Note 9)	59,469
F. General Property, Plant and Equipment (Note 10)	34,538,092
G. Other Assets (Note 6)	79,891
2. TOTAL ASSETS	$40,359,957
3. LIABILITIES (Note 11)	
A. Intragovernmental:	
1. Accounts Payable (Note 12)	$87,540
2. Debt (Note 13)	18,212
3. Environmental Liabilities (Note 14)	0
4. Other Liabilities (Note 15 & Note 16)	1,166,330
5. Total Intragovernmental Liabilities	$1,272,082
B. Accounts Payable (Note 12)	$585,938
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0
D. Environmental Liabilities (Note 14)	0
E. Loan Guarantee Liability (Note 8)	0
F. Other Liabilities (Note 15 & Note 16)	497,833
4. TOTAL LIABILITIES	$2,355,853
5. NET POSITION	
A. Unexpended Appropriations (Note 18)	$1,004,640
B. Cumulative Results of Operations	36,999,464
6. TOTAL NET POSITION	$38,004,104
7. TOTAL LIABILITIES AND NET POSITION	$40,359,957

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. Program Costs	
A. Intragovernmental	$552,908
B. With the Public	3,782,955
C. Total Program Cost	$4,335,863
D. (Less: Earned Revenue)	(678,349)
E. Net Program Costs	$3,657,514
2. Costs Not Assigned to Programs	0
3. (Less:Earned Revenue not attributable to Programs)	0
4. Net Costs of Operations	$3,657,514

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. Net Cost of Operations	$3,657,514
2. Financing Sources (other than exchange revenues)	
A. Appropriations Used	4,017,634
B. Taxes and Other Nonexchange Revenue	800,241
C. Donations - Nonexchange Revenue	1,362
D. Imputed Financing (Note 20)	166,464
E. Transfers - In	21,836
F. Transfers - Out	(120,682)
G. Other	(647,287)
H. Total Financing Sources (other than Exchange Revenues)	$4,239,568
3. Net Results of Operations	$582,054
4. Prior Period Adjustments (Note 20)	360,235
5. Net Change in Cumulative Results of Operations	$942,289
6. Increase (Decrease) in Unexpended Appropriations	(197,777)
7. Change in Net Position	$744,512
8. Net Position-Beginning of the Period	37,259,589
9. Net Position-End of the Period	$38,004,101

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES	FY 2000
A. Budget Authority	$4,614,169
B. Unobligated Balance - Beginning of Period	2,136,227
C. Net Transfers Prior-Year Balance, Actual (+/-)	(1)
D. Spending Authority from Offsetting Collections	3,909,101
E. Adjustments (+/-)	(35,122)
F. Total Budgetary Resources	$10,624,374
STATUS OF BUDGETARY RESOURCES	
A. Obligations Incurred	$8,926,397
B. Unobligated Balances - Available	1,694,496
C. Unobligated Balances - Not Available	3,481
D. Total Status of Budgetary Resources	$10,624,374
OUTLAYS	
A. Obligations Incurred	$8,926,397
B. Less: Spending Authority from Offsetting Collections and Adjustments	(3,909,699)
C. Obligated Balance, Net - Beginning of Period	394,538
D. Obligated Balance Transferred, Net	0
E. Less: Obligated Balance, Net - End of Period	(715,876)
F. Total Outlays	$4,695,360

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	FY 2000
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	$8,926,397
B. Less: Spending Authority from Offsetting Collections and Adjustments	(3,909,699)
C. Donations Not in the Entity's Budget	0
D. Financing Imputed for Cost Subsidies	166,464
E. Transfers-In (Out)	0
F. Less: Exchange Revenue Not in the Entity's Budget	(1,956)
G. Nonexchange Revenue Not in the Entity's Budget	23,067
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(113,056)
I. Other	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$5,091,217
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decrease	$47,310
B. Change in Unfilled Customer Orders	(264,157)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(1,815,691)
D. Financing Sources that Fund Costs of Prior Periods	23,707
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0
G. Other - (Increases)/Decrease	(5,186)
H. Total Resources That Do Not Fund Net Costs of Operations	($2,014,017)
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES	
A. Depreciation and Amortization	$580,218
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0
D. Loss of Disposition of Assets	0
E. Other - (Increases)/Decrease	0
F. Total Costs That Do Not Require Resources	$580,218
4. FINANCING SOURCES YET TO BE PROVIDED	$96
5. NET COST OF OPERATIONS	$3,657,514

See Note 1 and Note 22.

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

A. Basis of Presentation.

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers Civil Works, as required by the Chief Financial Officers (CFO) Act, and expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the U. S. Army Corps of Engineers (USACE) in accordance with "Department of Defense Financial Management Regulation" ("DoDFMR"), the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and to the extent possible, generally accepted accounting principles. The USACE's financial statements are in addition to the financial reports also prepared by the USACE pursuant to OMB directives that are used to monitor and control the USACE's use of budgetary resources.

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

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

B. Mission of the Reporting Entity.

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

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

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

Entity Accounts:

General Funds

96X3112	Flood Control, Mississippi River and Tributaries
96X3121	General Investigations
96X3122	Construction, General
96X3123	Operation and Maintenance, General
963/73123	Operation and Maintenance, General (fiscal year)
96X3124	General Expenses
96953124	General Expenses (fiscal year)
96X3125	Flood Control and Coastal Emergencies
963/73125	Flood Control and Coastal Emergencies (fiscal year)
96X3126	Regulatory Program
96X3128	Washington Aqueduct Capital Improvements
96003129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X3130	FUSRAP
96X3930	Consolidated Working Fund

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

Trust Funds

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

Transfer Funds

96 12X1105	State and Private Forestry, Forest Service
96 13X2050	Economic Development Administration
96 14X1039	Construction National Park Service
96 21X2020	OMA, American Samoa Projects
96 47X4542	GSA Building Delegation Program
96 89X4045	Bonneville Power Administration
96 72 99 1021	Development Assistance, Agency for International Development
96 69X8083	Federal Aid Highways

Non-Entity:

Deposit Funds

96X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues
96X6094	Advances from the District of Columbia
96X6134	Amounts Withheld for Civilian Pay Allotments
96X6145	Technical Assistance, United States Dollars Advanced from Foreign Government
96X6302	Moneys Withheld from Contractors
96X6500	Disbursing Officer's Suspense Account
96X6501	Disbursing Officer's Suspense Account
96X6875	Suspense
96X6999	Accounts Payable, Check Issue Overdrafts

Clearing Accounts

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

Receipt Accounts

960891	Miscellaneous fees for regulatory and judicial services, not otherwise classified
961099	Fines, Penalties, and forfeitures not otherwise classified
961435	General Fund Proprietary Interest, Not Otherwise Classified
963220	General Fund Proprietary Receipts. Not Otherwise Classified, All Other
965007	Special Recreation Use Fees

965090 Receipts from leases of lands acquired for flood control, navigation, and allied purposes
965125 Licenses under Federal Power Act, Improvements of navigable water, maintenance and operation of dams, etc., (50%)

C. Budgets and Budgetary Accounting.

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

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

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

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

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

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

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

D. Basis of Accounting.

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

During fiscal year 1998, the Corps completed the deployment of the Corps of Engineers Financial Management System (CEFMS) to all its divisions, districts, centers, laboratories and field offices. CEFMS is a fully automated, comprehensive financial management system that simplifies the management of all aspects of the Corps business, including civil, military revolving funds and reimbursable activity.

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

E. Revenues and Other Financing Sources.

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

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

F. Accounting for Intragovernmental Activities.

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

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

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

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

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated. The Corps can accurately identify all intragovernmental transactions by customer. For FYs 1999 and 2000, the Corps provided seller-side balances, derived from actual transactions, for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. In addition, the Corps provided buyer-side balances for expenses and accounts payable. Since the Corps is able to support balances at the transaction level, DoD agreed to adjust seller-side balances to reflect the Corps buyer-side balances for expenses, payables, and transfers-in. Intra-DoD intragovernmental balances were then eliminated. In addition, the Corps implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide" for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

G. Funds with the U.S. Treasury and Cash.

The Corps' financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS) and Military Services and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. In addition, the DFAS centers and the USACE Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Corps recorded balance in the FBWT account and Treasury's FBWT often result and are reconciled. Material Disclosures are provided at note 3.

H. Foreign Currency.

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

I. Accounts Receivable.

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

J. Loans Receivable. Not applicable.

Loans are accounted for as receivables after funds have been disbursed. The amounts of loans obligated but not disbursed are disclosed in Note 8. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and the U. S. Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimate cash flows) associated with these loans.

K. Inventories and Related Property.

Inventories are reported at approximate historical cost based on Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The LAC method is used because inventory data is maintained in logistics systems designed for material management purposes. For the most part, these systems value inventory at selling prices or LAC and reported amounts must be adjusted, using a formula to approximate historical costs.

The related property portion of the amount reported on the Inventory and Related Property line includes OM&S and stockpile materials. The OM&S are valued at standard purchase price. The Department is using both the purchase and the consumption method of accounting for OM&S, as defined in the SFFAS No. 3, "Accounting for Inventory and Related Property."

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

L. Investments in U.S. Treasury Securities.

Investments in U. S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Corps' intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities, because in the majority of cases, they are held to maturity. Amounts reported reflect the value of investments in the Inland Waterways and Harbor Maintenance Trust Fund accounts, which are managed by the Treasury Department. Material disclosures are provided at Note 4.

M. General Property, Plant and Equipment (PP&E).

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals or exceeds $1 for real property and $25,000 for personal property. There has been much discussion in the past that the Corps of Engineers Civil Works should follow the DoD threshold of $100,000. Civil Works has justified its threshold amounts by explaining its policy is in line with Federal Energy Regulatory Commission guidance and the negative impacts the increased threshold would cause its program. These impacts include the effect of accelerating amortization expenses on customer rates and the fact that the lower threshold amounts are in line with Government agencies with similar missions (Department of Interior, Department of Agriculture, Environmental Protection Agency). Presently DoD is considering the Corps of Engineers request for the Civil Works amounts to remain status quo.

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

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

Material disclosures are provided at Note 10.

N. Advance and Prepayments.

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

O. Leases.

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

P. Other Assets.

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

Q. Contingencies and Other Liabilities.

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

The Corps' liabilities also arise as a result of range preservation and management activities. Range preservation and management activities are those precautions considered necessary to protect personnel and to maintain long-term range viability. These activities may include the removal and disposal of solid wastes, clearance of unexploded munition, and efforts considered necessary to address pollutants and contaminants. The reported amounts for range preservation and management represent the current cost basis estimates of required range preservation and management activities, beyond recurring operating and maintenance, for active and inactive ranges at active installations. The estimated costs are recognized systematically based on the estimated use of physical capacity.

R. Accrued Leave.

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

S. Net Position.

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

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

T. Treaties for Use of Foreign Bases.

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

U. Comparative Data.

The OMB has waived the requirement to present comparative financial statements for FY 2000.

