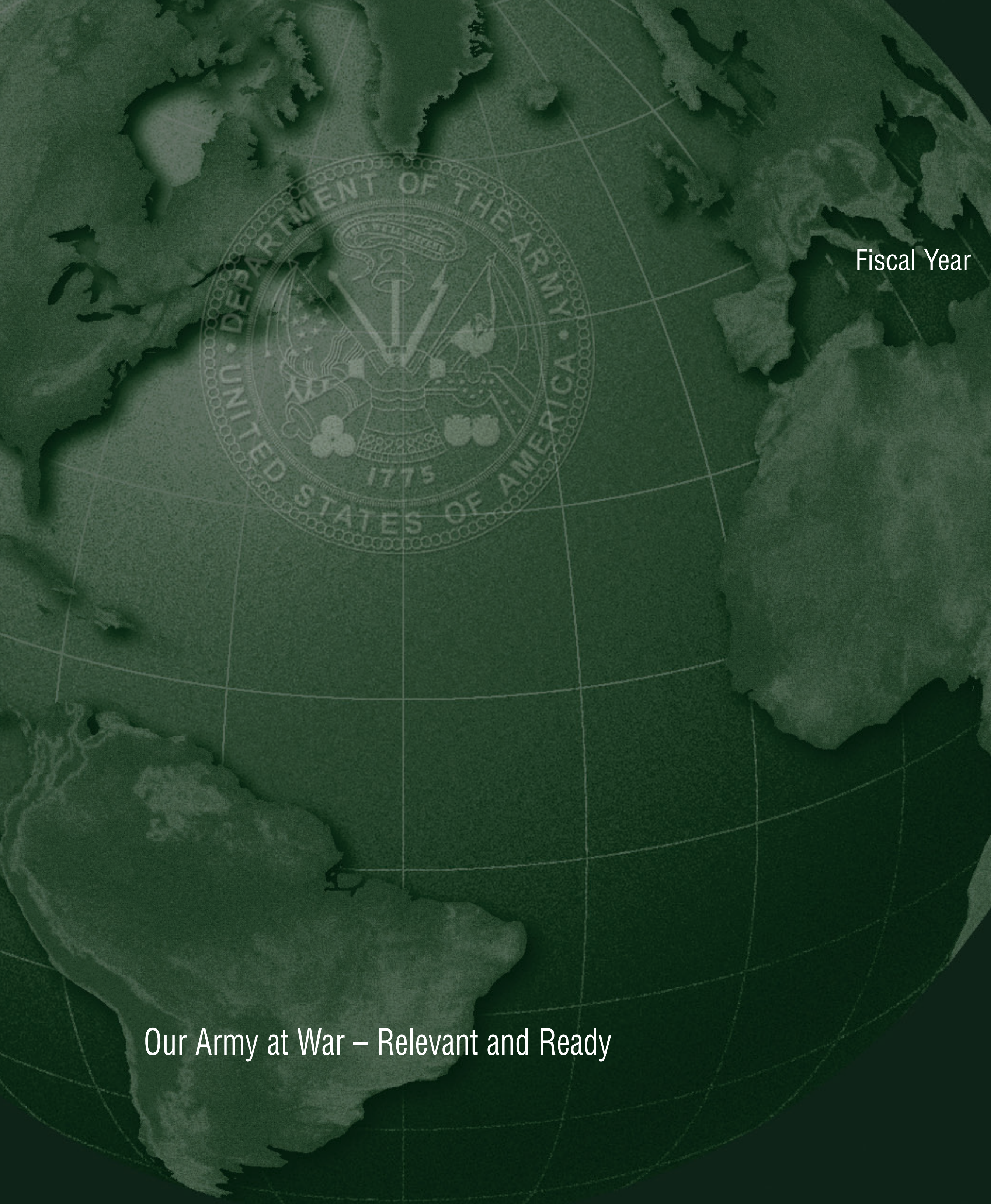
Fiscal Year

2003

The United States Army
Annual Financial Statement



Our Army at War – Relevant and Ready

U.S. ARMY

Our Army at War – Revelant and Ready

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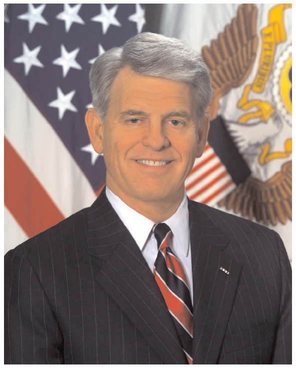


For 228 years, the Army has served America in peace and war. Today, our Nation is once again at war. We are engaged in a global campaign against terrorism. Notwithstanding our war on terrorism, we are simultaneously working to transform the Army into a more agile fighting force with a Joint and Expeditionary mindset ready to support the U.S. Joint Team.

The Army is about people - Soldiers, families, and civilians. With more than 1.2 million individuals, including those of the active and reserve components, civilians, and contractors, the Army serves America throughout the world. We have over 360,000 Soldiers currently deployed in 120 countries, including more than 157,000 Soldiers conducting combat operations. Nearly 230,000 of the Soldiers deployed overseas are active duty troops, supported by 60,000 from the Army Reserve and 75,000 from the National Guard. We are truly one Army.

Our battlefield successes in Iraq and Afghanistan validate America's investment in the training, leading, sustaining, and caring of our force. After a lightning ground attack into Baghdad and an overwhelming military victory by coalition forces, our Soldiers now are assisting the Iraqis to build a free and democratic society. In turn, this will help make the world a safer place. In Afghanistan, the Army continues to root out remnants of al Qaeda and the Taliban. As in Iraq, the objective here is to win the peace and to create a safe environment in which the Afghan people will be able to rebuild their country.

Even while engaged in combat, we must continue to transform the Army. The global environment is changing, and we must change with it, integrating people, systems, and knowledge into a force equipped to deal with new and unseen challenges. This past summer we certified the Army's first Stryker Brigade at the U.S. Army Joint Readiness Training Center at Fort Polk, Louisiana - a milestone on the road to the Future Force. To capitalize on this new fighting capability, this brigade is currently being deployed to Iraq for a yearlong tour of duty.

To guide our immediate path, we have identified sixteen focus areas. The broad areas target training and equipping Soldiers and growing leaders, providing relevant and ready land power capability to the Combatant Commander and the Joint Team, and enabling our Current and Future Force. These sixteen focus areas will provide a framework for balancing the Army's core competencies and capabilities. Within the Year in Review section, you will read about other transformation successes involving Future Combat Systems, the Installation Management Agency, the Logistics Modernization Program and the Army Corps of Engineers 2012. All of these actions are important steps to meeting our current needs and developing the Future Force.

Lastly, applying our resources in a prudent manner is critical both to winning the war on terrorism and transforming the Army. We are working hard with Department of Defense to modernize our business processes and systems in consonance with the Business Management Modernization Program and the Business Initiatives Council. Our goal is to provide relevant and reliable information to Army decision makers with which they can make sound decisions on the effective application of resources. Earning an unqualified audit opinion on our financial statements will attest to the quality of the financial information we provide managers. Thus, an unqualified audit opinion remains a priority across the Army.

I welcome your interest in the Army and its programs. In these challenging and unpredictable times, Americans can be assured that the Army is ready to protect and defend the Constitution and our national freedoms. Our leadership is committed to the honest and efficient stewardship of the resources that public funds provide. We stand ready to meet all future challenges as we work to deliver a relevant and ready Army to the Nation.

Les Brownlee

R.L. Brownlee
Acting Secretary of the Army

2003

Our Army at War – Relevant and Ready

Once again, at the close of a fiscal year, the world has changed dramatically. In large measure that difference is due to the U.S. military and particularly our Army.

The war on terrorism remains a global fight and now features two major fronts: Iraq and Afghanistan. It is a deadly serious business with extreme consequences for those nations, our own country and every person participating in the campaign to combat terror, whether stateside or on the front lines. Though we have rid Iraq of its Baathist dictatorship, there is much yet to be done in order to bring stability and to set the right conditions for the Iraqi people to make their country prosperous once more.

The financial management community is waist-deep in this war and success will depend upon how well we do our jobs. It is our duty to obtain and to manage the funds that enable our soldiers to fight. We must be careful stewards of this money, allocated to us by the Congress but provided by the American people. It is the hard-earned dollars of the American taxpayers that finance the Department of the Army; in return, we have an obligation to provide full accountability of the resources entrusted to us.

To this end, we must root out abuse and simple mismanagement; not a dollar should be wasted, whether the cause be intentional or unintentional. The Army must be able to earn an unqualified opinion. We are making progress towards this goal but more lies ahead in fiscal year 2004. More broadly, relevant and reliable information is vital to the leaders who make Army funding decisions, whether they be among our civilians and uniformed personnel, in the Office of the Secretary of Defense, in the Office of Management and Budget, or on Capital Hill. It is the financial management community's responsibility to supply the most accurate data possible in a timely manner.

The war on terrorism is not the only thing on the Army's plate. We are still fully engaged in Transformation and we will not be diverted from this process, which is so critical to our service's future. Accomplishing both of these missions means sound and innovative financial management is more important than ever. The Army Business Initiative Council (BIC) is one tool that produced success in 2003. We estimate that BIC programs implemented so far will allow the Army to avoid more than $1 billion in cost over the program years. I congratulate all who have contributed to the BIC and ask that we redouble our efforts in 2004 to reap more resources for our Soldiers from within the top line.

During FY 2003, the Army made progress in modernizing many of our financial management processes and systems. This report includes information on these advances, as well as on all three funds managed by the Army: the General Fund, the Working Capital Fund, and the Civil Works Fund. The compact disc that accompanies this report provides additional information and links to key Army web sites. I believe you will find the report useful in furthering an understanding of our country's Army, its mission, and its people.

Sandra L. Pack

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

2003

Our Army at War – Relevant and Ready

For 228 years, the U.S. Army Corps of Engineers has been committed to serving the nation in peace and war by providing comprehensive engineering, management, and technical services. Our mandates over time have continually evolved to reflect America's priorities. At Bunker Hill and during the Revolutionary War, the Corps supported our military forces in time of war. Today, the nation's war on terrorism is our main priority and we are mobilizing our resources to help win this war. In this regard, Civil Works Program has established a Homeland Security Office in Corps Headquarters, as we undertake measures to enhance the security of our critical facilities.

In the mid-1820s, the Corps of Engineers conducted a survey of nationally important roads and canals for commercial use, military use, and mail transportation. Today's Civil Works mission does not have a national road component, but it does include water resource development activities in the primary program areas of flood control, navigation, and environmental protection. Additionally, we have a critical role in emergency response. For example, the Corps was heavily engaged in protection and relief work when Hurricane Isabel struck the east coast in late summer 2003. The Corps remains vigilant, and we take great pride in lending assistance to the efforts of local communities during times of disaster.

The Corps of Engineers possesses an impressive body of knowledge on water resources, and we must exploit that knowledge and associated skills to ensure that the Federal government's responsibilities to the nation, both at home and abroad. Our nation's water resources are finite, and in managing those resources we are increasingly challenged to reach decisions that appropriately balance the social and economic benefits of development with the need to protect the environmental. As science and engineering continue to advance, we will seek to leverage new developments to achieve an optimal balance of these factors for the benefit of the nation.

Looking to the future, we must seek to do everything within our authorities to ensure that our country's economy remains strong and its natural resources protected. We are dedicated to continuing a national water resources program that serves the best interest of all our citizens.

John Paul Woodley, Jr.

John Paul Woodley, Jr.
Assistant Secretary of the Army
Civil Works

2003

Our Army at War – Relevant and Ready


DEPARTMENT OF THE ARMY
UNITED STATES OF AMERICA
1775

2003

The United States Army
Year in Review

The United States is at war, and the Army serves the nation by defending the Constitution and our way of life. This is our nonnegotiable contract with the American people: To fight and win our nation's wars, decisively.

A Statement on the Posture of the United States Army
February 11, 2003

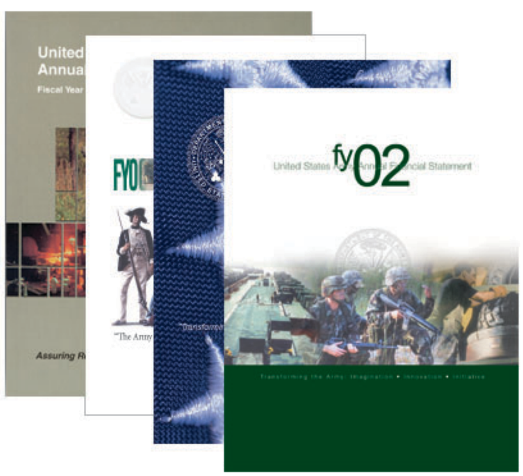
The world in which the Army is operating today is no longer a business-as-usual environment. The United States is at war, and nearly 50 percent of Army forces are today in contact with our enemies. They will continue to be so for the foreseeable future. The Army is a proud member of the Joint Force that expertly serves our nation and its citizens. Our culture is to strive always to improve, and today our individual and organizational approach to our work and duties must above all reflect the seriousness and urgency characteristic of an Army at war. Our Soldiers and nation deserve nothing less.

For 228 years, the Army has met the call to serve: to fight and win the nation's wars. During FY 2003 we fulfilled this obligation through deployments in 120 countries, most visibly in America's continuing global fight against terrorism. As always, at the heart of everything we are seeking to achieve is the individual Soldier; his training, readiness, and welfare. In Afghanistan and Iraq, our Soldiers have performed impeccably in the face of great difficulties to achieve their objectives. And at home, they are at the core of our effort to transform the Army into a more responsive, deployable, agile, versatile, lethal, survivable, and sustainable force.

Key transformation activities this year have included the following:

- The engagement of our Soldiers in the war on terrorism, including in Operation Iraqi Freedom, Operation Enduring Freedom in Afghanistan, and smaller deployments in other countries.

A 10th Mountain Division Soldier uses binoculars to look for enemy activity while a fellow Soldier unfurls an American flag near the village of Loy Karezak, Afghanistan. *U.S. Army photo by Spc. Gul A. Alisan.*



- Establishment of the Installation Management Agency. This represents a profound change in the way that the Army manages its posts and garrisons around the world, and has already started to yield benefits measured in the hundreds of millions of dollars.

- Certification as fit to fight of the Army's first Stryker Brigade, a new, highly mobile intermediate combat force capable of rapid deployment anywhere in the world.

- Achievement of a key milestone in the Future Combat Systems Program, moving into the system development and demonstration phase the ground weapons systems of the "Army After Next."

- Deployment of the first phase of the Logistics Modernization Program (LMP), which will modernize the Army's national-level logistics business practices and support the Army's growing use of information technology.

- Planning for the shift by the U.S. Army Corps of Engineers to a new regional focus. This will include reorganizing the eight divisional offices and their subordinate districts into more effective regional business centers and formalizing Communities of Practice to enable us to capture and better benefit from lessons learned and to enhance our technical expertise.

These activities are essential to the pursuit of the vision that remains the guiding principle for our fighting force: People, Readiness, and Transformation. The Army is committed to training and caring for its Soldiers, civilians, and families. We are committed to ensuring that our forces are prepared at all times to deploy and fight. And we are committed to investing in the improvements that will maintain the U.S. Army in its position as the most lethal army in the world.

Just as our Soldiers have standards to guide their training, appearance, and conduct, the Army has financial standards to guide the management of the public funds entrusted to it. The Chief Financial Officer (CFO) Strategic Plan serves as a framework for accountability and to ensure that the Army is fiscally responsible for those funds, and that it delivers quality and value to our customers. This plan also provides a roadmap for measuring financial performance, adhering to Department of Defense guidance and aligning with the President's Management Agenda to lead the Army through the continual improvement of its financial processes.

The Annual Financial Statement is published to report on the Army's financial performance each year. It is organized around the three funds that comprise the Army's financial statements: the General Fund, the Working Capital Fund, and the Civil Works Fund. The next sections describe fund highlights for FY 2003; detailed analysis is provided in subsequent chapters. Throughout the report, comparisons are made between FY 2003 and FY 2002. However, the Army in FY 2002 was an Army at peace while the Army in FY 2003 is an Army at war. The annual results for each fund include the principal financial statements, notes, and supplementary information at the back of this publication.

General Fund

The General Fund provides the funding that the Army needs to accomplish the many different tasks required of it by the American people. Most important among these tasks is that the Army maintain at all times the readiness to fight and win the nation's wars. During FY 2003, the primary use of this fund was to support the Army vision of People, Readiness, and Transformation.

People

The global war on terrorism placed a heavy demand on Army resources in FY 2003. Troop deployments touched nearly every Army installation and organization, and significant contributions were required also of the Reserves and the National Guard. As of September 30, 2003, about 368,000 of our approximately 1.07 million active duty, Reserve, and National Guard Army troops were on active deployment. Most of the Soldiers deployed were involved in the global war on terrorism, either at home or in one of 120 countries overseas. At the time of this report, more than 167,000 Soldiers are deployed in Iraq and surrounding countries. More than 30,000 are in South Korea, 9,600 are in Afghanistan, 5,100 are in the Balkans, and more than 3,000 are supporting additional peace efforts in locations overseas. A further 28,600 Soldiers are deployed in the United States as part of the homeland security effort.

At any one time overseas deployments account for approximately 48 percent of the active duty Army, 30 percent of the Reserve force, and 21 percent of the National Guard. Of the 33 active duty Army brigades, 24 (approximately 73 percent) were deployed overseas this year. Fifteen of the 45 National Guard enhanced battalions (33 percent) were also serving overseas.

The outlook for next year is just as challenging. Deployments such as those in support of Operation Iraqi Freedom put considerable pressure on the Army. Troop deployments tie up about three times as many personnel as are actually deployed, because of the need to train and support the units that are scheduled for subsequent rotations. As a result, the Army has recently announced one-year rotations for U.S. troops in Iraq, instead of the more typical six-month deployment. Despite the pressure of these deployments we remain on track to achieve our recruiting goals for FY 2003.

Operation Iraqi Freedom

Operation Iraqi Freedom demonstrated the awesome ability of the modern U.S. Army to the world. Within a week of the outbreak of the ground war in Iraq, U.S. ground forces blocked all key exit routes that could be used by the Iraqi leadership to escape the judgment of their people. Within 3 weeks, resistance in the capital

A soldier from Fort Hood, Texas, greets his family upon returning home.

Capt. Paul Stanton, commander of Co. B, 2nd Battalion, 502nd Infantry Regiment, 101st Airborne Division briefs Gen. Peter J. Schoomaker, the Chief of Staff of the Army and Maj. Gen. David H. Petraeus, commander of the 101st Airborne Division during a foot patrol in Mosul, Iraq, Aug. 21. Gen. Schoomaker visited the 101st Airborne's area of responsibility

city of Bagdad collapsed. Deployed from half a world away, U.S. Army troops led the way to this victory.

The ground war of Operation Iraqi Freedom began on March 20, 2003, when the 3rd Infantry Division (Mechanized) advanced from Kuwait into southern Iraq, bypassing urban areas on its way to Baghdad. After pausing to rearm and refit, the division continued north, crossing the Euphrates River and fighting its way to the international airport in Baghdad. U.S. Marines closed in on the city from the southeast.

In the south, the 101st Airborne Division conducted a battalion air assault. Special operations forces seized Iraq's major gas and oil terminals in the northern Persian Gulf and airfields in western Iraq. In the Kurdish-controlled area of the north, Soldiers of the 173rd Airborne Brigade carried out a night drop onto an airstrip to form a second front. In southeastern Iraq the 1st Marine Expeditionary Force and British forces combined to seize the Faw peninsula and secure Basra and other key objectives. The brigades of the 101st and the 82nd Airborne Divisions seized secondary objectives south of Baghdad. All coherent resistance in Iraq's capital collapsed on April 9, 2003.

The initial ground combat phase of Operation Iraqi Freedom was short and successful, but the next phase of the mission will take longer. Coalition forces in Iraq have been transitioning to post-hostility reconstruction, humanitarian assistance, and security tasks. For example, the U.S. Army Corps of Engineers (USACE) is supporting the effort to restore oil infrastructure and production to pre-war levels, to repair electrical infrastructure, and to destroy the thousands of tons of munitions abandoned by the former Iraqi regime. The Corps is also assisting the U.S. Agency for International Development and Iraqi ministries, and is helping Iraqi engineers gain knowledge that bypassed them during the past 20 to 25 years, when they were prohibited from almost all contact with the outside world.

Our Soldiers are fully aware that Operation Iraqi Freedom is an engagement for the long term, and they are committed to finishing the job. Our goal nonetheless is to have every Soldier home as soon as possible, as realization of this goal will signify their successful completion of their mission. As Defense Secretary Donald Rumsfeld has said, the "end state is to have no U.S. and no international forces in Iraq … because it is [the Iraqis'] country."

Other Anti-Terrorist Operations

In addition to Iraq, the Army continued its engagement through FY 2003 in numerous other operations against terrorism, notably in Afghanistan, the Philippines, and the Horn of Africa.

In Afghanistan, the commander of U.S. Central Command has said that our troops will remain there "for the foreseeable future." In just a few months in FY 2002, American and coalition forces overthrew the Taliban regime and destroyed the main force of al Qaeda terrorists. The Army's mission in Operation

Enduring Freedom is now to eradicate the last vestiges of Taliban and al Qaeda resistance and to help the Afghan people rebuild their country. Army forces of up to 2,000 82nd Airborne Division Soldiers, supported by Apache gunships and Black Hawk helicopters, continue to search for terrorist holdouts in remote areas near the Pakistan border; at the same time, dedicated Army professionals are training the Afghan army and police force to assume responsibility for security and order in the country.

Readiness

A famous maxim of Chinese military strategist Sun Tzu is, "In peace prepare for war, in war prepare for peace." Readiness is in a very real sense the main business of the U.S. Army—indeed, of all military services. While wars may quickly consume huge amounts of resources, over the long term staying ready for war and peacekeeping uses far more. It is therefore essential that we continuously seek ways to be more efficient, productive, and effective in carrying out readiness activities.

Installation Management Agency

Most readiness activities take place on Army installations, ranging in size from major posts like Fort Benning, GA to smaller garrisons such as Camp Casey in South Korea. Many of these installations are akin to small cities, complete with office buildings, housing, hospitals, schools, stores, restaurants, and theaters. Some encompass hundreds of square miles of wilderness for military training and exercises. Base services include the maintenance, operation, and repair of facilities and of infrastructure such as roads, sewer and water systems, and electricity, and the maintenance of heating, ventilation, and air conditioning. Importantly, these bases also provide health, morale, welfare, and recreational services to Army personnel and their families.

Managing any installation is a major undertaking. Traditionally, the job has gone to a "landlord" that also commands the largest unit at the installation. An installation can have dozens of tenant units that use money from their own budgets to pay for the services that they receive from the base commander's unit. Under this system the priority of the landlord commander is his or her own unit, rather than the post or garrison, and the landlord unit may use funds assigned for base operations to support its deployment to combat missions. The system additionally disperses management in a environment that would benefit from a more centralized approach.

This landlord-tenant system started to change on October 1, 2003, when the Army opened a centralized Installation Management Agency (IMA). The IMA mission is to ensure the Army is properly trained, fed, equipped, and cared for in an environment that guarantees both combat readiness and the well-being of Soldiers and their families. The new system employs a commander who is responsible exclusively for the operation of the installation, and who reports to the IMA rather than to another unit commander on the post. All units located at an installation will receive a standard level of service, and all base

Up to 70 countries are involved in Operation Enduring Freedom. Coalition forces have made important contributions in the war against terrorism across the spectrum of operations, providing vital intelligence, personnel, and equipment and assets for use on the ground, in the air, and at sea. Coalition members also have provided liaison teams, participated in planning, provided bases, granted overflight permission, and have made sizable contributions of humanitarian assistance.

operations (BASOPS) funds will go to the garrison commander and remain at the base.

Under the IMA system unit commanders will be able to focus on their mission and on readiness, instead of on being landlords. The system will enable the Army to establish standards, allocate resources according to those standards, deliver equitable services from installation to installation, and ensure the equal treatment of all units on a base. Operation Iraqi Freedom (OIF) provided the first evidence of the fiscal efficacy of this new, centralized approach. In FY 2001 through FY 2002, base commanders flowed hundreds of millions of BASOPS dollars into paying for the early phases of the deployment of their main units in support of Operation Enduring Freedom and the war on terror. Little of that money was repaid to the bases. In FY 2003, base commanders did the same for Operation Iraqi Freedom, to the tune of about $600 million. This time, under the new rules of the IMA, when the Army received supplemental money from Congress to fight the war we repaid 99 percent of the diverted funds. According to IMA Major General Anders B. Aadland, this was “a first step into the programming discipline we’d been talking about.”

Transformation

To win its wars and to protect the peace, the U.S. Army must engage in continual transformation. According to Army Chief of Staff General Peter J. Schoomaker, “Old rules no longer apply. It is not business as usual. This state of war requires us to challenge old paradigms, to be flexible and adaptable to face a cunning and devious enemy.” To be effective, Transformation has to reach all parts of the Army, not just the combat units.

Stryker Brigade Combat Teams

The Army has light, fast, and flexible combat units for initial deployment into an area, and it has heavy combat units that take longer to bring into play but that can defeat anything the enemy throws in their way. Until recently, though, the Army did not have intermediate combat groups that combined the speed and agility of light forces with the firepower of heavy units. New Stryker Brigades filled that gap in FY 2003, when the Army certified the first units of this highly flexible, quick-response, heavy-duty fighting force.

Although a Stryker Brigade may include 3,500 personnel and 400 vehicles, it can deploy rapidly over great distances by air or sea. The brigade can be quickly configured to conduct combat missions across a range of military operations, against different potential threats, and on any terrain. With no more than four days notice, a Stryker Brigade can be on its way anywhere in the world to do anything from combat a terrorist bombing campaign to fight a conventional military foe.

The brigade is built around the Stryker Interim Armored Vehicle, itself an Army Transformation success story. The Stryker is a mid-weight, armored eight-wheeled vehicle that combines firepower, battlefield mobility, survivability, and versatility with

A Stryker Brigade Combat Team convoy in Iraq.

reduced logistics requirements. It can be airlifted by a C130 Hercules cargo aircraft to primitive airstrips and can be sent into combat immediately. The Stryker can be configured 10 different ways, from troop carrier to mobile artillery platform to combat engineering vehicle. It has a range of 300 miles.

Future Combat Systems

As new as it is, the Stryker is only a temporary solution to fill a gap while ground weapons systems development catches up with new technology. In FY 2003, the Department of Defense approved moving the Army's Future Combat Systems (FCS) program into a $14.9 billion system development and demonstration phase. More than just a vehicle, FCS eventually may be a family of manned and unmanned ground and aerial platforms. It is expected to replace both the Abrams tank and the Bradley Fighting Vehicle.

A revolutionary system, FCS is designed to be the ground force centerpiece for the "Army After Next," for FY 2015 through FY 2020. The FCS will blend the capabilities of several battlefield operating systems into a common platform that will radically change the nature of close combat. FCS elements will be lightweight (no individual element greater than 20 tons), so that at least two will be able to fit into a C130 cargo aircraft. They will provide an overwhelmingly lethal, strategically deployable, self-sustaining, and survivable combat and combat support force, systems, and supporting technologies. FCS will be a single multifunctional system (or system of systems, capable of integrating a dozen or more individual systems and their operators into a single network), with the objective of being able to deploy to any conflict anywhere in the world in 96 hours, ready to fight.

Working Capital Fund

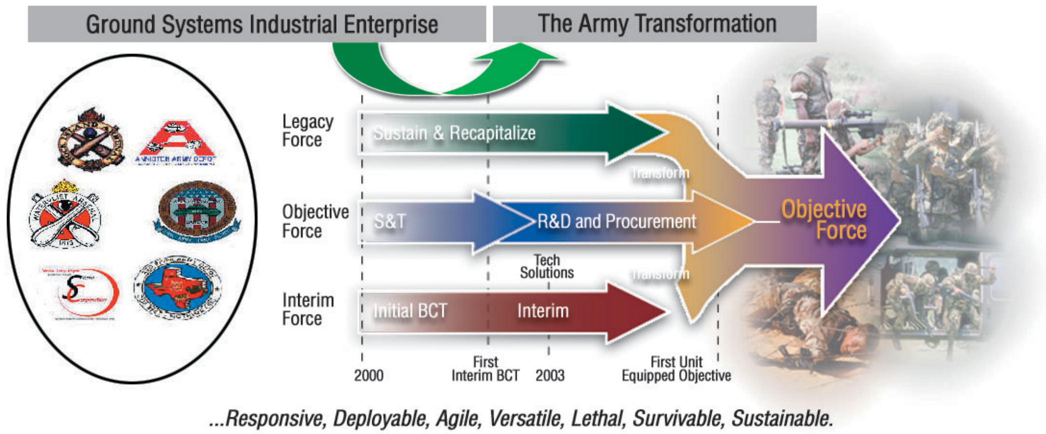
The Army Working Capital Fund (AWCF) is part of the Defense Working Capital Fund, and is divided into four activity groups: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services. These businesses help the Army to maintain constant readiness by providing the supplies, equipment, ordnance, and information services necessary to support the deployment and projection of lethal force as and when required by the nation. This year the two most significant activities undertaken by the AWCF were the Logistics Modernization Program and the Ground Systems Industrial Enterprise.

Logistics Modernization Program

Next to combat skills, logistics know-how is probably the most important capability in the military world. Moving troop supplies from the depot or factory to the "tip of the spear" has always been a complicated undertaking, but today's level of complexity defies the imagination. The Army uses millions of different items, including rations, uniforms, industrial and building supplies, spare parts, ammunition, medicines, fuels, and many others. These items often must be moved thousands of miles overnight to support troops on some distant battlefield.

Lt. Col. Mark Dickens and Maj. Rob Key examine an unmanned aerial vehicle in the Pentagon courtyard. "Shadow 200" UAV, was on exhibit Sept. 25 to educate Army members about new short-range surveillance technology.

Figure 1. Ground Systems Industrial Enterprise Visions



Headquartered at Rock Island Arsenal, IL (RIA), the six facilities merged under GSIE are Anniston Army Depot, AL (ANAD); Lima Army Tank Plant, OH (LATP); Red River Army Depot, TX (RRAD); Rock Island Arsenal, IL (RIA); Sierra Army Depot, CA (SIAD); and Watervliet Arsenal; NY (WVA).

Although they were leading edge in their time, the Army's logistics legacy systems, such as the Commodity Command Standard System (CCSS) and the Standard Depot System (SDS), are nearing obsolescence and must be replaced. These systems use the old batch processing approach, while today's logistics information flows interactively in near real time. They use 25-year-old technology, 30-year-old processes, and are written in COBOL, now a truly ancient digital language.

On July 7, 2003 the Army successfully completed the initial deployment of the first phase of the Logistics Modernization Program (LMP). LMP is designed to modernize the Army's national-level logistics business practices and the supporting information technology. LMP was deployed to 12 pilot locations in the first phase, and over the next 12 months the platform will be deployed to other commands, depots, and arsenals countrywide.

The new logistics program is a key component of the Army's transformation campaign, and will deliver measurable improvements in Army readiness. Most important to the Soldier in the field, LMP will reduce the time between order and delivery and will help eliminate the problem of items being out of stock when ordered. Additionally, the new system will keep an order visible from start to finish, so there will be far fewer "lost orders." LMP will be a powerful tool for logistics planning, which is important for strategists and tacticians alike. The Army will be able to spend less money buying and storing items in warehouses, because LMP will improve the ability to order direct from the factory, even in times of crisis. Finally, LMP will reduce the number of people who are needed for logistics management and operations, freeing personnel for other purposes.

Ground Systems Industrial Enterprise

Army arsenals and depots provide essential manufacturing, overhaul, repair, and refitting services for a wide variety of ground weapons systems and platforms. Among the oldest organizations in the Army, many of the depots started out in the early 19th century as the primary manufacturers of rifles, pistols, cannons, and gunpowder. Today, much of this work is done by the private sector, working on contract with the Army. This and other factors have caused the depots to reorganize-indeed, transform themselves-to provide the types of services the modern Army demands.

Formed as a result of provisional stand-up in October 2002, the Ground Systems Industrial Enterprise merges the capabilities of six Army facilities into a single enterprise. As a result of the Army Business Initiatives Council recommendation and directive of the Secretary of the Army, full stand-up and implementation is set for October 1, 2003.

The underlying intention of GSIE is to leverage the assets of the government-owned depots, to provide better maintenance, storage, and outloading services. This will permit the six Army facilities to be more cost-effective, flexible, and agile. GSIE will operate like a business to the maximum extent possible, will grow by leveraging the capabilities of each installation, will foster more partnering arrangements with industry, will champion financial and workforce reforms, and will increase productivity through initiatives such as lean manufacturing. The GSIE plan of action encompasses four objectives: continuous improvement of the support given to Soldiers, infrastructure reductions, efficiency gains, and increased work throughput.

Most important to the combat commander, the GSIE establishes a closer relationship between the field and the industrial base that supplies and maintains ground weapons systems. The enterprise furthermore will be a focal point of entry for all ground systems support issues and will provide a consolidated, ongoing sustainment structure for ground systems.

Microsoft Suite Buy

The Army has been seeking to consolidate its software purchases and licenses to improve both the security of and the Army-wide access to information. To this end, during the third quarter of FY 2003 the Army signed a six-year contract worth more than $470 million with Microsoft and its small business reseller. The contract is in concordance with the DoD Enterprise Software Initiative (ESI). The Army has close to 500,000 computer users, and the Enterprise Software Consolidation contract is expected to save $15 million over the next six years. The first year delivery order, totaling $78 million, was awarded on May 30, 2003.

"The new contract is particularly relevant to the last of these goals [to reduce the cost of operations]. We're trying to be more like a corporation, be more business-orientated. Enterprise is about treating the Army as one integrated organization."

Peggy Henderson,
Acting Deputy Director of Enterprise Systems
Technology Activity

"We need, first, to identify the individual and independent homeland security programs that exist throughout the Corps, and organize them into a single, coherent program. Secondly, we need to establish contact with our customers, stakeholders, and partners to get their views on where USACE needs to focus its homeland security efforts."

Edward Hecker
Chief, Homeland Security Office

The size of the award highlights the importance of the contract to the Army Knowledge Management (AKM) strategy of supporting Army operations through better access to information. The AKM transformation has three strategic goals: to defend the information network, to support the Objective Force, and to reduce the cost of operations. The aim is have one Army network, one Army portal, a single sign-on capability, a universal directory service, and the ability to support plug and play. The outcome of this will be universal access to information across the Army: Soldiers will be able to go anywhere, anytime, and plug into the system in support of their work.

Civil Works Fund

The Corps of Engineers Civil Works Program has been involved since 1824 in the development, management, protection, and enhancement of America's water and related land resources. Today the program is responsible for commercial navigation, flood damage reduction, environmental restoration, and related matters. It provides stewardship of America's water resources infrastructure and associated natural resources, and provides emergency services for disaster relief. The Civil Works Program supports the Army in peacetime pursuits, during national emergencies, and in times of war. Many of the USACE employees helping Iraq to restore its public works programs are using skills they use every day in their work at home. Highlights of the program in FY 2003 include the creation of the Homeland Security Office and planning for a transformed Army Corps of Engineers.

Creation of the Office for Homeland Security

The Department of Homeland Security was created as a new federal agency in response to the terrorist attacks of September 11, 2001. In February 2003, the USACE subsequently established the Office of Homeland Security to fulfill the myriad responsibilities associated with civil emergency management and critical infrastructure protection programs. The new office notably is responsible for coordinating USACE support with elements of the Department of Homeland Security, the Department of Defense, and the Army in the overall homeland security mission.

The USACE oversees numerous infrastructure assets that are potentially vulnerable to terrorist activity. Assuring the security of these assets encompasses detection, protection, and response work. The Corps' detection work includes activities such as maintaining crime watch programs, performing surveillance, and raising awareness of potential threats. Protection requires the screening of all facilities to establish their importance and the assessment of the vulnerability to attack of these facilities. To assure responsiveness, the Corps must coordinate with state and local law enforcement bodies, with the National Guard, and with federal agencies. Among the most important infrastructure assets overseen by the Corps of Engineers are 75 hydroelectric power projects, 456 major lakes and reservoirs, 237 locks, 25,000 miles of commercially navigable channels, 926 shallow and deep draft harbors, and research and development facilities valued at $1.2 billion.

USACE 2012

The Army Corps of Engineers has developed a long-term plan to reduce its headquarters infrastructure and to reorient to a teams-based organization. The changes, to be made under the designation USACE 2012, are needed to produce more cost-effective, viable solutions to the water and infrastructure problems that challenge the country today and that will do so over the next decade. The plan aims to unify the organization and thus to eliminate the redundancy of duplicated effort. In doing so, it is expected to deliver cost reductions. Centering the organization on teams furthermore will improve collaboration at and between all levels of the Corps, from the district to the Pentagon. The process will also seek to open channels of communication between the Corps and other governmental agencies, academia, and private industry.

USACE 2012 will strengthen the regional focus and transform the eight existing divisional offices and their subordinate districts into regional business centers. This shift will enable the divisional offices to concentrate their technical expertise and thus to broaden and enhance the range and quality of the services that they deliver to the customer, the American taxpayer. At the Washington Headquarters, teams will assist the regional transformation with administrative and policy support, for example, by fielding policy questions early in the process or by ensuring that a Congressional response on the status of a project reflects the knowledge of the entire team. The reorganizational program additionally will change the Corps' approach to the budget and authorization process, and will provide overseers in the Pentagon, the Office of Management and Budget, and the Congress with better information on the water resources challenges that the nation faces. USACE 2012 also will formalize the various Communities of Practice within the Corps to ensure that lessons learned are captured and passed on and that technical expertise is maintained and honed.

Hurricane Isabel

Hurricane Isabel, the largest hurricane of FY 2003, made landfall on midday, September 18 on the outer banks of North Carolina. Packing maximum sustained winds of 100 mph, Isabel caused widespread power outages in Virginia, Washington, D.C., Maryland, and New Jersey. Two divisions of the Corps of Engineers were affected: the South Atlantic Division and the North Atlantic Division, in Federal Emergency Management Agency FEMA) Regions II, III, and VI. The Corps assigned 228 employees to its disaster response effort. The Norfolk District provided the primary contribution to the emergency operations, including the execution of FEMA missions through to financial closeout, within its Civil Works boundaries in the Commonwealth of Virginia. The Baltimore District had similar responsibilities in the State of Maryland and the District of Columbia.

All Corps of Engineers' flood control projects performed as expected, minimizing the damage caused and protecting lives. Requests for ice and

Damage caused by Hurricane Isabel at Kitty Hawk, N.C.

water headed the calls for aid from North Carolina, Virginia, Maryland, Delaware, and the District of Columbia: in the days prior to and following the hurricane FEMA and the Corps moved more than 2 million pounds of ice to North Carolina, Virginia, and D.C. More than 420,000 gallons of drinking water were delivered to Virginia emergency managers.

Isabel came ashore south of the U.S. Army Engineer Research and Development Center's (ERDC) Field Research Facility (FRF) in Duck, NC. The storm was the largest ever measured by the FRF, with 26.5-foot significant wave heights and 92 mph wind gusts.

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 2003 toward our goal of ensuring that our critical feeder systems are compliant with the Chief Financial Officers (CFO) Act and that they will 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.

Management Discussion and Analysis

Mission

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

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

The Army's primary mission is warfighting, and in this it has no equal, but its capabilities enable it also to accomplish many other missions in support of the national objectives. Prepared at all times to fight and win the nation's wars, its Soldiers are also ready to be dispatched anywhere in the world to save lives, protect property, or keep the peace. In 228 years, the Army has never failed the nation.

In addition to these responsibilities, the Army has a responsibility to use wisely the public funds entrusted to it. Despite comprising 33 percent of all active military forces in FY 2003, the Army accomplished its missions and prepared for future missions while consuming only 23 percent of the funds allocated to the Department of Defense.

Organizational Structure

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

The Production Subsystem

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

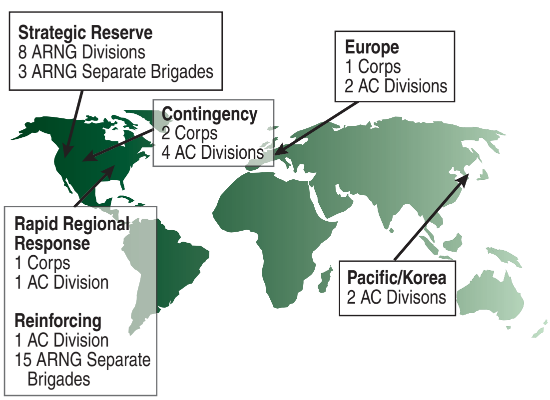
Other elements of this subsystem convert these raw materials into intermediate goods; for example, training centers and schools turn untrained people into tank crewmen, infantrymen, and mechanics. These schools additionally convert ideas and knowledge into doctrine, tactics, and training methods to enhance the

What We Do

- Warfighting
- Peacekeeping
- Humanitarian Aid
- Homeland Security

A Soldier provides security with a .50-caliber machine gun at a site near Balad, Iraq, where a convoy was recently attacked with rocket-propelled grenades and small arms. *U.S. Army photo by Sgt. Jack Morse.*

Figure 2. Combat Force Stationing in FY 2003



capability of the combat subsystem. Laboratories, arsenals, and procurement and test organizations convert technology and contractor effort into weapons and equipment for combat.

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

The Combat Subsystem

The combat subsystem converts the intermediate goods of the production subsystem into mission-ready units, melding together Soldiers, equipment, and doctrine into a force that is fully combat-ready. It must be alert at all times to all potential threats and must be prepared to serve the changing needs of the unified combatant commanders to whom it provides ready forces.

The combat force is structured into corps and divisions, under the peacetime command of major Army commanders. The commanders are charged with keeping their assigned forces ready to fight whenever and wherever needed. These corps and divisions may be forward-deployed or stationed within the United States. Regardless, they are prepared for rapid response or other contingencies, or are held for strategic reserve. Figure 2 shows the stationing of major Army combat forces in FY 2003.

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

The Integrating Subsystem

The integrating subsystem ties the other two subsystems together and decides what must be done to ensure that the Army can accomplish its mission. Integration is the primary function of the Secretary of the Army and of the Army Chief of Staff, who together lead the Headquarters Department of the Army (HQDA).

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

In performing its integrating function, HQDA determines the nature of the Army's mission requirements in conjunction with Congress, the Department of Defense (DoD), and the other military services, and by assessing the nature of the threats faced by the nation. HQDA then charts a course for the Army, securing the necessary resources and allocating them as appropriate to best accomplish the mission. HQDA continually monitors the performance of the other subsystems and effects change should performance fall below requirements.

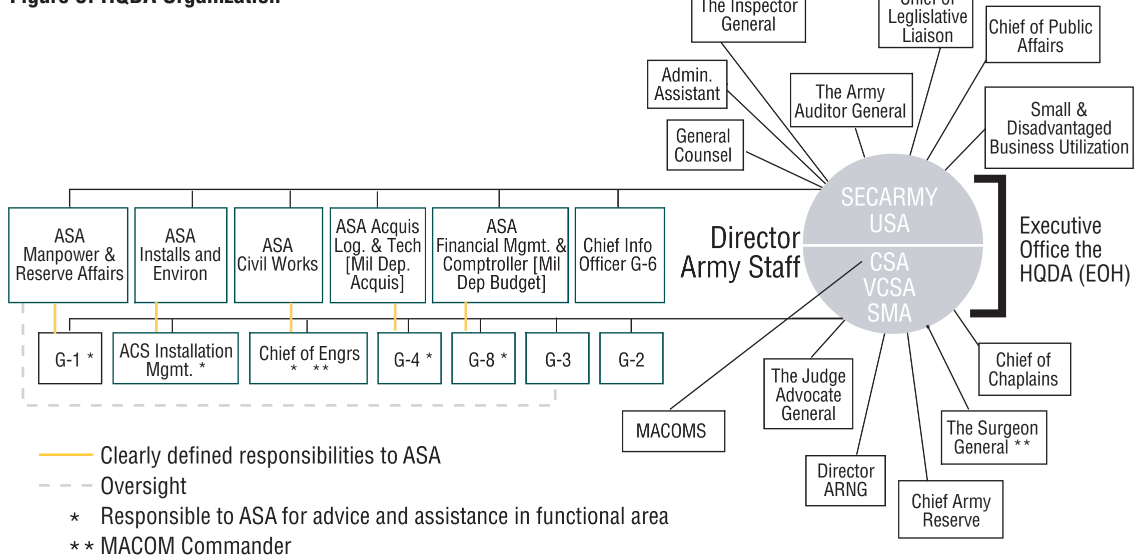
Over the last 2 years, HQDA underwent major change. Recognizing that it had not kept pace with the changing business environment, the Army began transforming its business practices both to enhance the capabilities and creativity of its people and to free up resources to support warfighting and Transformation. Starting at the top, the Army began by merging the Secretariat and the Army Staff into a single headquarters structure to improve decision-making, to reduce redundancy, to better focus on Army core competencies, and to redirect people and resources thus released from other duties to its warfighting forces.

The reorganization of HQDA has had a significant impact. Decision-making authority is now unified in the Executive Office of HQDA. By defining the responsibility of the Secretariat as policy, direction, and oversight and by realigning operational missions to the Army Staff, the Army eliminated several major redundancies. In returning requirements generation approval to the Chief of Staff, it additionally has put more discipline into the process. The new HQDA organization is shown in Figure 3.

This reduction of headquarters layers will enable much more effective use of the Army's financial

Soldiers from the Army's 166th Infantry, 2nd Battalion, Charlie Company, conduct a dismounted patrol in Guantanamo Bay, Cuba. *DoD photo by Chief Petty Officer John F. Williams, U.S. Navy.*

Figure 3. HQDA Organization



*As of September 30, 2003

Makua Military Reservation, Hawaii – An OH-58D Kiowa Warrior provides aerial cover January 28 as a platoon from 1st Battalion, 27th Infantry Regiment, 25th Infantry Division (Light), prepares to advance toward the "enemy" during a Combined Live Fire Exercise. *U.S. Army photo by Sgt. Frank Magni*

Sgt. Elijah Caddy uses a panoramic telescope to sight in a howitzer during a test fire at Baghdad International Airport in Iraq. *Department of Defense photo by Air Force Master Sgt. Robert Hargeaves, Jr.*

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

Realizing the Army Vision - People, Readiness, and Transformation

In 1999, the Army announced its vision to transform into a more strategically responsive force, dominant across the full spectrum of military operations. The Army Vision addresses three essential components: People, Readiness, and Transformation. Soldiers are the heart of the Army, the core of our formations, and the foundation of our combat power. Readiness remains our overarching imperative. It is the means by which we execute our non-negotiable contract with the American people: to fight and win our nation's wars, decisively. To preserve Army readiness during this period of rapid change, Transformation is advancing on three major axes: holding on to legacy formations to maintain readiness and dominance today; inaugurating Stryker Brigades (the Interim Force) to bridge the operational gap; and ultimately fielding the Objective Force to keep the Army dominant in the years beyond this decade.

Realization of the Army Vision will require the concerted effort of all Army components, from warfighting units to the institutional support organizations. The Army published its Transformation Campaign Plan in April 2001 to synchronize and guide this complex undertaking. The November 2001 Objective Force White Paper describes the advanced capabilities and core technologies needed to build the Objective Force, and the June 2002 Transformation Roadmap defines Transformation as a continuous process, with specific waypoints, that will increase the Army contribution to the Joint Force while achieving the six DoD critical operational goals. The result will be a more strategically responsive and full-spectrum-dominant force capable of prompt and sustained land combat operations as a member of the Joint Force.

In future joint operations, Objective Force units will be capable of directing major operations and decisive land campaigns with Army headquarters. Objective Force headquarters at all levels will provide the Joint Force Commander (JFC) with seamless joint battle command and decision superiority. The modularity and scalability of our Objective Force formations will provide an unprecedented degree of flexibility and adaptability to the combatant commander, providing the right force at the right time for a decisive outcome.

People

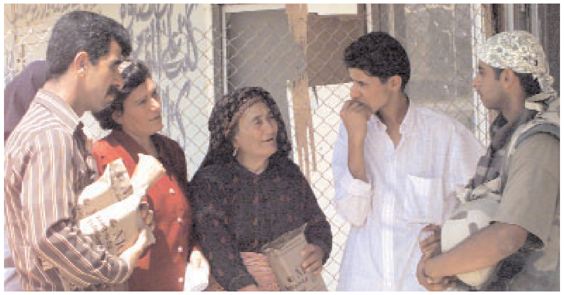
People are central to everything we do in the Army. Platforms and organizations do not defend this nation; units do not train, stay ready, take risks, and make sacrifices; and institutions do not transform. People do. Everything that the Army has ever achieved has been due to our people, and it is upon the well-being of these people—the human dimension of our Transformation—that Army readiness depends. When we defined the Army Vision we committed ourselves to developing our Soldiers and civilians into competent, confident, disciplined, and adaptive leaders, capable of succeeding in situations of great uncertainty. We are dedicated to preparing our Soldiers to lead joint formations, to enabling our headquarters to command and control joint forces, and to providing to those joint formations the capability that only the Army can bring to the fight: the capability to control terrain and populations.

The objective of our manning strategy is to ensure that we put our people into the positions that enable us to capitalize best on their warfighting expertise. This is the Army's commitment to the nation and to Army leaders, Soldiers, and their families. Proper unit manning is central to our ability to fulfill our mission and to serve as a strategic element of national policy. It brings predictability for our people and ensures that our leaders have the resources necessary to perform their assigned tasks. In FY 2000, we implemented a strategy to man our forces to 100 percent of authorized strength, starting with divisional combat units. We expanded this program in FY 2001 and FY 2002 to include early deploying units. In FY 2002, we succeeded in filling our divisions, armored cavalry regiments, and selected early deploying units to 100 percent in the aggregate, with a 93-95 percent skill and gradeband match. We remain on target to accomplish our long-term goal of filling all Army units to 100 percent of authorized strength.

We anticipate also hitting all recruiting targets this year, as we have since FY 2000. Through August the Army had recruited 67,354 Soldiers, with enough enrolled under the delayed entry program to make the 73,800 needed by the end of September 2003.

More than 50 percent of our Soldiers are in the Reserve component. The fight against terrorism and support for homeland defense are significant undertakings that demand a high level of resourcing. The Army Reserve has been key to our success in these operations. To ensure that the Reserve remains trained and ready to meet the increasing demands placed upon it, the Army plans to increase full-time support authorizations 2 percent each year through FY 2012, raising the full-time support from the current level of 69,915 to a level of 83,046. Full-time support authorizations are the leading priority of both the Army National Guard and the Army Reserve leadership.

As part of the effort to consolidate, streamline, and more effectively manage the Army, we have begun also to transform our civilian personnel system. A high-quality, well-trained civilian force is essential to the readiness of the overall force and to our ability to sustain operations today and in the future. Projections through FY 2005 indicate that we are facing a 16 percent annual turnover of our civilian workers due to retirements and other losses. To fully support our combatant commanders and to fulfill our obligations to the nation, it is essential that we undertake a comprehensive transformation of the civilian force to match the transformation of our fighting forces.



Interpreter Yousef Alsobaie, right, converses in Arabic with local townspeople about their various concerns at the neighborhood of French Quarter, Iraq.

Figure 4. Operation Iraqi Freedom: Disposition of Forces

Finally, the readiness of the Army is inextricably linked to the well-being of our people. The human dimension of Transformation accordingly is being addressed through the Army Well-Being program, which is designed to take care of the physical, material, mental, and spiritual needs of all Army people: Soldiers, civilians, retirees, veterans, and families. Supporting mission preparedness as well as individual aspirations, Well-Being integrates policies, programs, and other personnel issues into a holistic, systematic framework that will provide a path to personal growth and success and thus will enable our people to become wholly self-reliant.

Initiatives such as the recent improvements to the Montgomery GI Bill, TriCare for Life, TriCare Reform, Retired Pay Reform, the 4.1 percent general pay increase, and additional pay increases have all contributed to the well-being needs of our people. Army voluntary education programs additionally are improving our combat readiness by enhancing the skills, knowledge, and aptitude of our Soldiers, producing confident, competent leaders. The underpinning philosophy of Well-Being, however, is that we recruit Soldiers but retain families. Knowing that their families are properly cared for, Soldiers can better focus on their mission: to train for, fight, and win our nation's wars.

Readiness

Readiness is the watchword of the Army. The events of September 11, 2001, changed utterly the landscape in which we live and work. Today we have more than 368,000 Soldiers deployed around the world. From combat operations in Iraq and Afghanistan, to peacekeeping missions in Kosovo, Bosnia, and the Sinai, to security operations at home, our Soldiers must remain vigilant at all times to the changing world around them.

Our primary focus is Iraq, where Army personnel account for 133,300 of the overall U.S. force of 156,400 men and women. Our coalition allies, primarily the United Kingdom but increasingly, with forces arriving from countries such as Italy and the Netherlands, a multinational group, provide a further 12,400 people.

Figure 4 illustrates our force disposition in Iraq. Security in the central corridor, including Baghdad, is the responsibility of the 1st Armored Division, the 2nd Armored Cavalry Regiment, and the 2nd Brigade of the 82nd Airborne Division. To the west is based the 3rd Infantry Division and, toward the Syrian and Jordanian borders, the 3rd Armored Cavalry Regiment. The large area of operations north of Baghdad is the responsibility of the 4th Infantry Division, assisted by the 173rd Airborne Brigade and supported in the Syrian, Iranian, and Turkish border regions by the 101st Airborne Division Air Assault. The southern sector of Iraq is controlled by the 1st Marine Expeditionary Force and the U.K. division. A Special Forces group is operating in the west. We have in addition 34,000 troops based in Kuwait.

Back home, the Army is heavily committed to the Homeland Security effort. Our anti-terrorist role within the United States is to support the civil authorities through Operation Noble Eagle, which has mobilized more than 16,000 National Guard Soldiers to protect critical infrastructure, notably airports, and to help secure the country's borders. We additionally assist in providing security for major public events: in January 2003, for example, Soldiers were assigned to guard key infrastructure sites during Super Bowl XXXVII.

Under the mandate of the National Defense Authorization Act, the Army is creating Civil Support Teams that will be assigned one to each state. The responsibilities of these teams will include identifying chemical, biological, radiological, nuclear, and explosive (CBRNE) agents and substances, assessing the consequences of threatened or actual attack, advising on response measures, and assisting with requests for additional support. The Office of the Secretary of Defense has certified 30 of 32 teams, and the Army is working to establish the 18 other required teams. Collectively, the certified teams have performed 890 operational missions since September 11, 2001. In addition to these measures taken in support of Homeland Security, the Army has assigned dedicated groups of both active and Reserve component personnel to training, doctrine and planning efforts, and the execution of DoD missions in support of the civil authorities.

An infantryman scans the Caribbean Sea while conducting a dismounted patrol of the Camp Delta perimeter in Guantanamo Bay, Cuba. The Soldier is assigned to Company C, 1st Battalion, 181st Infantry Regiment, 29th Infantry Division, Massachusetts Army National Guard. *Photo courtesy of the Department of Defense.*

Soldiers use an Avenger weapons system to fire a heat-seeking Stinger missile during live-fire training at Pohakuloa Training Area in Hawaii. *U.S. Army photo by PFC. Cheryl Ransford.*

We are also heavily committed to force protection measures, for the Army as well as for other arms of the military. In February 2003, more than 8,000 Army National Guard Soldiers supported Air Force security efforts, a commitment that eventually could extend to 9,500 Soldiers. Securing the detention facilities and detainees at Guantanamo Bay additionally requires approximately 1,500 Army personnel, 50 percent of whom are military police.

Measures taken in FY 2003 to improve the Army's warfighting capability include the deployment of new Ground Mobile Defense (GMD) assets, acceleration of the fielding of the Patriot Advanced Capability 3 (PAC3) system, and development of directed-energy weapons. We were scheduled to assume control of the Medium Extended Air Defense System (MEADS) program in FY 2003, with the goal of fielding it by FY 2012. MEADS is a transformational program of Objective Force quality and is a significant improvement—being both more accurate and more sustainable—on the Patriot system. Capable of transportation by C130 aircraft, MEADS covers a 360-degree radius compared to Patriot's 120 degrees, is effective against low-radar, cross-section cruise missile targets, and requires only 30 percent of Patriot's manpower.

A key element of Army Transformation will be the transformation of Soldier training. In October 2002, the Army released Field Manual (FM) 7-0, Training the Force. Updated along with other field manuals and publications to respond to changes in Army, joint, multinational, and interagency operations, FM 7-0 is the capstone doctrinal manual for Army training and leader development. It provides the developmental methodology for training competent, confident Soldiers, and addresses both current and future Objective Force training requirements. A DoD-sponsored program defines four major training initiatives: building upon existing service interoperability training; linking component and Joint Chiefs of Staff (JCS) planning and execution; enhancing existing joint training exercises to address joint interoperability; and studying the requirement for dedicated joint training environments for functional warfighting and complex joint tasks. The Army hosted the first joint National Training Center (NTC) event at Fort Irwin, CA, in May 2003, and the U.S. Army Forces Command executed the second joint NTC event, JCS exercise Roving Sands, in June.

Transformation

The Army Transformation program is fundamentally changing the way that we fight. Our ultimate goal, as embodied in the Objective Force, is to build a joint precision maneuver capability that will enable us to enter any theater of operations at the time and place of our choosing, to maneuver at will to gain positional advantage, to deliver precise joint fire, and, if necessary, to close with and destroy the enemy.

The Objective Force is an army that has been designed from the bottom up around the Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) architecture. This single, integrated network will link us to joint, interagency, and multinational forces. The Objective Force will be a rapidly deployable mounted formation, seamlessly integrated into the Joint Force and capable of delivering victory across the spectrum of military operations. It will be the world's most strategically relevant landpower, capable of decisive victory no matter the mission, no matter the threat, and no matter the risks.

To help guide Transformation, the Army is leveraging the lessons learned from extensive experimentation and wargaming. The Army's annual Title 10 Wargames, for example, provide critical insights that help guide the development of the Objective Force. The results of joint experiments such as Millennium Challenge 2002 and the Title 10 Wargames of other services, including Global Engagement, Navy Global, and Expeditionary Warrior, also inform these efforts.

The Army is commited more than ever to joint experimentation as a means of examining and assessing the potential Objective Force contribution at the strategic, operational, and tactical levels of joint warfare. Accordingly we are fully engaged in a joint Concept Development and Experimentation (CD&E) Task Force that seeks to ensure that Army efforts are synchronized with those of the Joint Force. The Army's Title 10 Wargame, cohosted by Commander, Joint Forces Command, this year focused on the Joint Force that will fight the next battle. Linked to Joint Force Command's Pinnacle Impact 03 experiment, the wargame was conducted within the context of a future global scenario and the emerging Joint Operations Concept. Underlining the significance of these exercises, their funding was almost twice that of the FY 2002 wargame.

The Objective Force will leverage the most sophisticated technology and equipment available; however, in the final analysis its combat power will depend on the individual Soldier, his warfighting skills, situational curiosity, and awareness. It is the Soldier's ability to discern and to think, his ingenuity and resourcefulness, endurance, perseverance, and just plain grit that make him the most reliable weapon in our inventory. Soldiers, as they always have been, are the centerpiece of our formations.

General Fund Performance Results: Creating a Cost Culture While Mitigating Risk

In 2003, the Army financial management community took the first steps toward creating a true cost culture. In creating this new mindset, all financial managers must bear in mind six questions.

1. How much do we have?
2. How well are we keeping track of spending what we already have?
3. How can we get better value out of what we are spending?
4. How can we produce more for less?
5. How much will we need for the future?
6. How do we measure the results of our efforts?

In developing a cost culture, the Army faces the challenge of changing how we think about our money. Our people have to understand why they should care about preserving, protecting, and defending every dollar that the U.S. Army receives. The Army must turn everyone's focus away from just looking at cold hard numbers on spreadsheets and budgets that track billions of dollars. Instead we must ingrain in their minds that the value of each and every dollar is no less real than the dollar that they would spend on their own mortgage, car, or coffee every day. This effort is intertwined with objectively measuring our results and realizing that we must find more economical ways to operate—even if that means removing programs that are not achieving established performance measures.

Table 1. Performance Metric: DoD Ratings on the President's Management Agenda (PMA)

Initiative	Strategic management of human captial	Competitive sourcing	Financial management	E-government	Budget and performance integration
FY 2003 Status 1st Qtr	Y	R	R	R	Y
FY 2003 Progress 1st Qtr	G	Y	G	G	G
FY 2003 Status 2nd Qtr	Y	R	R	R	Y
FY 2003 Progress 2nd Qtr	G	Y	G	G	G
FY 2003 Status 3rd Qtr	Y	Y	R	R	Y
FY 2003 Progress 3rd Qtr	G	Y	G	G	G
FY 2003 Status 4th Qtr	Y	Y	R	R	Y
FY 2003 Progress 4th Qtr	G	Y	G	G	G

Legend: R=red; Y=yellow; G=green.

The cost culture effort is actually born out of the Government Performance and Results Act (GPRA) of 1993, which first mandated performance management for the services. GPRA 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. Additionally, each agency is required to submit a comprehensive strategic plan that identifies its major goals and objectives. The DoD Strategic Plan is defined in the Quadrennial Defense Review (QDR) of September 2001, which established a four-dimensional risk framework designed to ensure that DoD is appropriately sized, shaped, postured, and committed. In support of the risk management framework, the Army has identified a series of performance measures to enable the assessment of progress in key performance areas toward the accomplishment of DoD policy goals. These performance measures, which are described in the following section, serve as a guide for the senior Army leadership in making the decisions that will assure its future readiness.

The President's Management Agenda

Army Performance Management efforts start at a high level with the President's Management Agenda (PMA).

Metric Description. The Army is a key player in DoD's portion of the PMA. The report was first introduced in summer 2001 and is only available at DoD level (OSD plans to begin breaking it down quarterly by service in 2004).

The PMA identifies five initiatives (see Table 1) designed to improve management and service to our citizens. The President initiated this process in an effort to address deficiencies and expand performance. This is not just a requirement for DoD, but all federal departments and agencies. The President has charged the Office of Management and Budget (OMB) with monitoring progress and reporting to him quarterly.

The status (initial or current state) and progress (efforts toward achieving the goal) of departments and agencies in implementing the PMA (in each of the five initiatives) are measured using a "stoplight" metric. "Green" indicates that the organization meets all core criteria; "yellow" indicates that it meets some but not all core criteria, with no "red" conditions; and "red" indicates that it meets any one "red" condition. The Executive Branch Scorecard depicts how well a department or agency is executing the management initiatives and where it scores at a given point in time against the overall standards for success.

Performance Results: By embracing transformation as our primary organizational mission, the Defense Department is making every effort to implement policies and procedures that accentuate efficiency and sound management principles DoD-wide. We are confident this will be reflected positively as we progress through each fiscal year.

Following is a brief description of each initiative and effort the Army has undertaken to date toward successful implementation of the PMA:

- ***Human Capital.*** The Department has developed a Human Resource Strategy that has been briefed to the Senior Executive Council, the Director of the Office of Personnel Management, and representatives of OMB. The Department has also forwarded a Workforce Restructuring Plan to OMB, describing our organizational plans to meet workforce needs and redirect resources from Headquarters to direct service. For its tremendous efforts on this initiative, as of the 4th Quarter, FY 2002, the Department received a score of "yellow" on status and "green" on progress.

- ***Competitive Sourcing.*** DoD has a competition goal of 226,000 positions. The Department will meet the OMB immediate goal of competing 15 percent of these positions by FY 2003. The remaining positions will be reviewed with a focus on the core competencies of the Department. The Business Initiatives Council is overseeing this process. Currently, this initiative stands at "yellow" on progress from OMB.

- ***Financial Management.*** The Office of the Secretary of Defense established a Financial Management Modernization Program Office to oversee development of a DoD-wide financial enterprise architecture. The Department plans to use a major technical support contract for a 1-year effort to produce the architecture and a transition plan; the contract was awarded April 2002. The plan for the modernization effort has been briefed to OMB and received a "green" progress rating.

- ***E-Government.*** Of the 25 initiatives identified by the President's Management Council, 17 involve DoD activities. The Department is exploring the possibility of taking an active leadership role in nine of those initiatives. In conjunction with OMB, the Department will improve management processes relating to the creation and description of business cases for information technology (IT) initiatives. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) is also working closely with OMB on other scorecard elements such as the enterprise architecture, business cases (Form 300 reports) for IT investments and IT security. The Department received a "green" score on its E-Government progress.

- ***Budget and Performance Integration.*** The Under Secretary of Defense (Comptroller) is overseeing a Department-wide effort to identify meaningful performance metrics for use in managing and justifying program resources. This effort will begin with the identification of additional metrics for use in developing the FY 2004 President's budget. Additional efforts are underway to integrate performance metrics into all phases of the Department's Planning, Programming, and Budgeting System. The Department's score currently stands at "green" on progress.

Further information on the President's Management Agenda is available at Results.gov.

DoD Risk Management Dimensions

Following the September 2001 QDR, DoD developed a four-dimensional risk assessment framework to enable it to evaluate tradeoffs between fundamental objectives that have been made unavoidable by resource constraints. Using this framework, DoD addresses the issues associated with developing and evaluating the operational force, its infrastructure, and key enabling capabilities. The Army, working with DoD, has codified performance measures that align with the four QDR "Risk Areas" and then expressed these measures in what has become the Secretary of Defense's (SECDEF) Instrument Panel. Each measure is supported by a quantifiable output. Further, the measures that make up the SECDEF's Instrument panel are addressed in the current Annual Defense Report (ADR).

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

Table 2. Enlisted Recruiting

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
Active Army	75,855	79,585	73,800	74,132
National Guard	61,956	63,251	62,000	84,202
Army Reserve	42,097	41,697	37,900	39,223

Tomorrow's Soldiers participated in a basic training exercise at Fort Sill, Oklahoma. Basic training is 9 weeks of grueling discipline.

Table 3. Active Component Enlisted Retention Rates

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
First-Term Soldiers	20,000	19,433	19,821	21,838
Second-Term Soldiers	23,727	23,074	18,422	19,509

Members of the U.S. Military Academy-West Point Class of 2003 take their oath during graduation exercises May 31, 2003.

Risk Area: Force Management

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

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

Performance Result: Due to the ongoing war against terrorism, all components were allowed to exceed their recruiting goals for FY 2003, as shown in Table 2.

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

Performance Results: Table 3 shows that for FY 2003 the Army exceeded its retention goals for both first and second-term Soldiers. The Army's successes can be attributed to great leadership at all levels of command and Soldiers' willingness to serve in a time of war. Additionally, the Army used re-enlistment incentives such as bonuses to help entice Soldiers who were undecided as to whether to continue their career in the military.

Performance Measure: Component End Strength
Metric: Component end-strength authorizations are set forth in the National Defense Authorization Act for the fiscal year. Components are compelled to budget and execute to that end strength by the end of the fiscal year. The component actual end strength for each quarter will be evaluated against the authorized end strengths for that fiscal year.

Performance Results: In his Declaration of National Emergency by Reason of Certain Terrorist Threats, the President, among other things, waived the end-strength requirement during the time of national emergency. Components, however, have been directed to attempt to meet the 2 percentage criterion, though exceptions are authorized based on the operational situation. In FY 2003, the Army Reserve provided more than 15 million man-days in support of various Army Missions to include Enduring Freedom, Noble Eagle, and Joint Endeavor. All these missions require boots on the ground, and the Army Reserve was able to meet and slightly exceed its peacetime authorization.

During FY 2003, the Army waived the end strength and exceeded their goal, as displayed in Table 4. Dependent on world circumstances, the active Army plans to reach authorized end strength by 1st Quarter, FY 2005 in compliance with statutes and strength reporting procedures.

Performance Measure: Civilian Force Costs
Metric: Civilian force costs are currently being reported annually to the Office of Personnel Management (OPM) in a Work Years and Personnel Costs Report (WYPC) aggregated at the DoD level. Reports are required on three forms: Basic and Premium Work Years and Pay, Cost of Employees' Benefits, and Leave Earned and Used. Work years and cost data identify the various components of basic pay, premium pay, benefits, separation incentive pay, and severance pay for federal civilian employment. This metric can be used to provide a broad overview of civilian compensation costs. It is not an effective measure of the success of any individual personnel program or benefit. For example, additional benefit costs do not indicate successful use of recruitment or retention incentives. Even increased recruitment bonus or retention allowance payment amounts would only measure usage rates, not the change in recruitment or retention based on payment of the incentive.

Performance Results: The OPM report will not be published until December 2003.

Risk Area: Operational

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

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

Table 4. Component End Strength

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Authorized	Actual
Active Army	480,801	486,542	480,000	503,600
Percentage over/ (under) authorization	0%	1%	N/A	5%
Army National Guard	351,829	351,078	350,000	351,091
Percentage over/ (under) authorization	0%	0%	N/A	>1%
Army Reserve	206,892	206,682	205,000	211,890
Percentage over/ (under) authorization	0%	1%	N/A	3%

Table 5. Civilian Force Costs

	FY 2003 Actual[a]	FY 2004 Projected	FY 2005 Projected
Base Pay	$11,207,423	$11,040,656	$11,555,611
Benefit Pay	2,871,463	2,873,518	3,005,987
Separation Pay	44206	56,008	65,079
Total	$14,123,092	$13,970,182	$14,626,677

[a] FY 2003 from Data Component Summary of PB 2004-2005

A Soldier of the 101st Airborne Division's 159th Aviation Brigade guides a UH-60 Blackhawk helicopter ambulance to a landing during a medical evacuation training mission near Mosul, Iraq. *U.S. Army photo by Spc. Kieran Moore.*

Table 6. Flying Hours

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Active	13.1	13.1	14.5	15.1
Army Reserve	8.9	8.9	9.0	5.3
National Guard	5.9	6.6	8.4	7.5

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

An M-1 tank from the 3rd Infantry Division fires during an exercise at Udairi Range Complex in Kuwait.