V. Undelivered Orders.

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

Note 2. Nonentity Assets

As of September 30, 2000 (Amounts in thousands)

1. Intragovernmental Nonentity Assets:	
A. Fund Balance with Treasury	$22,081
B. Investments	0
C. Accounts Receivable	16
D. Other Assets	0
E. Total Intragovernmental Nonentity Assets	$22,097
2. Nonfederal Nonentity Assets:	
A. Cash and Other Monetary Assets	$965
B. Accounts Receivable	1,043,430
C. Loans Receivable	0
D. Inventory & Related Property	0
E. Other Assets	0
F. Total Nonfederal Nonentity Assets	$1,044,395
3. Total Nonentity Assets	$1,066,492
4. Total Entity Assets	$39,293,465
5. Total Assets	$40,359,957

6. Other Information:
Nonfederal nonentity accounts receivable represents all current and non-current receivables due from non-federal sources, net of allowance for estimated uncollectible accounts. Other nonentity receivables include $868 million in long-term receivables due from state and local municipalities for water storage contracts, $4.1 million in current receivables due from the state and local municipalities for water storage, $16.6 million in accrued interest receivable with the water storage contracts, $6.8 million in claims receivable, and $1.8 million in long-term receivable for Hydraulic mining. An additional $1.8 million represents amount due from the leasing of land acquired for flood control purposes. The allowance for doubtful accounts totals $.9 million.

Long-term receivables due from state and local municipalities was classified as "Other Assets" in FY99 as recommended by the Army Audit Agency. However, long-term receivables have been reclassified to receivables.

Note 3. Fund Balance with Treasury

As of September 30, 2000 (Amounts in thousands)

1. Fund Balances:	
A. Appropriated Funds	$1,230,972
B. Revolving Funds	855,237
C. Trust Funds	918
D. Other Fund Types	317,188
E. Total Fund Balances	$2,404,315
2. Fund Balances Per Treasury Versus Agency:	
A. Fund Balance per Treasury	$2,404,936
B. Fund Balance per USACE	2,404,315
C. Reconciling Amount	$621

3. Explanation of Reconciliation Amount:
Fund Balance per USACE excludes $626 thousand in spending authority for the Coastal Wetlands Restoration Trust Fund account which was reported on the FMS 2108. Coastal Wetlands is financed from transfers from the Aquatic Resources Trust Fund. Treasury has identified Department of Transportation as the lead agency for reporting the Aquatic Resources account. Therefore, USACE has not reported activity for this account. Fund Balance per USACE includes cash balances reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds in the amount of $ .7 thousand for which the Corps is identified as the lead agency for reporting.

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

4. Other Information Related to Fund Balance with Treasury:
Receipts in the amount of $449.2 million that were returned to Treasury during fiscal year 2000 are not reflected in these financial statements.

Fund Balance per USACE includes $448 thousand in transfer appropriations that were not reported on the FMS 2108. Those transfer appropriations are reported by the parent agencies on the FMS 2108. The parent agencies are Agency for International Development, Department of Transportation, General Services Administration, Department of Commerce and Department of Agriculture. However, they must be included in the financial statements of the receiving entity. Therefore, we have included financial data for transfer appropriations in our financial statements for the period ending September 30, 2000.

Fund Balance Per Treasury includes funds available in appropriation 96X6094 in the amount of $8.9 million. This account was established to record operating costs at the Washington Aqueduct which are reimbursed by local municipalities. Since funding is used in operations, the balance is included with entity assets.

Line 1A includes $3 million in a cancelled appropriation.

Line 1D - Other Fund types consists of $22 million in deposit, suspense and clearing accounts that are not available to finance the Corps' activities, $1.5 million in borrowing authority, and $294 million in contributed funds.

Note 4. Investments

As of September 30, 2000 (Amounts in thousands)

	Cost	Investments Net	Amortized (Premium)/ Discount	Market Value Disclosure
1. Intragovernmental Securities:				
A. Marketable	$2,065,522	$5,367	$2,070,889	$2,070,889
B. Non-Marketable, Par Value	0	0	0	0
C. Non-Marketable, Market-Based	0	0	0	0
D. Subtotal	$2,065,522	$5,367	$2,070,889	$2,070,889
E. Accrued Interest	4,672		4,672	4,672
F. Total Intragovernmental Securities	$2,070,194	$5,367	$2,075,561	$2,075,561

2. Other Information:

Investments for the Inland Waterways (IWW) and Harbor Maintenance Trust Funds (HMTF) are reported by the Treasury and included in USACE Financial Statements.

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

Investments in federal securities include Treasury securities, marketable Treasury bills, notes, and one-day certificates invested by Treasury for the Inland Waterways, Harbor Maintenance, and South Dakota Trust Fund. These types of investments are recorded at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. Investment decisions of the funds are made by the managing entity (Treasury). The Secretary of the Treasury is responsible for administering the investment programs for Federal accounts that are authorized by law to invest in interest bearing obligations of the United States Government.

Note 5. Accounts Receivable

As of September 30, 2000 (Amounts in thousands)	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables:	$151,301	N/A	$151,301
2. Nonfederal Receivables (From the Public):	$1,051,257	($894)	$1,050,363
3. Total Accounts Receivables:	$1,202,558	($894)	$1,201,664

4. Allowance method:

The method of calculating the allowance for estimated uncollectibles is based on the aging of receivables and application of pre-determined percentages. Average percentages were calculated based on write-off of outstanding public accounts receivable during prior fiscal years.

The Code of Federal Regulations (4CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables.

5. Other information:

Accounts receivable represents all current receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts.

FY 2000 amount includes $1.016 billion in long-term accounts receivable associated with water storage contracts and $1.8 million associated with hydraulic mining. In FY 1999, the long-term receivables were reclassified from receivables to “Other Assets” based upon audit recommendation. However, we have reversed the reclassification and are reporting them as receivables in FY 2000 in order to reconcile to the Report on Receivables Due From the Public.

The reduction in intragovernmental receivables of $59.3 million is attributed to increased use of the On-Line Payment and Collection System (OPAC) for processing collections to intragovernmental receivables.

Nonfederal receivables include a $154 million increase to long term receivables for water storage contracts and a $120 thousand increase that was made during the reconciliation of intragovernmental receivables that are not included in the “Report on Receivables Due From the Public”. In addition, nonfederal receivables reflect decreases of $268 thousand to reconcile disbursing officer’s cash and $45 thousand to reconcile the Contributed Funds Receipt Account. Nonfederal receivables are also net of $894 thousand Allowance for Doubtful Accounts that is not reflected in the “Report on Receivables Due From the Public”.

Note 6. Other Assets

As of September 30, 2000 (Amounts in thousands)

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

4. Other Information Related to Other Assets:

Other Assets consists primarily of $ 23 million in assets not in use and $56 million in property awaiting disposition or sale.

The significant decrease in other assets is contributed to the reclassification of long-term receivables reported as "other assets" in FY 1999 to accounts receivable in FY 2000. Reclassification is required for reconciliation to the Report on Receivables Due From the Public.

Note 7. Cash and Other Monetary Assets

As of September 30, 2000 (Amounts in thousands)

1. Cash	$819
2. Foreign Currency	146
3. Other Monetary Assets	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$965

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

The Corps translates foreign currency to U. S. dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U. S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions.

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

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

1. **Direct Loan and/or Loan Guarantee Programs:** The entity operates the following direct loan and/or Loan guarantee program(s):
   Military Housing Privatization Initiative

2. **Other Information:** An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections of this note.

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

Note 8.B. Direct Loans Obligated After FY 1991

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

Note 8.C. Defaulted Guaranteed Loans from Post-1991 Guarantees

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

Note 8.D. Guaranteed Loans Outstanding

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

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

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

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

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

Note 8.G. Administrative Expense

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

Note 9. Inventory and Other Related Property

As of September 30, 2000 (Amounts in thousands)

1.	Inventory, Net (Note 9.A.)	$59,287
2.	Operating Materials & Supplies, Net (Note 9.B.)	182
3.	Stockpile Materials, Net (Note 9.C.)	0
4.	Forfeited Property	0
5.	Goods Held Under Price Support and Stabilization Programs	0
6.	Total	$59,469

Note 9.A. Inventory, Net

As of September 30, 2000 (Amounts in thousands)

	Inventory Gross Value	Revaluation Allowance	Inventory, Net
1. Inventories Categories:			
A. Available and Purchased for Resale	$ 100,608	($47,417)	53,191
B. Held in Reserve for Future Sale	0	0	0
C. Held for Repair	0	0	0
D. Excess, Obsolete, and Unserviceable	8	0	8
E. Raw Materials	0	0	0
F. Work in Process	6,088	0	6,088
G. Total	$106,704	($47,417)	59,287

Legend for Valuation Methods:

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

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

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

3. Definitions of Titles:

Inventory, Gross Value represents the standard value used for inventory transactions in the financial system. Revaluation Allowance is the total difference between standard inventory values and either historical cost or net realizable value. Inventory, Net is approximate historical cost or net realizable value.

4. Other Information:

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

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

Note 9.B. Operating Materials and Supplies, Net

As of September 30, 2000 (Amounts in thousands)

1. OM&S Categories:	OM&S Amount	Revaluation Allowance	OM&S Net
A. Held for Use	$182	$0	$182
B. Held in Reserve for Future Use	0	0	0
C. Held for Repair	0	0	0
D. Excess, Obsolete, and Unserviceable	0	0	0
E. Total	$182	$0	$182

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

2. Restrictions on Operating Materials and Supplies:
There are no restrictions on operating materials and supplies.

Definitions of Titles:
OM&S Amount represents the standard value used for OM&S transactions in the financial system. Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S, Net is approximate historical cost or net realizable value.

Other Information:
$510 thousand decrease in Line 1A - Held for Use is attributed to the removal of value of items that have been excessed and given to public schools or traded in for newer equipment.

Note 10. General PP&E, Net

As of September 30, 2000 (Amounts in Thousands)

1. Major Asset Classes:	Depreciation Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation Amortization	Net Book Value
A. Land	N/A	N/A	$7,801,562	N/A	$7,801,562
B. Buildings, Structures, Facilities	SL	20 or 40	30,301,933	($11,977,348)	18,324,585
C. Leasehold Improvements	SL Lease	Term	1,206	(617)	589
D. Software	SL	10	47,446	(12,738)	34,708
E. Equipment	SL	5 or 10	1,106,589	(496,264)	610,325
F. Assets Under Capital Lease[1]	SL Lease	Term	0	0	0
G. Construction-in-Progress	N/A	N/A	7,753,407	N/A	7,753,407
H. Other			12,916	0	12,916
I. Total General PP&E			$ 47,025,059	($12,486,967)	$34,538,092

[1]Note 15.B for additional information on Capital Leases

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

2. Other Information:

$1.8 million previously identified as intangible assets has been reclassified as land. These assets are comprised of historical costs associated with the acquisition of land in conjunction with power projects. Costs were originally classified as intangible assets in order to comply with Federal Energy Regulatory Commission guidelines on cost recovery. However, the decision was made that these costs were improperly classified in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment", as they were part of the initial acquisition cost of the land and should have been classified as such. We have also made a reversing entry for current year amortization in our fiscal year 2000 statements to properly reflect the effect of the transfer into land (category 00) where accumulated depreciation is inappropriate.