Table 7. Number of Tank Miles per Year

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Active	787	944	933	1,071
National Guard	113	123	177	154

[a] FY 2002 was first year of new reporting methodology reflecting both live and virtual miles.

[b] Composite average of all National Guard units, including annual mileage for ARNG Divisions and Enhanced Brigades.

Performance Results: Table 6 shows that during FY 2003, the Total Army executed 97.5 percent of its flying hour program. Though Operation Iraqi Freedom influenced actual execution, two MACOMs that did not participate in Operation Iraqi Freedom, United States Army Pacific (USARPAC) and Eighth United States Army (EUSA-Korea), both executed their complete programs.

Performance Measure: Number of Tank Miles per Year

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

Performance Results: Overall during FY 2003, the Army executed 110.6 percent of its total program. Operation Iraqi Freedom significantly influenced execution; however, training time was lost as equipment was deployed to and from Operation Iraqi Freedom. Actual tank miles executed are shown in Table 7.

Risk Area: Future Challenges

Since 9/11 the Army has fought and won two major campaigns. Despite the upheavals of the last decade, the U.S. Army has conducted all of its operations successfully. Nonetheless, we must change in order to take advantage of emerging technologies. We cannot take future success for granted or assume that no other nation or group will attempt to challenge it in the future. The attacks of September 2001 made that clear. Nor can America predict with confidence which adversaries will pose threats. The types of military capabilities that will be used to challenge U.S. interests and military forces can, however, be identified and understood. Future adversaries will seek to attack America where it is vulnerable, using asymmetric approaches such as electronic terrorism and attacks against domestic infrastructure.

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

How do we know we are transforming? We must observe how the culture is changing—how things are done differently from the past and what must we accomplish next.

Performance Measure: Successful Completion of Operational Test and Evaluation Events

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

Performance Results: The Army established a goal to successfully complete 62 Operational Test and Evaluation Events for FY 2003. During FY 2003, the Army completed 61 of these operational test events, or 98 percent, as shown in Table 8. The one event that was not completed was Authorized Stockage List Mobility System (ASLMS); this operational test event was spilled due to unit availability. Given the current world situation and demands on Army units, we believe this may happen to a greater extent in FY 2004. The Army is exploring any and all options to minimize this situation.

Risk Area: Institutional

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

Army financial systems are transitioning to a cost culture that maximizes each dollar spent. This cost culture strives to better understand how overhead and indirect costs directly affect military capabilities.

Performance Measure: Public-Private Sector Competitions
Metric: As part of its efforts to reduce infrastructure, the Army conducts regular reviews of various functions and their associated billets. As a result of these reviews, some functions are retained in-house, others are outsourced, and others are re-engineered.

Performance Results: The goal for this year was to review 3,576 billets. The Army was able to exceed this goal by over two-fold, as displayed in Table 9.

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

Performance Results: For FY 2003 (see Table 10), although ACSIM continued to dispose of excess property at a high rate, it did miss the targeted goal of $172,309 thousand.

Table 8. Successful Completion of Operational Test and Evaluation Events

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Percentage of OT&E events successfully completed	100%	100%	100%	98%

Table 9. Public Private Sector Competitions

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Number of positions subject to A-76 competitions or strategic sourcing reviews	5,115	2,646	3,576	9,756

Table 10. Disposal of Excess Property

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
BRAC Excess Acreage Remaining for Disposal[1]	135,310	125,854	38,682	38,632
BRAC Acres Disposed of During the Fiscal Year[2]	65,940	8,016	100,000	100,955
BRAC $K spent during FY	$278,092	$167,814	$172,309	$164,028

[1] The acreage numbers reported for FY 2001 and FY 2002 changed due to land surveys that became available after the printing of the FY 2002 annual financial statements.

[2] The acreage disposed numbers for FY 2001 and FY 2002 changed since the FY 2002 annual financial statements is the result of BRAC being a multi-year appropriation.

Performance Measure: Percentage of Paperless Transactions

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

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

Performance Results: In previous years, the data collections involved manual methods and included data transmitted by facsimiles, emails, form flow, as well as data captured through electronic systems. The FY 2003 data collection, shown in Table 11, includes only data captured through electronic means. The data contained in the report was obtained from directly extracting data transacted through the Army electronic contract writing systems (Procurement Automated Data & Document Systems [PADDS] and Standard Procurement System [SPS]). This report will be rebaselined in FY 2004 to account for only transactions within the end-to-end electronic procurement system, which will more accurately reflect the current definition of electronic commerce.

Table 11. Percentage of Paperless Transactions

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
DRI Goals				
Purchase requests	93%	94%	90%	69%
Funding documents	93%	94%	90%	69%
Solicitations	98%	98%	90%	36%
Awards/Modifications	95%	94%	90%	61%
NPR Goal				
Total electronic contracting and payment transactions	95%	95%	90%	59%

Performance Measure: Fund to a 67-Year Recapitalization Rate by 2007

Metric: The facilities recapitalization metric (FRM) is a performance indicator that measures the rate at which an inventory of facilities is being recapitalized. The term “recapitalization” means to restore or modernize facilities. Recapitalization may (or may not) involve total replacement of individual facilities; recapitalization often occurs incrementally over time without a complete replacement.

The performance goal for FRM equals the average expected service life (ESL) of the facilities inventory (estimated to be 67 years, based on benchmarks developed by a panel of Defense engineers in 1997). The ESL, in turn, is a function of facilities sustainment. “Sustainment” means routine maintenance and repair necessary to achieve the ESL. To compute a normal ESL, full sustainment levels must be assumed. A reduced ESL results from less than full sustainment. For this reason, the metrics for facilities recapitalization and facilities sustainment are unavoidably linked and should be considered together.

Sustainment levels required to achieve a normal ESL are benchmarked to commercial per unit costs; for example, $1.89 per square foot annually is needed to properly sustain the aircraft maintenance hangar inventory for a 50-year life cycle. The facilities sustainment model (FSM) adjusts these costs to local areas and assigns the costs to DoD components and funding sources.

The recapitalization rate—measured by FRM in years—is compared to service life benchmarks for various types of facilities. For example, the ESL of a pier is 75 years, and the ESL of a dental clinic is 50 years (provided the facilities are fully sustained during that time). The average of all the ESL benchmarks, weighted by the value of the facilities represented by each benchmark, is 67 years. Weighting is required to normalize the ESL. For example, without weighting, 50 years is the ESL of a hypothetical inventory consisting of administrative buildings (75-year ESL) and fences (25-year ESL). But fences are insignificant compared to administrative buildings—DoD has $22 billion worth of administrative buildings, but only $3 billion worth of fences and related structures—and should not have equal weight. The ESL of this hypothetical inventory when weighted by plant replacement value is 68 years, not 50 years.

For evaluating planned performance, both metrics (FSM and FRM) are converted to dollars (annual funding requirements) and compared to funded programs in the DoD Future Years Defense Program (FYDP). Both metrics can also be used to measure executed performance.

Performance Results: Shortfalls in facilities recapitalization (and associated sustainment) were considered in development of the amended FY 2002 and FY 2003 budgets (see Table 12). Although performance as measured by the budgeted recapitalization and sustainment rates improved from FY 2001 levels, the targets (67-year recapitalization rate and full sustainment) were not achieved in either budget. As a result of not achieving full sustainment levels, the theoretical service life of the inventories (67 years) suffered another incremental reduction. As a result of not achieving a 67-year recapitalization rate, obsolescence in the facilities inventories increased incrementally. The cumulative and compounding effect of these shortfalls in measured by the number of C-3 and C-4 facilities reported in the Department's readiness reports (68 percent of facility classes are reported as having serious deficiencies that adversely impact mission performance).

Because of the way these metrics are constructed, the underperforming results of FY 2002 and FY 2003 do not directly affect the sustainment and recapitalization performance targets for FY 2004. The goal for sustainment remains full sustainment; a 7 percent shortfall in programmed sustainment in FY 2003 cannot be offset with 7 percent overage in FY 2004. The interim goal for recapitalization remains 67 years, even though past performance has already reduced the service life of the facilities inventory. The direct effect of undersustainment and underrecapitalization is captured in the accelerated recapitalization rate that is required to restore readiness to at least C-2 status by 2010.

Table 12. Funding Recapitalization Rate

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
Facilities recapitalization metric-FRM (years)	NA	NA	122.6	104.2
Facilities sustainment model-FSM (percent)	NA	76.4% (O&M only)	93.6% (O&M only)	73.2%

* FSM did not exist in FY 2001; this is an estimate.

Improved housing shows our commitment to all Soldiers and their families.

Table 13. Inadequate Housing Units

	FY 2001 Actual	FY 2002 Actual	FY 2003	
			Goal	Actual
Number of inadequate family housing units	71,606	51,298	N/A*	38,041
Percentage of total family housing units	66%	52%	N/A*	41%

* Interim targets have not been established because housing privatization negotiations often change the scope of projects, making targets impractical.

Table 14. Customer Wait Time

	FY 2001	FY 2002	FY 2003	
			Goal	Actual
Customer wait time (days)	18	16	16	21

Performance Measure: Eliminate Inadequate Family Housing by 2007

Metric: The Secretary of Defense has established a goal to eliminate all inadequate family housing by the end of FY 2007. Each Military Service has developed a Family Housing Master Plan that outlines the approach it will follow to achieve this long-term goal. These plans identify the program requirements, by year, to eliminate inadequate family housing by FY 2007.

Inadequate housing, in general, is any unit that requires a major repair, component upgrade, component replacement, or total upgrade. Each service has evaluated its housing and identified inadequate units. Each service has then developed a plan to eliminate this inadequate housing through a combination of traditional military construction, operations and maintenance support, and privatization.

Performance Results: The Department reduced inadequate family housing through revitalization, demolition, and privatization. Interim targets have not been established because housing privatization negotiations often change the scope of projects, making targets impractical. Further, the housing privatization process takes over a year to complete, and during this time, varying economic conditions and financial arrangements between prospective contractors and their financial lenders can change. This would cancel a project and return inadequate inventory to the fiscal year, thereby skewing targets. See Table 13 for actual results.

Performance Measure: Reduce Customer Wait Time (days)

Metric: Customer Wait Time (CWT) measures the elapsed time from order to receipt when a customer orders an item of material. The customer's order may be filled from assets on hand at the customer's military installation or naval vessel, or through the wholesale logistics system. For purposes of this enterprise-level metric, CWT includes orders for spare and repair parts ordered by organizational maintenance activities.

Performance Results: Reporting of CWT began in FY 2001. The Army set a reduction target of one day per year for FY 2002, FY 2003, and FY 2004 from the baseline of FY 2001 actual data. FY 2002 actual of 16 days exceeded the target of 17 days. The number of days actually increased in FY 2003 (see Table 14) due to the global war on terror. Although supplies of material matched the needs of the force, the increase in time reflects a problem with distribution due to the sheer volume of material.

Management Integrity

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

In the 20 reporting years since the inception of the Army's management control process, Army commanders and managers have reported 1,343 material weaknesses to the Secretary. These were the weaknesses remaining after a filtering and value-added reporting process from line managers up through each higher echelon of management. After aggregating similar problems and weeding out lesser issues, the Army reported 230 new material weaknesses to DoD. Only 13 of these remain open. The following is the status of the material weakness:

Open material weaknesses at September 30, 2002	10
Plus: New material weaknesses identified in FY 2003	3
Less: Material weaknesses corrected in FY 2003	0
Open material weaknesses at September 30, 2003	13

The following section identifies and provides a summary of the three new material weaknesses identified during FY 2003.

Weaknesses Identified during FY 2003

The Army identified three new management control weaknesses during FY 2003. The following sections provide a brief description of each weakness and the target date for correction.

Financial Reporting of Real Property
The Army's real property databases do not allow for depreciation, and subsequent entries in dollar values override previous dollar values with no audit trail of transactions.

The attempt to interface the Defense Property Accounting System (DPAS) with the Installation Facilities System (IFS) did not work for real property financial statement reporting. Data mismatches and negative numbers from IFS were not allowed in DPAS, resulting in dollar values being overridden and audit trails being lost. The decision was made to discontinue the DPAS interface and to modify IFS to calculate depreciation and run financial reports directly from each site. In October 2002, the Army requested a waiver from OSD to permit it to modify IFS to process and capture financial statement information. The OSD approval was received in May 2003. The target date for correction of this weakness is the 4th Quarter, FY 2004.

Reserve Component Mobilization Accountability
There is a lack of synchronization among automated management tools that is necessary to ensure Reserve component mobilization accountability. Interagency and management controls must allow for the tracking of Reserve component Soldiers and units as they progress through the mobilization pipeline. Of particular concern is the tracking of Reserve personnel from home station to mobilization station to duty station, through deployment, redeployment, and demobilization or release from active duty. This challenge is further complicated for personnel in a medical hold status who remain classified as active duty according to original Headquarters Department of Army mobilization orders even after demobilization of the parent unit.

Improper use of Derivative Unit Identified Costs has further exacerbated force tracking. Limitations imposed by the use of dual military pay systems (the Defense Joint Military Pay System—Active Component and Defense Joint Military Pay System—Reserve Component) also impair the accountability of mobilized personnel.

The target date to correct this weakness is the 4th Quarter, FY 2004.

Contract Administration of Service Contracts
The U.S. Army Audit Agency (USAAA) has identified a significant weakness in the administering of service contracts. Service contracts represent an ever-increasing percentage of overall contract dollars and have surpassed the dollars awarded under major weapons system programs.

Significant audit findings include ineffective planning for quality assurance requirements. Although

Combat engineers from the 671st Engineer Company, an Army Reserve unit from Portland, Oregon, patrol the Tigris River in Baghdad, Iraq.

contracting officers generally have appointed personnel to undertake quality assurance evaluations of contracts, they often have not made clear the responsibilities and limitations of authority of these evaluators. They typically also have failed to ensure that the evaluators are properly versed in quality assurance procedures and that they understand specific contract requirements.

There furthermore exists an overall lack of surveillance planning, resulting in lack of a systematic inspection system and ineffective documentation of contract performance. Proper quality assurance procedures require that the surveillance plans serve as roadmaps for monitoring contractor performance. This is critical to the establishment of strong internal controls that would ensure that the Army receives value for its service-contracting dollar. Due in part to the lack of documentation, procedures for validating and approving contractor invoices sometimes are not properly defined.

Several Major Army Commands (MACOMs) have actions ongoing to improve various aspects of contracting administration. These actions are steps in the right direction, but an overall strategy for administering contracts is needed. The current target date to correct this weakness is the 4th Quarter, FY 2004.

Previously Reported Weaknesses

The Army reported three weaknesses last year that it had expected to close during FY 2003. Various factors prevented this from happening. The following sections provide a brief description of each weakness and the target date for correction.

Financial Reporting of General Equipment

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

To meet the requirements of this standard, the Army implemented the Defense Property Accountability System (DPAS), a Chief Financial Officer Act-compliant system for reporting real property and general equipment. DPAS will replace or interface with existing noncompliant systems and bring the Army into compliance with Federal Accounting Standards.

Failure to meet this standard for financial reporting does not mean that the Army lacks accountability of its property. However, 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. This inability to accurately report the financial value of real property and general equipment in turn has been a major factor in the Army's failure to obtain an unqualified audit opinion on its annual financial statements.

This material weakness has been restructured to treat separately the general equipment and real property portions. In FY 2002, the Army completed fielding of DPAS that should resolve the problems associated with the financial reporting of general equipment. We intend to close this material weakness by the 2nd Quarter, FY 2004, after the USAAA has validated the effectiveness of our corrective actions.

Army Purchase Card Program

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

The Army has positively addressed every GAO finding regarding the Army Purchase Card Program. To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA (AL&T)) has aggressively sought to establish positive controls in those areas of weaknesses that have been found. The new target date for completion is the 1st Quarter, FY 2004.

Information Systems Security

The Army's unclassified automated information systems and telecommunications networks have in the past been attacked and penetrated by unauthorized personnel. The Army responded to these attacks with measures to identify them; with incident response and containment and the implementation of countermeasures; and with Information Systems Security (INFOSEC) education, training, awareness, and professional development. Base information systems and networks have been found nonetheless to be highly vulnerable to malicious attack. This places at risk the decisiveness, effectiveness, and potential safety of the warfighter: not only is the information that is processed and transmitted throughout the Army's systems vulnerable to compromise and exploitation by hostile forces, but control of the information systems and networks themselves also could be lost to hostile forces. Army INFOSEC policy and procedures for managing risk to our information systems, networks, and even our intelligent weapons systems clearly are outdated and must be brought into line with evolving DoD and national practices.

To correct these weaknesses, the Army has outlined in the Command and Control (C2) Protect Program Management Plan the measures that must be undertaken to ensure that the Army's portion of the Defense Information Infrastructure is adequately protected. The C2 Protect Program Management Plan is designed to manage and control the growth of C2 Protect Initiatives, is in consonance with the Army Enterprise Strategy, and supports the Defense Information Warfare effort. The target date for correcting this weakness is the 2nd Quarter, FY 2005.

Future Effects of Existing Conditions

Force Management Risk

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

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

Soldiers board an awaiting CH-47 Chinook helicopter at Shkin Firebase in Afghanistan. *U.S. Army photo by Spc. C. Elijah Spencer.*

Operational Risk

The Army's current force is very similar to that of the Army that 12 years ago fought so decisively in Desert Storm. In the intervening years the nature of the threat facing America has evolved. The force that deployed in the first Gulf War was developed under a strategy that envisioned a scenario of two simultaneous major regional conflicts. The 2001 terrorist attacks on America introduced an enemy that would instead employ asymmetrical warfare to avoid our strengths and attack our vulnerabilities. It is difficult to assess exactly what form future threats will take. As a consequence, the Army has moved away from a threat-based force and is intent on building a capabilities-based force equipped to function across the full spectrum of military operations.

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

Institutional Risk

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

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

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

Advancing the President's Management Agenda

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

The President's agenda contains five government-wide goals designed to improve federal management and to deliver results that matter to the American people. They reflect the Administration's commitment to achieve immediate, concrete, and measurable results. The five goals, which are being pursued in advance of, not instead of, other necessary management improvements, are mutually reinforcing. For example:

- Workforce planning and restructuring undertaken as part of the Strategic Management of Human Capital will be defined in terms of each agency's mission, goals, and objectives—a key element of Budget and Performance Integration.
- Agency restructuring is expected to incorporate organizational and staffing changes resulting from Competitive Sourcing and Expanded E-Government.
- Efforts toward Budget and Performance Integration will reflect improved program performance and savings achieved from competitive sourcing and will benefit from the financial and cost accounting and information systems that are part of the effort to realize improved financial management.

In support of each of the five government-wide goals, Army Knowledge Management (AKM) has established five supporting goals. Three of the AKM goals support the Strategic Management of Human Capital and the other two are more closely aligned with E-Government. The AKM goals are:

1. Adopt governance and cultural changes to become a knowledge-based organization (Strategic Management of Human Capital)
2. Integrate knowledge management concepts and best business practices to promote the knowledge-based force (Strategic Management of Human Capital)
3. Manage the infostructure as an enterprise to enhance capabilities and efficiencies (E-Government)
4. Institutionalize Army Knowledge Online as the enterprise portal to provide universal, secure access for the entire Army (E-Government)
5. Harness human capital for the knowledge-based organization (Strategic Management of Human Capital)

A description of how the Army is undertaking each of the five government-wide goals is contained in the following sections.

"Government likes to begin things—to declare grand new programs and causes. But good beginnings are not the measure of success. What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises."

—President George W. Bush

Strategic Management of Human Capital

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

Adopt governance and cultural changes to become a knowledge-based organization:

- The Army Chief Information Officer (CIO) Executive Board was chartered and has met quarterly since April 2001 to address enterprise issues and to provide information technology oversight.
- Army Regulation (AR) 25-1, Army Information Management, was revised in May 2002 to promulgate a minimum critical set of policies for Army Knowledge Management (AKM), Army Knowledge Online (AKO), and Common Access Cards and Public Key Infrastructure (CAC/PKI). A complete update of AR 25-1 is being prepared for publication in 2004.
- AKM Guidance Memo 1 (August 2001) established the five AKM goals, established the basic AKM requirements, and directed that everyone have an AKO account. AKM Guidance Memo 2 (June 2002) directed additional server reductions of 30 percent by end-FY 2003 and a reduction of 50 percent in the inventory of Army application systems by end-FY 2004. AKM Guidance Memo 3 (March 2003) implemented Personnel System Transformation, and AKM Guidance Memo 4 (July 2003) implemented a fully integrated logistics enterprise based on collaborative planning, knowledge management, and best business practices.
- Phase I of the Army IM/IT Realignment Plan was approved in January 2002 as part of the overall HQDA realignment.
- General Order 5 was signed in August 2002, establishing NETCOM. NETCOM was activated on October 1, 2002.

Integrate knowledge management concepts and best business practices to promote the knowledge-based force:

- Business Initiative Councils (BICs) have been formed at the DoD and Army levels to develop, review, and approve initiatives leading to the adoption of best business practices.
- 74 DoD and 64 Army BIC initiatives had been approved as of September 2003.
- Army Communities of Practice continue to be established throughout the Army. In coordination with the Sergeant Major of the Army (SMA) and several other Army organizations, a set of Communities for Noncommissioned Officers (NCOs) is being launched to enable Soldiers with common interests to find the information resources they need for mission accomplishment, and to support the sharing of lessons learned with others—especially junior personnel.

- In conjunction with DoD's Change Management Center (CMC), Project Exodus, a knowledge-sharing pilot, was launched in an attempt to capture the unwritten knowledge that resides with retiring acquisition leaders and to make this knowledge available to future acquisition professionals.

Harness human capital for the knowledge-based organization:

- The Army Knowledge Leaders Program, an enhanced IT intern program for developing IT/KM (Information Technology/Knowledge Management) leaders, has been implemented and placed under Army management.
- Six outstanding scholars entered the 2-year program in September 2003, joining six who started in October 2002.
- The 2003 class represents a highly accomplished group: two are cum laude scholars, three magna cum laude, and one summa cum laude. Two of the six are from ethnic minorities. The group is equally divided between men and women.
- The KM Foundations course has been extended to Army functional communities, including the personnel, logistics, medical, and librarian communities.
- A pilot IT Project Management training program has been established. Training will be expanded in FY 2004 to prepare for new IT Project Manager positions.
- AKO has provided more than 1,500 computer-based IT and management training courses free of charge to Army personnel.
- The Signal Military Occupation Specialty (MOS) training program has been shortened. The program, provided via the U.S. Army Signal Center's University of Information Technology (UIT) pilot, employs a combination of classroom instruction and distance learning. Traditional MOS training can entail up to a 13-week residency; under the UIT pilot, 75 percent of students complete residential training in 7 weeks and 25 percent in 8 weeks.

Competitive Sourcing

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

Residential Community Initiative

In 1996, the Military Housing Privatization Initiative Act gave the military services the authority to seek private sector capital and expertise to operate, manage, maintain, improve, and build military housing in the United States. As a result, the Army established the Residential Community Initiative

Planned Fort Lewis Town Center RCI *rendering.*

Figure 5. Residential Communities Initiative: Current Plan

RESIDENTIAL COMMUNITIES INITIATIVE
Assistant Secretary of the Army (Installations and Environment)

Current Plan – 27 Projects

72,632 Family Housing Units
>80% of U.S.-Owned Inventory

Transferred Operations
Fort Carson, CO - 1999
Fort Hood, TX - 2001
Fort Lewis, WA - 2002
Fort Meade, MD - 2002
Fort Bragg, NC - 2003

2003 Solicitations
Fort Leonard Wood, MO
Fort Sam Houston, TX
Fort Bliss, TX
Fort Drum, NY
Fort Monmouth-Picatinny Arsenal, NJ-Carlisle Barracks, PA

Awarded CDMP Development – Transfer Date
Presidio of Monterey-Naval P, CA - Oct 2003
Fort Campbell, KY - Dec 2003
Fort Irwin-Moffett Fed AF-Cp Parks, CA - Jan 2004
Fort Stewart-Hunter AAF, GA - Jan 2004
Fort Belvoir, VA - Jan 2004
Fort Eustis-Monroe-Story, VA - Mar 2004
Fort Hamilton, NY - May 2004
Fort Polk, LA - Jun 2004
Walter Reed AMC, DC - Jun 2004
Fort Detrick, MD - Jun 2004
Fort Shafter / Schofield Barracks, HI - Nov 2004

2004 Solicitations
Fort Benning, GA
Fort Rucker, AL
Fort Gordon, GA
Fort Knox, KY
Fort Leavenworth, KS
Redstone Arsenal, AL

"GFPR contracting has shown that, under appropriate conditions, the Army can avoid more than 15 percent on environmental remediation costs, and significantly reduce cleanup timelines by up to 45 percent. These two characteristics make GFPR contracts more cost-effective and more protective of human health and the environment."

—Major Paul B. Olsen, Executive Officer to DACSIM

(RCI) privatization program to address its $6 billion revitalization requirement. In conjunction with traditionally funded military construction and increased housing allowances, this privatization of family housing under RCI is helping solve the Army's acute family housing problem.

RCI is dedicated to building high-quality residential communities for Soldiers and their families. The initiative is built on partnerships with private sector developers who have the expertise, innovation, and willingness to work collaboratively with key stakeholders to make RCI a success. The program focuses on residential communities, rather than just houses, and uses a Request for Qualifications (RFQ) acquisition to attract suitable partners from the private sector. The RFQ process reduces time and resource costs for both the Army and the private developer.

Twenty-seven RCI projects are now underway, encompassing more than 72,000 homes and more than 80 percent of the Army's U.S.-based family housing inventory (see Figure 5).

Recruiting

The Army's vision for readiness requires that all combat units be fully staffed and that this be achieved without diminishing the Institutional Army. Army recruiters are a key part of the Institutional Army and skilled noncommissioned officers traditionally have filled the recruiter position. Seeking a way to release skilled Soldiers from the Institutional Army, the Army has awarded contracts to two civilian firms to perform the recruiting mission. This is a test program that will run through FY 2006, at 10 locations. The contractors will replace more than 350 noncommissioned officers, who will be released for other duties.

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

Guaranteed Fixed-Price Remediation Contracts

Included as a provision in the FY 2003 National Defense Authorization Act, Guaranteed Fixed-Price Remediation (GFPR) is a performance-based contracting mechanism that obligates the contractor to guarantee the fulfillment of an environmental remediation requirement (including regulatory site closure). Approved by the Army Business Initiative Council (ABIC) in May 2002 and subsequently by the DoD Business Initiative Council (BIC) on September 4, 2002, GFPR is already returning cost and time savings to its users.

The GFPR was implemented in FY 2003 as part of the Army Active Sites Program. GFPR is one contract mechanism in a suite of contract types utilizing performance-based contracting that allows the Army to buy environmental cleanups for a fixed price and at a set schedule. The Army maintains oversight of the cleanup and initially determines, in consultation with the regulators, the desired performance objective for each site, typically Response Complete or Remedy in Place. These objectives are then described in a Statement of Objectives (SOO) or Performance Work Statement (PWS). The intent is to provide the bidders with sufficient information to allow them to develop cost estimates that are in line with what the Army believes to be reasonable, while keeping the SOOs/PWSs general enough to provide bidders with flexibility in approach. The remediation approach implemented at each site will be affected by the remediation phase existing at the time of contract award as well as other factors, including whether cleanup schedules and milestones are prescribed in a current Federal Facility Agreement, Permit, or Cleanup Decision Document.

The initial investigation of GFPR, which ran from 1999 to 2002, entailed the award by Forces Command (FORSCOM) and Training and Doctrine Command (TRADOC) of nine GFPR contracts, totaling $80 million. When compared to the estimated cost-based contracts, at least a 14 percent ($12.5 million) savings has been realized. Besides cost savings, GFPRs also save time. Compared with the original cleanup plans, GFPR timelines tend to be half as long. As the Army progresses with its GFPR contracts it furthermore is streamlining the contracting process and making it even more performance-based. Contracts with Statements of Work averaging 60-100 pages are being set aside for more agile SOOs or PWSs as we become more familiar with performance-based contracts. The GFPR contracts have proven to be a positive way to protect human health and the environment.

Improved Financial Performance

During FY 2003, the Army built upon a number of initiatives begun in FY 2002 that are designed to enable better use of funds. The Army is also pursuing other long-term initiatives aimed at putting more useful and more reliable financial information in the hands of managers, with the aim of enabling them to make more efficient use of resources.

Performance, Planning, and Budget Execution

The initiative to integrate budget and performance has an important purpose: to improve programs by focusing on results. Dollars will go to programs that work; those programs that do not work will be reformed, constrained, or face closure. Ultimately, funding will go primarily to those programs that yield the best results for each dollar spent.

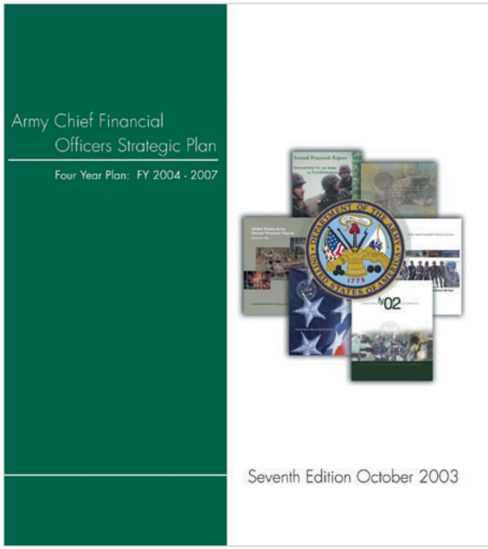
In FY 2002, the DoD adopted a DoD-wide approach to establishing performance outputs and tracking performance results. This approach is based upon the Secretary of Defense's Risk Management Framework, introduced in the DoD's Report of the 2001 Quadrennial Defense Review (QDR). The QDR adapted the balanced scorecard concept to the DoD and provided a management framework to help defense managers balance investment priorities against risk over time. The DoD developed supporting scorecards for the Budget and Performance Integration initiative. Beginning in February 2003, the Army began receiving grades on its status and progress in:

- displaying the linkage of plans, outputs, and resources in budget justification materials;
- expanding the treatment of metrics in the FY 2004 Congressional justification materials; and
- establishing a quarterly system of reporting on progress made toward the performance goals.

For FY 2003, the Army was required to associate performance metrics with at least 20 percent of the resources requested each year (FY 2004-FY 2009). The Army met this requirement and is set to meet the target set for the FY 2005 President's Budget of associating 60 percent of resources requested with the relevant performance metric. This requirement rises to 80 percent with the FY 2006 budget and 100 percent for FY 2007 and beyond. While the 100 percent association target will be a stretch, it is a goal of the Army's financial transformation program.

Joint Reconciliation Program

During the year of funds execution, the Army must manage and account for all funds appropriated for approved programs. The Joint Reconciliation Program (JRP) assesses how well Army fund holders use their allocated resources to achieve their program objectives. In so doing, it strengthens the financial accounting and management controls and helps to ensure that the financial reports accurately reflect the results of budget execution.



An effective JRP improves budget execution through the identification of invalid obligations, in-course corrections, and the application of harvested funds; eliminates the use of current funds to pay liabilities arising from appropriations that will cancel; and reconciles and recoups delinquent travel advances. The program also eliminates accounting anomalies such as unmatched disbursements and negative unliquidated obligations. It does this in part by leveraging the skills of those responsible for the different aspects of financial management, including accountants, budget and program analysts, contracting professionals, logisticians, and internal review auditors. The JRP applies these collective skills to verify the validity of unliquidated obligations, contractor work in process, billing status, and the continuing need for goods and services not yet delivered.

In FY 2003, the Army Materiel Command achieved $0 for fifth year canceling accounts. The fourth year canceling account had a beginning balance of $195 million on October 1, 2002, and was reduced by 70 percent to a balance of $58 million on September 30, 2003.

CFO Strategic Plan

Army leaders, as they work to comply with myriad financial management mandates, must do so within the context of the Army vision. To successfully achieve this vision, the Army must have sufficient resources with which to take care of its Soldiers, ensure near-term readiness, and transform itself for the 21st century. The CFO Strategic Plan was developed in recognition of the fact that high-quality financial information is one of the foundations upon which the Army's vision will be built. The CFO plan is an Army-wide management plan designed to synchronize efforts across the Army's functional areas to integrate processes and systems, while improving upon the quality of management information.

The plan involves 15 cross-functional Army organizational elements, as well as the Defense Finance and Accounting Service (DFAS), the OSD (Comptroller), and the DoD Inspector General. Using a five-year planning horizon, the CFO Strategic Plan identifies the steps each organizational element must take to fully integrate all financial and nonfinancial processes and systems that impact Army resources. The Army's ability to produce high-quality financial information for reporting will provide the public with greater confidence that the Army has accountability over its resources. Achieving greater accountability requires that all assets and liabilities, revenues and expenses, and the full costs of programs and activities be consistently, completely, and accurately recorded, monitored, and reported.

The Army will use the latest technology to develop flexible, streamlined procedures and processes that will provide the type of information that will enable sound decision-making. The financial management and functional communities are identifying unnecessary systems that may be eliminated and those essential systems that must be retained and brought into compliance with all statutory, regulatory, and audit requirements. The DoD Business Management Modernization Program (BMMP) is also working with the Army to identify these systems, to map processes, and to determine an optimal architecture for the future. The CFO Strategic Plan will in this way assist in the coordination and execution of Army efforts in support of BMMP initiatives.

By effectively integrating the financial processes and systems with the many other functional processes and systems that impact on a commander's resources, we can provide our commanders with relevant and reliable information on the availability of funds. With this information, commanders will be better positioned to accurately assess their ability to train and maintain their forces and will be better able to articulate to the chain of command the financial costs and benefits associated with the options available to them.

Expanded Electronic Government

The President's Management Agenda asserts that, through electronic means, government can both reduce costs and provide better service. The Army accordingly is pursuing two e-Government focused AKM Goals along with a number of other key initiatives aimed at providing better service to its soldiers and civilian employees.

AKM Goals:

Manage the Army [e-Government] infostructure as an enterprise to enhance capabilities and efficiencies:

- On May 31, 2003, the Information Technology E-Commerce and Commercial Contracting Center (ITEC4), in conjunction with Army CIO/G-6 and the Program Executive Office Enterprise Information Systems (PEO EIS)/Army Small Computer Program (ASCP), awarded a six-year enterprise license agreement for Microsoft products to Softmart Government Services, Inc. This agreement consolidates the purchase and licensing of all Microsoft Office and server software for all active Army, Army Reserves, and National Guard.

- On September 12, 2003, ITEC4, in conjunction with the PEO EIS/Army Small Computer Program, awarded four commercial item, indefinite delivery, indefinite quantity contracts for Information Technology Enterprise Solutions. This contract has a 3-year base period with two, 2-year option periods to support the Army enterprise infostructure (servers, workstations, storage systems, and network equipment) and related services (site surveys, installation, maintenance, and asset management).

- PEO EIS, in conjunction with the Army CIO/G-6, completed an Army-wide Business Case Analysis (BCA), using a representative sample of Army organizations, to determine the total cost of ownership for providing core information technology services. The recommended alternative supports regional server consolidation, enterprise systems management, Windows 2003 Active Directory implementation, and standardized desktop configurations. This alternative, while costing less, would enhance network security and configuration management.

- Army CIO/G-6 and NETCOM published various documents in September 2003 to provide guidance on server consolidation and Windows 2003 Active Directory implementation. Overseas commands, the Army Medical Command, and the United States Military Academy are actively pursuing server consolidation, coupled with Active Directory migration.

- Army CIO/G-6 has developed a comprehensive list of standard baseline services (telephone, email, visual information, and network security) that the Director of Information Management will provide to all installation tenants once approved and funded by the Army. A Service-Level Management Plan and supporting Concept of Operations is under development to describe the methodology and processes the Army will use to ensure delivery of services.

Institutionalize Army Knowledge Online (AKO) as the enterprise portal to provide universal, secure access for the entire Army:

- AKO accounts across the Army have increased in number from 160,000 (August 2001) to 1.5 million (September 2003). AKO-S accounts increased from 1,600 to 47,600 over the same period. An AKO Configuration Control Board has been chartered by the CIO Executive Board

"I consider Military Paper Check Conversion to be one of the top e-commerce initiatives to benefit the Army's Finance Corps since the Vietnam era! It is a true benefit to our civilians, employees, and Soldiers serving in overseas locations."

— Juan DeJesus, U.S. ARMY contact for MPCC

to guide the future development of AKO as requirements and technology evolve.

- Numerous self-service features have been added to AKO. These include immunization status, dental readiness, HIV/DNA status, Office Military Personnel File viewing, alerts to Soldiers on college loan repayment deadlines, temporary duty pay status, date of last physical, and promotion boards.
- Additional self-service features planned include women's health screening, pre- and post deployment surveys, TriCare appointments, prescription refills, discussions, workflow, white boarding, collaboration, and web/e-mail improvements with calendar implementation.
- A Knowledge Collaboration Center also has been established on AKO to enable communities throughout the Army to post and share information pertaining to their mission areas.

Key Army e-Government Initiatives:
Eagle Cash

The Eagle Cash Card, which has been used in Bosnia since 1999, has now been introduced also at Camps Bondsteel, Monteith, and Able Sentry for Soldiers in Kosovo. The DoD and Department of the Treasury have established the cash card to increase the use by U.S. military personnel of local currency, and to discourage the use in theater of the U.S. dollar. The cash card additionally reduces paperwork and the resources that are necessary to process transactions, saving both time and money.

Military Paper Check Conversion

Started as a test with the U.S. Treasury Department, the Military Paper Check Conversion (MPCC) program has become an essential tool in the Army's electronic commerce program, enabling the Army and its finance offices to notify customers of returned checks within two days, in contrast to the previous delay of two weeks to three months. In addition, the MPCC process reduces the labor-intensive check processing process.

The system uses a scanner to read the routing information and account number at the bottom of each check. The amount is then transferred electronically from the customer's account to the finance office. Since March 2003, cashiers in Army finance offices worldwide have been making digital images of checks, handing back to the customer the locally cancelled original as a receipt. The digital check information is routed to the customer's bank, and the image of the check is stored locally for reference, should questions arise in the future. This conversion of paper check information into a digital format saves time and processing costs while reducing the losses incurred by bad checks.

The MPCC process is being used in Belgium, Germany, the Netherlands, Italy, Bosnia, Macedonia, Kosovo, Kuwait, Qatar, and Korea, and in two DFAS sites in Honduras and Afghanistan. Through May 2003, Army finance offices have processed 241,000 personal checks, valued at $103 million, with a 99.7 percent success rate for first-time processing. As the

Army progresses with financial transformation the intention is to adopt MPCC as the Army standard at home as well as abroad.

U.S. Purchase Card Program

Since its initial implementation in calendar year 1998, the U.S. Purchase Card Program has allowed the Army and other DoD agencies to procure goods and services using the purchasing card rather than being invoiced for purchases. The program requires that general purchases at or below $2,500 and training expenses up to $25,000 be purchased using the card, thus eliminating the need for DFAS to process invoice payments. This has eliminated on an annual basis more than 4.6 million commercial invoice payments. At the heart of the program is the Customer Automation and Reporting Environment (CARE). CARE essentially eliminates the administrative tasks of the program, instead automating them in a secure Internet environment.

The program returns savings in three forms: internal, purchase rebates, and a decrease in payment costs. Internally, the program reduces the costs associated with the administrative efforts of the agency program coordinators, billing officials, and cardholders. The program allows users to register and helps them maintain their accounts through the automation of tasks such as password registration, the reporting of queries, and account review. From the rebate perspective, the program reduces the average number of days required for payment. On average, payments made on purchase card accounts are required within 31 days; under the CARE program this time falls to an average of 8 days. This decrease in days to pay thus increases the amount of rebates the Army receives as a result of prompt payment: actual rebates have risen from 0.5 percent to 1 percent of sales, resulting in a projected annual Army-wide rebate in excess of $17.6 million. The savings continue with the decrease in payment costs, or the cost that the Army incurs in making billing payments. With the automation of the CARE program, the bill from DFAS will fall from its current $18 per line of accounting to only $6 per line of accounting-a 67 percent reduction in accounting costs.

Budget and Performance Integration

Improvements in the management of human capital, competitive sourcing, improved financial performance, and expanded electronic government will matter little if these advances are not linked to better results. Clearly, scarce federal resources should be allocated to those programs and managers that deliver results.

Metrics for FY 2003

FY 2003 Army Purchase Card Usage			
	Fiscal Year thru 30 Aug 03		Thru 3rd QTR - Jun 03
Agency	Sales	Transactions	Rebates
Army	$2,405,840,285	4,147,823	$4,757,294

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MG 18M

Management Discussion and Analysis

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

The AWCF is divided into four activity groups: Supply Management, Army; Depot Maintenance; Ordnance; and Information Services (see Figure 6). The Army Materiel Command (AMC) exercises command and control over the activity groups through one or more of its six major subordinate commands. AMC in turn reports activities to the Deputy Chief of Staff, G-4 and to the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)). A DoD corporate board additionally maintains oversight of AWCF functions.

Mission

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

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

Figure 6. AWCF Organizational Chart

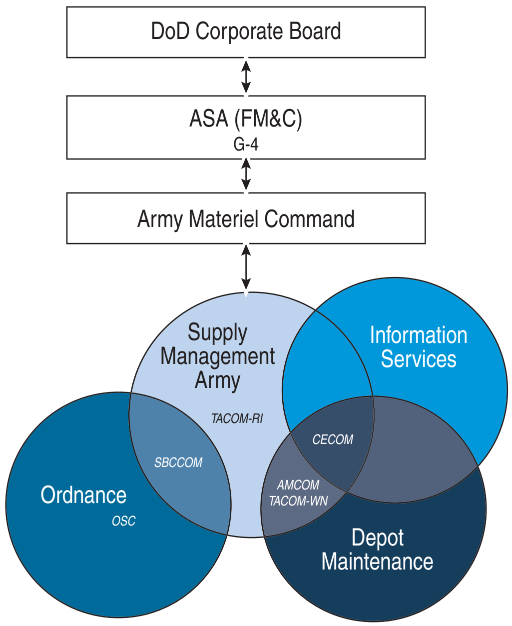
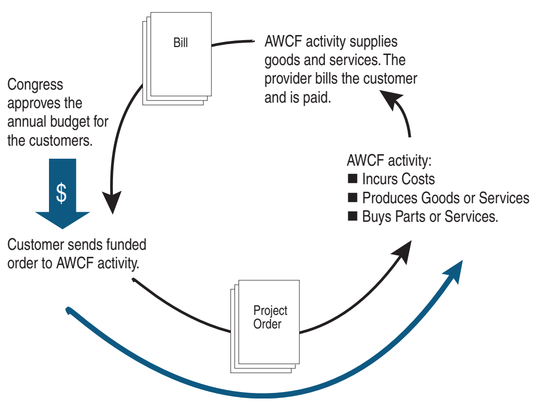


Figure 7. How the AWCF Operates



How the AWCF Works

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

The AWCF operates through a four-step process (see Figure 7). First, Congress reviews the budget submissions of AWCF customers, approves a budget for those customers, and appropriates to them the approved funds. The customer next sends to an AWCF activity a funded order—essentially a fixed-price contract based on the work required and the AWCF rate for the goods and services. Third, the AWCF activity performs the work necessary to produce the goods and services required, incurring costs as it does so. Finally, the activity invoices the customer per the funded order, thus recovering its costs and completing the funding cycle.

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

The Activity Groups

Supply Management, Army

The Supply Management, Army (SMA) activity group buys and maintains assigned stocks of materiel for sale to its customers, primarily Army operating units. The constant availability of this materiel is essential to equipment and operational readiness and to the warfighting readiness and abilities of Army units. In FY 2001, SMA underwent a major change with the implementation of the Single Stock Fund (SSF) initiative, which integrated the wholesale and command retail divisions. Under SSF, the wholesale division remains subdivided by commodity and is managed by major subordinate commands under AMC. The command retail divisions no longer exist. Table 15 provides the breakdown of the wholesale subdivisions.

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

Depot Maintenance

The Depot Maintenance activity group provides the Army with an organic industrial capability to repair, overhaul, and upgrade weapons systems end items and depot-level reparables. It also provides tenant support to Army and other DoD activities. Depot maintenance activities both compete and partner with private industry as AWCF seeks to deliver goods and services as efficiently and effectively as possible. There are five major depots in this activity group: Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna. The depots are managed by major subordinate commands under AMC (see Table 16).

Ordnance

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

Ordnance activities provide logistics support including management, follow-on procurement, production, maintenance, and engineering. They also store, maintain, and demilitarize conventional ammunition.

Abrams Tank Repair shop – Anniston Army Depot, AL.

Table 15. Supply Management, Army Activities

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

Table 16. Army Depots

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

Table 17. Army Ordnance Activities

Activity	Location	Mission
Pine Bluff Arsenal	Pine Bluff, AR	Primary manufacturing capabilities include the production of conventional ammunition and chemical and biological defense items including white phosphorous and red phosphorous munitions, signaling and obscuring smokes, incendiaries, irritants, and the production and rebuild of decontaminating kits, large filters, masks and defensive chemical test equipment Provides base support to tenants
Rock Island Arsenal	Rock Island, IL	Primary materiel and industrial capabilities include the production of aircraft weapons, infantry weapons, air defense weapons and artillery; armament for tanks, artillery, personnel and cargo carriers; and special tools and tool sets Major in-house programs include maintenance truck, heavy; spare parts for M119 and M198 towed howitzers; explosive ordnance disposal vehicles; and 120mm gun mount for Abrams main battle tank Provides base support to approximately 40 tenants
Watervliet Arsenal	Watervliet, NY	Primary materiel and industrial responsibilities include production of mortars, recoilless rifles, cannon for tanks and towed and self-propelled artillery, special tool sets, and training devices and simulators Major in-house programs include the M256 gun tube, M284/M109A6 howitzer, and XM297 howitzer Provides base support to tenants
Crane Army Ammunition Activity	Crane, IN	Primary materiel and industrial responsibilities include manufacturing, load and assembly, supply depot operations, and renovation, maintenance, and demilitarization of conventional ammunition and ammunition-related components
McAlester Army Ammunition Activity	McAlester, OK	Primary materiel and industrial responsibilities include ammunition manufacturing and the rapid outload, maintenance, and demilitarization of conventional ammunition and missiles.
Sierra Army Depot	Sierra Army Depot	Primary materiel and industrial responsibilities include the receipt, storage, care of supplies in storage (COSIS), repair, assembly, disassembly, and shipment of major and secondary items for operational project stocks Provides base support to tenants
Tooele Army Depot	Tooele, UT	Responsible for design and development of ammunition peculiar equipment; stores, maintains, distributes, and demilitarizes conventional ammunition Provides base support to tenants

The activity group consists of three arsenals, two ammunition plants, three ammunition storage depots, and three munitions centers (see Table 17). The Soldier Biological and Chemical Command, located at Aberdeen Proving Ground, MD, manages Pine Bluff Arsenal. The Operations Support Command (OSC), located at Rock Island, IL, manages the remaining arsenals, ammunition plants, and ammunition logistics activities. The arsenals and plants provide depot operations, set assembly, tenant support, and national procurement services for thin- and thick-walled cannon. They also are responsible for ammunition logistics management, including follow-on procurement, production, maintenance, and engineering, and are responsible for integrated logistics support management.

Information Services

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

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

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

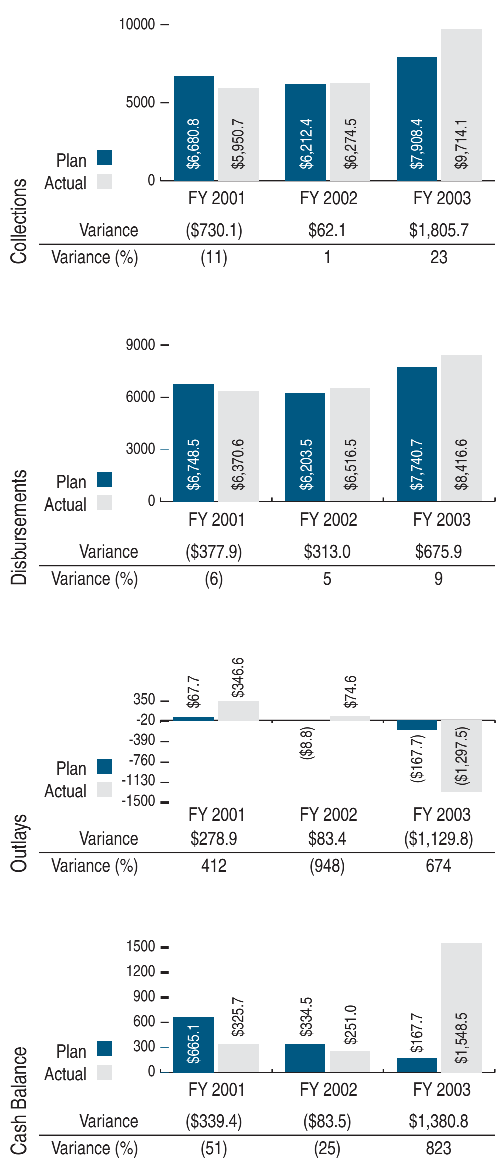
The Army Small Computer Program (ASCP) provides customers with fully competed commercial sources of small and medium-size computers, software, networking infrastructure, and support services.

Effective FY 2002 the Information Services activity group eliminated the use of stabilized rates, in preparation for the decapitalization of the group on September 30, 2003. Through FY 2002 and FY 2003 all customers paid for services on a reimbursable basis to ensure that the group did not incur losses prior to decapitalization.

Table 17. Army Ordnance Activities (Continued)

Activity	Location	Mission
Blue Grass Army Depot	Richmond, KY	Primary materiel and industrial responsibilities include the receipt, issue, storage, testing, and minor repair of chemical defense equipment. Stores, maintains, distributes, and demilitarizes conventional ammunition Provides base support to tenants
Red River Munitions Center	Texarkana, TX	Stores, maintains, distributes, and demilitarizes conventional ammunition
Letterkenny Munitions Center	Chambersburg, PA	Stores, maintains, distributes, and demilitarizes conventional ammunition
Anniston Munitions Center	Anniston, AL	Stores, maintains, distributes, and demilitarizes conventional ammunition

Figure 8. Corporate Cash Management ($ millions)



Working Capital Fund - Performance Measures

Corporate Performance

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

Performance Measures

Cash Management

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

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

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

Figure 8 shows the planned and actual collections, disbursements, and outlays at Army corporate level for the last three fiscal years, and the consequent cash balance. The AWCF ended FY 2003 with a cash balance of $1,548.5 million, $1,380.8 million above plan. This represents a substantive reversal over the previous years, in which the Army missed year-end projections by more than $339.4 million in FY 2001 and $83.5 million in FY 2002. The current cash balance in the AWCF reflects the results of the increase in consumption of repair parts and production at our industrial facilities associated with the Global War on Terrorism. The current cash balance will be used to pay our suppliers and producers of goods. Once payments, associated with the delivery of stocks and repair of equipment, are made the AWCF cash balance will return to a level closer to our corpus requirement.

Total Revenue

Total Revenue is an indicator of the volume of work completed by the AWCF activity groups. The total projected revenue for FY 2003 was $10.3 billion. Actual revenue was $12.3 billion, 20 percent greater than projected. This was primarily due to operations in support of the war on terrorism.

Table 18 displays total corporate revenue by customer (Sum of Tables 20, 24, 32 and 41). The largest customer for the AWCF is Operations and Maintenance, Army (OMA), which accounted for revenues of $8.4 billion.

Table 19 displays total revenue and appropriation by activity group. Supply Management, Army (SMA) is the largest, accounting for almost $9.3 billion in revenue, or 76 percent of all AWCF revenue. In addition to the revenue shown in Table 18, the AWCF received $167.4 million in FY 2002 and $249.0 million in FY 2003 in direct appropriations.

Personnel Resources

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

As Figure 9 shows, the AWCF did not meet its planned full-time civilian equivalents. Since FY 2002, the AWCF decreased the number of full-time equivalents by 566 civilians, or 3 percent.

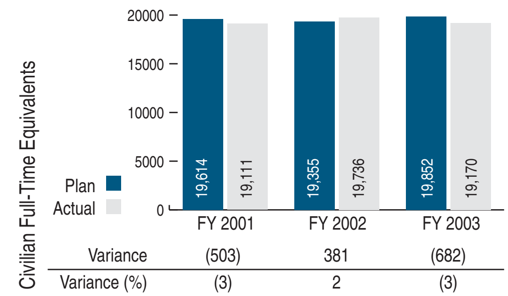
Table 18. Total Corporate Revenues by Customer ($ millions)

Customer	FY 2001	FY 2002	FY 2003
Operations and Maintenance, Army	$5,384.5	$5,417.4	$8,173.7
Army Procurement	469.5	627.3	680.0
AWCF	1,444.0	1,023.7	1,626.8
Other Army	117.7	178.7	229.5
Other Services	376.9	460.2	641.2
Other DoD	150.8	135.7	355.1
Foreign Military Sales	172.6	201.9	315.4
Non-DoD	152.1	233.2	40.8
Total Revenue	$8,268.1	$8,280.4	$12,062.5

Table 19. Total Revenue and Appropriation by Activity Group ($ millions)

Appropriation	FY 2001	FY 2002	FY 2003
Supply Management, Army	$6,076.2	$6,001.0	$9,329.5
Depot Maintenance	1,440.3	1,668.4	2,119.4
Ordnance	671.7	671.2	765.9
Information Services	98.0	104.9	96.7
Total Revenue	$8,286.2	$8,445.5	$12,311.5

Figure 9. Personnel Indicators



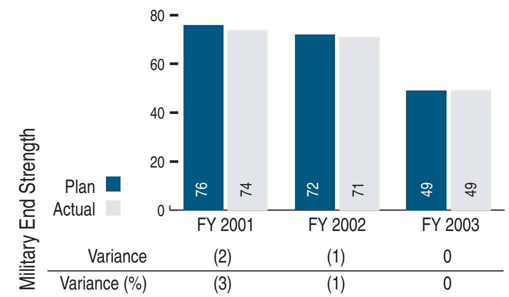
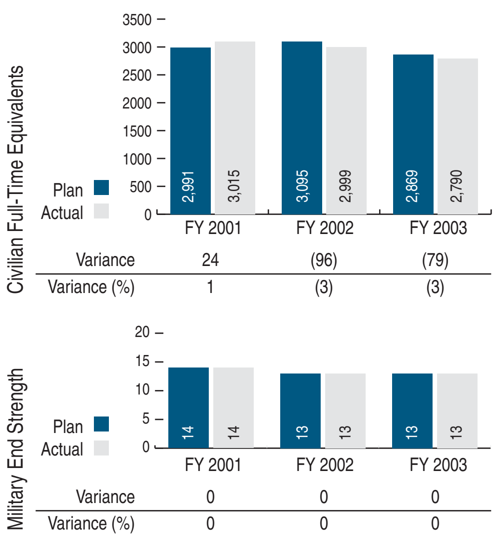


Table 20. Total SMA Revenue by Customer ($ millions)

Customer	FY 2001	FY 2002	FY 2003
Operations and Maintenance, Army	$4,513.2	$4,473.6	$7,163.6
Army Procurement	170.5	208.4	374.8
AWCF	705.5	405.2	468.5
Other Army	76.9	121.7	187.4
Other Services	281.8	366.5	562.1
Other DoD	90.1	58.6	93.6
Foreign Military Sales	115.8	114.0	281.1
Non-DoD	114.6	89.4	9.4
Total Revenue	$6,068.4	$5,837.4	$9,140.5

Figure 10. SMA Personnel Indicators



Supply Management, Army

Program Scope

Customer Revenue (Program Size)

SMA revenue from customer sales in FY 2003 was $9.1 billion. This exceeded plan, with the excess revenue a direct result of unforeseen operations conducted in support of the war on terrorism. As shown in the Table 20, total SMA revenues increased between FY 2002 and FY 2003; this is due to elimination of the retail stock fund, a second point of sale. In addition to the revenue shown in Table 20, SMA received direct appropriations of $7.8 million in FY 2001, $163.6 million in FY 2002 and $189 million in FY 2003.

Personnel

A key objective of the SMA activity group is ensuring that the appropriate number of skilled workers is employed in the right places to fulfill the group's workload obligations. Over the last three fiscal years, actual civilian full-time equivalents have decreased by 7 percent.

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

Performance Measures

Financial Performance

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

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

In FY 2003, the wholesale division achieved a unit cost of $1.14. The initial unit cost goal (UCG) of $1.11 was revised during the fiscal year to allow an execution of $1.14. The revision was based on both higher expected sales and high hardware obligations related to Operation Iraqi Freedom and the Global War on Terrorism.

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

In FY 2003, gross material costs were greater than planned, producing a unit cost of $1.43 that was above the UCG of $0.90. Gross material costs were greater than planned due to increased inventory requirements in support of Operation Iraqi Freedom and the Global War on Terrorism.

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

Financial Operating Measures. Budgetary guidelines requires the activity group to recover its operating costs and fees while achieving zero accumulated operating results at the end of the budget period. To achieve this goal, AWCF activities set stabilized rates 8 or more months prior to the beginning of each fiscal year. These rates use forecasting methods to determine the potential workload and the cost of meeting workload requirements. This projection is then used to set a standard price for AWCF goods and services. Since revenue is defined as gross sales at standard price, revenue, cost, and net operating results are the logical financial measures of AWCF operations. In FY 2003, the rates were set to achieve a net operating result (NOR) of $239 million. The actual NOR was a gain of $908 million. Results of operations, computed according to budget guidance, are presented in Table 21.

Figure 11. SMA Gross Sales

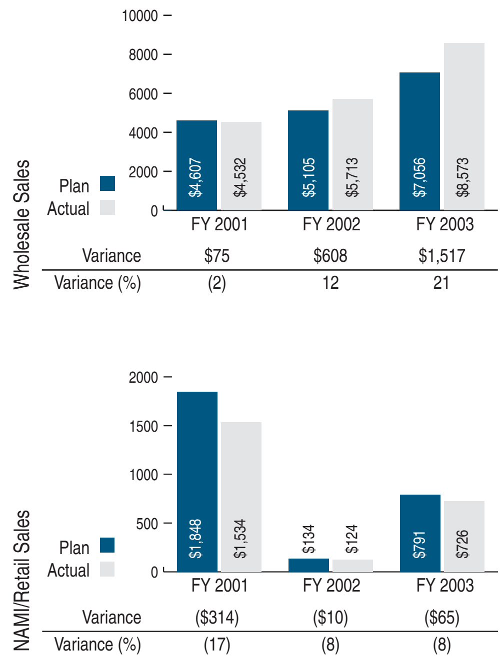


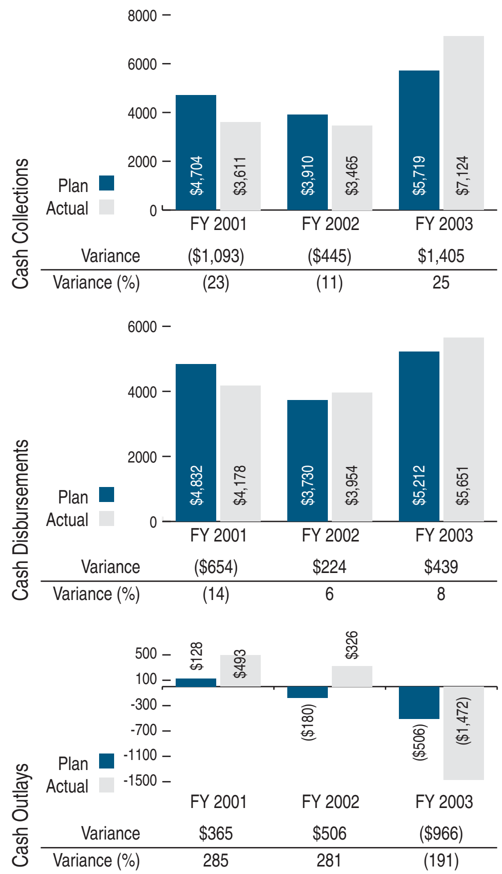
Table 21. Financial Operation Measures ($ millions) for SMA

	FY 2001			FY 2002			FY 2003		
	Plan	Actual	Variance (%)	Plan	Actual	Variance (%)	Plan	Actual	Variance (%)
Revenue	$7,173.2	$6,068.4	(15)	$5,239.2	5,837.4	11	$5,595	$9,330	67
Cost of Goods Sold	7,252.1	6,188.2	(15)	5,645.2	6,192.0	10	4,496	8,422	87
Net Operating Results	(78.9)	(119.8)	(52)	(242.4)	(354.6)	(46)	239	908	280
Accumulated Operating Results	$131.9	$90.1	(32)	($38.3)	$197.8	616	$11	$1,543	13,729

Table 22. Capital Budget Obligations ($ millions) for SMA

Category	FY 2001	FY 2002	FY 2003
Equipment	$0.0	$0.0	$0.0
ADPE and Telecom	0.0	0.0	0.0
Software	62.3	61.2	45.7
Total	$62.3	$61.2	$45.7

Figure 12. SMA Cash Management



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

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

FY 2003 Capital Investment Program (CIP) projects include the purchase of the following:

Logistics Modernization Program (LMP) ($19 million). The goal of LMP is to re-engineer existing logistics processes to provide flexibility in support of CONUS-based power projection scenarios, to leverage modern information technology enablers to provide real-time visibility of the entire logistics supply chain, and thereby support the revolution in military logistics.

Commercial Asset Visibility II (CAV II) ($2 million). CAV II improves asset visibility at contractor maintenance sites and improves shipping procedures, measures repair turnaround time, and monitors contractor performance; it also corrects financial and inventory imbalances. CAV II will interface with LMP.

Common Operating Environment (COE) ($4 million). COE provides Windows-based common technology architecture for the various wholesale logistics processes, enabling users of logistics systems to perform all business functions from a single workstation. It will also interface with LMP.

Single Stock Fund (SSF) ($20 million). The SSF concept integrates retail and wholesale inventory, management, and financial accounting functions to deliver business process improvements and improve the efficiency of inventory management. This vertical stock fund for Army-managed items furthermore will eliminate one point of sale, thus ending duplication in logistical and financial processing and providing greater visibility of assets.

Cash Management

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

FY 2003 collections were greater than projected because of the increase in customer sales associated with Operation Iraqi Freedom and the Global War on Terrorism.

Program Performance

Supply management uses two program performance measures: stock availability and stock turn.

Stock Availability (Fill Rate). Stock availability measures the percentage of SMA requisitions for stocked items completely filled within Uniform Materiel Movement and Issue Priority System (UMMIPS) timeframes. DoD and the Army have set a target of 85 percent stock availability. Increased demands and understated procurement lead times in FY 2000 contributed to a decrease in stock availability that has hindered SMA in achieving its goal. A Spare Parts Shortage Integrated Process Team has been established to conduct a thorough analysis of the health of the Army Materiel Command's spare parts program, to identify deficiencies within the requirements determination and execution process, and to recommend corrective measures. Although significant financial action was initiated in early FY 2003 to correct stock shortages, stock availability rapidly decreased amidst increased customer demands in support of Operation Iraqi Freedom and the Global War on Terrorism. These financial actions are expected to remedy this downward trend during FY 2004.

Depot Maintenance

Program Scope

Customer Revenue (Program Size)

Customer requirements govern the size and type of the Depot Maintenance workload. The revenue from customer sales in FY 2003 was $2.114 billion. Table 24 displays customer revenue for the past three fiscal years.

Total revenue increased by $447.5 million, or 27 percent, between FY 2002 and FY 2003. This was despite a rate increase of only 7.4 percent. In addition to the revenue shown in Table 24, Depot Maintenance received direct appropriations of $6.2 million in FY 2001, $2.3 million in FY 2002 and $5.8 million in FY 2003.

Personnel

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

Table 23. SMA Stock Availability (percentage)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
FY 2001	83	86	87	87
FY 2002	85	86	87	86
FY 2003	85	80	75	70

Table 24. Total Depot Maintenance Revenue by Customer ($ millions)

Customer	FY 2001	FY 2002	FY 2003
Operations and Maintenance, Army	$538.2	$627.0	675.4
Army Procurement	145.6	253.3	131.3
AWCF	618.1	488.9	999.3
Other Army	11.0	30.1	10.8
Other Services	63.1	79.6	44.6
Other DoD	10.3	7.2	231.8
Foreign Military Sales	41.6	67.0	17.1
Non-DoD	6.2	113.0	3.3
Total Revenue	$1,434.1	$1,666.1	$2,113.6

Figure 13. Depot Maintenance Personnel Indicators

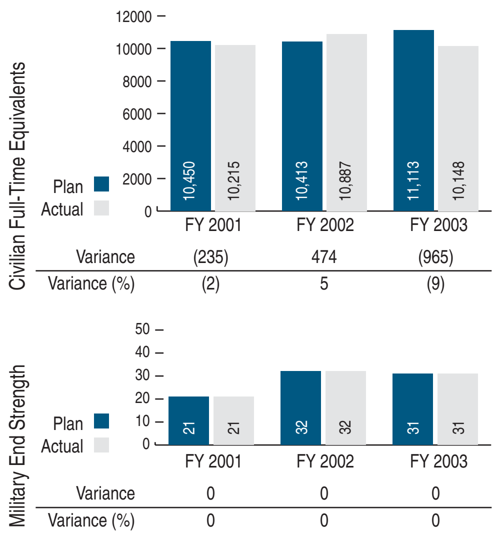


Table 25. Depot Maintenance Cost per Direct Labor Hour

	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual
Cost per Direct Labor Hour	$135.99	$155.17	$169.65
Change from Prior Year (%)	17	14	9
Direct Labor Hours (000s)	10,277	11,381	11,928

Table 26. Direct Labor Costs ($ millions) for Depot Maintenance

Elements	FY 2001	FY 2002	FY 2003
Direct Labor	$311.4	$418.4	$294.0
Indirect Labor	250.8	293.5	222.1
General and Administratvie Labor	20.1	14.5	16.6
Direct Materiel	455.2	635.9	774.4
Indirect Materiel	52.2	71.3	58.4
Indirect Other	304.0	299.8	658.1
Total	$1,393.7	$1,733.4	$2,023.6
Direct Labor Hours	10,277	11,382	11,928
Cost per Hour ($)	$135.61	$152.29	169.65
Change in Work in Process	($3.9)	($32.7)	0.0
Cost of Goods Sold ($ millions)	$1,390.1	$1,766.2	$2,023.6
Cost per Hour (unit cost, $)	$135.99	$155.17	$169.65

In FY 2003, depots received $845.8 million more in orders than was forecasted; roughly 50.2 percent more work than planned. The depots expanded their workforce, employed contract support, and used high levels of overtime in an effort to meet the increased customer demand. Though the depots did not exceed their full time equivalents, they did exceed their planned overtime by 750,000 hours, or 75 percent.

Performance Measures

Financial Performance

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

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

Table 25 breaks down DLH costs into their component parts. Direct costs include civilian labor, materiel, supplies, equipment, and other costs that are directly related to a funded order (travel, training, and purchased services). The indirect/G&A elements comprise all costs not directly related to an order and that are recovered as overhead expenses. These include administrative personnel costs, base support costs, support personnel costs, and facility repair and maintenance costs.

Financial Operation Measures. Under the full-cost recovery concept, stabilized rates are set such that they should cover all costs and produce a zero accumulated operating result (AOR) at the end of the budget year. During execution, the activity group may experience either a positive or negative net operating result (NOR). The gain or loss shown in the NOR is added to the AOR from past years. Stabilized rates are included in the President's Budget, published approximately 8 months in advance of the year of execution. The rates are stabilized so that customers' programs will not be affected during execution, even though the actual costs of the AWCF activity may be higher or lower than planned.

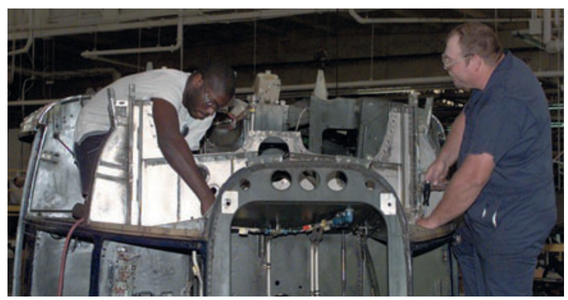
Deviations from the plan impact the activity group to the extent that an unplanned gain or loss must be included in the following year's rates to bring the AOR to zero. Any change in rates may in turn result in an increase or decline in the customer's buying power.

Table 27 shows the operation measures for the past three fiscal years. FY 2003 revenue and costs were $2.1 billion and 2.0 billion, respectively. Acceptable deviation from the plan is plus or minus 10 percent. In FY 2003, revenue and cost deviations from plan were 22 percent and 16 percent respectfully. The amounts are directly attributed to the increased work load associated with contingency operations.

Customer Revenue Rate. In Depot Maintenance, customer revenue rates are set per direct labor hour. These rates are stabilized so that the customer's

Table 27. Financial Operation Measures ($ millions) for Depot Maintenance

	FY 2001		FY 2002		FY 2003	
	Plan	Actual	Plan	Actual	Plan	Actual
Revenue	$1,389.3	$1,434.1	$1,580.0	$1,668.4	$1,731.3	$2,119.4
Cost of Goods Sold	1,357.9	1,390.1	1,599.0	1,766.2	1,749.6	2,023.6
Operating Results	31.4	44.0	(19.0)	(97.8)	(18.3)	95.8
(less Capital Surcharge)	15.7	12.5	0.2	0.6	0.1	0.3
(less Extraordinary Items)	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating Results	15.7	31.5	(19.2)	(98.4)	(18.4)	95.5
Beginning AOR	55.2	55.2	64.6	83.2	(45.8)	(39.0)
(less Prior Year Adjustment)	0.1	(3.5)	0	(23.8)	0.0	21.3
Beginning AOR Adjusted	55.3	51.7	64.6	59.4	(45.8)	(17.7)
AOR (NOR plus adjusted AOR)	$71.0	$83.2	$45.4	($39.0)	($64.2)	$77.8



Helicopter Repair – Corpus Christ Army Depot, TX.