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

Note 10.A. Assets Under Capital Lease

Not applicable.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30, 2000 (Amounts in thousands)	
1. Intragovernmental Liabilities:	
A. Accounts Payable	$0
B. Debt	17,626
C. Environmental Liabilities	0
D. Other	1,100,904
E. Total Intragovernmental Liabilities	$1,118,530
2. Nonfederal Liabilities:	
A. Accounts Payable	$0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0
C. Environmental Liabilities	0
D. Loan Guarantee Liability	0
E. Other Liabilities	0
F. Total Nonfederal Liabilities	$0
3. Total Liabilities Not Covered by Budgetary Resources:	$1,118,530
4. Total Liabilities Covered by Budgetary Resources:	1,237,323
5. Total Liabilities:	$2,355,853

6. Other Information:

Line 1D - Intragovernmental Other unfunded liabilities includes $28.9 million to offset interest and accounts receivable which, when collected, will be returned to the Treasury. Judgment fund liabilities in the amount of $12.6 million and the FY 2000 Workmen's Compensation liabilities in the amount of $43.6 million are also recognized as unfunded. Also included is the deferred credit liability in the amount of $1.016 billion representing future revenue from long term receivables recorded for water storage contracts and hydraulic mining.

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

Note 12. Accounts Payable

As of September 30, 2000 (Amounts in thousands)

	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental:	$87,540	$0	$87,540
2. With the Public:	$585,938	$0	$585,938
3. Total	$673,478	$0	$673,478

4. Other Information:

The Corps has no known delinquent accounts payable, therefore no amount is reported for interest, penalties, and administrative fees. During FY 2000, the Corps paid $155 thousand in interest on payments of $3.4 billion subject to the Prompt Payment Act (.0045%).

Note 13. Debt

As of September 30, 2000 (Amounts in thousands)

	Beginning Balance	Net Borrowings	Ending Balance
1. Public Debt:			
A. Held by Government Accounts	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A
2. Agency Debt:			
A. Debt to the Treasury	$12,941	$5,271	$18,212
B. Debt to the Federal Financing Bank	0	0	0
C. Debt to Other Federal Agencies	0	0	0
D. Total Agency Debt	$12,941	$5,271	$18,212
3. Total Debt:	$12,941	$5,271	$18,212

4. Classification of Debt:	
A. Intragovernmental Debt	$18,212
B. Nonfederal Debt	N/A
C. Total Debt	$18,212

5. Other Information:

During fiscal years 1997, 1998, and 1999, the Corps of Engineers executed three promissory notes totaling $75 million with the Department of the Treasury. Funds provided were used for capital improvements to the Washington Aqueduct. Funding to repay the debt is provided by Arlington County Virginia, Falls Church Virginia, and the District of Columbia. Actual drawdown of funds has been made from the Treasury in the amount of $42.8 million. Principal repayments as of September 30, 2000 total $25.2 million. $586 thousand represents accrued interest payable at September 30, 2000.

During fiscal year 2000, actual drawdown of funds from the Treasury totals $10.2 million. Principal repayments during fiscal year 2000 total $15.4 million and the change in the capitalized interest repaid is $20 thousand.

Note 14. Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities

Not Applicable

Note 15.A. Other Liabilities

As of September 30, (Amounts in thousands)

	Current Liability	Noncurrent Liability	Total
1. Intragovernmental:			
A. Advances from Others	$24,072	$0	$24,072
B. Deferred Credits	0	1,015,762	1,015,762
C. Deposit Funds and Suspense Account Liabilities	0	0	0
D. Resources Payable to Treasury	0	0	0
E. Disbursing Officer Cash	965	0	965
F. Nonenvironmental Disposal Liabilities:			
(1) ND PP&E (Non-nuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
G. Accounts Payable-Cancelled Appropriations	0	0	0
H. Judgment Fund Liabilities	12,637	0	12,637
I. Workman's Compensation Reimbursement to the Department of Labor	19,165	24,436	43,601
J. Capital Lease Liability	0	0	0
K. Other Liabilities	69,293	0	69,293
L. Total Intragovernmental Other Liabilities	$126,132	$1,040,198	$1,166,330
2. Nonfederal:			
A. Accrued Funded Payroll and Benefits	$322,324	$0	$322,324
B. Advances from Others	74,670	0	74,670
C. Deferred Credits	0	0	0
D. Loan Guarantee Liability	0	0	0
E. Liability for Subsidy Related to Undisturbed Loans	0	0	0
F. Deposit Funds and Suspense Accounts	23,199	0	23,199
G. Temporary Early Retirement Authority	0	0	0
H. Nonenvironmental Disposal Liabilities:			
(1) NP PP&G (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
I. Accounts Payable - Cancelled Appropriations	0	0	0
J. Accrued Unfunded Annual Leave	0	0	0
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0
L. Capital Lease Liability	0	0	0
M. Other Liabilities	77,640	0	77,640
N. Total Nonfederal Other Liabilities	$497,833	$0	$497,833
3. Total Other Liabilities	$623,965	$1,040,198	$1,664,163

4. Other Information Pertaining to Other Liabilities:

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

Line 1H - Judgment Fund Liabilities. The Corps of Engineers Civil Works Directorate has recognized two unfunded liabilities from Judgment Fund Contract Disputes Act settlements in accordance with the interpretation of Federal Financial Accounting Standards Number 2, Accounting for Treasury Judgment Fund Transactions. Fort Worth District has a judgment fund amount of $636 thousand. However, reimbursement has not been made pending payment negotiations with the customer. Louisville District has a Judgment Fund amount of 12 million. This amount will remain an unfunded liability in accordance with FASAB guidance. During the FY 2000 President's Budget process, the Corps requested funds for this settlement. Congress denied our request by saying, "No funds are included for reimbursement of the Claims and Judgment Fund."

Line 1I - Workman's Compensation Reimbursement to the Department of Labor. Workman's compensation costs reflect cost incurred for income lost and medical costs for federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The costs are paid from the Federal Employees' Compensation Act (FECA). Fiscal year 1999 costs are reflected as a current liability and fiscal year 2000 costs are reflected as a non-current liability.

Line 1K - Other Liabilities. This includes 23.3 million in Employer Contributions and Payroll Taxes, 17.2 million in funded FECA liability, and 28.9 million in custodial liabilities. The custodial liability is comprised of unfunded liabilities to offset interest and accounts receivable which, when collected, will be returned to Treasury.

Line 2B - Advances from Others. $74.6 million is for contributed funds, mainly from state and local municipalities for work to be done on a cost-share basis.

Line 2M - Other Liabilities. $43.8 million in other public non-current liabilities is maintained to fund contingent liabilities arising from casualty losses. Other public current liabilities also include $33.8 million in contract holdbacks on construction-in-progress payments.

Note 15.B. Capital Lease Liability

Not Applicable

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Proprietary contingencies are commonly referred to as contingent liabilities. The Corps of Engineers has two cases, in which the relief demanded is $100 million or more, that are pending legal decisions. The Corps' Legal Counsel is unable to express an opinion concerning the likely outcome of either case. Since these two cases fail to satisfy the criteria necessary to record a contingent liability in accordance with the Federal Financial Accounting Standard Number 5, Accounting for Liabilities of the Federal Government, no amount is included in our financial statements.

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

Not Applicable

Note 18 Unexpended Appropriations

As of September 30, 2000 (Amounts in Thousands)

1. Unexpended Appropriations:

A. Unobligated, Available	$663,785
B. Unobligated, Unavailable	3,481
C. Unexpended Obligations	337,374
D. Total Unexpended Appropriations	$1,004,640

2. Other Information Pertaining to Unexpended Appropriation:

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

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

Disclosures Related to the Statement of Net Cost

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

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

Not Applicable

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

Not Applicable

Note 19.D. Imputed Expenses

As of September 30, 2000 (Amounts in thousands)

1. Civilian (CSRS/FERS) Retirement	$72,438
2. Civilian Health	93,608
3. Civilian Life Insurance	418
4. Military Retirement Pension	0
5. Military Retirement Health	0
6. Judgement Fund/Litigation	0
7. Total Imputed Expenses	$ 166,464

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

The imputed financing in the amount of $166.4 million was recorded for retirement, health and life insurance benefits for civilian Federal employees.

Note 19.E. Benefit Program Expenses

Not Applicable

Note 19. F. Exchange Revenue

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

Note 19.G. Amounts for FMS Program Procurements from Contractors

Not Applicable

Note 19.H. Stewardship Assets

Not Applicable

Note 19.I. Reconciliation of Intragovernment Revenue

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

Note 19.J. Suborganization Program Costs

Not Applicable

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

As of September 30, 2000 (Amounts in thousands)

1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:	
A. Changes in Accounting Standards	$0
B. Errors and Omission in Prior Year Accounting Reports	360,235
C. Other Prior Period Adjustments	0
D. Total Prior Period Adjustments	$360,235
2. Imputed Financing:	
A. Civilian CSRS/FERS Retirement	$72,438
B. Civilian Health	93,608
C. Civilian Life Insurance	418
D Military Retirement Pension	0
E. Military Retirement Health	0
F. Judgment Fund/Litigation	0
G. Total Imputed Financing	$166,464

3. Other Information:

Line 1B - Errors and Omissions in Prior Year Accounting Reports. The Corps made a concerted effort to fully reconcile assets during FY 2000. Consequently, numerous prior period adjustments were recorded. Two types of transactions associated with the transfers from construction in progress (CIP) to expense and from expense to CIP updated current fiscal year expense. The transfers materially understated the current year operating cost. We have recorded a prior period adjustment in the amount of $322.2 million in order to properly reflect current year cost. Additionally, a transaction was recorded at the end of fiscal year 1999 in the amount of $194 million for the Workmen's Compensation actuarial liability reported by the Department of Labor (DoL). This transaction was reversed in fiscal year 2000 because DoL does not include the Corps in the Department of the Army's total but instead classifies the Corps Civil Works' liability as "other". DoL considers the Corps' liability as immaterial and is, therefore, unable to provide a specific amount to be recorded as an actuarial liability. An adjustment was also made to record CIP for the Richard B. Russell pump storage at the Savannah District that resulted in a $477 million increase to prior period adjustments.

Transfers to other government agencies include $105.4 million to the Department of Interior, $12 million to the Department of Transportation, $3 million to the Department of Treasury and $.3 million to the General Services Administration.

Transfers in from other government agencies include $20 million transferred into the South Dakota Terrestrial Wildlife Restoration Trust Fund account, $1.3 million transferred from the Department of the Army, General Fund (National Guard Bureau) and $.5 million from Other Defense Organizations Working Capital Funds (Defense Reutilization and Marketing Services).

"Other" adjustments to Financing Sources resulted from intensive efforts to reconcile PP&E performed by the Corps' Districts during FY 2000.

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

As of September 30, 2000 (Amounts in thousands)

1. Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period	$1,142,720
2. Available Borrowing and Contract Authority at the End of the Period	$26,781

3. Other Information:

Unobligated Balance Beginning of Period Line 1B differs from Unobligated Balance Available and Unavailable Lines 2B and 2C at FY 1999 year end. Amount of the difference is $17 million. Adjustments totaling $6.1 million were made at FY 1999 year end to reconcile to Funds Balance with Treasury. Databases were corrected in FY 2000 to reflect what the correct ending balance was at FY 1999 year end. An adjustment in the amount of $606 thousand was recognized for accrued interest payable at FY 1999 year end. Database was updated in FY 2000. $14.3 million in adjustments to spending authority were recorded during reconciliation of FY 1999 Statement of Financing. The adjustments were due to incomplete general ledger correlations in the accounting system that did not update budgetary general ledgers. The SF133 Report on Budget Execution had already been submitted. $9.3 million payroll was not reported to Treasury at FY1999 year end.

Obligated Balance, Net Beginning of Period Line 3C differs from Obligated Balance, Net End of Period Line 3E at FY 1999 year end. Amount of the difference is $13.3 million. $14.3 million in adjustments to spending authority were recorded during reconciliation of FY 1999 Statement of Financing. The adjustments were due to incomplete general ledger correlations in the accounting system that did not update budgetary general ledgers. The SF133 Report on Budget Execution had already been submitted. An adjustment in the amount of $(606) thousand was recognized for accrued interest payable at FY 1999 year end. UNICOR Federal Prison Industries reported a disbursement to Treasury at FY 1999 year end in the amount of $107 thousand. The transaction was recorded in the database in FY 2000.

An adjustment for accrued interest payable in the amount of $585 thousand was recognized after FY 2000 FACTS II submission for the Statement of Budgetary Resources (SF133). Submission of the SF133 was due November 8, 2000. An adjustment in the amount of $6.2 million for reconciliation to Office of Personnel Management on Employee Benefits Contribution was recognized after submission of the SF133. Appropriation 96X8333 Coastal Wetlands Restoration is reported on the SF133 in order to balance with Treasury on available funds balance. Funding is transferred from the Aquatic Resources Trust Fund to the Coastal Wetlands Restoration Trust Fund. Department of Transportation is the reporting agency for the Aquatic Resources Trust Fund. Therefore, the activity for the Coastal Wetlands Restoration Trust Fund is not included in the Financial Statements, including the Statement of Budgetary Resources.

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

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

The unobligated balance includes $3 million in an appropriation cancelled as of 30 September 2000.

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

As of September 30, (Amounts in thousands)	1998	1999	2000	Cumulative (Decrease) /Increase
1. Problem Disbursements	$0	$0	$0	$0
2. In-transit Disbursements, Net	$0	$0	$0	$0
3. Other Information Related to Problem Disbursements and In-transit Disbursements:				
4. Suspense/Budget Clearing Accounts				
F3875	$1,192	$2,123	$17,909	$16,717
F3880	(199)	0	(5)	194
F3885	0	0	0	0
F3886	(1,366)	(1,364)	0	1,366
Total	($373)	$759	$17,904	$18,277

5. Other Information Related to Suspense/Budget Clearing Accounts:

Line 4 - Suspense/Budget Clearing Accounts. The increase between fiscal year 1999 and fiscal year 2000 in F3875 is due to a $13 million disputed collection on a water storage contract at Tulsa District. The collection will be transferred out of F3875 in fiscal year 2001. Also included in this amount is the portion of receipts from leases of land to the public for flood control, navigation and allied purposes. The portion of lease receipts when the term of the lease extends into fiscal year 2001 is collected into F3875. This procedure was implemented in the Corps of Engineers Financial Management System in fiscal year 2000.

Note 22. Disclosures Related to the Statement of Financing

Public Law 106-53 established a new trust fund for the Title VI South Dakota Terrestrial Wildlife Habitat Restoration. The law states that $10 million shall be transferred from the Treasury general fund to the trust fund each fiscal year until the fund at least equals $108 million. In FY 2000 Treasury issued a warrant to the Corps for $10 million in appropriation 96 00 3129. The funds were subsequently transferred to the trust fund account, 96 8217.1.

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

Note 23. Disclosures Related to the Statement of Custodial Activity

Not Applicable

Note 24. Other Disclosures

Not Applicable

Note 24.A. Other Disclosures

Not Applicable

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2000 • ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$3,338	$919	$19,723	$1,443
2. Investments (Note 4)	0	2,075,561	0	0
3. Accounts Receivable (Note 5)	0	0	0	1
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$3,338	$2,076,480	$19,723	$1,444
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0
C. Accounts Receivable (Note 5)	2,812	0	0	0
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	0	0	0	0
F. General Property, Plant and Equipment (Note 10)	2,227	476,918	106,239	37,670
G. Other Assets (Note 6)	0	0	0	0
2. TOTAL ASSETS	$8,377	$2,553,398	$125,962	$39,114
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$408	$270	$820	$0
2. Debt (Note 13)	0	0	0	18,212
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Note 15 & Note 16)	2,827	6,000	0	0
5. Total Intragovernmental Liabilities	$3,235	$6,270	$820	$18,212
B. Accounts Payable (Note 12)	$2,522	$9,854	$4,052	$0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0
D. Environmental Liabilities (Note 14)	0	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0	0
F. Other Liabilities (Note 15 and Note 16)	46	1,552	378	36
4. TOTAL LIABILITIES	$5,803	$17,676	$5,250	$18,248
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$361	($10,759)	$16,860	$13,219
B. Cumulative Results of Operations	2,213	2,546,481	103,852	7,647
6. TOTAL NET POSITION	$2,574	$2,535,722	$120,712	$20,866
7. TOTAL LIABILITIES AND NET POSITION	$8,377	$2,553,398	$125,962	$39,114

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2000 • ($ in thousands)

	Revolving Funds	Contributed Funds	General Funds	FUSRAP
1. ASSETS (Note 2)				
A. Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$855,237	$293,663	$1,145,494	$84,498
2. Investments (Note 4)	0	0	0	0
3. Accounts Receivable (Note5)	9,668	1	141,613	18
4. Other Assets (Note 6)	0	0	0	0
5. Total Intragovernmental Assets	$864,905	$293,664	$1,287,107	$84,516
B. Cash and Other Monetary Assets (Note 7)	$0	$0	$965	$0
C. Accounts Receivable (Note 5)	1,452	0	1,046,099	0
D. Loans Receivable (Note 8)	0	0	0	0
E. Inventory and Related Property (Note 9)	44,490	0	14,979	0
F. General Property, Plant and Equipment (Note 10)	838,465	603,305	32,473,248	20
G. Other Assets (Note 6)	22,767	0	57,124	0
2. TOTAL ASSETS	$1,772,079	$896,969	$34,879,522	$84,536
3. LIABILITIES (Note 11)				
A. Intragovernmental:				
1. Accounts Payable (Note 12)	$49,887	$838	$34,977	$340
2. Debt (Note 13)	0	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0	0
4. Other Liabilities (Note 15 & Note 16)	23,230	0	1,134,273	0
5. Total Intragovernmental Liabilities	$73,117	$838	$1,169,250	$340
B. Accounts Payable (Note 12)	$74,046	$19,104	$446,172	$30,188
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0
D. Environmental Liabilities (Note 14)	0	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0	0
F. Other Liabilities (Note 15 and Note 16)	387,679	2,686	104,941	515
4. TOTAL LIABILITIES	$534,842	$22,628	$1,720,363	$31,043
5. NET POSITION				
A. Unexpended Appropriations (Note 18)	$0	$270,909	$660,577	$53,473
B. Cumulative Results of Operations	1,237,237	603,432	32,498,582	20
6. TOTAL NET POSITION	$1,237,237	$874,341	$33,159,159	$53,493
7. TOTAL LIABILITIES AND NET POSITION	$1,772,079	$896,969	$34,879,522	$84,536

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
As of September 30, 2000 • ($ in thousands)

	2000 Combined	Eliminations	2000 Consolidated
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	$2,404,315	$0	$2,404,315
2. Investments (Note 4)	2,075,561	0	2,075,561
3. Accounts Receivable (Note5)	151,301	0	151,301
4. Other Assets (Note 6)	0	0	0
5. Total Intragovernmental Assets	$4,631,177	$0	$4,631,177
B. Cash and Other Monetary Assets (Note 7)	$965	$0	$965
C. Accounts Receivable (Note 5)	1,050,363	0	1,050,363
D. Loans Receivable (Note 8)	0	0	0
E. Inventory and Related Property (Note 9)	59,469	0	59,469
F. General Property, Plant and Equipment (Note 10)	34,538,092	0	34,538,092
G. Other Assets (Note 6)	79,891	0	79,891
2. TOTAL ASSETS	$40,359,957	$0	$40,359,957
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$87,540	$0	$87,540
2. Debt (Note 13)	18,212	0	18,212
3. Environmental Liabilities (Note 14)	0	0	0
4. Other Liabilities (Note 15 & Note 16)	1,166,330	0	1,166,330
5. Total Intragovernmental Liabilities	$1,272,082	$0	$1,272,082
B. Accounts Payable (Note 12)	$585,938	$0	$585,938
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0
D. Environmental Liabilities (Note 14)	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0
F. Other Liabilities (Note 15 and Note 16)	497,833	0	497,833
4. TOTAL LIABILITIES	$2,355,853	$0	$2,355,853
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$1,004,640	$0	$1,004,640
B. Cumulative Results of Operations	36,999,464	0	36,999,464
6. TOTAL NET POSITION	$38,004,104	$0	$38,004,104
7. TOTAL LIABILITIES AND NET POSITION	$40,359,957	$0	$40,359,957

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

1. Program Costs	Total	Eliminations	2000 Consolidated
A. Borrowing Authority			
1. Intragovernmental	$1,135	$0	$1,135
2. With the Public	16,086	0	16,086
3. Total Program Cost	$17,221	$0	$17,221
4. (Less: Earned Revenue)	(16,612)	0	(16,612)
5. Net Program Costs	$609	$0	$609
B. Contributed Funds			
1. Intragovernmental	$550	$0	$550
2. With the Public	119,239	0	119,239
3. Total Program Cost	$119,789	$0	$119,789
4. (Less: Earned Revenue)	0	0	0
5. Net Program Costs	$119,789	$0	$119,789
C. FUSRAP			
1. Intragovernmental	$211	$0	$211
2. With the Public	131,991	0	131,991
3. Total Program Cost	$132,202	$0	$132,202
4. (Less: Earned Revenue)	(20,000)	0	(20,000)
5. Net Program Costs	$112,202	$0	$112,202
D. General Funds			
1. Intragovernmental	$57,824	$0	$57,824
2. With the Public	3,060,358	0	3,060,358
3. Total Program Cost	$3,118,182	$0	$3,118,182
4. (Less: Earned Revenue)	(486,407)	0	(486,407)
5. Net Program Costs	$2,631,775	$0	$2,631,775
E. Revolving Funds			
1. Intragovernmental	$492,308	$0	$492,308
2. With the Public	(294,504)	0	(294,504)
3. Total Program Cost	$197,804	$0	$197,804
4. (Less: Earned Revenue)	(52,274)	0	(52,274)
5. Net Program Costs	$145,530	$0	$145,530
F. Special Funds			
1. Intragovernmental	$0	$0	$0
2. With the Public	14,734	0	14,734
3. Total Program Cost	$14,734	$0	$14,734
4. (Less: Earned Revenue)	0	0	0
5. Net Program Costs	$14,734	$0	$14,734
G. Transfer Funds			
1. Intragovernmental	$738	$0	$738
2. With the Public	4,295	0	4,295
3. Total Program Cost	$5,033	$0	$5,033
4. (Less: Earned Revenue)	0	0	0
5. Net Program Costs	$5,033	$0	$5,033

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	Total	Eliminations	2000 Consolidated
1. Program Costs			
H. Trust Funds			
1. Intragovernmental	$142	$0	$142
2. With the Public	730,756	0	730,756
3. Total Program Cost	$730,898	$0	$730,898
4. (Less: Earned Revenue)	(103,056)	0	(103,056)
5. Net Program Costs	$627,842	$0	$627,842
2. Costs Not Assigned to Programs	$0	$0	$0
3. (Less:Earned Revenue not attributable to Programs)	0	0	0
4. Net Costs of Operations	$3,657,514	$0	$3,657,514