Table 28. Depot Maintenance Stabilized Rates

Direct Labor Rate	FY 2001	FY 2002	FY 2003
Customer Revenue Rate ($)	$119.81	$124.57	$133.80
Customer Rate Change (%)	7	3	7

Corpus Christi Army Depot, TX.

Table 29. Capital Budget ($ millions) for Depot Maintenance

Category	FY 2001	FY 2002	FY 2003
Equipment	$3.6	$7.1	$31.2
Minor Construction	1.9	1.1	3.1
ADPE and Telecom	0.0	0.0	0.0
Software	13.8	16.7	16.6
Total	$19.3	$24.9	$50.9

Note: ADPE is automated data processing equipment.

buying power is protected in the year of execution. Table 28 shows the stabilized revenue rates per DLH. The FY 2003 rate of $133.80 per DLH cash was 7 percent higher than that of FY 2002.

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 29 represents the obligation authority of the capital budget.

FY 2003 Capital Investment Program (CIP) projects include purchase of the following:

Various Capital Equipment - Replacement (<$500K) ($4.8 million). This program seeks to replace depot equipment items costing less than $500,000 that have outlived their useful lives, become uneconomical to repair or become unsafe to operate.

Various Capital Equipment - Productivity (>$500K) ($0.6 million). This program seeks to modernize equipment costing more than $500,000 to improve depot productivity and efficiency and reduce operating costs.

HP3070 Circuit Board Test System Replacement ($0.7 million). The purchase of two new systems will increase the speed at which in-circuit test programs are produced and increase the speed at which testing is accomplished. Current test systems were designed in the 1970s and their capabilities to test newer circuit cards is questionable. The manufacturer is currently phasing out the maintenance and stocking of replacement parts.

Fluidized Bed ($6.8 million). The fluidized bed is used for removing rubber from roadwheels and track shoes prior to remanufacture. This concept has received national recognition as a cost-effective, environmentally friendly means of performing a task that traditionally has been slow, dirty, and harmful to the environment. The existing 10-year-old fluidized bed has reached the end of its life expectancy and requires frequent and expensive maintenance and repair.

X1100-3B Transmission Test Stand ($1.3 million). This is a complete automated test equipment system that allows dynamic testing of both new and rebuilt X1100-3B and CD-850 cross-drive transmissions. The stand is necessary for final acceptance testing of these transmissions, when they come out of the depot overhaul program.

Inertial Sensor Assembly Test Equip ($1.8 million). The existing Inertial Sensor Assembly (ISA) test set is 27 years old, compared to a normal life expectancy of 10 years. Downtime has averaged about 10 percent, and many repair parts are obsolete and no longer supported by the manufacturer.

CNC Precision Laser Cutting System ($0.6 million). This system provides sheet metal fabrication functions to support the PATRIOT Recap ground support equipment and depot maintenance mission production schedules.

Engine Disassembly and Cleaning Equipment ($12.1 million). This program replaces 30-year-old outdated process equipment and process tanks with small capacities supporting larger parts. Replacement will support compliance with the Clean Air Act of 1990, Clean Water Act, and OSHA safety regulations.

Control Consoles & Wiring Speed Drive ($1.6 million). This equipment provides H-60 transmission and gearbox test capability. Current equipment's major components within the consoles are obsolete and no longer supported by their manufacturer.

Dust Collection System ($0.7 million). The current system is 17 years old and doesn't adequately filter the air that is recycled back into the shop, allowing cadmium, chromium, and other contaminants to escape. The new system would provide clean, well-filtered return air to the building and ensure a safer work environment and compliance with all air quality regulations.

Various Minor Construction (<705K) ($3.1 million). This program corrects various workload and production shortcomings and health, safety, environmental, and security conditions.

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

Logistics Modernization Program (LMP) ($7.3 million). LMP seeks to reengineer existing logistics processes to provide flexibility in support of CONUS-based power projection scenarios to leverage modern information technology enablers to provide real-time visibility of the entire logistics supply chain, and thereby to support the Revolution in Military Logistics.

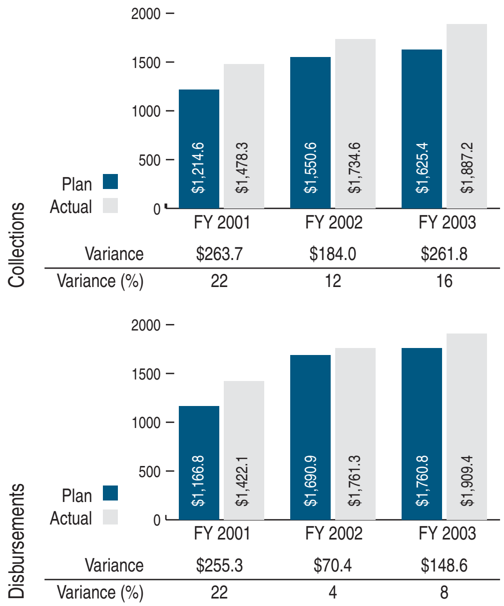
SDS Data Collection/Shop Floor/AIT ($6.3 million). This program provides a Windows-based common technology architecture for the various wholesale logistics processes that will enable users of logistics systems to perform all business functions from a single workstation. It will interface with LMP.

Cash Management.

The Army manages AWCF cash at the corporate level. The performance of individual activity groups is

Engine Repair

Figure 14. Depot Maintenance Cash Management ($ millions)



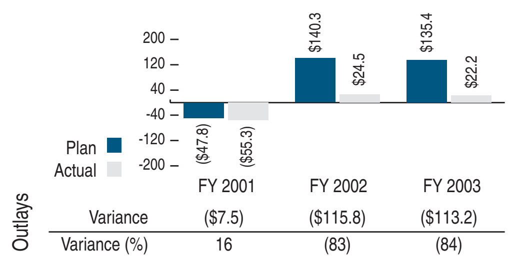


Table 31. Schedule Conformance (percentage) for Depot Maintenance

	FY 2001	FY 2002	FY 2003[1]
Plan	89	90	N/A
Actual	90.9	93.9	N/A
Variance (percentage)	2	4	N/A

[1] Data was not available at time of printing

Table 30. Depot Maintenance Production Output

	FY 2001		FY 2002		FY 2003			
Item (Installation)	Proposed Quantity	Actual Quantity	Deviation (%)	Unit Price ($)	Proposed Quantity	Actual Quantity	Deviation (%)	Unit Price ($)
Rear Module, M1A1 (ANAD)	378	63,107	334	68,613	314	347	11	$67,822
Engine, Turbine, T700-GE (CCAD)	120	250,100	120	256,083	60	55	(8)	$264,751
Paladin Chassis (LEAD)	51	382,024	28	440,615	40	40	0	$699,575
Wheel, Solid Rubber (RRAD)**	2851	250.46	2800	248.75	8,945	8,945	0	$208
Visual Display Unit, AH64 (TYAD)	70	8,576	60	8,263	60	49	(18)	$8,438

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

measured against planned collections, disbursements, and outlays rather than in terms of cash balances. Depot Maintenance collections and disbursements in FY 2003 were $1.8 billion and $1.9 billion, respectively.

Both collections and disbursements were over plan and reflect the revenue and expense positions of Depot Maintenance activity group.

Program Performance

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

Production Output. Table 30 lists the quantity and customer price for five representative end items for the last three fiscal years. The table highlights one specific item at each of the major repair depots that is receiving A1 (cyclic, normal overhaul, rebuild) work. The prices indicated are the unit prices by year for this type of work; price fluctuations are due to changes in materiel and labor costs, distribution of overhead costs, AOR recovery, and the cash surcharge.

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.

Ordnance

Program Scope

Customer Revenue (Program Size)

Customer requirements dictate the size of the Ordnance workload. Table 32 displays customer revenue for the past three fiscal years.

Revenue from customer orders in FY 2003 was $711.7 million, or an increase of $41.9, or 6 percent, due to the Global War on Terrorism. In addition, to the revenue shown in Table 32, the Ordnance Activity Group received direct appropriations of $3.9 million in FY 2001, $1.4 million in FY 2002, and $54.2 million in FY 2003.

The increase in revenue is due to increased shipments in support of overseas military operations, troop support/force protection, and receipt of unplanned orders and miscellaneous spares.

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 the workload has increased, staffing levels have also been increased, through a combination of involuntary separations, voluntary separation incentive programs, and hiring freezes. Figures for the last three fiscal years show an overall increase in personnel levels consistent with the activity's increased workload druing FY 2003.

Table 32. Total Ordnance Revenue by Customer ($ millions)

Customer	FY 2001	FY 2002	FY 2003
Operations and Maintenance, Army	$299.4	$282.4	$303.1
Army Procurement	151.1	165.5	173.9
AWCF	75.4	75.8	102.6
Other Army	25.6	22.8	25.8
Other Services	32.0	14.1	34.5
Other DoD	42.3	62.0	26.5
Foreign Military Sales	15.2	20.9	17.2
Non-DoD	26.8	26.3	28.1
Total Revenue	$667.8	$669.8	$711.7


Bomb making – McAlester Army Ammunition Plant.

Figure 15. Ordnance Personnel Indicators

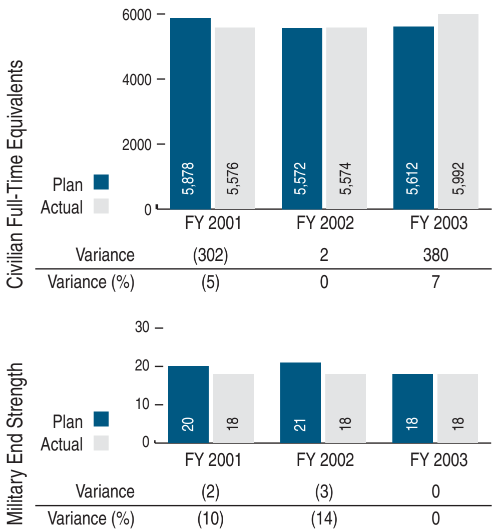


Table 33. Financial Operation Measures ($ millions) for Ordnance

	FY 2001		FY 2002		FY 2003	
	Plan	Actual	Plan	Actual	Plan	Actual
Revenue	$678.0	$667.8	$663.7	$669.2	$609.0	$765.8
Cost of Goods Sold	696.0	663.8	680.5	696.1	608.6	797.2
Operating Results	(18.0)	4.0	(46.8)	(26.3)	0.4	(31.4)
(less Capital Surcharge)	5.5	5.6	1.8	1.9	0.3	0.4
(less Extraordinary Items)	(1.8)	0.0	0.0	0.0	0.0	0.0
Net Operating Results	(21.7)	(1.6)	(48.6)	(28.2)	0.1	(31.8)
Beginning AOR	58.6	58.6	66.7	51.6	181.5	181.6
(less Prior Year Adjustment)	0.0	(5.4)	0.0	158.2	0.0	(13.7)
Beginning AOR Adjusted	58.6	53.2	66.7	209.8	181.5	167.9
AOR (NOR plus adjusted AOR)	$36.9	$51.6	$18.1	$181.6	$181.6	$136.1

Table 34. Cost per Direct Labor Hour for Ordnance

	FY 2001	FY 2002	FY 2003
Cost per Direct Labor Hour	$150.59	$155.69	$137.85
Change from Prior Year (%)	33	3	(11)
Direct Labor Hours (000s)	4,408	4,471	5,783

Performance Measures

Financial Performance

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

Financial Operating Measures. Under the full-cost recovery concept, stabilized rates are set to cover all costs and produce a zero accumulated operating result (AOR) at the end of the budget year. During execution, the activity group may experience either a positive or negative net operating result (NOR). The gain or loss shown in the NOR is added to the AOR from prior years. Stabilized rates are included in the President’s Budget, published approximately 8 months in advance of the year of execution. The rates are stabilized so that customers’ programs will not be affected during execution, even though the actual costs of the AWCF activity may be higher or lower than planned.

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

Table 33 shows the operation measures for Ordnance for the past three fiscal years. FY 2003 revenue and costs were $765.8 million and $797.2 million, but were not within the acceptable deviation from plan of plus or minus 10 percent.

Cost per Direct Labor Hour. The cost per DLH rate (Table 34) is computed by dividing the sum of all labor and non-labor expenses (direct, indirect, and general and administrative (G&A)) plus the change in work in process by the total number of productive DLHs worked in the fiscal year.

Table 35 breaks down the overall costs for FY 2003. 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.

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 36 shows the revenue rate per DLH, and indicates a 27 percent rate reduction between FY 2002 and FY 2003.

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 37 represents the obligation authority of the capital budget.

FY 2003 capital investment program (CIP) projects include purchase of the following:

Various Capital Equipment - Replacement (<$500K) ($7.5 million). This program funds the replacement of items of equipment costing less than $500,000 that have outlived their useful lives, are uneconomical to repair, or are unsafe to operate.

4-Axis CNC Horizontal Mill ($1.1 million). The 4-Axis Computer Numerical Controlled (CNC) Horizontal Mill provides a faster, safer, more reliable, and more technologically advanced horizontal milling capability to replace three worn out machines and support the manufacture of spare parts for such critical weapons systems as the M119 and M198 Howitzers and the M182 Gun Mount for the M109 Paladin Self-Propelled Howitzer.

Resource Recovery and Recycling Equipment ($1.0 million). The Resource Recovery and Recycling Equipment will replace the current open burn/open detonation ammunition demilitarization operations at Crane Army Ammunition activity with a system that is compliant with federal and state environmental quality standards.

Minor Construction (<$750K) ($1.4 million). This program addresses and corrects various problems at Ordnance installations facilities that give rise to poor working conditions, that reduce productivity, lack energy conservation features, compromise security,

Table 35. Direct Labor Cost Estimates ($ millions) for Ordnance

Elements	FY 2001	FY 2002	FY 2003
Direct Labor	$167.6	$168.8	$200.9
Indirect Labor	104.8	139.5	136.5
General and Administratvie Labor	59.6	46.2	61.8
Direct Materiel	93.9	82.4	99.3
Indirect Materiel	16.6	25.5	27.3
Indirect Other	214.3	231.9	268.0
Total	$656.8	$694.3	$793.8
Direct Labor Hours	4,408	4,471	5,783
Cost per Hour ($)	$149.00	$155.29	$137.25
Change in Work in Process	(7.0)	(1.8)	(3.4)
Cost of Goods Sold ($ millions)	663.8	696.1	797.2
Cost per Hour (unit cost, $)	$150.59	$155.69	$137.85

Table 36. Stabilized Rates for Ordnance

Direct Labor Hourly Rate	FY 2001	FY 2002	FY 2003
Customer Revenue Rate ($)	$102.70	$94.59	$69.07
Customer Rate Change (%)	4	(8)	(27)

Table 37. Capital Budget ($ millions) for Ordnance

Category	FY 2001	FY 2002	FY 2003
Equipment	$11.8	$2.8	$9.6
Minor Construction	7.8	1.3	1.4
ADPE and Telecom	4.9	1.9	0.0
Software	4.8	4.7	4.7
Total	$29.3	$10.7	$15.7

Figure 16. Cash Management ($ millions) for Ordnance

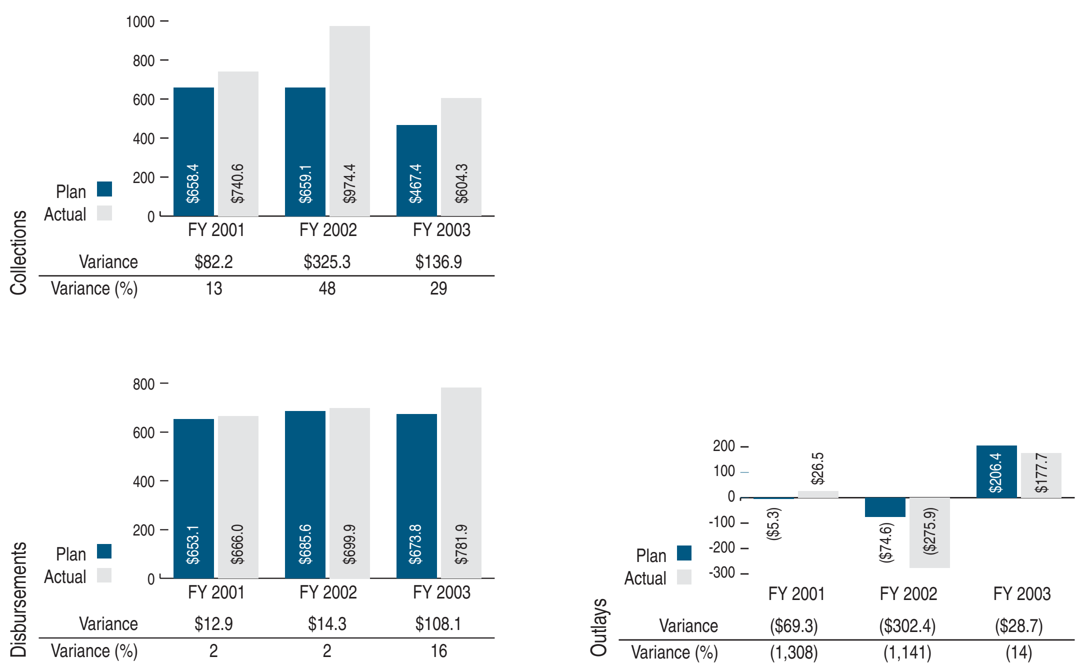


Table 38. Production Output for Ordnance

	FY 2001		FY 2002		FY 2003[1]			
Item (Installation)	Actual Quantity	Unit Price ($)	Actual Quantity	Unit Price ($)	Planned Quantity	Actual Quantity	Deviation (%)	Unit Price ($)
155MM M804A1 Practice (Crane)	0	0	0	0	N/A	N/A	N/A	N/A
Bomb, 500lb, BDU 45 (McAlester)	11,517	1,017.4	15,882	1,000.78	N/A	N/A	N/A	N/A
G982 M83 Training Grenade (Pine Bluff)	158,912	19.98	111,856	20.31	N/A	N/A	N/A	N/A

[1] Data was not available at time of printing.

fail to comply with fire and safety codes, or present health hazards.

Miscellaneous Automated Data Processing Equipment (ADPE) (<$500K) ($0.0 million). The ADPE program replaces old, obsolete, and irreparable equipment with state-of-the-art equipment to bring Ordnance sites up to Army standards and to improve communications with other Army sites. New technology will also improve security and reduce the threat of intrusion by unauthorized sources.

Army Workload and Performance System (AWPS) ($4.7 million). AWPS is a personal computer-based, network software solution designed to integrate existing production and financial data into a single graphic program. It will enable production and resource managers to isolate scheduling and cost problems at the product level and to estimate the workforce needed to accomplish various levels of workload. This is a congressional mandate.

Cash Management

The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements, and outlays, not against cash balances. The FY 2003 plan for Ordnance projected a $206.4 million outlay on cash but the actual result outlay was only $177.7 million. Collections were above plan for the year by 29 percent.

Program Performance

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

Table 38 shows the quantities and unit prices for three ordnance items produced by the group during the last two fiscal years. For FY 2003, data was not available at time of printing.

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.

Ammunition Short Tons. Table 40 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 39. Schedule Conformance for Ordnance

	FY 2001	FY 2002	FY 2003[1]
Plan	295.3	286.3	N/A
Actual	287.5	297.6	N/A
Variance (percentage)	(3)	4	N/A

[1] Data was not available at time of printing.

Table 40. Ammunition Short Tons for Ordnance

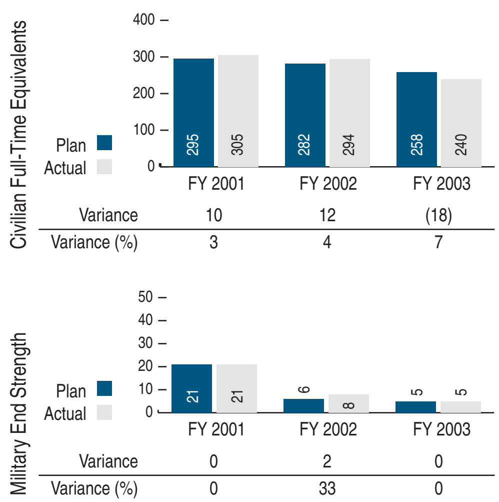
	FY 2001	FY 2002	FY 2003[1]		
	Actual	Actual	Plan	Actual	Variance (%)
Receipts	125,100	131,700	N/A	N/A	N/A
Issues	162,400	165,800	N/A	N/A	N/A
Demilitarized	36,799	27,759	N/A	N/A	N/A

[1] Data was not available at time of printing.

Table 41. Total Information Services Revenue by Customer ($ millions)

Appropriation	FY 2001	FY 2002	FY 2003
Operations and Maintenance, Army	$33.7	$34.4	$31.5
Army Procurement	2.3	0.1	0.0
AWCF	45.0	53.8	56.5
Other Army	4.2	4.1	5.5
Other DoD	8.1	7.9	3.2
Foreign Military Sales	0.0	0.0	0.0
Non-DoD	4.5	4.5	0.0
Total Revenue	$97.8	$104.8	$96.7

Figure 17. Information Services Personnel Indicators



Information Services

Program Scope

Customer Revenue (Program Size)

Customer requirements dictate the workload of the Information Services activity group. Customers of the group's four Central Design Activities (CDAs) sign letters of intent, followed by support agreements that estimate the number of work-years required by each project and the project's anticipated costs. Revenue from customer orders in FY 2003 totaled $96.7 million. Table 41 provides a breakdown of orders by customer for FY 2001 through FY 2003.

The Army continues to be the largest source of revenue, accounting for 87 percent of total revenue in FY 2003. The Defense Finance and Accounting Service (DFAS) also is an important customer because of its needs for design, maintenance, and testing services for its financial systems.

The Information Services activity group also includes the Army Small Computer Program (ASCP), the primary objective of which is to provide customers with the latest technology at the best price. The program negotiates directly with commercial information technology vendors for hardware, software, and support services, and in so doing is able to eliminate the duplicated costs associated with individual procurements. In addition, the ASCP is in a position to ensure that all products purchased adhere to Army and DoD interoperability and compliance standards. The program collects a fee of 1 percent of the total order cost for providing this service. In FY 2003, revenue was $6.7 million.

Personnel

Civilian end strength and work-years were on plan in FY 2003, as was military end strength.

Performance Measures

Financial Performance

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

Cost per Direct Labor Hour. The DLH rate (see Table 42) is computed by dividing the sum of all activity labor and non-labor expenses (direct, indirect, and general and administrative (G&A)) incurred during the fiscal year by the total number of direct labor hours executed. Excluded from this computation are contractor support costs, ASCP expenses, and direct labor hours, which are treated as direct reimbursable costs. For FY's 2001, 2002, and 2003, this activity group is working on a cost-reimbursable basis in anticipation of decapitalization at the end of FY 2003; cost per direct labor hour therefore is not applicable.

Net Operating Results. The activity experienced an NOR of $3.7 million in excess of plan. This was due primarily to increased revenue at the Army's Small

Computer Program (ASCP). Ordering on two contracts (Dell Army Desktop and Mobile Computing-1 contract and Oracle Enterprise Initiative Software Agreement) in particular was heavier than anticipated.

Cash Management. The Army manages AWCF cash at the corporate level. The performance of individual activity groups is measured against planned collections, disbursements and outlays, not against cash balances. A positive outlay means the activity group is losing cash; a negative outlay means the activity group is generating cash. The actuals in Figure 18 reflect the cash transactions reported to Treasury for the activity group. These include residual transactions from Fort Huachuca, which moved out of the AWCF several years ago.

Program Performance

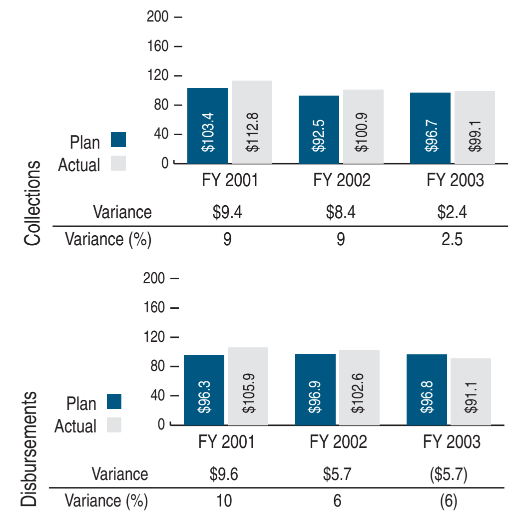
The Information Services activity group is still relatively new to the AWCF, and only one program performance measure (direct labor hours executed versus planned) has been developed. We are seeking better measures that would be applicable across all of the four Central Design Activities.

Direct Labor Hours. The number of DLHs achieved in FY 2003 was 215, 6 percent above plan (see Table 44).

Table 42. Cost per Direct Labor Hour for Information Services

	FY 2001	FY 2002	FY 2003
Cost per Direct Labor Hour ($)	449.77	268.85	318.28
Change from Prior Year (%)	291	40	197
Direct Labor Hours	219	260	197

Figure 18. Information Services for Cash Management ($ millions)



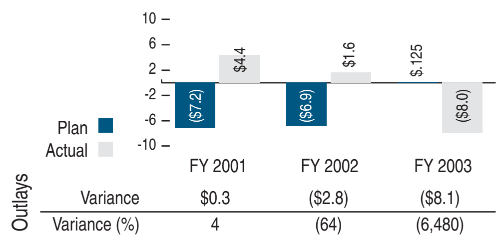


Table 43. Financial Operation Measures ($ millions) for Information Services

	FY 2001		FY 2002		FY 2003	
	Plan	Actual	Plan	Actual	Plan	Actual
Revenue	$129.3	$97.8	$105.3	$103.8	95.3	96.7
Expense	135.0	101.5	105.3	100.2	95.3	93.0
Operating Results	($5.7)	($3.7)	0.0	3.7	0.0	3.7
(less Non-Recoverable)	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating Results	($5.7)	($3.7)	0.0	3.7	0.0	3.7

Table 44. Direct Labor Hours for Information Services

	FY 2001	FY 2002	FY 2003
Plan	254	250	202
Actual	236	277	215
Variance	(18)	27	13
Variance (percentage)	7	11	6

Management Integrity

A discussion of the Army management control weaknesses that were identified during FY 2003, and those weaknesses reported during FY 2002 that the Army expected to close during FY 2003, can be found on page 28 of the General Fund Section.

Future Effects of Existing Conditions

Logistics Transformation

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

Facilities Recapitalization

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

The recapitalization rate metric is one element of a larger paradigm that has been under development in DoD since 1999. This paradigm is composed of restructured programs and new performance metrics for facilities sustainment, restoration, and modernization (S/RM). The new S/RM paradigm is expected to solve several longstanding problems that have challenged the Army in its determination of facilities funding requirements. It supports both the Government Performance and Results Act and the Chief Financial Officers Act.

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

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

- fully sustain its assets and stop the loss of service life;
- restore by 2010, where appropriate and affordable, C-2 readiness to facilities rated C-3 or C-4 in the near term, buying back lost service life;
- modernize for the future, establishing by 2007 a recapitalization investment stream tied to average expected service life (67 years).

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

Advancing the President's Management Agenda

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

Strategic Management of Human Capital

Central to the business culture of the AWCF is the belief that the most effective organization is one that provides its people with information and trusts them to use it to the benefit of the organization as a whole. The AWCF accordingly has taken the following steps to empower its soldiers and civilian employees with greater knowledge.

Workforce Revitalization

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

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

Graduate Studies for Logistics Officers

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

The military service schools train AWCF logisticians in a broad range of disciplines, but the training does not approach the level of education found in civilian graduate business schools. AWCF staff furthermore currently are not offered the opportunity to undertake fully funded studies at civilian schools. The lack of such opportunities has in the past contributed to the decision of some logisticians to leave the Army rather than pursue assignments for which they are not adequately prepared. Seeking to address this weakness, the Army is evaluating the feasibility of making business graduate programs available for up to 5 percent of eligible captains. In FY 2002, 885 captains would have been eligible; had such a program been in place, up to 40 officers therefore would have been given the opportunity to genuinely prepare themselves to run AWCF businesses. Data for FY 2003 was not available at time of printing.

Improved Financial Performance

The AWCF worked throughout FY 2003 to build upon a number of initiatives begun in FY 2002 that will enable the AWCF to make better use of its funds. The AWCF also is pursuing other long-term initiatives aimed at putting more useful and more reliable financial information in the hands of managers, with the aim of enabling them to make more efficient use of resources.

Single Stock Fund

The Single Stock Fund (SSF) initiative was begun in FY 1998. The SSF is designed to re-engineer and improve the AWCF's logistics and financial processes.

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

The SSF is streamlining operations by eliminating multiple points of sales, multiple ledger and billing accounts, duplicative automated systems, and other inefficiencies. SSF Milestones 1 and 2 have already been achieved, and have seen the Army capitalize $489 million of retail stocks to the SSF. Milestone 3 implementation began on July 1, 2002, with commencement of the Verification of Initial Operating Capability (VIOC) at III Corps, the Texas Army National Guard, and selected U.S. Army Reserve units. Army-wide implementation completed December 2002.

The benefits of SSF are exceeding expectations. The redistribution of Army-owned materiel that previously was inaccessible has greatly improved AWCF customer responsiveness and has significantly lowered costs. A cost-benefit analysis conducted in 1999 projected a benefit-to-investment ratio of 6.3 to 1; evidence from the implementation of SSF indicates that it is well on track to exceed that estimate.

Logistics Modernization Program

The Logistics Modernization Program (LMP) is an ongoing modernization process that will give the Army the flexibility to support today's CONUS-based power projection scenarios and to support the Army's near- and long-term readiness objectives. The program will integrate all logistical and financial system processes to provide real-time visibility of the entire logistics supply chain, and thus to enable the precise determination of operational requirements.

On July 7, 2003, the Army completed deployment of the first phase of LMP. The program's pilot deployments were to 12 locations, including the Army's Communications and Electronics Command, AMC's headquarters staff, the Tobyhanna Army Depot, the Army Security Assistance Command, the Defense Finance and Accounting Service, and the field office of the Army's Soldier and Biological Chemical Command in Philadelphia. Over the next year, LMP will be deployed to other AMC commands, depots, and arsenals across the country.

Full deployment of LMP is vital to the success of Army Transformation, and will create measurable improvements in readiness. Based on SAP, a commercial enterprise resource planning system, LMP will provide AMC with a modern, collaborative environment that will help the command concentrate on its core functions and will enable it to make rapid, timely decisions. The modernization program is replacing the Commodity Command Standard System and the Standard Depot System and will provide the key benefits of total asset visibility, single-source data, better forecasting accuracy, and real-time access to enterprise information.

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

Dollar Cost Banding

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

Expand Electronic Government

The President's Management Agenda asserts that through the use of information technology government can both reduce costs and provide better service. The AWCF accordingly is pursuing electronic initiatives aimed at providing better service to its soldiers and civilian employees. An example of one such initiative is described below.

Logistics Enterprise Integration

The Army's Logistics Enterprise Integration involves integrating several modernizing initiatives, including LMP and the Global Combat Support System Army (GCSS Army) map, within the DoD Future Logistics Enterprise (FLE). The FLE (also commonly referred to as Business Enterprise Architecture (BEA)-Logistics, or "BEA-LOG") has six principal components: Total Lifecycle Systems Management (TLCSM), End-to-End Customer Support, Condition-Based Maintenance, Depot Partnering, Executive Agency, and Enterprise Integration. All services must ensure that their enterprise integration efforts and architectures map to the FLE/BEA-LOG, which in turn maps to the BEA. The desired outcome is that within DoD all services and the Defense Logistics Agency (DLA) will operate a single, integrated solution, the technical and functional architecture of which is focused on the warfighter.

The central objective of logistics enterprise integration is the development, through collaborative planning, knowledge management, and best business practices, of a fully integrated knowledge environment that builds, sustains, and generates warfighting capability. Logistics, financial, acquisition, and product data will be brought together in an environment that operates in a near seamless fashion from the soldier across the major Army commands, across the Military Services, across DoD, and across industry. Our business systems will capture and integrate the data flowing from automatic identification technology and embedded weapons system diagnostics, and will make these data available to both logisticians and system engineers. The timely creation of an environment for many participants that delivers vertical and horizontal visibility, that supports a robust predicative capability, and that meets the demands of the concept of warfighter operations in the future battlespace, is essential to Army Transformation.

Management Discussion and Analysis
Mission

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

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

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

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

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

Responding and Assisting in Disaster Relief
Throughout its history, America has relied upon Civil Works for help in times of national disaster. This help is now provided under two basic authorities: the Flood Control and Coastal Emergency Act (P.L. 84-99, as amended), and the Stafford Disaster and Emergency

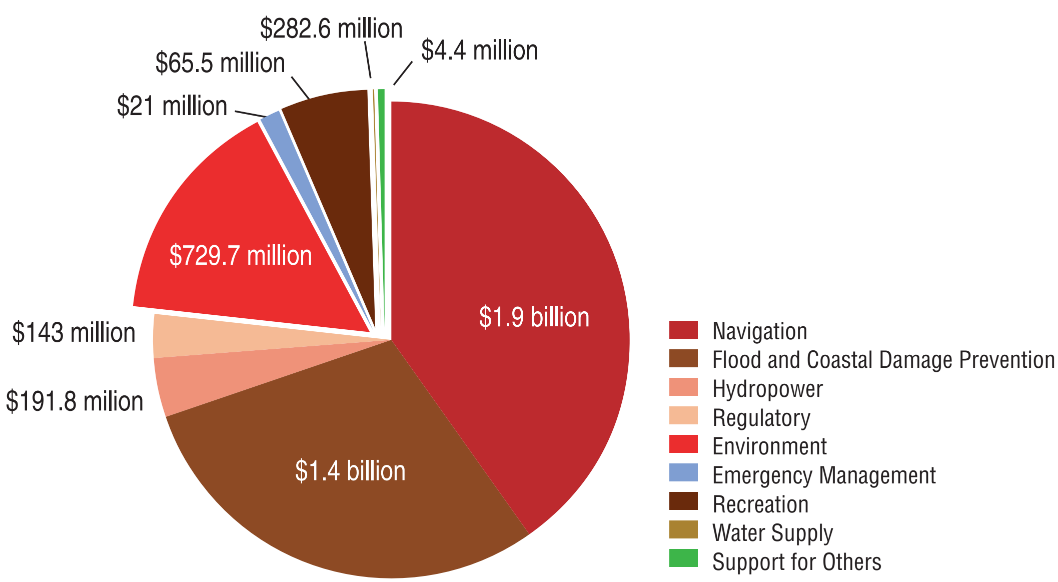
The Civil Works Mission

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

- Development and management of the nation's water resources,
- Protection, restoration, and management of the environment,
- Disaster response and recovery, and
- Engineering and technical services

in an environmentally sustainable, economically and technically sound manner through partnerships and the project management business process

Figure 19. FY 2003 Civil Works Appropriation by Program



Assistance Act. Under P.L. 84-99, the Civil Works Program has direct authority to provide emergency assistance during or following flooding events to protect lives, public facilities and infrastructure. Under the Stafford Act, the program supports the Federal Emergency Management Agency in carrying out the Federal Response Plan, which calls upon 26 federal departments and agencies to provide coordinated disaster relief and recovery operations. The primary role for Civil Works in emergency relief and recovery operations is to provide public works and engineering support.