See Note 1 and Note 19.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority
1. Net Cost of Operations	$14,734	$627,842	$5,033	$608
2. Financing Sources (other than exchange revenues)				
A. Appropriations Used	14,519	875	31,206	(10,015)
B. Taxes and Other Nonexchange Revenue	0	777,170	0	15,457
C. Donations - Nonexchange Revenue	0	0	0	0
D. Imputed Financing (Note 20)	0	0	0	0
E. Transfers - in	0	20,000	0	0
F. Transfers - out	0	(14,971)	(5,591)	0
G. Other	0	55	22,967	0
H. Total Financing Sources (other than Exchange Revenues)	$14,519	$783,129	$48,582	$5,442
3. Net Results of Operations	($215)	$155,287	$43,549	$4,834
4. Prior Period Adjustments (Note 20)	1,295	(5,197)	2,352	2,989
5. Net Change in Cumulative Results of Operations	$1,080	$150,090	$45,901	$7,823
6. Increase (Decrease) in Unexpended Appropriations	(127)	(1,324)	5,445	10,621
7. Change in Net Position	$953	$148,766	$51,346	$18,444
8. Net Position-Beginning of the Period	1,620	2,386,956	69,366	2,422
9. Net Position-End of the Period	$2,573	$2,535,722	$120,712	$20,866

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	Revolving Funds	Contributed Funds	General Funds	FUSRAP
1. Net Cost of Operations	$145,530	$119,789	$2,631,775	$112,203
2. Financing Sources (other than exchange revenues)				
A. Appropriations Used	32,521	314,636	3,521,689	112,203
B. Taxes and Other Nonexchange Revenue	0	0	7,614	0
C. Donations - Nonexchange Revenue	11	0	1,351	0
D. Imputed Financing (Note 20)	166,464	0	0	0
E. Transfers - in	1,719	0	117	0
F. Transfers - out	0	0	(100,120)	0
G. Other	(12,839)	(70,091)	(587,379)	0
H. Total Financing Sources (other than Exchange Revenues)	$187,876	$244,545	$2,843,272	$112,203
3. Net Results of Operations	$42,346	$124,756	$211,497	$0
4. Prior Period Adjustments (Note 20)	(28,800)	(56,163)	443,759	0
5. Net Change in Cumulative Results of Operations	$13,546	$68,593	$655,256	$0
6. Increase (Decrease) in Unexpended Appropriations	0	(381)	(244,122)	32,111
7. Change in Net Position	$13,546	$68,212	$411,134	$32,111
8. Net Position-Beginning of the Period	1,223,690	806,129	32,748,024	21,382
9. Net Position-End of the Period	$1,237,236	$874,341	$33,159,158	$53,493

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	2000 Combined	Eliminations	2000 Consolidated
1. Net Cost of Operations	$3,657,514	$0	$3,657,514
2. Financing Sources (other than exchange revenues)			
A. Appropriations Used	4,017,634	0	4,017,634
B. Taxes and Other Nonexchange Revenue	800,241	0	800,241
C. Donations - Nonexchange Revenue	1,362	0	1,362
D. Imputed Financing (Note 20)	166,464	0	166,464
E. Transfers - in	21,836	0	21,836
F. Transfers - out	(120,682)	0	(120,682)
G. Other	(647,287)	0	(647,287)
H. Total Financing Sources (other than Exchange Revenues)	$4,239,568	$0	$4,239,568
3. Net Results of Operations	$582,054	$0	$582,054
4. Prior Period Adjustments (Note 20)	360,235	0	360,235
5. Net Change in Cumulative Results of Operations	$942,289	$0	$942,289
6. Increase (Decrease) in Unexpended Appropriations	(197,777)	0	(197,777)
7. Change in Net Position	$744,512	$0	$744,512
8. Net Position-Beginning of the Period	37,259,589	0	37,259,589
9. Net Position-End of the Period	$38,004,101	$0	$38,004,101

See Note 1 and Note 20.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds
BUDGETARY RESOURCES			
A. Budget Authority	$14,530	$809,408	$36,741
B. Unobligated Balance - Beginning of Period	407	(12,043)	5,960
C. Net Transfers Prior-Year Balance, Actual	0	0	(1)
D. Spending Authority from Offsetting Collections	(2)	0	19
E. Adjustments	0	(20,128)	0
F. Total Budgetary Resources	$14,935	$777,237	$42,719
STATUS OF BUDGETARY RESOURCES			
A. Obligations Incurred	$14,743	$792,125	$35,392
B. Unobligated Balances - Available	192	(14,888)	7,327
C. Unobligated Balances - Not Available	0	0	0
D. Total, Status of Budgetary Resources	$14,935	$777,237	$42,719
OUTLAYS			
A. Obligations Incurred	$14,743	$792,125	$35,392
B. Less: Spending Authority from Offsetting Collections and Adjustments	2	0	(19)
C. Obligated Balance, Net - Beginning of Period	10,113	13,206	9,415
D. Obligated Balance Transferred, Net	0	0	0
E. Less: Obligated Balance, Net - End of Period	(3,145)	(15,805)	(12,800)
F. Total Outlays	$21,713	$789,526	$31,988

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	Borrowing Authority	Revolving Funds	Contributed Funds
BUDGETARY RESOURCES			
A. Budget Authority	$0	$0	$314,954
B. Unobligated Balance - Beginning of Period	30,407	472,253	186,186
C. Net Transfers Prior-Year Balance, Actual	0	0	0
D. Spending Authority from Offsetting Collections	16,612	3,351,539	3
E. Adjustments	(15,592)	0	0
F. Total Budgetary Resources	$31,427	$3,823,792	$501,143
STATUS OF BUDGETARY RESOURCES			
A. Obligations Incurred	$10,935	$3,328,204	$303,935
B. Unobligated Balances - Available	20,492	495,588	197,208
C. Unobligated Balances - Not Available	0	0	0
D. Total, Status of Budgetary Resources	$31,427	$3,823,792	$501,143
OUTLAYS			
A. Obligations Incurred	$10,935	$3,328,204	$303,935
B. Less: Spending Authority from Offsetting Collections and Adjustments	(16,612)	(3,351,539)	(3)
C. Obligated Balance, Net - Beginning of Period	15,294	371,077	105,883
D. Obligated Balance Transferred, Net	0	0	0
E. Less: Obligated Balance, Net - End of Period	(12,983)	(359,649)	(96,456)
F. Total Outlays	($3,366)	($11,907)	$313,359

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	General Funds	FUSRAP	2000 Combined
BUDGETARY RESOURCES			
A. Budget Authority	$3,288,536	$150,000	$4,614,169
B. Unobligated Balance - Beginning of Period	1,445,632	7,425	2,136,227
C. Net Transfers Prior-Year Balance, Actual	0	0	(1)
D. Spending Authority from Offsetting Collections	497,736	43,194	3,909,101
E. Adjustments	598	0	(35,122)
F. Total Budgetary Resources	$5,232,502	$200,619	$10,624,374
STATUS OF BUDGETARY RESOURCES			
A. Obligations Incurred	$4,259,910	$181,153	$8,926,397
B. Unobligated Balances - Available	969,111	19,466	1,694,496
C. Unobligated Balances - Not Available	3,481	0	3,481
D. Total, Status of Budgetary Resources	$5,232,502	$200,619	$10,624,374
OUTLAYS			
A. Obligations Incurred	$4,259,910	$181,153	$8,926,397
B. Less: Spending Authority from Offsetting Collections and Adjustments	(498,334)	(43,194)	(3,909,699)
C. Obligated Balance, Net - Beginning of Period	(170,715)	40,265	394,538
D. Obligated Balance Transferred, Net	0	0	0
E. Less: Obligated Balance, Net - End of Period	(150,006)	(65,032)	(715,876)
F. Total Outlays	$3,440,855	$113,192	$4,695,360

See Note 1 and Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:			
A. Obligations Incurred	$14,743	$792,125	$35,392
B. Less: Spending Authority from Offsetting Collections and Adjustments	2	0	(19)
C. Donations Not in the Entity's Budget	0	0	0
D. Financing Imputed for Cost Subsidies	0	0	0
E. Transfers-In (Out)	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	(103,056)	0
I. Other	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$14,745	$689,069	$35,373
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:			
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	($170)	($1,971)	($1,780)
B. Change in Unfilled Customer Orders	(137)	0	0
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(998)	(55,971)	(28,821)
D. Financing Sources that Fund Costs of Prior Periods	1,295	0	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0
G. Other - (Increases)/Decrease	0	(5,197)	0
H. Total Resources That Do Not Fund Net Costs of Operations	($10)	($63,139)	($30,601)
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES			
A. Depreciation and Amortization	$0	$1,911	$261
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0
D. Loss of Disposition of Assets	0	0	0
E. Other - (Increases)/Decrease	0	0	0
F. Total Costs That Do Not Require Resources	$0	$1,911	$261
4. FINANCING SOURCES YET TO BE PROVIDED	$0	$0	$0
5. NET COST OF OPERATIONS	$14,735	$627,841	$5,033

The accompanying notes are an integral part of these statements.

See Note 1 and Note 22.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	Borrowing Authority	Revolving Funds	Contributed Funds
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:			
A. Obligations Incurred	$10,935	$3,328,204	$303,935
B. Less: Spending Authority from Offsetting Collections and Adjustments	(16,612)	(3,351,539)	(3)
C. Donations Not in the Entity's Budget	0	0	0
D. Financing Imputed for Cost Subsidies	0	166,464	0
E. Transfers-In (Out)	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	(4)	1
G. Nonexchange Revenue Not in the Entity's Budget	15,457	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0
I. Other	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$9,780	$143,125	$303,933
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:			
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	$2,809	$30,507	$10,626
B. Change in Unfilled Customer Orders	0	(6,605)	(50)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(11,980)	(86,155)	(194,871)
D. Financing Sources that Fund Costs of Prior Periods	0	19,380	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0
G. Other - (Increases)/Decrease	0	11	0
H. Total Resources That Do Not Fund Net Costs of Operations	($9,171)	($42,862)	($184,295)
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES			
A. Depreciation and Amortization	$0	$45,267	$151
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0
D. Loss of Disposition of Assets	0	0	0
E. Other - (Increases)/Decrease	0	0	0
F. Total Costs That Do Not Require Resources	$0	$45,267	$151
4. FINANCING SOURCES YET TO BE PROVIDED	$0	$0	$0
5. NET COST OF OPERATIONS	$609	$145,530	$119,789

The accompanying notes are an integral part of these statements.

See Note 1 and Note 22.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

	General Funds	FUSRAP	2000 Combined
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:			
A. Obligations Incurred	$4,259,910	$181,153	$8,926,397
B. Less: Spending Authority from Offsetting Collections and Adjustments	(498,334)	(43,194)	(3,909,699)
C. Donations Not in the Entity's Budget	0	0	0
D. Financing Imputed for Cost Subsidies	0	0	166,464
E. Transfers-In (Out)	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	(1,953)	0	(1,956)
G. Nonexchange Revenue Not in the Entity's Budget	7,610	0	23,067
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(10,000)	0	(113,056)
I. Other	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	$3,757,233	$137,959	$5,091,217
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:			
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	$14,305	($7,016)	$47,310
B. Change in Unfilled Customer Orders	(238,624)	(18,741)	(264,157)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(1,436,895)	0	(1,815,691)
D. Financing Sources that Fund Costs of Prior Periods	3,032	0	23,707
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0
G. Other - (Increases)/Decrease	0	0	(5,186)
H. Total Resources That Do Not Fund Net Costs of Operations	($1,658,182)	($25,757)	($2,014,017)
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES			
A. Depreciation and Amortization	$532,628	$0	$580,218
B. Bad Debts Related to Uncollectible Non-Credit Reform Receivables	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0
D. Loss of Disposition of Assets	0	0	0
E. Other - (Increases)/Decrease	0	0	0
F. Total Costs That Do Not Require Resources	$532,628	$0	$580,218
4. FINANCING SOURCES YET TO BE PROVIDED	$96	$0	$96
5. NET COST OF OPERATIONS	$2,631,775	$112,202	$3,657,514

The accompanying notes are an integral part of these statements.

See Note 1 and Note 22.

HERITAGE ASSETS
For Fiscal Year Ended September 2000

(a)	(b) Measurement Quantity	(c) as of 10/01/99	(d) Additions	(e) Deletions	(f) as of 9/30/00
Museums	Each	0			0
Monuments & Memorials	Each	1			1
Cemeteries & Archeological Sites	Sites	119	1		120
Buildings & Structure	Each	141	3		144
Major Collections	Each	7,909			7,909

Narrative Statement

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

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

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

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96 12X1105	96 13X2050	96 14X1039	96 21X2020	96 47X4542.001 (OPNS.90)
1. Budget Authority:	$0	$0	$11,952	$0	$0
2. Unobligated Balance - Beginning of Period	30	130	8,790	132	0
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0	0
4. Spending Authority from Offsetting Collections (Gross):	0	0	0	0	0
5. Adjustments (+/-)	0	0	0	0	0
6. Total Budgetary Resources	$30	$130	$20,742	$132	$0
STATUS OF BUDGETARY RESOURCES:					
7 Obligations Incurred	$9	$127	$9,463	$78	$0
8. Unobligated Balances - Available	21	3	11,279	54	0
9. Unobligated Balances - Not Available	0	0	0	0	0
10. Total Status of Budgetary Resources	$30	$130	$20,742	$132	$0
OUTLAYS					
11. Obligations Incurred	$9	$127	$9,463	$78	$0
12. Less: Spending Authority From Offsetting Collections and Adjustments	0	0	0	0	0
13. Obligated Balance, Net - Beginning of Period	57	3	1,093	239	0
14. Obligated Balance Transferred, Net	0	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	0	(109)	(2,199)	(66)	0
16. Total Outlays	$66	$21	$8,357	$251	$0

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96 47X4542.001 (OPNS.61)	96 69X8083	96 89X4045	96 72 1999 1021	96X3112
1. Budget Authority:	$0	$400	$24,389	$0	$309,416
2. Unobligated Balance - Beginning of Period	1	646	(3,802)	33	4,996
3. Net Transfers Prior-Year Balance, Actual (+/-)	(1)	0	0	0	0
4. Spending Authority from Offsetting Collections (Gross):	0	0	19	0	22,645
5. Adjustments (+/-)	0	0	0	0	0
6. Total Budgetary Resources	$0	$1,046	$20,606	$33	$337,057
STATUS OF BUDGETARY RESOURCES:					
7. Obligations Incurred	$0	$555	$25,129	$31	$334,210
8. Unobligated Balances - Available	0	491	(4,523)	2	2,847
9. Unobligated Balances - Not Available	0	0	0	0	0
10. Total Status of Budgetary Resources	$0	$1,046	$20,606	$33	$337,057
OUTLAYS					
11. Obligations Incurred	$0	$555	$25,129	$31	$334,210
12. Less: Spending Authority From Offsetting Collections and Adjustments	0	0	(19)	0	(22,645)
13. Obligated Balance, Net - Beginning of Period	0	239	7,782	2	48,289
14. Obligated Balance Transferred, Net	0	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	0	(261)	(10,161)	(5)	(39,991)
16. Total Outlays	$0	$533	$22,731	$28	$319,863

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96X3121	96X3122	96X3123	96X3124
1. Budget Authority:	$164,565	$1,269,954	$1,268,101	$149,500
2. Unobligated Balance - Beginning of Period	40,325	871,128	41,054	14,499
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0
4. Spending Authority from Offsetting Collections (Gross):	32,124	598,960	87,544	7,298
5. Adjustments (+/-)	0	0	0	0
6. Total Budgetary Resources	$237,014	$2,740,042	$1,396,699	$171,297
STATUS OF BUDGETARY RESOURCES:				
7. Obligations Incurred	$190,238	$2,021,421	$1,378,282	$157,486
8. Unobligated Balances - Available	46,776	718,621	18,417	13,811
9. Unobligated Balances - Not Available	0	0	0	0
10. Total Status of Budgetary Resources	$237,014	$2,740,042	$1,396,699	$171,297
OUTLAYS				
11. Obligations Incurred	$190,238	$2,021,421	$1,378,282	$157,486
12. Less: Spending Authority From Offsetting Collections and Adjustments	(32,124)	(598,960)	(87,544)	(7,298)
13. Obligated Balance, Net - Beginning of Period	28,358	(171,773)	240,369	32,420
14. Obligated Balance Transferred, Net	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	(26,914)	154,035	(248,472)	(29,781)
16. Total Outlays	$159,558	$1,404,723	$1,282,635	$152,827

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96X3125	96X3126	96X3128	96 00 3129
1. Budget Authority:	$0	$117,000	$0	$10,000
2. Unobligated Balance - Beginning of Period	459,573	4,805	30,406	0
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0
4. Spending Authority from Offsetting Collections (Gross):	(272,550)	576	16,613	0
5. Adjustments (+/-)	0	0	(15,592)	0
6. Total Budgetary Resources	$187,023	$122,381	$31,427	$10,000
STATUS OF BUDGETARY RESOURCES:				
7. Obligations Incurred	$34,852	$111,669	$10,935	$10,000
8. Unobligated Balances - Available	152,171	10,712	20,492	0
9. Unobligated Balances - Not Available	0	0	0	0
10. Total Status of Budgetary Resources	$187,023	$122,381	$31,427	$10,000
OUTLAYS				
11. Obligations Incurred	$34,852	$111,669	$10,935	$10,000
12. Less: Spending Authority From Offsetting Collections and Adjustments	272,550	(576)	(16,613)	0
13. Obligated Balance, Net - Beginning of Period	(360,891)	4,647	15,294	0
14. Obligated Balance Transferred, Net	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	49,298	(5,066)	(12,983)	0
16. Total Outlays	($4,191)	$110,674	($3,367)	$10,000

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96X3130	96X3930	96X5007	96X5066	96X5090
1 Budget Authority:	$150,000	$0	$0	$76	$7,062
2. Unobligated Balance - Beginning of Period	7,425	432	0	7	0
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0	0
4. Spending Authority from Offsetting Collections (Gross):	43,194	0	0	0	0
5. Adjustments (+/-)	0	0	0	0	0
6. Total Budgetary Resources	$200,619	$432	$0	$83	$7,062
STATUS OF BUDGETARY RESOURCES:					
7. Obligations Incurred	$181,153	$432	$0	$75	$7,062
8. Unobligated Balances - Available	19,466	0	0	8	0
9. Unobligated Balances - Not Available	0	0	0	0	0
10. Total Status of Budgetary Resources	$200,619	$432	$0	$83	$7,062
OUTLAYS					
11. Obligations Incurred	$181,153	$432	$0	$75	$7,062
12. Less: Spending Authority From Offsetting Collections and Adjustments	(43,194)	0	0	0	0
13. Obligated Balance, Net - Beginning of Period	40,265	5,128	0	49	0
14. Obligated Balance Transferred, Net	0	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	(65,032)	0	0	(30)	0
16. Total Outlays	$113,192	$5,560	$0	$94	$7,062

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96X5125	96X8217	96X8862	96X8868	96 9397X3123
1. Budget Authority:	$7,392	$20,128	$314,954	$0	$0
2. Unobligated Balance - Beginning of Period	401	0	186,186	0	126
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0	0
4. Spending Authority from Offsetting Collections (Gross):	(2)	0	3	0	0
5. Adjustments (+/-)	0	(20,128)	0	0	188
6. Total Budgetary Resources	$7,791	$0	$501,143	$0	$314
STATUS OF BUDGETARY RESOURCES:					
7. Obligations Incurred	$7,606	$0	$303,935	$0	$0
8. Unobligated Balances - Available	185	0	197,208	0	0
9. Unobligated Balances - Not Available	0	0	0	0	314
10. Total Status of Budgetary Resources	$7,791	$0	$501,143	$0	$314
OUTLAYS					
11. Obligations Incurred	$7,606	$0	$303,935	$0	$0
12. Less: Spending Authority From Offsetting Collections and Adjustments	2	0	(3)	0	(188)
13. Obligated Balance, Net - Beginning of Period	10,064	0	105,883	0	373
14. Obligated Balance Transferred, Net	0	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	(3,115)	0	(96,455)	0	0
16. Total Outlays	$14,557	$0	$313,360	$0	$185

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96 93/97 3125	96 95 3124	96X6094	96X4902
1. Budget Authority:	$0	$0	$0	$0
2. Unobligated Balance - Beginning of Period	136	2,682	5,876	472,253
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0	0	0
4. Spending Authority from Offsetting Collections (Gross):	0	(24)	21,162	3,351,539
5. Adjustments (+/-)	0	410	0	0
6. Total Budgetary Resources	$136	$3,068	$27,038	$3,823,792
STATUS OF BUDGETARY RESOURCES:				
7. Obligations Incurred	$0	$37	$21,283	$3,328,204
8. Unobligated Balances - Available	0	0	5,755	495,588
9. Unobligated Balances - Not Available	136	3,031	0	0
10. Total Status of Budgetary Resources	$136	$3,068	$27,038	$3,823,792
OUTLAYS				
11. Obligations Incurred	$0	$37	$21,283	$3,328,204
12. Less: Spending Authority From Offsetting Collections and Adjustments	0	(386)	(21,162)	(3,351,539)
13. Obligated Balance, Net - Beginning of Period	0	385	1,980	371,077
14. Obligated Balance Transferred, Net	0	0	0	0
15. Less: Obligated Balance, Net - End of Period	0	0	(3,115)	(359,649)
16. Total Outlays	$0	$36	($1,014)	($11,907)

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES:	96 20X8861	96-20X8863
1. Budget Authority:	$102,382	$686,898
2. Unobligated Balance - Beginning of Period	(12,043)	
3. Net Transfers Prior-Year Balance, Actual (+/-)	0	0
4. Spending Authority from Offsetting Collections (Gross):	0	0
5. Adjustments (+/-)	0	0
6. Total Budgetary Resources	$90,339	$686,898
STATUS OF BUDGETARY RESOURCES:		
7 Obligations Incurred	$105,227	$686,898
8. Unobligated Balances - Available	(14,888)	0
9. Unobligated Balances - Not Available	0	0
10. Total Status of Budgetary Resources	$90,339	$686,898
OUTLAYS		
11. Obligations Incurred	$105,227	$686,898
12. Less: Spending Authority From Offsetting Collections and Adjustments	0	0
13. Obligated Balance, Net - Beginning of Period	13,206	0
14. Obligated Balance Transferred, Net	0	0
15. Less: Obligated Balance, Net - End of Period	(15,805)	0
16. Total Outlays	$102,628	$686,898