Providing Engineering Support and Technical Services

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

Civil Works Programs

The Civil Works mission is supported by nine programs through which it accomplishes the four components of its mission. Figure 19 defines eight of these programs that receive direct appropriations. The ninth program, Support for Others, is conducted on a reimbursable basis. Each program specifically addresses a single mission component, but all programs may also contribute to one or more of the other mission components.

Navigation

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

In FY 2003, the program continued the vital work that seeks to assure the future viability of America's ports and harbors. In Bayonne, NJ, for example, the Port Jersey Channel is being dredged to 41 feet to accommodate the latest containerships and to ensure that they will be able to load in New York. This $119 million project, which is cost shared 75 percent Federal and 25 percent non-Federal, is expected to provide $32 million in average annual benefits to the nation.

Civil Works operates and maintains 12,000 miles of inland waterways, nearly 13,000 miles of deep draft and coastal inlet channels, 235 lock chambers, 300 major commercial harbors, and more than 600 smaller commercial and recreational harbors. America's inland waterways provide a highly fuel-efficient mode of transportation, with waterborne shipping able to move freight at more than 500 ton-miles per gallon of fuel compared to less than 400 ton-miles per gallon that rail transportation achieves. Use of our waterways rather than rail translates to an annual saving of $7 billion in transportation costs; every dollar invested in improving our navigation infrastructure results in a better than $3 increase in GDP.

In FY 2003, this $1.9 billion program accounted for 41 percent of the Civil Works appropriation.

Flood and Coastal Storm Damage Reduction Program

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

The Flood and Coastal Storm Damage Reduction program has compiled an impressive record of performance. In the period 1992-2001, floods in unprotected areas caused the United States an average of $5.5 billion yearly in property damage. In the same period, Corps projects in protected areas prevented

Major Commodities Handled by Civil Works Ports and Waterways in CY 2002

Crude Oil	564 million tons
Petroleum Products	450 million tons
Coal	287 million tons
Food/Farm Products	280 million tons

NOTE: Statistics are compiled on a calendar year basis. CY 2003 statistics not available at time of printing.

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

A Corps-led sandbag operation in Portland, OR.

Average Annual Damage Results for Period 1993 - 2002

Damage Suffered	$5.5 billion
Damage Prevented	$22.8 billion

$21.7 billion in average annual damages. Through FY 2000, the nation had invested $43.6 billion ($122 billion, adjusted for inflation) in flood damage reduction projects, preventing an estimated $419 billion ($709 billion, adjusted for inflation) of flood damage. Adjusted for inflation, these figures show a return on investment of more than $6.36 in damage prevented for each dollar spent. The program also has helped reduce the number of lives lost annually due to floods from an average of 179 in the decade 1972-1981 to 89 in the period 1991-2000.

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

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

In FY 2002 the program completed a 7-year project that will protect millions of Americans. In the early 1990s the 2,000-square-mile Los Angeles County drainage area was only partially protected from floods. Enormous population growth in the area rendered the existing flood control system inadequate, to the extent that the Federal Emergency Management Agency (FEMA) required residents to hold mandatory flood insurance. Initiated in 1996 at an estimated cost of more than $450 million, the Los Angeles County Drainage Area Project was completed for roughly $200 million, of which Civil Works paid $150 million. The project saw the building of 21 miles of parapet walls, the reinforcement of the back slopes of levees, and the modification or raising of 26 bridges. As a result of these improvements, FEMA eliminated the obligation for flood insurance.

In FY 2003, this $1.4 billion program accounted for 30 percent of the Civil Works appropriation.

Environmental Protection, Restoration, and Management

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

and floodplain ecosystems to America's natural habitats.

One example of work undertaken in FY 2003 is the Kissimmee River project in Florida. In the 1960s, flood control measures reduced this 103-mile river to a 52-mile canal, resulting in a degradation of the natural ecosystem. An ongoing Civil Works project aims to restore 52 miles of the river and 27,000 acres of wetlands, improving water quality and thus restoring the natural habitat for more than 300 species of fish and wildlife.

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

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

In FY 2003, this $729.7 million program accounted for 16 percent of the Civil Works appropriation.

Regulation of Wetlands and Waterways

In accordance with the Rivers and Harbors Act of 1899 (Sec. 10) and the Clean Water Act (CWA) of 1972 (Sec. 404), as amended, the Civil Works Regulatory Program regulates the discharge of dredged and fill material into waters of the United States, including wetlands. Section 10 applies to navigable waters, while section 404 applies more broadly to waters of the United States, which includes navigable waters, their tributaries, and wetlands.

As part of the permit evaluation process, the Corps complies with the National Environmental Policy Act, and other applicable environmental and historic preservation laws. The objective of the program is to protect America's aquatic resources while allowing reasonable use of private property for important economic or infrastructure development on both private and public lands.

The Corps must consider the views to other federal, tribal, state and local governments and agencies; interest groups; and, the general public when rendering its final permit decisions. The Regulatory Program seeks to balance the reasonably foreseeable benefits and detriments of proposed projects with the

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

Kissimmee River C-38 Restoration Project, FL.

goal of making permit decisions that recognize the essential values of aquatic ecosystems to the general public and our national security.

The Corps must make final permit decisions that are not contrary to the public interest, and authorize only those projects that represent the least environmentally damaging practicable alternative. The Corps works with project proponents to avoid and minimize impacts to the aquatic environment first. Unavoidable adverse impacts to the aquatic environment must be offset by the implementation of compensatory mitigation projects. Compensatory mitigation projects are designed to restore, enhance, establish, or protect and maintain aquatic functions and values. A critical objective is for the Corps to make efficient and timely permit decisions, providing regulatory consistency and predictability for the regulated public, and for all interested parties. In FY 2003, 88 percent of all permit actions were completed in 60 days. In FY 2003, this $143.1 million program accounted for 3 percent of the Civil Works appropriation.

Clean up after Hurricane Isabel in Norfolk, VA.

Emergency Management

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

Hurricane Isabel the largest hurricane of FY 2003, made landfall at midday, September 18, on the outer banks of North Carolina. Packing maximum sustained winds of 100 mph, Isabel caused widespread power outages in Virginia, Washington, D.C., Maryland, and New Jersey. Two divisions of the Corps of Engineers were affected: the South Atlantic Division and the North Atlantic Division, in Federal Emergency Management Agency FEMA) Regions II, III, and VI. The Corps assigned 228 employees to its disaster response effort. The Norfolk District provided the primary contribution to the emergency operations, including the execution of FEMA missions through to financial closeout, within its Civil Works boundaries in the Commonwealth of Virginia. The Baltimore District had similar responsibilities in the State of Maryland and the District of Columbia.

All Corps of Engineers' flood control projects performed as expected, minimizing the damage caused and protecting lives. Requests for ice and water headed the calls for aid from North Carolina, Virginia, Maryland, Delaware, and the District of Columbia: in the days prior to and following the hurricane FEMA and the Corps moved more than 9 million pounds of ice to North Carolina, Virginia, and

D.C. More than 8.6 million liters of drinking water were delivered to Virginia emergency managers.

In FY 2003, this program received new budget authority of $21.2 million that accounted for a little more than 1 percent of the Civil Works new appropriation authority. The program is actually larger than indicated by the FY 2003 appropriation. The $21.2 million is augmented by reimbursable work performed for FEMA and by prior year disaster recovery appropriations carried over into FY 2003.

Hydropower

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

At the end of every fiscal year, the Corps is required to develop a "Statement of Expenses" for the Corps hydropower expenses which is broken down by plant, District, and Region. These expenses are monitored through regional alliance meetings where Corps customers and stakeholders (including the Power Marketing Authorities (PMAs)) are represented. Once completed, the Statement of Expenses is audited by an outside contractor and then provided to the PMAs after the completion of each fiscal year. The PMAs use this information to update and adjust their "Power Repayment Study" which looks at current and future years on rates and revenues. The PMAs then collect power receipts (revenues) throughout the year and returns receipts to the Treasury reflecting either a yearly expense or an amortized expense. The actual summary total of receipts deposited to the Treasury in any given year is reported back to the Corps for inclusion in the CFO annual report.

In FY 2003, this $191.8 million program accounted for 4 percent of the Civil Works appropriation. In addition, the Corps received $193 million directly from the Bonneville Power Administration to support the cost to operate and maintain Corps owned hydroelectric power facilities in the Pacific Northwest. In FY 2003, the Federal Power Marketing Agencies returned $1.6 billion in revenue to the U.S. Treasury from power sales (revenue figures were obtained from the Department of Energy).

Water Supply

Civil Works has 167 projects with municipal and industrial water supply as an authorized purpose. It supplies water to 10 million people in 115 cities, including some of America's largest metropolitan areas, such as Washington, D.C., Atlanta, and Dallas-

Turbines inside the Bonneville Dam powerhouse, Oregon.

Fort Worth. In arid parts of the country there are 62 projects that have irrigation as an authorized purpose. Many of these projects serve flood control, navigation, and hydroelectric purposes as well as irrigation.

In FY 2003, this $4.4 million program accounted for less than 1 percent of the Civil Works appropriation.

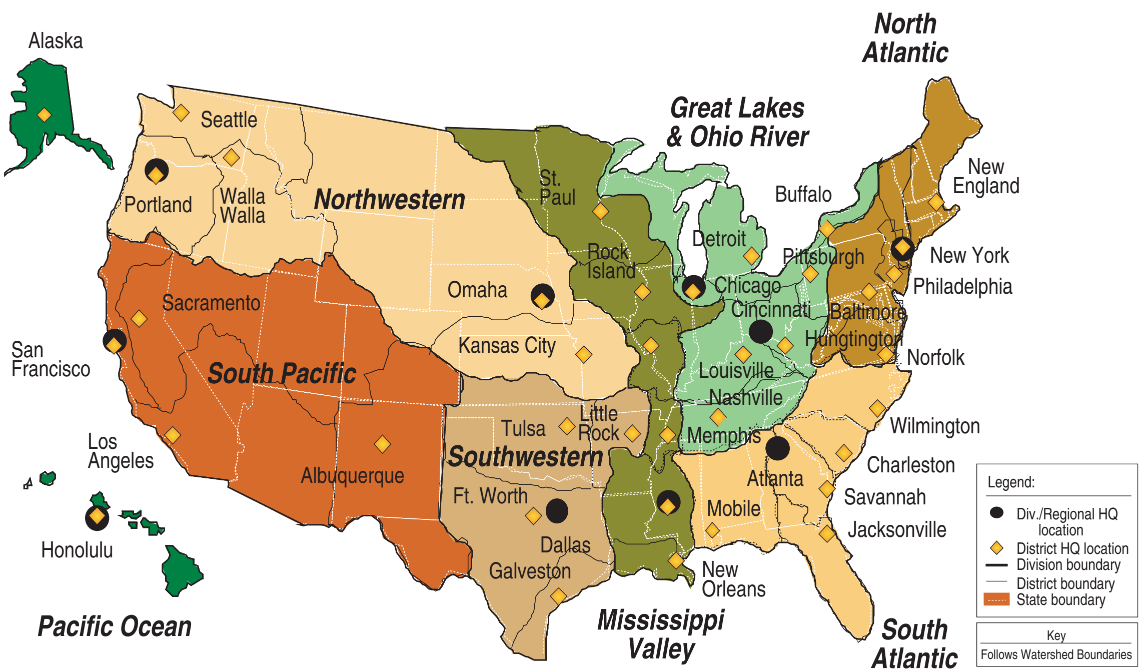
A park ranger emphasizes safety at the John Day Dam, OR.

Recreation

The Civil Works Recreation Program is an important provider of outdoor recreation opportunities. The program operates more than 44,000 recreation sites at 456 projects, mostly lakes, hosting more than 396 million visits a year at its facilities. One in ten Americans visits a Civil Works recreation site at least once a year. These projects have a significant economic impact, supporting 500,000 jobs and generating $15 billion in visitor spending annually. In addition, there are approximately 500 concessionaires on Civil Works recreation sites, representing more than $1 billion in fixed assets. Corps lands are also leased to nearly 600 state parks; 600 local government parks; and to 420 boy or girl scout camps, church camps, boating clubs, and other such organizations that are open to public membership and that have defined goals that are consistent with the Corps' public recreation stewardship responsibilities.

In FY 2003, this $282.6 million program accounted for 6 percent of the Civil Works appropriation.

Figure 20. Civil Works Boundaries



Organizational Structure

The Workforce

Civil Works employs more than 25,000 people. Funded through the Energy and Water Development Appropriation, it executes programs through eight regional divisions and 38 of the 41 districts of the Corps of Engineers (the remaining three districts have only military mission related work).

Figure 20 shows the division boundaries. Rather than being demarcated by state boundaries, these are defined by watersheds and drainage basins, reflecting the water resources nature of the Civil Works mission.

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

The Civil Works mission contracts out to civilian companies all of its construction and approximately 50 percent of its design work: while Civil Works directly employs only 25,000 people, as many as 150,000 people are indirectly employed in support of its projects. These contractual arrangements have served the nation well in times of emergency.

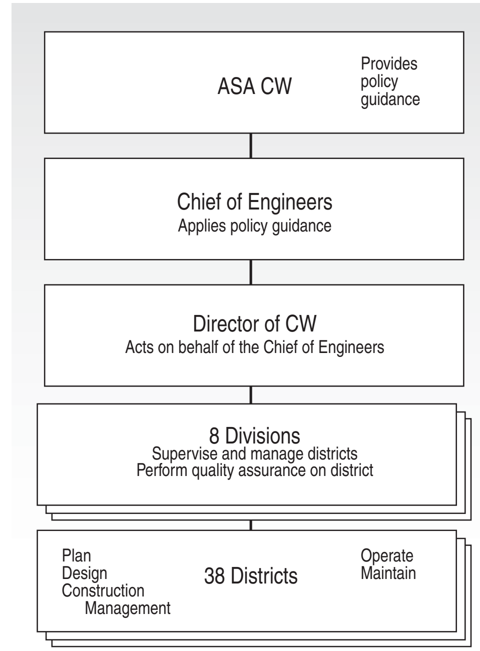
The Leadership

Oversight of Civil Works is provided through four levels of authority. As shown in Figure 21, the Assistant Secretary of the Army for Civil Works (ASA (CW)) is appointed by the President and is responsible for Civil Works policy. The Chief of Engineers reports to the ASA (CW) for Civil Works mission accomplishment and in turn delegates most of his responsibilities for managing the various programs to the Director of Civil Works. The Chief of Engineers, through the Director of Civil Works, is responsible for the leadership and management of the program and for ensuring that policies established by the ASA (CW) are applied to all phases of the Civil Works mission.

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

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

Figure 21. Civil Works Levels of Authority



Civil Works – Performance Results

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

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

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

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

Strategic Goals

Strategic Goal 1: Provide sustainable development and integrated management of the Nation's water resources

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

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

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

Performance Measure 1: For investments in navigation projects, the benefit-to-cost ratio at the completion of project construction should at least equal the benefit-to-cost ratio at the time of initial project funding. The performance target for FY 2003 was to achieve a benefit-to-cost ratio at completion within 10 percent of the initial benefit-to-cost ratio.

Performance Result 1: In FY 2003, 4 navigation construction projects were completed. Three of the four projects that were completed met the performance target with a benefit-to-cost ratio equaling or exceeding the benefit-to-cost estimate used to justify initial project construction funding. One project was completed that missed the performance target, but was still completed with a positive benefit-to-cost ratio, thereby still validating the initial project investment decision.

Performance Measure 2: For investments in flood and coastal storm damage reduction projects, the benefit-to-cost ratio at the completion of project construction should at least equal the estimated benefit-to-cost ratio at the time of initial project funding. The performance target for FY 2003 was to achieve a benefit-to-cost ratio at completion within 10 percent of the initial benefit-to-cost ratio.

Performance Result 2: In FY 2003, 17 flood and coastal storm damage reduction projects were completed; 12 of the 17 projects were completed with a benefit-to-cost ratio that equaled or exceeded the estimate used to justify the initial project construction funding. One project was completed within 10 percent of the initial investment estimate. The remaining four projects failed to meet the performance target upon completion. The four projects were, however, completed with favorable benefit-to-cost ratios and thereby validated the initial investment decision.

Strategic Goal 2: Repair past environmental degradation and prevent future environmental losses

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

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

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

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

Environmental

The Environmental program emphasizes

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

Table 44. Civil Works-Administered Mitigation Land

	FY 2001	FY 2002	FY 2003
Total acreage designated as Civil Works-administered mitigation land	713,374	713,909	625,291
Mitigation land for which requirements were met (acres)	554,880	564,025	566,016
Percentage of Civil Works-administered mitigation lands for which mitigation requirements were met	78%	79%	91%

Note: The universe of total acreage designated as Civil Works-administered mitigation land shrunk by over 88,600 acres from FY 2002 due to two projects with large land holdings being placed in an inactive status and removal of other projects lands misclassified with respect to mitigation requirements.

Table 45. Recovery Plan Projects

	FY 2001	FY 2002	FY 2003
Number of opportunities to participate in recovery of federally listed species	505	509	515
Number of opportunities taken	491	496	504
Percentage of opportunities taken to assist in the recovery of federally listed species	97%	97%	98%

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

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

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

Performance Measure 1: The percentage of Civil Works Environmental Program-administered mitigation land meeting the requirements of the authorizing legislation or of the relevant Corps of Engineers decision document. The target for FY 2003 was to meet requirements for 85 percent of mitigation lands. This measure is calculated as a percentage of all designated program-administered mitigation land that meet mitigation requirements.

Performance Result 1: During FY 2003, Civil Works administered 566,016 mitigation acres, representing a slight increase of 1,991 acres or less than 1 percent over the acreage administered in FY 2002; a change that is statistically insignificant. This measure only applies to project lands that remain in Corps of Engineers ownership and it therefore reflects retained stewardship responsibility. As shown in table 44, Civil Works is achieving mitigation requirements on 91 percent of lands designated and required for mitigation, exceeding the performance target of 85 percent for FY 2003.

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

Performance Result 2: The performance target was exceeded. Table 45 shows that during FY 2003, the Corps participated in recovery programs for 81 federally listed species, engaging in 504 separate opportunities to benefit these species or their habitat. A total of 293 Corps projects were involved.

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

Performance Result 3: The performance target was exceeded for major findings. During FY 2003, we corrected 3 of 5, or 60 percent (see Table 46), of significant findings. We completed corrections for 1 significant finding remaining at the end of FY 2002, and two significant findings identified during FY 2003. We implemented provisional corrections for the two remaining significant findings to eliminate the immediate threat to the environment. The Corps anticipates total correction of the two open significant findings in FY 2004 subject to funding availability. The Corps continues to place a high priority on achieving both performance goals in FY 2004.

Regulatory

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

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

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

Performance Result 1: The performance target was met. Table 47 shows that during FY 2003, 43,379 acres of wetlands were restored, created, enhanced, or preserved, offsetting the 21,330 acres that were lost to permitted development.

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

Performance Result 2: As displayed in Table 48, during FY 2003, 75,771 permit actions, or 88 percent of all permit actions, were completed in 60 days or less. While this figure exceeds the performance target of 85 percent, it remains unchanged from last year's

Table 46. Correction of Significant and Major Environmental Findings

	FY 2001	FY 2002	FY 2003
Number of significant findings	3	10	5
Percentage corrected	67%	70%	60%
Number of major findings	400	502	471
Pecentage corrected	62%	57%	72%

Table 47. Development and Mitigation of Wetlands

	FY 2001	FY 2002	FY 2003
Wetland acres permitted for development	24,073	24,651	21,330
Wetland acres mitigated	43,832	57,821	43,379

Table 48. Permit Actions Completed within 60 Days

	FY 2001	FY 2002	FY 2003
Number of permit actions completed within 60 days	73,415	71,652	75,771
Percentage of actions completed within 60 days	88%	88%	88%

Table 49. Standard Permit Actions Completed within 120 Days

	FY 2001	FY 2002	FY 2003
Number of standard permit actions completed within 120 days	2,600	2,536	2,446
Percentage of actions completed within 120 days	60%	61%	56%

performance. The districts are concentrating on getting the Nationwide and General Permits authorized; this has helped to stabilize overall processing times.

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

Performance Result 3: The performance target was not met. During FY 2003, 56 percent of all standard permit actions were completed in less than 120 days (see Table 49). FY 2003 performance was down slightly from the last three years at between 60 percent and 62 percent. The districts are contending with permit applications that are significantly more complex than in past years and that involve lengthy analysis of their potential environmental impacts. Issues related to endangered species, historic properties, water quality, and coastal resources also are adding to permit delays. Furthermore, the general public and the environmental community are becoming much more aware and involved with the permit process, leading to increased numbers of comments raised in response to every public notice and to a rising trend in legal challenges.

Strategic Goal 3: Ensure that projects perform in a manner to meet authorized purposes and evolving conditions

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

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

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

Navigation

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

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

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

Performance Result: During FY 2002, the availability of inland navigational infrastructure decreased slightly by 2 percent to 92 percent and remained at that level in FY 2003. The availability of the nation's navigational infrastructure continues to exceed the required availability of 90 percent, but is being challenged as a result of extreme weather conditions in various regions of the country.

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

Performance Result 1: The volume of commerce and the operational cost of the fuel-taxed waterways, shown in Table 51, remained essentially constant in CY 2001 and 2002. CY 2003 was not over at the time of printing, so volume and cost data for CY 2003 are not available.

Performance Indicator 2: The need for dredging of harbors and channels is largely dependent upon acts of nature and factors beyond the control of man. No performance target for the volume of material to be dredged 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: Based upon preliminary information shown in Table 52, 204 million cubic yards of dredged material were removed for maintenance dredging during FY 2002 at a cost of $2.73 per cubic yard.

Flood and Coastal Storm Damage Reduction

There are primarily two ways to reduce flood damage. The first calls for the use of large-scale engineering

Table 50. Availability of Navigational Infrastructure

	FY 2001	FY 2002	FY 2003
Actual availability	94%	92%	92%

Table 51. Volume of Commerce and Operational Cost

	CY 2001	CY 2002	CY 2003
Ton-miles of commerce carried (billions)[1]	266.8	266.9	N/A[2]
Cost per ton-mile	$0.00207	$0.00206	N/A[2]

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

[2] Data was not available at time of printing.

Table 52. Volume and Cost of Material Dredged

	FY 2001	FY 2002[1]	FY 2003
Cubic yards removed (millions)	218	204	N/A[1]
Cost per cubic yard	$2.56	$2.73	N/A[1]

[1] Data was not available at time of printing.

projects to prevent floodwaters from inundating property, and the second for the modification of property susceptible to flooding, to minimize the risk of damage. Civil Works projects usually use a combination of approaches. The program objective is to operate and maintain existing federal infrastructure to ensure that designed levels of protection are realized. A single measure is used to gauge performance in this respect.

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

Performance Result: Table 53 shows that during FY 2002, the Corps prevented $23.1 billion in flood damage. This can be compared to the 10-year rolling average of $21.7 billion, that is used to smooth out the significant fluctuations in year-to-year flood damage prevented that are associated with variations in meteorological events.

Table 53. Flood Damages Prevented

(Dollars in billions)	FY 2001	FY 2002[1]	FY 2003
Flood damage prevented	$21.9	$23.1	N/A[1]
10-year rolling average	$21.3	$21.7	N/A[1]

[1] Data was not available at time of printing.


Turbines inside The Dalles Dam Powerhouse, OR.

Hydropower

The Civil Works Program operates 345 hydroelectric power-generating units at 75 multi-purpose reservoirs, providing nearly a quarter of the nation's total hydropower needs; enough energy to serve about 10 million households. Hydropower units can start quickly and adjust rapidly, allowing them to serve a primary role in meeting peak energy demands and energy reserve needs to protect the national power system's reliability and stability. The electricity is distributed by federal power marketing agencies. To ensure that the Corps of Engineers continues to serve this role, it has established an overall program objective.

- Maintain reliable hydroelectric generation reliability at Corps multi-purpose reservoir projects

Performance Measure: Maintain a high reliability of hydroelectric power generated at multi-purpose reservoir projects. The program goal is to keep the forced (unplanned) outage rate at less than 2.3 percent in keeping with industry standards. A lower forced outage rate result in more reliable and less expensive electricity service provided to hydropower customers.

Performance Result: During both FY 2001 and FY 2002, the Corps of Engineers maintained the reliability of hydroelectric power with a forced outage rate below the prevailing performance target of 4.5 percent. For FY 2003 the forced outage rate actually increased at the same time the performance target was revised downward. The performance target was revised to reflect a recent study of industry standards for forced outage performance. The increase in FY 2003 forced outage rate is attributed to minimum funding level for O&M set by Congress. If this level of funding were to continue, it is expected that performance will continue to decline as the age and condition of the power plants continue to decline. Data by fiscal year is provided in Table 54.

Table 54. Hydroelectric Power Reliability

	CY 2001	CY 2002	CY 2003
Performance Target (% outage)	4.5	4.5	2.3
Actual reliability (% outage)	2.3	3.7	4.7

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

Performance Result: During FY 2003, the Civil Works Program generated 70.7 billion kilowatt-hours, representing an increase of 3.8 percent from FY 2002 (within normal annual variations).

Recreation

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

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

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

Performance Result: Preliminary estimates in table 56 indicates the number of visitor-days at outdoor recreation areas increased slightly from 210 million in FY 2002 to 212 million in FY 2003. In FY 2002, a prolonged drought in the Southeastern region depressed visitation for much of the recreation season. In FY 2003 visitation was again depressed for much of the visitation season in the Southeastern region due to near record flooding. Many of these closed facilities remained unavailable for public use most of the summer because funds were not available to repair or replace them. Preliminary estimates indicate that cost per visitor-day decreased to $1.20 because the visitation increased slightly and the recreation budget was reduced slightly.

Water Supply

Performance measures for this business program have not been fielded.

Table 55. Kilowatt Hours Generated

	FY 2001	FY 2002	FY 2003
Kilowatt-hours generated (billions)	57.9	68.1	70.7
Cost per kilowatt-hour	$0.0038	$0.0034	$0.0028

Table 56. Recreation Usage

	FY 2001	FY 2002	FY 2003
Visitor-days (millions)	217	210	212
Cost per visitor-day	$1.24	$1.37	$1.20

Strategic Goal 4: Reduce vulnerabilities and losses to the nation and the Army from natural and man-made disasters, including terrorism

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

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

Through its emergency preparedness planning and disaster response capability Civil Works can make a significant and direct contribution to national security objectives. Four program strategies support this fourth strategic goal. They are as follows:

1. Attain and maintain a high and consistent state of preparedness.

2. Provide a rapid, effective, and efficient all-hazards response capability, prepared for deployment anywhere worldwide.

3. Provide the leadership to ensure effective and efficient long-term crisis recovery, emphasizing recovery of the nation's water resources infrastructure.

4. Provide professional emergency management program services to international customers.

Strategic Goal 5: Be a world-class public engineering organization

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

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

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

Analysis of Financial Statements

FY 2003 witnessed another year of progress for the USACE Civil Works Fund, as the Corps continued to improve upon the myriad processes linked to producing auditable financial statements in compliance with the Chief Financial Officers Act of 1990. Within DoD, the USACE Civil Works Fund has been at the forefront in implementing federal financial management reform.

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

The financial statements for the Civil Works Fund are presented in a comparative format, providing financial information for FY 2002 and FY 2003. While comparative statements are not required until the agency receives an unqualified audit opinion on its financial statements, we opted for early implementation of the requirement as is encouraged by the Office of Management and Budget.

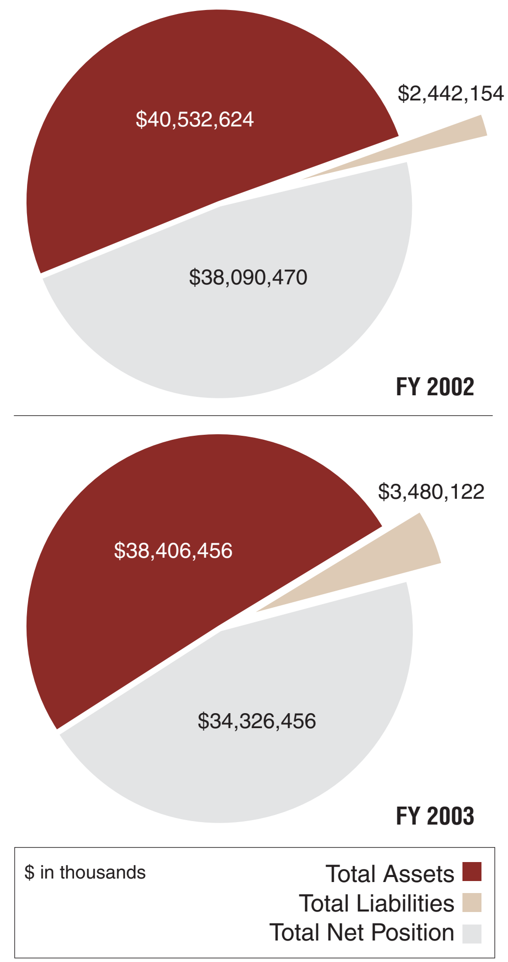
With that in mind, below are the financial highlights of each statement. These highlights focus on significant balances or conditions to help clarify the Civil Works Fund's operations. Additional explanatory information may also be found in the notes that accompany these statements.

Balance Sheet

This statement presents the assets, liabilities, and net position of the Civil Works Fund as of 30 September 2002 and 2003. Civil Works assets amounted to $38.4 billion at FY 2003 year-end, nearly a 5 percent decrease from the previous year. Of the total assets, 80 percent of the dollar value resides in the property, plant and equipment accounts. Relative to its total assets, the Civil Works liabilities are quite low and amounted to $3.4 billion; however, that represents an increase of almost $1 billion or 43 percent. This increase is due primarily to the reporting of the offset for long-term interest receivables of $881.9 million. Interest receivable and the corresponding liability were not reported in FY 2002 and prior years because the interest had not been earned.

The third major component of the balance sheet is net position. In aggregate, the various elements of the net position section on the balance sheet are also referred to as "equity." Equity is the residual interest in the assets of the entity that remains after deducting its liabilities. For FY 2003, the Civil Works Fund net

Figure 22. Balance Sheet Results



position amounted to $34.9 billion, representing almost a $3.2 billion, or 8 percent, decrease from FY 2002.

Statement of Net Cost

This statement presents the annual cost of operating the various Civil Works programs. To the extent a program generates revenues, these amounts offset gross costs to arrive at the net cost of operations. For FY 2003, program costs amounted to $10.3 billion, representing a 45 percent increase from the previous year. Conversely, program revenues increased 76 percent from FY 2002, climbing to $1.3 billion. Overall for FY 2003, the Civil Works Fund achieved a 41 percent increase in the net cost of operations, increasing net costs to $9.0 billion—a $2.6 billion increase from the previous year.

Statement of Changes in Net Position

This statement presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. The Civil Works Fund saw a reduction of $3.2 billion, or 7 percent, in the cumulative result of operations. Contributing to this result was the $2.6 billion increase in costs noted above. The Net Position at year-end was $34.9 billion, nearly an 8 percent decrease from the previous year.

Statement of Budgetary Resources

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

Statement of Financing

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

The first section of the statement, Resources Used to Finance Activities, shows a total of $4.6 billion. This is the amount for which the Civil Works Fund may have a future liability that would eventually require cash payments.

The second section, Resources Used to Finance Items Not Part of the Net Costs of Operations, identifies and adjusts budgetary transactions recorded by the Civil Works Fund for changes in the amount of goods, services and benefits ordered but not received, the costs capitalized on the balance sheet, and financing sources that fund costs of prior periods. For FY 2003, the fund had a positive $2.4 billion in adjustments.

The first two sections are netted together to yield the total resources used to finance the net cost of operations. For FY 2003, total resources used to finance net costs increased 119 percent over the previous year and amounted to approximately $7.0 billion. The largest factor in this increase is the change in capitalized assets that resulted from a policy change to the capitalization threshold for buildings and structures. That change requires that all Civil Works buildings and structures currently capitalized under $25,000, excluding Revolving Fund and Power Marketing Agencies, be expensed in the current year.

Finally, the third section, Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period, is used to adjust the total resources used to finance the net cost of operations (the net amount of the first and second sections) in order to determine the net cost of operations. Thus, sections one and two are reconciled with section three to yield a net cost of operations of $9.0 billion. This amount ties back to the Statement of Net Cost.

Management Integrity

The Civil Works Program identified three management control weaknesses that were reported to be corrected during FY 2003 in last year's statement of assurance. However, each of the three management control weaknesses remain as weaknesses going forward to FY 2004. Three areas in which Civil Works leaders continue to seek greater assurance of management integrity are:

Information Systems Security - Computer System Controls

In October 2000, the General Accounting Office identified a number of systems control weaknesses at the data processing centers. These weaknesses could allow either hackers or authorized users to improperly modify, disclose, or destroy financial data. Corrective actions to support the assurance of data security, including the reorganization of the Corps of Engineers and funding increases, have been taken to correct these deficiencies. The targeted correction date in last year's statement of assurance was October 2002. The followup on the General Accounting Office - Federal Information Systems Controls Audit Manual (FISCAM) Audit was cancelled. At this time, the DoD Inspector General is beginning the followup actions. The revised target date for successful correction of this weakness is March 2004.

Subcontracting Plans for Small Business

Procedures for evaluating and negotiating subcontracting plans and for evaluating subcontractor performance are not wholly in compliance with the law as it pertains to small business subcontracting. In August 2002, the Civil Works accepted a Web-based system to track outlays to small businesses under approved subcontracting plans and to track the actual execution of those plans. The system enables subcontractors to enter on a monthly basis payments received from their prime contractors, and enables independent validation by the government. Because the system is Web-based, any Civil Works office can review, query, or generate reports on compliance. The system was tested in FY 2003, and full compliance is expected no later than September 2004 compared to early September 2003 as was reported last year.

Information Technology (IT) Capital Planning and Investment Decision Process

Weaknesses in the IT Capital Planning and Investment Decision Process were identified for the selection, control and evaluation of USACE IT Investments in FY 2001. The Clinger-Cohen Act of 1996 and Army Regulation 25-1 require that Federal Agencies institutionalize a USACE IT Capital Planning and Investment Decision Process. This process integrates the programming and budgeting for IT Investments through policies, guidance and committees which monitor and track these investments through the USACE IT Investment Portfolio. Currently the process is fragmented and senior level approval continues to be given to high visibility projects that have not been through the process. This weakness impacts corporate decisions on the ranking and prioritization of IT Investments and their contribution to the mission of USACE. A number of corrective actions have been completed or partially met while others have been delayed due to lack of funding.