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

Department of Defense • U.S. Army Corps of Engineers
For the Year Ended September 30, 2000 • ($ in thousands)

BUDGETARY RESOURCES	Total TI 96 FY 2000	Total 96-20X8861 and 96-20X8863	GRAND TOTAL
1. Budget Authority	$3,824,889	$789,280	$4,614,169
2. Unobligated Balance - Beginning of Period	2,148,270	(12,043)	2,136,227
3. Net Transfers Prior-Year Balance, Actual (+/-)	(1)	0	(1)
4. Spending Authority from Offsetting Collections (Gross):	3,909,101	0	3,909,101
5. Adjustments (+/-)	(35,122)	0	(35,122)
6. Total Budgetary Resources	$9,847,137	$777,237	$10,624,374
STATUS OF BUDGETARY RESOURCES:			
7. Obligations Incurred	$8,134,272	$792,125	$8,926,397
8. Unobligated Balances - Available	1,709,384	(14,888)	1,694,496
9. Unobligated Balances - Not Available	3,481	0	3,481
10. Total Status of Budgetary Resources	$9,847,137	$777,237	$10,624,374
OUTLAYS			
11. Obligations Incurred	$8,134,272	$792,125	$8,926,397
12. Less: Spending Authority From Offsetting Collections and Adjustments	(3,909,699)	0	(3,909,699)
13. Obligated Balance, Net - Beginning of Period	381,332	13,206	394,538
14. Obligated Balance Transferred, Net	0	0	0
15. Less: Obligated Balance, Net - End of Period	(700,071)	(15,805)	(715,876)
16. Total Outlays	$3,905,834	$789,526	$4,695,360

Additional Information Included in Note 21.

The accompanying notes are an integral part of these statements.

General Property, Plant and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 2000
($ in thousands)

Property Type/Major Class	
1 Real Property	
A. Buildings	0
B. Structures	$415,000
C. Land	0
2. Total	$415,000

Narrative Statement:

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

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury	Accounts Receivable	Loans Receivables	Investments	Other
General Printing Office	05		$195			
Other	09		13			
The Judiciary	10		12			
Executive Office of the President	11		31			
Department of Agriculture	12		1,930			
Department of Commerce	13		804			
Department of the Interior	14		5,952			
Department of Justice	15		12,359			
Department of Labor	16		119			
Department of the Navy, General Funds (GF)	17		2,842			
AT18 United States Postal Service	18		58			
AT19 Department of State	19		3,020			
AT20 Department of the Treasury	20	$2,404,315	2,311		$2,075,561	
Department of the Army, GF	21		4,880			
Office of Personnel Management	24		1			
Social Security Administration	28		3			
Nuclear Regulatory Commission	31		12			
Smithsonian Institution	33		44			
Department of Veterans Affairs	36		134			
U.S. Equal Employment Opportunity Commission	45		5			
General Service Administration	47		728			
National Science Foundation	49		33			
Department of the Air Force, GF	57		114			
Federal Emergency Management Agency	58		12,620			
Railroad Retirement Board	60		5			
Tennessee Valley Authority	64		240			
Environmental Protection Agency	68		42,783			
Department of Transportation	69		6,503			
Agency for International Development	72		2,259			
Small Business Administration	73		31			
Department of Health and Human Services	75		709			
National Aeronautics and Space Administration	80		313			
Department of Housing and Urban Development	86		231			
Department of Energy	89		14,898			
Department of Education	91		66			
Independent Agencies	95		32,713			
Department of the Army WCF	97-4930.001		48			
Department of the Navy WCF	97-4930.002		141			
Other Defense Organizations GF	97		1,122			
Other Defense Organizations WCF	97-4930		1,019			
Totals:		$2,404,315	$151,301		$2,075,561	

Schedule, Part B DoD Intragovernmental Entity Liabilities Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Accounts Payable	Debts/Borrowings from Other Agencies	Other
Library of Congress	03	$38		
Government Printing Office	04	150		
General Printing Office	05	30		
Department of Agriculture	12	1,948		
Department of Commerce	13	5,539		
Department of the Interior	14	14,413		$8,984
Department of Justice	15	160		9
Department of Labor	16	269		60,760
Department of the Navy, General Funds (GF)	17	549		
United States Postal Service 18 $6	18	6		
Department of State	19	318		183
Department of the Treasury	20	902	$18,212	1,058,269
Department of the Army, GF	21	15,182		
Office of Personnel Management	24	65		23,230
Department of Veterans Affairs	36	3		146
U.S. Equal Employment Opportunity Commission	45	1		
General Service Administration	47	30,399		385
National Science Foundation	49	47		
Department of the Air Force, GF	57	92		
Tennessee Valley Authority	64	5,067		
Environmental Protection Agency	68	505		
Department of Transportation	69	549		2
Department of Health and Human Services	75	676		
Department of Housing and Urban Development	86			9,747
National Archives and Records Administration	88	31		
Department of Energy	89	2,150		384
Department of Education	91	10		1,582
Independent Agencies	95			2,649
Other Defense Organizations, GF	97	1,843		
Department of the Army, Working Capital Funds (WCF)	97-4930.001	37		
Department of the Navy, WCF	97-4930.002	1,032		
Department of the Air Force, WCF	97-4930.003	805		
Other Defense Organizations, WCF	97-4930	4,724		
Total		$87,540	$18,212	$1,166,330

Schedule, Part C DoD Intragovernmental Revenues and Related Costs with Other Federal Agencies	Treasury Index	Earned Revenue
Library of Congress	03	$5
General Printing Office	05	4,217
Other	09	51
The Judiciary	10	21
Executive Office of the President	11	31
Department of Agriculture	12	4,208
Department of Commerce	13	3,242
Department of the Interior	14	35,130
Department of Justice	15	47,590
Department of Labor	16	34
Department of the Navy, General Funds (GF)	17	2,675
United States Postal Service	18	133
Department of State	19	6,253
Department of the Treasury	20	21,159
Department of the Army, GF	21	17,712
Office of Personnel Management	24	11
Social Security Administration	28	7
Nuclear Regulatory Commission	31	16
Smithsonian Institution	33	280
Department of Veterans Affairs	36	337
U.S. Equal Employment Opportunity Commission	45	4
Appalachian Regional Commission	46	137
General Service Administration	47	2,032
National Science Foundation	49	1,251
Department of the Air Force, GF	57	211
Federal Emergency Management Agency	58	48,060
Railroad Retirement Board	60	20
Tennessee Valley Authority	64	1,009
Environmental Protection Agency	68	117,376
Department of Transportation	69	18,982
Agency for International Development	72	5,500
Small Business Administration	73	35
Department of Health and Human Services	75	1,165
National Aeronautics and Space Administration	80	1,183
Department of Housing and Urban Development	86	3,892
Department of Energy	89	22,197
Department of Education	91	741
Independent Agencies	95	61,779
Other Defense Organizations GF	97	4,656
Department of the Army WCF	97-4930.001	218
Department of the Navy WCF	97-4930.002	389
Other Defense Organizations WCF	97-4930	1,807
Total		$435,756

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

Schedule, Part E DoD Intragovernmental Nonexchange Revenues	Treasury Index	Nonexchange Revenue	
		Transfers-In	Transfers-Out
Department of the Interior	14		$105,427
Department of the Treasury	20	$20,000	3,000
Department of the Army, GF	21	1,335	
General Service Administration	47	27	264
Department of Transportation	69		11,971
Department of Housing and Urban Development	86		20
Other Defense Organizations WCF	97-4930	474	
Total		$21,836	$120,682

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

February 14, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 2000 U.S. Army Corps of Engineers, Civil Works Program, Financial Statements (Project No. D2001-D00FI-0034)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Army Audit Agency (AAA) the audit of the FY 2000 U.S. Army Corps of Engineers, Civil Works Program, financial statements. Summarized as follows are the AAA disclaimer of opinion on the FY 2000 Army Corps of Engineers financial statements and the results of our review of the AAA audit. This memorandum provides the reasons for the AAA disclaimer. We endorse the disclaimer of opinion expressed by AAA.

Disclaimer of Opinion. The AAA disclaimer of opinion on the FY 2000 Army Corps of Engineers, Civil Works Program, financial statements, dated February 14, 2001, states that AAA was unable to express an opinion on the financial statements. We concur with the AAA disclaimer of opinion. The AAA was unable to express an opinion on the financial statements primarily because of limitations to the scope of their work, as indicated in the following examples:

- Audit work was not completed on $2.1 billion of additions and deletions to general property, plant, and equipment for the fiscal year ended September 30, 2000.
- Beginning balances were not determined for $33.9 billion of general property, plant, and equipment.
- The general and application control review of the Corps financial management system was incomplete; therefore, computer-processed data could not be relied upon as support for day-to-day transactions.

Internal Controls. The AAA tested internal controls but did not express a separate opinion because opining on internal controls was not one of its objectives. However, AAA identified areas in which internal controls needed improvements, including general property, plant, and equipment, and information systems. Details on those matters are discussed in the significant matters section and the internal controls section of the AAA audit report.

Compliance with Laws and Regulations. The AAA identified areas of noncompliance with laws and regulations, which are discussed in more detail in the laws and regulations section of the AAA audit report. The AAA was unable to demonstrate that the financial statements produced by the U.S. Army Corps of Engineers Financial Management System complied with generally accepted accounting principles relating to general property, plant, and equipment and information systems. Further, the U.S. Army Corps of Engineers did not always comply with Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," as amended, and Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Standards," February 28, 1997, requirement to present the Statement of Net Cost by business program.

Review of Army Audit Agency Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit work that AAA conducted, we reviewed the audit approach and planning and monitored progress at key points. We also performed other procedures to determine the fairness and accuracy of the approach and conclusions.

We reviewed the AAA work on the FY 2000 Army Corps of Engineers, Civil Works Program, financial statements, from October 12, 2000, through February 14, 2001, in accordance with generally accepted Government auditing standards.

David K. Steensma
Deputy Assistant Inspector General
for Auditing

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

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

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the U.S. Army Corps of Engineers prepared the accompanying financial statements for fiscal year 2000. The Corps engaged us to audit its Balance Sheet as of 30 September 2000, and the Statements of Net Cost, Budgetary Resources, Financing, and Changes in Net Position for the fiscal year ended 30 September 2000. The financial statements are the responsibility of Corps management.

We are unable to express an opinion on the financial statements at this time primarily because we have been unable to resolve issues associated with the reasonableness of the valuation of general property, plant and equipment. In addition, the follow-up of the general and application control review of the Corps financial management system has not been completed, so we could not rely on the computer-processed data as support for day to day transactions related to the operating statements. We requested an extension of the required reporting date to complete our audit work. The extension was not granted. The lack of a completed system review prevented us from using any practical methods to conduct audit work of sufficient scope to support an opinion. As a result, we do not express an opinion on the U.S. Army Corps of Engineers financial statements. Except for the limitations on the scope of our work on the principal statements described above, we performed our work in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin 01-02 (Audit Requirements for Federal Financial Statements).

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

We also reviewed the Corps compliance with laws and regulations in relation to its financial statements. Our objective was to assess compliance, not to express an opinion. Therefore, we do not express an opinion on compliance with laws and regulations. The Corps did not comply with Office of Management and Budget Bulletin No. 97-01 (Form and Content of Agency Financial Statements) and Statement of Federal Financial Accounting Standards No. 4, (Managerial Cost Accounting Standards) requirements to present the Statement of Net Cost by business programs. Also, because of previously identified deficiencies in general and application controls related to the Corps financial system, we could not confirm that the system complied with the first requirement of the Federal Financial Management Improvement Act of 1996.

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

Francis E. Reardon

FRANCIS E. REARDON, CPA
The Auditor General

Significant Matters

Summary

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

We haven't completed our audit work to determine if the category of General Property, Plant and Equipment is fairly stated. Since this category represents about $34.54 billion (86 percent) of the Corps assets, we are unable to express an opinion on the balance sheet at this time. On a positive note, we didn't find significant problems during our FY 00 audit work on several material asset and liability categories such as Fund Balance With Treasury, Investments, Accounts Receivable, Accounts Payable and Other Liabilities.

We performed, under a contract let by the General Accounting Office and an independent auditor, a comprehensive test of general and application controls over the Corps of Engineers Financial Management System. A General Accounting Office audit report addressed system general and application controls and an Agency report addressed system security issues. Corps management has reported corrective action was taken on many of the deficiencies. However, follow-up audit work has not been completed to assess those corrective actions. As a result, we were unable to rely on the system controls when developing audit procedures. In addition, the Corps didn't present the Statement of Net Cost by business programs.

During previous audits we discovered a number of problems that required correction by the Corps. During the FY 00 audit, we followed up to determine whether action was taken to correct problems we identified in our previous audits related to the following areas:

- Property, plant and equipment documentation.
- Statement of Net Cost.

Discussion

In this section we discuss:

- General property, plant and equipment additions and deletions.
- General property, plant and equipment beginning balances.
- General and application controls review.

We also discuss follow-up work on prior year issues related to:

- General property, plant and equipment documentation.
- Statement of Net Cost.

Additions and Deletions

The Corps general property, plant and equipment is the most significant asset category on its financial statements. For FY 00, the Corps reported a net value of about $34.5 billion for general property, plant and equipment. Overall, the total net value of the Corps property, plant and equipment increased about $631 million in FY 00 compared to FY 99. The value and change in value for FY 00 by individual category was as follows:

Category	FY 2000 Acquistion Value ($000)	FY 2000 Net Book Value ($000)	FY 1999 Net Book Value ($000)	FY 2000 Net Increase/(Decrease) ($000)
Land	$7,801,562	$7,801,562	$7,360,455	$441,107
Buildings, Structures, and Facilities	30,301,933	18,324,585	19,029,621	(705,036)
Leasehold Improvements	1,206	589	834	(245)
Automatic Data Processing Software	47,446	34,708	29,939	4,769
Equipment	1,106,589	610,325	625,022	(14,697)
Construction In Progress	7,753,407	7,753,407	6,861,391	892,016
Other	12,916	12,916	0	12,916
Total	$47,025,059	$34,538,092	$33,907,262	$630,830

Although the total net increase of about $631 million represents less than 2% change in property, plant and equipment, the material increases and decreases in individual categories must be analyzed. Our analysis of the changes to the balances of land, buildings and structures and construction in progress is not yet complete.

Beginning Balances

In order to establish the beginning property balances for FY 00, we separated Corps property assets into two categories:

- Assets on Power-producing Projects
- Assets on Non Power-producing Projects.

Assets on Power-producing Projects

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

Assets on Non Power-producing Projects

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

Land. The beginning FY 00 balance for land assets on non power-producing projects was $4.4 billion. This cost includes both the cost paid to the previous owner to acquire the land tracts and administrative cost associated with the acquisition. Therefore we performed two reviews to determine the reasonableness of the costs recorded for land. We selected a judgmental sample of 177 land tracts to determine the amount paid to previous owners for the land. We also reviewed 89 projects to evaluate recorded amounts for administrative costs. Statement of Federal Financial Accounting Standards number 6 states that asset costs will include all cost incurred to bring the land to a form and location suitable for its intended use, which includes the administrative costs of acquiring the land. These administrative costs include Corps labor and legal fees as well as costs such as relocations required to prepare the land for its intended use. To date, our sample of the land tract costs and the review of the administrative costs show that recorded costs for land are reasonable. However, our review is still not complete.

Buildings and Structures. The Corps FY 00 beginning balance, net of depreciation, for buildings and other structures on non power-producing projects was $12.5 billion. To verify the recorded values for these assets, we selected a statistical sample of 371 buildings and structures from a universe of 31,180. Corps management provided available documentation in an effort to support the recorded values for the sample items. The documentation provided included both internally generated documentation and documentation obtained from sources external to the Corps. Our review of the supporting documentation showed that the recorded values for buildings and structures were generally reasonable. However, because the majority of the sample items were supported by internal documentation, we established an assessment process in order to provide additional support for the validity of the values supported by internal documentation. At this time, the assessments haven't been completed.

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

General and Application Controls Review

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

Property, Plant & Equipment Documentation

In FY 99, we reported that the Corps hadn't provided adequate documentation to support the recorded values for over half of the properties in our valuation sample. During FY 00 we worked with the Corps in a major effort to obtain and reconstruct supporting documentation for values on property, plant and equipment assets. Through this effort we were able to obtain documentation for the items in our sample. In addition, the Corps agreed to maintain supporting documentation for the life of the asset.

Statement of Net Cost

Again in FY 00, the Corps prepared its Statement of Net Cost by appropriation rather than by business programs. In doing so, the Corps complied with DOD guidance, but didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board. In FY 99 we reported that the Corps didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board for its Statement of Net Cost. The Federal Accounting Standards require the Corps to present the statement by business programs, but the Corps presented the statement by appropriation. However, the Corps did comply with the requirements of the DOD Financial Management Regulation. This regulation requires DOD activities to report program costs by appropriation rather than by business program.

The Statement of Net Cost explains and analyzes the net cost of operations of an entity. The total net cost of operations is the gross cost of the outputs of an entity less any exchange revenue from its activities. The statement displays revenue and expense information by business program or sub-organization. The reporting entity must determine its different business programs based on the missions and outputs described in it's Government Performance and Results Act strategic and annual plans. The Corps has the capability to report by business programs since it has fielded its new standard financial management system.

Report on Internal Controls

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

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

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

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

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

FY 00 Review

In planning and performing our audit, we:

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

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

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

Our tests of internal controls did not provide sufficient evidence to support an opinion; therefore, we do not express an opinion on the internal controls. We also could not assess the risk of material misstatement in the financial statements. Our review showed that there were two areas in which controls needed some improvements:

- Construction in progress.
- Information systems.

Construction in Progress

Personnel didn't effectively review the Construction in Progress accounts to ensure that they only included the proper costs in the accounts. Our testing of the construction in progress accounts showed that there were costs in construction in progress for:

- Assets that should have been transferred to plant in service or to project sponsors.
- Items that should have been expensed.

Corps personnel should transfer, in a timely manner, construction in progress costs to the appropriate asset account or project sponsor upon completion or substantial completion of a project or major portion of a project. However, the Corps didn't have clear guidance identifying how and when personnel should transfer these costs from the construction in progress accounts. Corps personnel must monitor the project status and the construction in progress accounts to ensure a timely transfer at the proper cost.

Corps guidance, "Civil Works Property Capitalization Policies," dated 29 September 1997, states that all costs associated with the initial construction of a capital asset will be capitalized as construction in progress. Costs incurred that do not result in the creation of a capital asset are an expense. Examples of capitalized items are:

- Contractor and In-house construction costs.
- Land acquisition costs.
- Relocation costs.
- Engineering and design costs.
- Supervision and administration costs.

Examples of expensed items are:

- Reconnaissance and feasibility studies.
- Beach replenishment.
- Excavation and dredging of channels.
- Engineering and design, and supervision and administration costs related to expense items.

Proper recognition and classification of work items begins when the district establishes the project hierarchy. In order for costs to be accurately captured, managers must correctly identify parent work items, asset work items, or expense work items. Also, districts must review construction in progress accounts to ensure that they only include proper costs.

Information Systems
The testing of Corps information system general and application controls is currently in process and we will address the final results of those tests in a separate report. However, during the initial phase of the testing, general and application control weaknesses were identified. The Corps has reported that corrective actions have been taken to address those weaknesses. However, follow-up audit work has not been completed to verify the corrective action was completed.

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

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

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

Report on Compliance With Laws and Regulations

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

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

Chief Financial Officers Act of 1990
We evaluated Corps compliance with the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, and various implementing regulations issued by the Office of Management and Budget and DOD, as they relate to financial statement presentation. The Corps has made a concerted effort to meet the act's requirements. In this report, we discuss areas in

which the Corps can achieve financial reporting improvements, however, we do not believe these areas represent material non-compliance with the Act.

Federal Managers' Financial Integrity Act

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

Federal Financial Management Improvement Act of 1996

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

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

- **Federal Financial Management System Requirements.** Federal financial management system requirements have been well-established in Office of Management and Budget Circular A-127, "Financial Management Systems," 23 July 1993, that requires financial management systems to provide complete, reliable, consistent, timely, and useful information. To achieve this goal, the Corps established and maintained a single, integrated financial management system. A review of the system in FY 00 identified deficiencies related to general and application controls of the system. Management personnel at the Corps have reported that action has been taken to correct many of the deficiencies identified. A follow-up review is scheduled for completion in FY 01. Auditors from the Agency, the General Accounting Office and an independent public accounting firm will jointly conduct that review. Until this review is completed, we are unable to verify the system complies with federal financial management system requirements.

- **Federal Accounting Standards.** Federal agencies reporting under the Government Management Reform Act of 1994 are to follow accounting standards and concepts agreed to by the Director of the Office of Management and Budget, the Comptroller General, and the Secretary of the Treasury. For FY 00 the financial management system substantially complied with the Federal Accounting Standards.

- **U.S. Standard General Ledger at the Transaction Level.** The U.S. Standard General Ledger should be implemented at the transaction level or have adequate cross-walks to the U.S. Standard General Ledger. Federal agencies are permitted to supplement their application of the U.S. Standard General Ledger to meet agency-specific information requirements. However, agency standard general ledgers must maintain consistency with the U.S. Standard General Ledger. The Corps financial management system has a standard, transaction-driven general ledger, but the Corps general ledger accounts don't always conform to the U.S. Standard General Ledger accounts at the transaction level. The Corps does have adequate cross-walks from its general ledger to the U.S. Standard General Ledger.

Office of Management and Budget Bulletin 97-01 and Statement of Federal Financial Accounting Standards #4

The Corps didn't fully implement the requirements established by the Federal Accounting Standards Advisory Board and format included in Office of Management and Budget Bulletin 97-01 for its FY 00 Statement of Net Cost. The Federal Accounting Standards and Bulletin require reporting activities to present the statement by business programs, but the Corps presented the statement by appropriation. However, the Corps did comply with the requirements of the DOD Financial Management Regulation. This regulation requires DOD activities to report program costs by appropriation rather than by business program.

Other Matters

Overview Information

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

- Background
- Mission
- Performance Results
- Management Initiatives

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

Required Supplementary Stewardship Information

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

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