Future Effects of Existing Conditions

The Marine Transportation System

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

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

Aging Infrastructure

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

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

These increasing costs come at a time when investment in water resources is in sharp decline. In 1960 investments in all public infrastructure was 4 percent of the federal budget. Today, that figure is 2.6 percent. Furthermore, in 1960 water resources received slightly more than 1 percent of all public infrastructure investment; today, they receive less than half a percent. This failure to adequately invest in water infrastructure could pose a serious constraint to America's economic development and competitive advantage in international trade.

Responding to Terrorist Threats

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

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

Advancing the President's Management Agenda

Strategic Management of Human Capital

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

Aligning the Workforce and Mission

A comprehensive human capital strategy has been developed that is aligned with mission and broad corporate goals.

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

A Mission-Essential Task List (METL) links performance measurement to mission accomplishment and enables identification of skill gaps in the workforce. The Corps of Engineers has automated this process and is producing a list of individual and organizational training requirements that will, through training and various learning activities, align the workforce and mission. Five Engineer Divisions have adopted the Automated Training Management Program (ATMP), which has the capability of linking individual and organizational training requirements directly to mission. ATMP generates reports that can be used to effectively manage training dollars. An individual development plan (IDP) is electronically generated as well. A configuration control board (CCB) has been established in order to review and approve proposed changes and enhancements to ATMP in order to ensure that the program remains uniform throughout the Corps. Individual performance plans are also used to align performance with mission and corporate goals and to increase understanding of the link between each team member's performance and organizational success.

The USACE Learning Advisory Board (LAB) has been established and has operated during the past several years as an advocate for initiatives and activities designed to further align the Civil Works workforce and mission and transform USACE into a Learning Organization. Co-chaired by a General Officer and the USACE Director of Human Resources, respectively, the LAB is field-based, with representation from all levels within USACE, including emerging leaders from various districts. Under the auspices of the LAB, the USACE Learning Organization and Leadership for Learning Doctrines have been developed and the Chief of Engineers chose Learning Organization and Leadership for Learning, respectively, as the focus of the 2002 and 2003 USACE Senior Leadership Conferences. To ensure effective and efficient alignment of the USACE Workforce and Mission, the LAB has developed, refined and adopted a set of training principles to be used in driving workforce development in all areas. Other initiatives of the LAB include ongoing planning for Corps-wide integration of learning organization and leadership for learning doctrines; development of coaching and mentoring communities of practice; development of individual and organization learning assessments; development of a network of university partners; development of a best practices and learning case inventory; and development of a USACE Leadership Development Program (LDP) template.

A People Committee, chaired by a Senior Executive and with cross-functional membership, has been established and is active in identifying strategic HR initiatives, tracking implementation, and measuring progress at our Major Subordinate Commands through the Corps' Command Strategic Review program. HR strategies and initiatives are aligned and developed under the auspices of the USACE Strategic Vision, Campaign Plan and Human Capital Plans, respectively.

To further support aligning the USACE workforce and mission, the Directorate of Human Resources (DHR) has revised and conducted an orientation program for SES members of the workforce and conducted a USACE-wide Human Resources conference to ensure all field HR staffs are informed about the USACE PMA (President's Management Agenda) human capital initiatives. Additionally, an important session at the HR conference focused on Strategic Sourcing from three different perspectives (the HQ Project Office perspective, what CPAC employees should expect, and labor and employee relations aspects). In addition, DHR established several Project Delivery Teams to focus on redesign and streamlining of the USACE Professional Development Support Center which designs and delivers Corps-specific technical, professional and short courses; developed an online USACE Coaching, Counseling and Mentoring Guide; and identified and executed funding for obtaining access to the Department of Labor Workforce Connections Workforce Productivity Tools that will enable USACE to provide state of the art course delivery and learning knowledge management for the benefit of our workforce.

USACE has a customer focus and has allocated its personnel accordingly. As the program is in contact with its customers primarily at the Engineer District level, 95 percent of the workforce is concentrated at district, field office and resident offices. As part of an effort to improve service to the public, 50 percent of supervisory positions have been eliminated since 1994 in an effort to flatten the organization and increase the percentage of employees directly engaging the customer. A comprehensive review of command functions, business processes, and structure has recently been completed, with implementation scheduled for FY 2004.

Recruiting

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

The USACE Human Capital plan includes a comprehensive analysis of the current workforce and projects workforce needs several years into the future based on an analysis of projected turnover and future mission requirements.

The USACE employment website has been reworked to make it more attractive and user-friendly. It now provides more information in which prospective employees would be interested. Recruitment material and advertisements have been updated. A recruiters' handbook has been developed and training for recruiters has begun.

Training and Learning

To fill and also to limit the occurrence of future skill gaps, the Corps of Engineers must embrace and subsequently embody the attributes and principles of a learning organization. Technology and business practices are continuously evolving; the Corps of Engineers therefore has decided to establish a learning network addressing the three areas of technical excellence, business and communications, and leadership. This network will capitalize on USACE Communities of Practice and will create a vibrant knowledge management platform that will bring together discussion of lessons learned, best practices, and knowledge management with training; will enable learners to meet with and enjoy the benefits of continuous learning from subject matter experts; will enable the further development, refinement, and enhancement of communities of practice within USACE.

Competitive Sourcing

In concordance with the President's Management Agenda, Civil Works recognizes that some of its employees likely are performing tasks that can be outsourced to the commercial marketplace. Civil Works accordingly has a plan to conduct competitive sourcing studies on approximately 5,700 positions between FY 2004 and FY 2008. This represents 37 percent of authorized Civil Works commercial positions and is in addition to the 58 percent of the Civil Works workload which is already accomplished by its industry partners.

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

Improved Financial Performance

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

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

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

Expand Electronic Government

Adoption of a wide array of Web-based services has wrought major changes to the Civil Works Program's business processes, and, in particular, has vastly improved the program's internal and external communications.

Government to Citizen

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

To simplify access to the rules governing use of Civil Works lands and waterways, it has eliminated all hard-copy directives and publications (approximately 1,000), placing them instead online in formats suitable for viewing, downloading, and printing. Civil Works is also responsible for nine public reports, of which eight are scheduled to be integrated into the Operations and Maintenance Business Information Link (OMBIL) with an Internet data collection capability, in FY 2004. The remaining report comprises about 60 individual questionnaires that are currently available for download from the Web.

Under OMBIL, the regulatory permit process is being streamlined and integrated into a transaction-based Web environment. Civil Works is evaluating other means for integrating various types of authorizations and licenses, with the view to improving public access to them and reducing waiting times. Civil Works is also participating in the redesign and horizontal enterprise portal pilot efforts related to the totality of the Corps corporate Web presence.

The Corps' strategic-level Communication Committee has identified the revision of the USACE Internet presence as a strategic initiative for this year. A new user-friendly Web page is being developed and the site is being enhanced with a new search engine and zip code locater. The plan is for the entire Corps to eventually adopt a more corporate presence on the Internet to assist citizens in finding help for the various services we perform.

Government to Business

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

Civil Works is a full participant in the Web-based Tri-Service Solicitation Network, and sponsors the Electronic Contract Solicitations (ECS) system, which is a Web-based electronic process for advertising and distributing contract solicitation documents, with linkages to "Army Single Face to Industry" and FedBizOps websites. Civil Works is also DoD's Executive Agent for the Architect-Engineer (A-E) Contractor Administrative Support System and the Construction Contractor Appraisal Support System. These systems manage A-E and construction contractor performance evaluations.

Government to Government (G2G)

The sharing of information between federal, state, local, and tribal governments and the full integration of that information will contribute to better government for all Americans. The Comprehensive Everglades Restoration Program, a partnership of the Civil Works Program with the South Florida Water Management District, is a prime example of interagency and special interest group electronic data sharing through a significant Internet presence (www.evergladesplan.org). Another example, the ENGLink automated system, is the primary integrator of multi-jurisdictional (local, state, and federal) data for the support of emergency operations. ENGLink provides real-time, accurate information in the event of a disaster, helping to support collaborative response planning among what may be widely dispersed assets.

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

Internal Efficiency and Effectiveness

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

The PMBP program will also enhance a common electronic workplace environment that promotes Regional Business Centers, virtual teaming, personalization, and the strategic management of human capital.

Budget and Performance Integration

The President's objective to link performance and budget builds on the Government Performance and Results Act of 1993 (GPRA) and earlier efforts to identify program goals and performance measures and to link them to the budget. The FY 2003 President's Budget was the first to include explicit assessments of program performance and made a performance-linked budget assessment of three Civil Works business programs: Navigation (Inland Waterways portion), Flood and Coastal Storm Damage Reduction, and Environmental Restoration. For the FY 2004 budget, Civil Works added Regulatory, Emergency Management and Environment Programs to the process of linking performance to budget and continued developing new performance measures to further this linkage. More recently, Civil Works completely transformed its FY 2005 budget development to align it with the eight programs funding by budget requests and will place increased emphasis during FY 2004 on fielding new performance measures that link to budget. Progress in implementing this initiative will be reported in the FY 2005 financial statements.


QUARTER

Limitations of the Financial Statements

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

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

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

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

Limitations Concerning National Defense Property, Plant and Equipment

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond, and encouraged early implementation.

Consolidated Balance Sheet

Department of Defense • Department of the Army, General Fund
As of September 30, 2003 and 2002 ($ in thousands)

	2003 Consolidated	2002 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	$54,695,897	$39,515,905
Non-Entity Seized Iraqi Cash	278,139	0
Non-Entity-Other	61,443	(5,382)
Investments (Note 4)	1,231	5,240
Accounts Receivable (Note 5)	523,347	452,597
Other Assets (Note 6)	83,474	209,114
Total Intragovernmental Assets	$55,643,531	$40,177,474
Cash and Other Monetary Assets (Note 7)	$954,368	$301,747
Accounts Receivable (Note 5)	514,579	568,088
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	32,676,658	27,259,422
General Property, Plant and Equipment (Note 10)	115,337,906	18,700,626
Investments (Note 4)	0	0
Other Assets (Note 6)	3,569,021	3,582,796
TOTAL ASSETS	$208,696,063	$90,590,153
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$1,084,965	$774,545
Debt (Note 13)	0	157
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	1,670,318	876,404
Total Intragovernmental Liabilities	$2,755,283	$1,651,106
Accounts Payable (Note 12)	$9,089,097	$5,967,178
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,761,318	1,624,557
Environmental Liabilities (Note 14)	37,395,412	35,078,280
Loan Guarantee Liability (Note 8)	1,273	730
Other Liabilities (Note 15 & Note 16)	9,387,320	9,008,744
Debt Held by Public (Note 13)	0	0
TOTAL LIABILITIES	$60,389,703	$53,330,595
NET POSITION		
Unexpended Appropriations (Note 18)	$47,674,714	$31,468,721
Cumulative Results of Operations	100,631,646	5,790,837
TOTAL NET POSITION	$148,306,360	$37,259,558
TOTAL LIABILITIES AND NET POSITION	$208,696,063	$90,590,153

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	2003 Consolidated	2002 Consolidated
Program Costs		
Intragovernmental Gross Costs	$30,100,949	$19,042,297
(Less: Intragovernmental Earned Revenue)	(6,519,008)	(5,531,194)
Intragovernmental Net Costs	$23,581,941	$13,511,103
Gross Costs With the Public	$84,768,855	$67,293,314
(Less: Earned Revenue From the Public)	(919,139)	(784,708)
Net Costs With the Public	$83,849,716	$66,508,606
Total Net Cost	$107,431,657	$80,019,709
Cost Not Assigned to Programs	0	0
(Less:Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	$107,431,657	$80,019,709

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	CUMULATIVE RESULTS OF OPERATIONS		UNEXPENDED APPROPRIATIONS	
	2003 Consolidated	**2002 Consolidated**	**2003 Consolidated**	**2002 Consolidated**
Beginning Balances	$5,790,840	$8,776,600	$31,468,721	$28,895,571
Prior period adjustments (+/-)	97,897,585	(7,114,213)	0	0
Beginning Balances, as adjusted	$103,688,425	$1,662,387	$31,468,721	$28,895,571
Budgetary Financing Sources:				
Appropriations received	0	0	117,667,977	80,338,428
Appropriations transferred-in/out (+/-)	0	0	6,042,747	4,903,508
Other adjustments (rescissions, etc) (+/-)	0	0	(599,800)	(114,845)
Appropriations used	106,904,931	82,553,941	(106,904,931)	(82,553,941)
Nonexchange revenue	131	205,583	0	0
Donations and forfeitures of cash and cash equivalents	15,003	0	0	0
Transfers-in/out without reimbursement (+/-)	479,218	0	0	0
Other budgetary financing sources (+/-)	(3,636,632)	743,531	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(321,356)	(43,155)	0	0
Imputed financing from costs absorbed by others	818,482	688,259	0	0
Other (+/-)	115,102	0	0	0
Total Financing Sources	$104,374,879	$84,148,159	$16,205,993	$2,573,150
Net Cost of Operations (+/-)	107,431,657	80,019,709	0	0
Ending Balances	$100,631,647	$5,790,837	$47,674,714	$31,468,721

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY FINANCING ACCOUNTS	Budgetary Resources		Non-Budgetary Resources	
BUDGETARY RESOURCES	**2003 Combined**	**2002 Combined**	**2003 Combined**	**2002 Combined**
Budget Authority:				
Appropriations received	$117,695,530	$81,067,276	$0	$0
Borrowing authority	0	0	0	0
Contract authority	0	0	0	0
Net transfers (+/-)	5,307,441	5,290,599	0	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	5,858,110	5,701,789	730	691
Net transfers, actual (+/-)	1,214,524	408,970	0	0
Anticipated Transfers balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	14,095,736	12,012,602	543	39
Receivable from Federal sources	12,974	(146,322)	0	0
Change in unfilled customer orders	0	0	0	0
Advance received	119,338	87,119	0	0
Without advance from Federal sources	3,655,318	1,164,785	0	0
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	$17,883,366	$13,118,184	$543	$39
Recoveries of prior year obligations	8,001,403	8,287,368	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(1,304,580)	(1,569,179)	0	0
Total Budgetary Resources	$154,655,794	$112,305,007	$1,273	$730

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Budgetary Resources		Non-Budgetary Resources	
NONBUDGETARY FINANCING ACCOUNTS				
STATUS OF BUDGETARY RESOURCES	**2003 Combined**	**2002 Combined**	**2003 Combined**	**2002 Combined**
Obligations incurred:				
Direct	$128,012,383	$91,731,863	$0	$0
Reimbursable	18,430,419	14,715,031	0	0
Subtotal	$146,442,802	$106,446,894	$0	$0
Unobligated balance:				
Apportioned	6,947,148	4,788,478	1,273	730
Exempt from apportionment	25,665	0	0	0
Other available	0	2	0	0
Unobligated Balances Not Available	1,240,179	1,069,633	0	0
Total, Status of Budgetary Resources	$154,655,794	$112,305,007	$1,273	$730
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net - beginning of period	$33,662,267	$31,626,562	$0	$0
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(1,480,706)	(1,467,731)	0	0
Unfilled customer order from Federal sources	(10,816,319)	(7,161,002)	0	0
Undelivered orders	44,735,892	30,611,343	0	0
Accounts payable	14,043,988	11,679,657	0	0
Outlays:				
Disbursements	121,952,521	95,105,359	0	0
Collections	(14,215,073)	(12,099,721)	(543)	(39)
Subtotal	$107,737,448	$83,005,638	($543)	($39)
Less: Offsetting receipts	(95,571)	(184,839)	0	0
Net Outlays	$107,641,877	$82,820,799	($543)	($39)

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Resources Used to Finance Activities:	2003 Combined	2002 Combined
Budgetary Resources Obligated		
Obligations incurred	$146,442,802	$106,446,894
Less: Spending authority from offsetting collections and recoveries (-)	(25,885,311)	(21,405,591)
Obligations net of offsetting collections and recoveries	$120,557,491	$85,041,303
Less: Offsetting receipts (-)	(95,571)	(184,839)
Net obligations	$120,461,920	$84,856,464
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	(321,356)	0
Imputed financing from costs absorbed by others	818,482	688,259
Other (+/-)	115,102	0
Net other resources used to finance activities	612,228	688,259
Total resources used to finance activities	$121,074,148	$85,544,723
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	($16,480,237)	($2,138,888)
Unfilled Customer Orders	3,774,656	1,251,904
Resources that fund expenses recognized in prior periods	(282,695)	(5,656,745)
Budgetary offsetting collections and receipts that do not affect net cost of operations	15,085	0
Resources that finance the acquisition of assets	(25,214,843)	(152,239)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	0	0
Total resources used to finance items not part of the net cost of operations	($38,188,034)	($6,695,968)
Total resources used to finance the net cost of operations	$82,886,114	$78,848,755

The accompanying notes are an integral part of these statements.

Combined Statement of Financing

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**2003 Combined**	**2002 Combined**
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	$291,488	$276,719
Increase in environmental and disposal liability	2,317,132	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the the public (-)	0	0
Other (+/-)	409,303	1,486,858
Total components of Net Cost of Operations that will require or generate resources in future periods	$3,017,923	$1,763,577
Components not Requiring or Generating Resources:		
Depreciation and amortization	21,363,920	596,779
Revaluation of assets or liabilities (+/-)	(10,681)	(1,793,293)
Other (+/-)	174,381	603,891
Total components of Net Cost of Operations that will not require or generate resources	$21,527,620	($592,623)
Total components of net cost of operations that will not require or generate resources in the current period	$24,545,543	$1,170,954
Net Cost of Operations	$107,431,657	$80,019,709

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	2003 Combined	2002 Combined
SOURCE OF COLLECTIONS		
Deposits by Foreign Governments	$0	$0
Seized Iraqi Cash	808,866	0
Other Collections	0	0
Total Cash Collections	808,866	0
Accrual Adjustments (+/-)	0	0
Total Custodial Collections	$808,866	$0
DISPOSITION OF COLLECTIONS		
Disbursed on Behalf of Foreign Governments and International Organizations	$0	$0
Seized Assets Disbursed on behalf of Iraqi People		
Increase (Decrease) in Amounts to be Transferred	530,727	0
Collections Used for Refunds and Other Payments	0	0
Retained by The Reporting Entity	0	0
Seized Assets Retained for Support of the Iraqi People	0	0
Total Disposition of Collections	278,139	0
NET CUSTODIAL COLLECTION ACTIVITY	$808,866	$0
	$0	$0

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of the Army, as required by the Chief Financial Officers Act of 1990 (CFO Act), expanded by the Government Management Reform Act of 1994 (GMRA), 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 (DoD) Financial Management Regulation; Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements; and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which the Army is responsible. Under the above guidance, classified assets, programs, and operations have been excluded from the statements or aggregated and reported in such a manner that they are no longer classified. The financial statements are in addition to the financial reports prepared pursuant to OMB directives that are used to monitor and control the Army's use of budgetary resources.

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

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

1.B. Mission of the Reporting Entity

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

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

1.C. Appropriations and Funds

The Army receives its appropriations as general, revolving, trust, special, and deposit funds. The Army uses these appropriations and funds to execute its missions.

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

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. Revolving funds operate 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 are normally available in their entirety for use without further congressional action.

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 government receipts earmarked for a specific purpose.

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

1.D. Basis of Accounting

The Army normally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2003, the Army's financial management systems were unable to meet all of the requirements for full accrual accounting. Many of the Army's financial systems, non-financial feeder systems, and processes were designed and implemented prior to the issuance of Federal GAAP and therefore, were not designed to collect and record financial information on the accrual accounting basis as required by Federal GAAP. In addition, most of the Army's financial management systems do not comply with the U.S. Government Standard General Ledger (USSGL) at the transaction level. The Army has undertaken efforts to determine the actions required to bring these systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of Army accounting systems to record transactions based on the USSGL. Until such time as the Army's systems and processes are updated to collect and report financial information as required by Federal GAAP, the Army's financial data will be based on budgetary transactions, non-financial feeder system transactions, and adjustments for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. When possible, the financial statements are presented on the accrual accounting basis. One example of information presented on the budgetary basis is data on the Statement of Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

The Army identifies programs based upon the major appropriation groups provided by Congress. The Army does not, however, accumulate costs for major programs based on performance measures because its financial processes and systems do not account for costs in line with established measures. The Army is reviewing available data and attempting to develop a cost reporting methodology that provides the cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government.

1.E. Revenues and Other Financing Sources

The Army receives congressional appropriations as financing sources for general funds (annual and multi-year basis). When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through the reimbursable order process. The Army recognizes revenue as a result of costs incurred or services performed on behalf of other Federal agencies and the public.

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

1.F. Recognition of Expenses

For financial reporting purposes, Army policy requires recognition of operating expenses in the period incurred. However, the Army's financial and non-financial feeder systems were not designed to collect and record financial information on the accrual accounting basis. Accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. The Army's expenditures for capital and other long-term assets are not recognized as operating expenses until property, plant, and equipment are depreciated or Operating Materials and Supplies are consumed. Net increases or decreases in Unexpended Appropriations are recognized as a change in Net Position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

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

1.G. Accounting for Intra-governmental Activities

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

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

Financing for the construction of Army facilities is obtained through budget appropriations. To the extent this financing was obtained through issuance of public debt, interest costs were not capitalized since the Department of the Treasury does not allocate these interest costs to the benefiting agencies.

The Army's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under social security. The Army funds a portion of the civilian and military pensions. Reporting civilian pensions under CSRS and FERS 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.

Assets, funded actuarial liability, and unfunded actuarial liability for military personnel are reported in the Military Retirement Fund (MRF) financial statements. The actuarial liability for the military retirement health benefits is recognized in the Other Defense Organization General Fund column of DoD Agency-wide consolidating/combining statements.

The Army's accounting systems do not capture trading partner information at the transaction level. Therefore, current systems cannot produce data necessary for reconciliations between buyers and sellers, nor eliminate all intragovernmental transactions between trading partners. As a result, Army's balances are compared to seller-side data summarized at the component trial balance level. Based on these comparisons, the amount of intragovernmental transactions on the buyer-side is forced to agree with seller-side information.

The Treasury's Financial Management Service (FMS) is responsible for eliminating transactions between Federal agencies. In September 2000, FMS issued the Federal Intragovernmental Transactions Accounting Policies and Procedures Guide. The Army was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. Intragovernmental Fiduciary Transactions Accounting Guide policies and procedures were implemented for reconciling intragovernmental transactions pertaining to investments, Federal Employees' Compensation Act, and benefit program transactions with OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Army components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the Army has authority to sell defense articles and services to foreign countries and international organizations, normally at no profit or loss to the U.S. Government.

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

DoD disbursing stations process cash collections, disbursements, and adjustments worldwide, and prepare reports which provide information to the Treasury on check issues, electronic fund transfers, and interagency transfers and deposits.

The Treasury records this information in the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. DFAS reconciles differences between the Army's recorded balance in the FBWT accounts and the Treasury's FBWT. See Note 3, Fund Balance With Treasury, for material disclosures.

Differences between accounting offices' detail-level records and the Treasury's FBWT accounts are disclosed in Note 21.B. These differences are caused by in-transit or unmatched disbursements not recorded in the accounting offices' detail-level records.

1.J. Foreign Currency

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

1.K. Accounts Receivable

As presented in the balance sheet, accounts receivable also includes claims and refunds receivable from other Federal entities or from the public. The Army bases the allowances for uncollectible accounts that are due from the public upon analysis of collection experience by fund type. The Army does not recognize an allowance for estimated uncollectible amounts from other Federal agencies. Claims against other Federal agencies are to be resolved between the agencies. See Note 5, Accounts Receivable, for material disclosures.

1.L. Loans Receivable. As Applicable.

Not Applicable

1.M. Inventories and Related Property

Effective October 1, 2002, Statement of Federal Financial Accounting Standards No.23, Eliminating the Category National Defense Property, Plant, and Equipment, revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). The standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modernization, modifications, upgrades and improvements. Likewise, military equipment (previously referred to as National Defense Property, Plant, and Equipment) also includes items which will now be classified as Operating Materials and Supplies.

Implementation of the new accounting principles requires the adjustment of the October 1, 2002, Operating Materials and Supplies balance to recognize the investment, accumulated depreciation, and net book value of military equipment that previously had been expensed and is discussed further in Note 9.

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

The Army uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain historical cost data necessary to comply with SFFAS No. 3, Accounting for Inventory and Related Property. They are also unable to directly produce financial transactions using the USSGL, as required by FFMIA. DoD is transitioning to a Moving Average Cost methodology for valuing inventory that when fully implemented will allow the Army to comply with SFFAS No. 3.

SFFAS No. 3 distinguishes between inventory held for sale and inventory held in reserve for future sale. There is no difference in how these accounts are managed or valued. Normally, the Army manages only military or government-specific material. The Army does not manage items commonly used in and available from the commercial sector. In addition, operational cycles are irregular, and the military risks associated with stock-out positions have no commercial equivalent. The Army holds material based on military need and support for contingencies. Therefore, the Army does not attempt to account separately for items held for current or future sale.

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

The Army implemented a new policy in FY 2002 to account for condemned material as excess, obsolete, and unserviceable. The net value of condemned material is zero because disposal costs are greater than potential scrap value. Potentially redistributable material, presented in previous years as excess, obsolete, and unserviceable is included in categories held for use or held for repair according to its condition.

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

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

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

1.O. General Property, Plant and Equipment

General Property, Plant, and Equipment (PP&E) assets are capitalized at historical acquisition cost when the useful life is two or more years, and when the acquisition cost equals or exceeds the Army capitalization threshold of $100,000. The Army also capitalizes improvement costs that exceed the $100,000 threshold. The Army depreciates General PP&E, other than land, on a straight-line basis. Land is not depreciated.

Military Equipment

Statement of Federal Financial Accounting Standards No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, establishes new generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in Federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades, for accounting periods beginning after September 30, 2002.

Until this change in accounting principle, the acquisition costs for military equipment were classified as national defense PP&E and were expensed in the period incurred. Implementation of this new accounting principle required the Army to adjust the October 1, 2002 General PP&E balance to recognize the investment, accumulated depreciation, and net book value of military equipment that previously had been expensed. As discussed further in Note 10, General PP&E, the adjustment was based on data provided by the Bureau of Economic Analysis at the Department of Commerce.

Contractor Provided

When it is in the best interest of the government, the Army provides to contractors government property necessary to complete contract work. Such property may be purchased or leased by the Army or the property may be purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the Army's Balance Sheet. The Army currently reports only government property in the possession of contractors maintained in the Army's property systems.

DoD issued property accountability and reporting regulations that require the Army to maintain, in property systems, information on all property furnished to contractors in order to bring the Army into compliance with Federal accounting standards.

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

1.P. Advances and Prepayments

The Army records payments as advances or prepayments prior to receipt of goods and services and reports them as assets on the balance sheet. In addition, when the Army receives the related goods and services, it recognizes advances and prepayments as expenditures and expenses.

1.Q. Leases

Lease payments are normally for the rental of 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 market value. Leases that do not transfer substantially all benefits or risks of ownership are classified as operating leases. As such, payments are recorded as expenses.

1.R. Other Assets

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

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, Accounting for Liabilities of the Federal Government, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. 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 at least a reasonable possibility that a loss or additional loss will be incurred. Loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The Army may report loss contingencies due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Army's assets. This type of liability has two components: non-environmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, Accounting for Property, Plant, and Equipment. Based upon the Army's policies, which are consistent with SFFAS No. 5 Accounting for Liabilities of Federal Government, a non-environmental disposal liability is recognized for assets when management decides to dispose of an item.

The Army, by means of the Armament Retooling and Manufacturing Support (ARMS) Initiative legislation, has been authorized to establish a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities and the Army recognizes the loan guarantee liability. Army is authorized by Public Law 103-337, the National Defense Authorization Act for Fiscal Year 1995, to enter into this agreement with the U.S. Department of Agriculture Rural Business-Cooperative Service (RBS).

See Notes 8, 14, and 15 for material disclosures.

1.T. Accrued Leave

The Army reports accrued civilian annual leave and military leave as liabilities at the current pay rates as of the balance sheet date.

1.U. Net Position

Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represent budget authority, which is unobligated and has not been rescinded or withdrawn, and funds obligated but for which legal liabilities have not been incurred.

Cumulative Results of Operations represent balances that result from subtracting expenses and losses from financing sources, including appropriations, revenue, and gains since inception of the activity.

1.V. Treaties for Use of Foreign Bases

The DoD Components use land, buildings, and other facilities, located overseas and obtained through various international treaties and agreements negotiated by the State Department. DoD capital assets overseas are purchased with appropriated funds; however, the host country retains title to land and improvements. Treaty terms normally allow DoD Components continued use of these properties until treaties expire. In the event treaties or agreements are terminated and the use of the foreign bases is no longer allowed, gains and losses for capital assets will be recorded based upon the negotiated amount paid to the U.S. for such capital assets.

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY 2003. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between FY 2002 and FY 2003, are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

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

Note 2. Nonentity and Entity Assets

	2003			2002
As of September 30	Nonentity	Entity	Total	Nonentity Assets
(Amounts in thousands)				
1. Intra-governmental Assets:				
A. Fund Balance with Treasury	$339,582	$54,695,897	$55,035,479	($5,382)
B. Investments	0	1,231	1,231	0
C. Accounts Receivable	0	523,347	523,347	0
D. Other Assets	0	83,474	83,474	0
E. Total Intra-governmental Assets	$339,582	$55,303,949	$55,643,531	($5,382)
2. Non-Federal Assets:				
A. Cash and Other Monetary Assets	$954,368	$0	$954,368	$301,747
B. Accounts Receivable	228,833	285,746	514,579	24,415
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	32,676,658	32,676,658	0
E. General Property, Plant and Equipment	0	115,337,906	115,337,906	0
F. Investments	0	0	0	0
G. Other Assets	0	3,569,021	3,569,021	(89)
H. Total Non-Federal Assets	$1,183,201	$151,869,331	$153,052,532	$326,073
3. Total Assets:	$1,522,783	$207,173,280	$208,696,063	$320,691

4. Other Information

Relevant Information for Comprehension

Nonentity Assets of $1,522,783 thousand are assets held by the Army but not available to fund mission operations.

Nonentity Intragovernmental Fund Balance with Treasury of $339,582 thousand represents:

- $278,139 thousand in Iraqi custodial funds that coalition forces seized during Operation Iraqi Freedom and will be used in support of the Iraqi people. Further information is disclosed in Note 3 and Note 23.

- $61,443 thousand in other miscellaneous deposit and suspense accounts. The Army and the Defense Finance and Accounting Service continue to work to improve the accountability over suspense items.

Nonentity Cash and Other Monetary Assets of $954,368 thousand represents both cash and foreign currency.

Nonentity Non-Federal Accounts Receivable of $228,833 thousand represents receivables which originated from appropriations that are closed and no longer available to execute Army missions. Army continues to pursue collection actions and any amounts collected are deposited into the Treasury miscellaneous receipt account.

The Army has $207,173,280 thousand in Entity Assets. Entity Assets consist of resources that the Army has the authority to use, or where management is legally obligated to use funds to meet their obligations.

Fluctuation and/or Abnormalities:
Nonentity Intragovernmental Fund Balance with Treasury increased $344,964 thousand or 6,409 percent, and is largely attributed to the $278,139 thousand in Iraqi custodial funding first reported in FY 2003. Further explanation is disclosed in Note 3. The abnormal balance of $5,382 thousand reported in FY 2002 is attributed to a collection recorded in the Military Pay account instead of Servicemen's Group Life Insurance account and was corrected in FY 2003.

Nonentity Non-Federal Cash and Other Monetary Assets of $954,368 thousand increased by $652,621 or 216 percent, in FY 2003 primarily to support the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom. Further explanation is provided in Note 7.

Nonentity Non-Federal Accounts Receivable increased $204,417 thousand or 837 percent due to nonentity accounts receivable incorrectly reported in Entity Accounts Receivable for FY 2002.

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

Note 3. Fund Balance with Treasury

As of September 30	2003	2002
(Amounts in thousands)		
1. Fund Balances:		
A. Appropriated Funds	$54,145,086	$39,407,718
B. Revolving Funds	50,503	79,199
C. Trust Funds	2,502	1,537
D. Other Fund Types	837,388	22,069
E. Total Fund Balances	$55,035,479	$39,510,523
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$55,035,479	$39,510,523
B. Fund Balance per Army General Fund	55,035,479	39,510,523
C. Reconciling Amount	$0	$0

3. Explanation of Reconciliation Amount:

4. Other Information Related to Fund Balance with Treasury:

Fluctuations and/or Abnormalities
Total Fund Balance
The Fund Balance represents the amount of available funding to be utilized for executing the Army's mission. Army's Fund Balances increased $15,524,956 thousand or 39 percent, from FY 2002. This increase is due to the $36,628,254 thousand increase in FY 2003 funding. Fund Balance positions increased as follows (in thousands):

Program	Fund Balance
Military Personnel	$1,361,261
Operation & Maintenance	9,658,140
Research, Development, Test, and Evaluation	486,391
Military Construction	367,211
Procurement	2,457,504
Vested Iraqi Cash	109,126
Other Miscellaneous	1,085,323
	$15,524,956

Note 2 and Note 21 disclose where additional funding was received and its program.

Relevant Information for Comprehension

Intragovernmental Payment and Collection (IPAC)

The Intragovernmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by the Treasury but not reported by the organization. The Army had no IPAC differences greater than 180-days old as of September 30, 2003.

Automated reconciliation tools have virtually eliminated all existing differences for the Army. Field sites requiring additional backup to record the transaction in their accounting system, accounting errors, or timing differences between disbursing and Treasury cut-off dates are the only reasons for an IPAC difference to exist today.

Check Issue Discrepancy

For September 30, 2003, the Army 2100 Comparison of Checks Issued Report received from Treasury includes the following (in thousands):

DFAS	0-60 DAYS	61-180 DAYS	>180 DAYS	TOTAL
Indianapolis	$288,417	$2,201	$0	$290,618
Columbus (Army DSSNs)*	32,521	0	0	32,521
Columbus (Transp Pay)	2,627	0	0	2,627
Columbus (Def Agencies)	140,575	0	0	140,575
TOTAL (2100 ARMY)	**$464,140**	**$2,201**	**$0**	**$466,341**

*DSSN is Disbursing Station Symbol Number

Check issue differences in the 0-60 days category are considered timing differences between reporting check issues and processing into the Treasury Check Payments and Reconciliation System.

Due to the current business process, Army cannot readily identify if the reported amounts contained in the Army 2100 Comparison of Check Issued Report represents Treasury Index 97 appropriations; other than those reported by Columbus. Normally these differences are cleared in the next reporting cycle, therefore, it is unlikely that they will have a material impact on the financial statements.

The differences in the 0-60 days and the 61-180 days are expected to clear in the October 2003 reporting period.

Deposit Differences

The deposit differences are reconcilable differences reported by the Treasury or the organization. The Army has $29 thousand in deposit differences greater than 180 days old as of September 30, 2003.

The FY 2003 difference is due to a date posting error by the bank for $22 thousand. Even though the transaction error occurred in September 2003, Treasury's rules post differences based on document date. The remaining $7 thousand difference is an erroneous duplicate transaction on the Statement of Accountability. Corrective action is expected in October 2003.

Vested Iraqi Cash
The Army has collected $1,660,156 thousand of Vested Iraqi Cash. This cash is vested in accordance with the International Emergency Economic Powers Act, Section 1701 and will be used in support of the Iraqi people. The Army has disbursed $1,551,030 thousand in support of the Iraqi people as follows:

	In thousands
Collected	$1,660,156
Disbursed	
Iraqi Salaries	$1,170,676
Repair/Reconstruction/Humanitarian Assistance	$40,560
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	$339,794
Total Disbursed	$1,551,030
Remaining Funds	$109,126

Other Fund Types
The $837,388 thousand in Other Fund Types consists of $278,139 thousand in Iraqi Custodial Funds (Seized Iraqi Cash), $62,151 thousand in Deposit Funds, $497,806 thousand in Special Fund and Receipt accounts, and ($708) thousand in Suspense accounts. Please refer to Note 2 and Note 23 for further analysis.

Other Fund Types increased by $815,319 thousand from FY 2002. The Iraqi Relief and Reconstruction Fund (21 X1096) and the Iraqi Seized Assets (21 X6098 and 21 X6095) were first reported in FY 2003 and reflect increases of $464,802 thousand and $278,139 thousand, respectively. The remaining $72,378 increase is due to miscellaneous deposit accounts.

Canceling Appropriated Funds
As of September 30, 2003, Army withdrew $704,780 thousand in canceling Appropriated Funds in accordance with Treasury's policy.

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

See Note 2, Note 21B, and Note 23 for further discussions on Other Fund Balance Types (e.g., Suspense, Budget Clearing, Special and Deposit, Seized Iraqi Cash, etc.).

Note 4. Investments

As of September 30	2003 Cost	Amortization Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	2002 Investments, Net
(Amounts in thousands)						
1. Intra-governmental Securities:						
A. Marketable	$0		$0	$0	$0	$0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	1,232	Effective Interest	(7)	1,225	1,207	5,234
D. Subtotal	$1,232		($7)	$1,225	$1,207	$5,234
E. Accrued Interest	$6			$6	$6	$6
F. Total Intragovernmental Securities	$1,238		($7)	$1,231	$1,213	$5,240
2. Other Investments	$0		$0	$0	$0	$0

3. Other Information:

Fluctuations and/or Abnormalities

The Department of the Army Investments declined $4,009 thousand or 77 percent, in FY 2003. This was caused by a bond redemption of $1,920 thousand on September 30, 2003. These proceeds are classified in the Army's Fund Balance with Treasury account until they are reinvested in October 2003. In addition, the FY 2002 end of year balance was overstated by $2,778 thousand as a result of a sale of a Treasury Note which was not posted in FY 2002.

Other Information Related to Investments

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

Note Reference

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

Note 5. Accounts Receivable

As of June 30	2003 Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	2002 Accounts Receivable, Net
(Amounts in thousands)				
1. Intra-governmental Receivables:	$523,347	N/A	$523,347	$452,597
2. Non-Federal Receivables (From the Public):	$582,505	($67,926)	$514,579	$568,088
3. Total Accounts Receivable:	$1,105,852	($67,926)	$1,037,926	$1,020,685

4. Allowance method

The Allowance for Doubtful Accounts is calculated by using the three-year average of FY 2001 to FY 2003 actual out-of-service debt write-offs. This method of estimating doubtful accounts was implemented in FY 2000. Beginning in FY 2002, the Allowance for Doubtful Accounts is reestimated on each annual financial reporting date.

5. Other information:

Fluctuations and/or Abnormalities

Total Accounts Receivable increased $17,240 thousand or 2 percent, in FY 2003. Intragovernmental Accounts Receivable increased $70,749 thousand or 16 percent. The increase reflects the addition of two new funded reimbursable programs. One program reimburses the Department of the Army for salaries paid to doctors assigned to those medical facilities treating retirees. The other program reimburses the Army for providing security to the Department of the Air Force, by placing soldiers as guards at Air Force facilities. Non-federal Accounts Receivable (From the Public) decreased $53,509 thousand or 9 percent, with all of the decrease attributable to Individual Out-of-Service Debt. The drop in Non-federal Accounts Receivable (From the Public) is mainly due to aggressive management of public receivables over 180 days old.

Non-federal Accounts Receivable (From the Public) consisted of accounts receivable, refund receivable, claims receivable and interest receivable. The schedule below illustrates the major contributors to non-federal Accounts Receivable (From the Public), by type of debt.

Type of Debt	Amount
	(Amounts in thousands)
Contractor Debt	$119,286
Individual (Out-of-Service)	144,920
Military Pay (In-Service)	75,145
Sales of Goods & Services	55,737
Interest	23,810
Foreign Governments	114,634
Civilian Pay (In-Service)	21,349
Vendor Debt	3,192
Other	56,938
Subtotal	$615,011
Undistributed Collections Public	(32,506)
Grand Total	$582,505

Relevant Information For Comprehension

Allocation of Undistributed Collections

The Army reported an abnormal balance of $54,175 thousand of supported undistributed collections and no unsupported undistributed collections. The Army allocated supported undistributed collections as either federal or public using the Reimbursable Source Code recorded in the Army's Departmental Budgetary Reporting System.

Elimination Adjustments

The Army's General Fund 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 Army 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. These improvements will be implemented incrementally through the planned fielding of a compliant financial management system for all Army activities by FY 2006.

Accounts Receivable Over 180 Days

The Army reported $192,208 thousand of Non-federal Accounts Receivable (From the Public) and $5,474 thousand of intragovernmental Accounts Receivable over 180 days. Over 80 percent of Non-federal Accounts Receivable (From the Public) consisted of Individual Out-of-Service Debt and Contractor Debt. The intragovernmental Accounts Receivable consisted of debt from reimbursable transactions within the DoD.

Non-federal Refunds Receivable

(Amounts in thousands)

FY 2003 Non-federal Refunds Receivable	FY 2003 Non-federal Accounts Receivable (Net)	Percent of Net Amount
$314,535	$514,580	61

Amounts reported for Public Refunds Receivable primarily originated from debts owed by military service members collectible to Army's active military personnel appropriation.

Note Reference

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

Note 6. Other Assets

As of September 30	2003	2002
(Amounts in thousands)		
1. Intra-governmental Other Assets:		
A. Advances and Prepayments	$83,474	$209,114
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	$83,474	$209,114
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	$3,163,668	$3,109,569
B. Other Assets (With the Public)	405,353	473,227
C. Total Non-Federal Other Assets	$3,569,021	$3,582,796
3. Total Other Assets:	$3,652,495	$3,791,910

4. Other Information Related to Other Assets:

Fluctuation and/or Abnormalities
Intragovernmental Advances and Prepayments
Intragovernmental Advances and Prepayments decreased by $125,640 thousand or 60 percent from FY 2002. This decrease is from the payback of funds to the Ammunition Procurement account from the Army Working Capital Fund (WCF). These funds were initially advanced to the Army WCF in FY 2002.

Non-Federal Other Assets

- **Outstanding Contract Financing Payments**
  The Department of the Army has reported outstanding financing payments for fixed price contracts as an advance and prepayment. Under the terms of the fixed price contracts, the Army becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Army is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Army the full amount of the outstanding contract financing payments.

- **Other Assets (With the Public)**
  The Army reported a $67,874 thousand, or 14 percent, decrease in the amount of Other Assets (With the Public). The decrease is due to reduced advances to military personnel and a change in the computed Firm Fixed Price adjustments directed against Army contracts by the Army's general business rules.

  The FY 2003 Other Assets consists of Firm Fixed Price adjustments to Operating Materials and Supplies in the amount of $48,755 thousand. This amount includes $12,388 thousand in the Missile Procurement Appropriation; $35,140 thousand in the Ammunition Procurement Appropriation; $1,152 thousand in the Research Development, Testing and Evaluation Appropriation; and $75 thousand in the Army's Military Construction/Family Housing Appropriation.

- **Advances and Prepayments**

The buyer-side Advances to Others balances were adjusted upward $150,324 thousand to agree with seller-side Advances from Others on the books for other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of other DoD reporting entities. The footnote also reflects intra-Army General Fund elimination entries of ($66,850) thousand leaving a balance of $83,474 thousand in these accounts.

Note Reference
See Note Disclosure 1. R. - Other Assets, Significant Accounting Policies for additional discussion on financial.

For Regulatory Discussion on "Other Assets" see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1008.

Note 7. Cash and Other Monetary Assets

As of September 30	2003	2002
(Amounts in thousands)		
1. Cash	$780,574	$178,148
2. Foreign Currency (non-purchased)	173,794	123,599
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$954,368	$301,747

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

Definitions

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

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

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

Fluctuation and/or Abnormalities
Army cash and foreign currency increased $652,621 thousand or 216 percent, primarily to support the contingency missions Operation Iraqi Freedom and Operation Enduring Freedom. Overall foreign currency increased approximately $50,195 thousand or 41 percent, which includes currency to pay foreign vendors and cash in the custody of foreign agents primarily in support of the Army's forward deployed tactical units. The Army Corps of Engineers also received an advance from the Korean government, in won, to cover construction, labor and logistics to be done by the Army Corps of Engineers.

Other Information Related to Cash and Other Monetary Assets

Cash and foreign currency reported consists primarily of cash held by disbursing officers to carry out their paying, collecting and foreign currency accommodation exchange mission. Foreign currency is valued using the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions.

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

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

1. **Direct Loan and/or Loan Guarantee Programs:** The entity operates the following direct loan and/or Loan guarantee program(s):
   Military Housing Privatization Initiative
   Armament Retooling & Manufacturing Support Initiative

2. **Other Information:**

Armament Retooling and Manufacturing Support Initiative
The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 United States Code (USC) 4551-4555, is designed to encourage commercial use of the Army's inactive ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. These facilities have production capacity greater than the current military requirements; however, this capacity could be needed in the event of a major war. The revenues from the property rental are used to pay for the operation, maintenance and environmental clean up at the facilities. This savings in overhead cost lowers the production cost of the goods manufactured and funds the environmental clean up at no cost to the government.

The U.S. Department of Agriculture Rural Business-Cooperative Service (RBS) and the United States Army established a Memorandum of Understanding (MOU) to furnish services to the Army in connection with the ARMS Initiative Loan Guarantee Program (AILG) pursuant to section 195 of the Armament Retooling and Manufacturing Support Act of 1992, as amended (10 U.S.C. 2501 note). The MOU is entered into pursuant to section 195 and 31 U.S.C. 1535.

The Army, by means of the ARMS Initiative legislation, has been authorized to establish a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. Army is authorized by Public Law 103-337, the National Defense Authorization Act for Fiscal Year 1995, to enter into this agreement with RBS. RBS has the needed programmatic and administrative services necessary and convenient to provide other services required to administer the AILG Program. Therefore, in order to ensure service to the public and for protection of the federal interests and rights, it is necessary for Army to obtain services from RBS.

Note 8.B thru 8.G are not applicable to Army.

Note 8.B. Direct Loans Obligated After FY 1991
Not Applicable

Note 8.C. Total Amount of Direct Loans Disbursed
Not Applicable

Note 8.D. Subsidy Expense for Post-1991 Direct Loans
Not Applicable

Note 8.E. Subsidy Rate for Direct Loans
Not Applicable

Note 8.F. Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans
Not Applicable

Note 8.G. Defaulted Guaranteed Loans from Post-1991 Guarantees
Not Applicable

Note 8.H. Guaranteed Loans Outstanding
As of September 30
(Amounts in thousands)

Loan Guarantee Program Title	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
2003		
1. Military Housing Privatization Initiative	$0	$0
2. Armament Retooling & Manufacturing Support Initiative	26,777	24,020
3. Total	$26,777	$24,020
2002		
1. Military Housing Privatization Initiative	$0	$0
2. Armament Retooling & Manufacturing Support Initiative	8,553	7,698
3. Total	$8,553	$7,698

4. Other Information:
Two additional loans generated in FY 2003 contributed to the increase of $18,224 thousand or 213 percent from FY 2002 for the Outstanding Principal Guaranteed Loans Face Value and $16,322 thousand or 212 percent from FY 2002 for the Outstanding Principal Guaranteed.

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

As of September 30 (Amounts in thousands)	**2003**	**2002**
Loan Guarantee Program Title		
1. Military Housing Privatization Initiative	$0	$0
2. Armament Retooling & Manufacturing Support Initiative	1,273	730
3. Total	$1,273	$730

4. Other Information:

Fluctuations and/or Abnormalities

Total Loan Guarantee Liabilities increased $543 thousand or 74 percent, due to origination fees on two new loans and loan obligation subsidy transferring from the program account to the financing account.

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

(Amounts in thousands) 2003	Interest Differential	Defaults	Fees	Other	Total
1. Subsidy Expense for New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling & Manufacturing Support Initiative	0	145	(8)	37	174
Total	$0	$145	($8)	$37	$174
2002	Interest Differential	Defaults	Fees	Other	Total
2. Subsidy Expense for New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling & Manufacturing Support Initiative	0	(11)	8	5	2
Total	$0	($11)	$8	$5	$2
2003	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	$0	$0	$0	$0	$0
2002	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	$0	$0	$0	$0	$0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	$0	$0	$0	$0	$0
2000	**2003**	**2002**			
5. Total Loan Guarantee Subsidy Expense:					
Military Housing Privatization Initiative	$0	$0			
Armament Retooling & Manufacturing Support Initiative	174	2			
Total	$174	$2			

6. Other Information:

Fluctuations and/or Abnormalities

- Subsidy Expense - Represents new loans obligated, multiplied by the subsidy rate. The $172 thousand or 7,509 percent, increase is based on increased loan activity.

Note 8.K. Subsidy Rate for Loan Guarantees

	Supplements	Defaults	Collections	Other	Total
Loan Guarantees:					
1. Military Housing Privatization Initiative:	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	4.94%	-1.60%	0.00%	3.34%

3. Other Information:

The budgeted subsidy rate in effect for FY 2003 remains the same for the entire fiscal year.

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

Beginning Balance, Changes and Ending Balance	**2003**
(Amounts in thousands)	
1. Beginning balance of the loan guarantee liability	$730
2. Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:	
A. Interest supplement costs	$0
B. Default costs (net of recoveries)	145
C. Fees and other collections	(8)
D. Other subsidy costs	37
E. Total of the above subsidy expense components	$174
3. Adjustments:	
A. Loan guarantee modifications	$0
B. Fees received	324
C. Interest supplements paid	0
D. Foreclosed property and loans acquired	0
E. Claim payments to lenders	0
F. Interest accumulation on the liability balance	45
G. Other	0
H. Total of the above adjustments	$369
4. Ending balance of the loan guarantee liability before reestimates	$1,273

Beginning Balance, Changes and Ending Balance (Amounts in thousands)	2003
5. Add or subtract subsidy reestimates by component:	
A. Interest rate reestimate	0
B. Technical/default reestimate	0
C. Total of the above reestimate components	$0
6. Ending balance of the loan guarantee liability	$1,273

7. Other Information:

Two new loans closed in FY 2003 for the amount of $16,500 thousand with a guarantee fee of $297 thousand and $1,600 thousand with a guarantee fee of $27 thousand. The associated budget authorized subsidy collected was $551 thousand. FY 2000 obligations were cancelled in the amount of ($16,000) thousand with subsidy of ($378) thousand decreasing the guarantee liability.

Note 8.M. Administrative Expense

As of September 30 (Amounts in thousands)	2003	2002
1. Direct Loans:		
Military Housing Privatization Initiative	$0	$0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	$0	$0
2. Loan Guarantees:		
Military Housing Privatization Initiative	$0	$0
Armament Retooling & Manufacturing Support Initiative	14	36
Total	$14	$36

3. Other Information:

The Administrative Expense decreased $22 thousand or 61 percent, from FY 2002.

Note 9. Inventory and Related Property

As of September 30 (Amounts in thousands)	2003	2002
1. Inventory, Net (Note 9.A.)	$293,228	$294,480
2. Operating Materials & Supplies, Net (Note 9.B.)	32,383,430	26,964,942
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	$32,676,658	$27,259,422

Note 9.A. Inventory, Net

As of September 30	2003 Inventory, Gross Value	2003 Revaluation Allowance	2003 Inventory, Net	2002 Inventory, Net	Valuation Method
(Amounts in thousands)					
1. Inventory Categories:					
A. Available and Purchased for Resale	$51,487	($17,801)	$33,686	$44,419	LAC
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	10,899	(10,899)	0	0	NRV
D. Raw Materials	0	0	0	0	
E. Work in Process	259,542	0	259,542	250,061	SP
F. Total	$321,928	($28,700)	$293,228	$294,480	

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

2. Restrictions of Inventory Use, Sale, or Disposition:
There are no restrictions on the use, sale, or disposition of inventory except in the following situations:

1) distributions without reimbursements made when authorized by DoD directives;

2) War Reserve Material includes fuels and subsistence items that are considered restricted; and

3) Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of The President.

3. Other Information:

General Composition of Inventory
Inventory is comprised of ammunition in the Conventional Ammunition Working Capital Fund (CAWCF). Inventory is tangible personal property that is:

1) Held for sale, or held for repair for eventual sale;

2) In the process of production for sale; or

3) To be consumed in the production of goods for sale or in the provision of services for a fee.

Excess, Obsolete and Unserviceable inventory is condemned material that must be retained for management purposes. Work-in-Process includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The U.S. Standard General Ledger does not include a separate Work-in-Process account unrelated to sales.

Decision Criteria for Identifying the Category to Which Inventory is Assigned
Managers determine which items are more costly repair than to replace. Items retained for management purposes are coded condemned. The net value of these items is zero, and is shown as Excess, Obsolete, and Unserviceable.

Changes in the Criteria for Identifying the Category to Which Inventory is Assigned
The category Held for Sale includes all issuable material. The category Held for Repair includes all economically reparable material. Before FY 2002, the Army showed potentially redistributable material, regardless of condition, as Excess, Obsolete, and Unserviceable.

Fluctuations and/or Abnormalities
The CAWCF reports balances for Inventory Available and Purchased for Resale; Inventory Excess, Obsolete, and Unserviceable; and Inventory Work-in-Process. Sales are primarily made to the Military Departments. CAWCF Total Inventory, Net, showed an overall decrease of $1,253 thousand or 1 percent, in FY 2003. CAWCF Inventory Available and Purchased for Resale dropped by $10,734 thousand or 24 percent, in FY 2003. The year to year decrease in CAWCF inventory is expected as the Army's CAWCF progresses to final closeout on October 31, 2005. CAWCF stopped accepting new customer orders in July 1998 and all new orders for ammunition have gone to the procurement appropriations. CAWCF is scheduled to complete production and delivery of all orders by June 2004. The final billing of CAWCF orders are projected to be complete by October 2004 and the financial closeout of contracts by June 2005. The CAWCF final financial position will be determined shortly before CAWCF's October 31, 2005 closeout. The above dates are not firm and are likely to change as unplanned events occur. The majority of CAWCF Work-in-Process is performed at Government Owned Contractor Operated plants.

Note Reference
See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property.

Note 9.B. Operating Materials and Supplies, Net

As of September 30	2003			2002	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
(Amounts in thousands)					
1. OM&S Categories:					
A. Held for Use	$32,383,430	$0	$32,383,430	$26,964,942	LAC
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	478,473	(478,473)	0	0	NRV
D. Total	$32,861,903	($478,473)	$32,383,430	$26,964,942	

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 OM&S:

Tonnage

The total tonnage of munitions stock, to include chemical stocks awaiting destruction for FY 2003 and out years, is 405,092 tons.

Balances

The Army reported $5,000,000 thousand of Operating Materials and Supplies (OM&S) Held for Future Use. This amount represents ammunition held under a host nation treaty agreement and is not intended for use by U.S. Forces. The ammunition is intended for use in defense of the host nation by the host nation.

3. Other Information:

General Composition of OM&S

OM&S includes spare and repair parts, ammunition, and tactical missiles.

Changes In The Criteria For Identifying The Category To Which OM&S Are Assigned

The category Held for Use includes all issuable material. The category Held for Repair includes all economically reparable material. Before FY 2002, The Department showed potentially redistributable material, regardless of condition, as Excess, Obsolete, and Unserviceable.

Decision Criteria For Identifying The Category To Which OM&S Are Assigned

Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded condemned. The net value of these items is zero, and is shown as Excess, Obsolete, and Unserviceable.

Other Information Related to OM&S, Net

Fluctuations and/or Abnormalities

The reported Total OM&S, Net, increased by $5,418,488 thousand or 20 percent, in FY 2003. The increases in Total OM&S and OM&S Held for Use are largely the result of two factors. First, retail and guided missiles OM&S for $6,747,585 thousand are included on the FY 2003 Army Balance Sheet. The decision to include retail and guided missiles OM&S on the FY 2003 financial statements was made in response to the issuance of Statement of Federal Financial Accounting Standards (SFFAS) No. 23, Eliminating the Category National Defense Property, Plant and Equipment (NDPP&E), dated May 8, 2003. SFFAS 23 eliminated NDPP&E. As a result, retail and guided missiles OM&S, formerly reported as NDPP&E in the Required Supplementary Stewardship Information, are now reported on the balance sheet. The second factor is a $1,340,568 thousand reduction in ammunition inventories impacted by ongoing war efforts.

Total Excess, Obsolete and Unserviceable

In FY 2001, the Office of the Under Secretary of Defense (Comptroller) (OUSD (C)) directed field accounting offices to value excess, obsolete, and unserviceable

OM&S items at 1.9 percent of carrying amount. Additionally, financial statements prepared for the Army were allowed to use amounts for excess, obsolete, and unserviceable inventory and OM&S taken from the Supply System Inventory Report (SSIR). In FY 2002, OUSD (C) changed its position and directed the Military Services to no longer use the SSIR as the basis for reporting excess, obsolete, and unserviceable inventory. In addition, the Military Services were directed to account for excess, obsolete and unserviceable items as required by the Military Standard Transaction Reporting and Accounting Procedures Manual (DoD 4000.25-2-M), and to revalue excess, obsolete, and unserviceable OM&S items at 100 percent of carrying amount. In response to this request, all field submitted excess, obsolete, and unserviceable OM&S and inventory are revalued at the Departmental Accounting level to 100 percent of carrying amount. At this time field accounting offices continue to value excess, obsolete, and unserviceable OM&S items at 1.9 percent.

Government Furnished Material (GFM) and Contractor Acquired Material (CAM)
The value of the Army's GFM and CAM in the hands of contractors is normally not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information in other existing logistics systems.

Note Reference
See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

Note 9.C. Stockpile Materials, Net

Not Applicable

Note 10. General PP&E, Net

	2003					2002
As of September 30	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in thousands)						
1. Major Asset Classes:						
A. Land	N/A	N/A	$438,580	N/A	$438,580	$423,884
B. Buildings, Structures,				(24,725,096)	14,216,010	
and Facilities	S/L	20 Or 40	38,941,106			12,982,538
C. Leasehold Improvements	S/L	lease term	11,506	(9,699)	1,807	1,333
D. Software	S/L	2-5 Or 10	88,238	(36,796)	51,442	368
E. Equipment	S/L	5 Or 10	383,812,565	(288,539,660)	95,272,905	747,821
F. Assets Under Capital Lease [1]	S/L	lease term	166,071	(121,687)	44,384	55,556
G.Construction-in-Progress	N/A	N/A	5,294,164	N/A	5,294,164	4,471,634
H. Other			18,614	0	18,614	17,492
I. Total General PP&E			$428,770,844	($313,432,938)	$115,337,906	$18,700,626

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

Legend for Valuation Methods:

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

2. Other Information:

Fluctuations and/or Abnormalities

- The net book value (NBV) of Buildings, Structures, and Facilities increased by $1,233,472 thousand or 10 percent. The NBV of Leasehold Improvements also increased $474 thousand or 36 percent. The increase in both major asset classes is due to the identification of previously omitted real property data. Personnel from the offices of the Assistant Secretary of the Army - Financial Management & Comptroller and Assistant Chief of Staff for Installation Management determined that the Army was the proper reporting entity for this data.

- The Army reported an increase in Software NBV of $51,074 thousand or 13,878 percent. This increase is attributed to the reporting of software developed in support of Single Stock Fund Implementation Milestones at the Tank-Automotive and Armaments Command and the Aviation and Missile Command.

- The NBV of Equipment increased $94,525,084 thousand or 12,640 percent, due to the inclusion of Military Equipment as explained below.

- Assets Under Capital Lease - See explanation in Note 10.A.

- Construction-in-Progress (CIP) increased $822,529 thousand or 18 percent. Major components of the increase include: $308,723 thousand transferred from the Tricare Management Activity for hospitals, clinics and other facilities under construction; $157,611 thousand transferred from the Missile Defense Agency for the National Missile Defense Program at Fort Greely and Eareckson Air Station; and $356,195 thousand in U.S. Army Corps of Engineers projects which include the construction and repair of barracks, training facilities, utilities, and vehicle maintenance facilities.

Relevant Information for Comprehension

Military Equipment

In FY 2003, the Army included military equipment with an acquisition value of $381,270,000 thousand and accumulated depreciation of $286,840,000 thousand for a net book value of $94,430,000 thousand.

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 23, Eliminating the Category National Defense Property, Plant, and Equipment, in May 2003. This standard, which is effective for accounting periods beginning after September 30, 2002, establishes generally accepted accounting principles (GAAP) for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in Federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The Department of Defense (DoD) has determined that it is not practicable at this time to accumulate from internal records the information necessary to value military equipment in accordance with GAAP, because the Army and DoD are currently working to revise their accounting processes and systems to support informational needs. In the interim, DoD will base the value of military equipment for financial statement presentation purposes on data provided by the Bureau of Economic Analysis (BEA), Department of Commerce.

The data provided by BEA consist of investment and net book value data for 84 groups of military equipment such as tracked vehicles, aircraft, ships and combat vehicles. BEA uses the Army's budget data for equipment acquisitions and actual quantities of equipment items delivered to calculate the Army's annual investment in equipment, after recognizing any equipment transfers or war losses. DoD adjusted BEA data to eliminate equipment items that are not accounted for as military equipment, such as spares, munitions, and inventory items, which are accounted for and reported as Inventory and Related Property.

Other
The $18,614 thousand for Other represents natural resources (value of timber reserves).

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

Note 10.A. Assets Under Capital Lease

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease:		
A. Land and Buildings	$166,071	$166,069
B. Equipment	0	0
C. Other	0	0
D. Accumulated Amortization	(121,687)	(110,513)
E. Total Capital Leases	$44,384	$55,556

2. Description of Lease Arrangements:

Fluctuations and/or Abnormalities
The Assets under Capital Lease decreased by $8,385 thousand due to straight-line depreciation of leased assets. An additional decrease of $2,787 thousand was due to corrections of previous depreciation schedules.

Relevant Information for Comprehension
The Army is the lessee in eight Section 801 Family Housing Leases for two on-post and six off-post housing facilities. These leases have between four and ten years remaining on their terms. As shown in Note 15.A., the liability is valued at $11,742 thousand for current and $59,397 thousand for non-current. The future executory and imputed interest costs, as shown in Note 15.B., are $18,214 thousand and $18,783 thousand, respectively. Future executory costs 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. The imputed interest that was necessary to reduce the net minimum lease payments to the present value was calculated at the incremental borrowing rate at the inception of the leases.

Note Reference
See Note Disclosure 1. Q. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing leases.

Note 11. Liabilities Not Covered and Covered by Budgetary Resources

As of September 30	2003 Covered by Budgetary Resources	2003 Not Covered by Budgetary Resources	2003 Total	2002 Not Covered by Budgetary Resources
(Amounts in thousands)				
1. Intra-governmental Liabilities:				
A. Accounts Payable	$1,084,965	$0	$1,084,965	$0
B. Debt	0	0	0	157
C. Environmental Liabilities	0	0	0	0
D. Other	1,287,512	382,806	1,670,318	228,745
E. Total Intra-governmental Liabilities	$2,372,477	$382,806	$2,755,283	$228,902
2. Non-Federal Liabilities:				
A. Accounts Payable	$9,089,097	$0	$9,089,097	$0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,761,318	1,761,318	1,624,557
C. Environmental Liabilities	2,891,647	34,503,765	37,395,412	31,145,482
D. Loan Guarantee Liability	1,273	0	1,273	0
E. Other Liabilities	3,820,423	5,566,897	9,387,320	5,165,176
F. Total Non-Federal Liabilities	$15,802,440	$41,831,980	$57,634,420	$37,935,215
3. Total Liabilities:	$18,174,917	$42,214,786	$60,389,703	$38,164,117

4. Other Information:

Liabilities Not Covered and Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budgetary resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: 1) new budget authority, 2) spending authority from offsetting collections (credited to an appropriation or fund account), 3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, 4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and 5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget without further action by Congress or without a contingency first having to be met.

Reporting requirements for this note changed in FY 2003. The FY 2002 Note 11 comparison was total Liabilities Covered and Uncovered by Budgetary Resources. In FY 2003, the comparison is only for Liabilities Not Covered by Budgetary Resources. The Army's published financial statements reported $269,625 thousand in non-delinquent FECA as unfunded in FY 2002. The schedule below shows this amount broken down as $116,126 thousand funded and $153,499 thousand unfunded. The schedule also identifies the Department of the Army's Other Intragovernmental and Non-Federal liabilities. Fluctuation explanations are presented in Note 15.

Intragovernmental Liabilities-Other		Amounts (in thousands)	
		Year-End FY 2003	Year-End FY 2002
Funded	Disbursing Officer Cash	$952,130	$300,378
	Federal Employees' Compensation Act (FECA)	119,974	116,126
	Employer Contributions	81,572	52,758
	Deposit Fund/Suspense Liability	67,914	(1,161)
	Advances from Others	56,969	65,329
	Voluntary Separation Incentive Pay	8,953	1,034
	Unemployment Compensation	0	89,210
	FECA (delinquencies)	0	23,985
Total Funded		$1,287,512	$647,659
Unfunded	FECA	$156,445	$153,499
	Judgment Fund	144,221	75,246
	Unemployment Compensation	78,516	0
	Other Employment-related	3,624	0
Total Unfunded		$382,806	$228,745
Total Intragovernmental Liabilities - Other		$1,670,318	$876,404

Non-Federal Liabilities - Other Liabilities		Amounts (in thousands)	
		Year-End FY 2003	Year-End FY 2002
Funded	Accrued Payroll	$2,310,623	$2,111,116
	Advances	589,621	476,385
	Contract Holdbacks	371,082	617,351
	Employer Contributions	300,170	242,389
	Contingent Liabilities	211,737	303,781
	Capital Leases	26,590	81,939
	Other	10,294	627
	Temporary Early Retirement Authority	306	9,952
	Deposit Fund Liability	0	28
Total Funded		$3,820,423	$3,843,568
Unfunded	Annual Leave	$2,634,641	$2,712,350
	Contingent Liabilities	1,335,090	960,000
	Nonenvironmental - Disposal	1,192,935	1,424,298
	Iraqi Seized Assets	278,139	0
	Cancelled Appropriations	81,543	68,528
	Capital Leases	44,549	0
Total Unfunded		$5,566,897	$5,165,176
Total Non-Federal Liabilities - Other		$9,387,320	$9,008,744

Note Reference

For Additional Line Item discussion, see:

Note 2, Nonentity and Entity Assets
Note 8, Direct Loan and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Debt
Note 14, Environmental Liabilities and Disposal Liabilities
Note 15, Other Liabilities
Note 16, Commitments and Contingencies
Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities
Note 23, Disclosures Related to the Statement of Custodial Activity

Note 12. Accounts Payable

As of September 30	2003 Accounts Payable	2003 Interest, Penalties, and Administrative Fees	2003 Total	2002 Total
(Amounts in thousands)				
1. Intra-governmental Payables:	$1,084,965	N/A	$1,084,965	$774,545
2. Non-Federal Payables (to the Public):	$9,089,097	$0	$9,089,097	$5,967,178
3. Total	$10,174,062	$0	$10,174,062	$6,741,723

4. Other Information:

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-federal Accounts Payable (To the Public) are payables to entities other than the federal government.

Fluctuations and/or Abnormalities

Intragovernmental Accounts Payable

Intragovernmental Accounts Payable with entities other than the Army General Fund increased $310,421 thousand or 40 percent, in FY 2003. Increases were reported by the following activities (amounts in thousands).

Activities/Trading Partner	FY 2003	FY 2002	Change	Percent Change
Army Working Capital Fund (AWCF) - Component level	$365,836	$197,098	$ 168,738	54
U.S. Transportation Command	374,156	244,048	130,108	42
Tricare Management Activity / Defense Health Program	102,481	47,358	55,123	18
Defense Finance Acctg Service (WCF) - Component Level	-23	35,093	-35,116	-11
Defense Information Systems Agency (WCF) - Component Level	54,098	34,365	19,733	6
Defense Information Systems Agency - Component Level	7,659	24,594	-16,935	-5
Other Defense Organizations General Fund - Component Level	16,014	795	15,219	5
Defense Logistics Agency (WCF) - Component Level	103,781	116,282	-12,501	-4
Air Force General Fund - Component Level	19,122	28,109	-8,987	-3
Air Force (WCF) - Depot Maintenance	51	6,164	-6,113	-2
Navy General Fund - Component Level	4,294	9,953	-5,659	-2
Marine Corps General Fund - Component Level	8,021	3,330	4,691	2
US Corps of Engineers - Revolving Funds	5,446	1,065	4,381	1
Department of Defense Education Benefits Fund	0	3,910	-3910	-1
Various Minor	24,028	22,379	1,649	1
Totals	$1,084,964	$774,543	$310,421	100

The majority of the increases are attributable to the AWCF and to activities belonging to the U.S. Transportation Command (USTRANSCOM). The increase in AWCF is the result of additional purchases of parts and materiel in support of Operation Iraqi Freedom. The increase in USTRANCOM is the result of increased reimbursable transportation activity associated with supporting the war efforts for Operation Enduring Freedom and Operation Iraqi Freedom.

Non-Federal Accounts Payable

Non-Federal payables increased $3,121,919 thousand or 52 percent, in FY 2003. The majority of the increase occurred in appropriations that received additional funding to support contingency operations such as Enduring Freedom, Iraqi Freedom, and Noble Eagle. The support included the activation of reserve personnel, the maintenance of warfighting equipment, and the replacement of equipment lost or damaged in active conflict. Other areas of support included warfighting readiness, force protection, antiterrorism base operations, and other security programs.

Relevant Information for Comprehension

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329, Statement of Transactions and DD 1400, Statement of Interfund and Intrafund Transactions. This should agree with the undistributed balances reported on accounting reports.

The Army allocated supported undistributed disbursements to Public Accounts Payable. As a result, Accounts Payable was adjusted downwards in the amount of $1,056,680 thousand. Unsupported undistributed disbursements were taken from the Undistributed Disbursements and Collections Report, HDF 090, and recorded in U.S. Standard General Ledger account 2120, Disbursements in Transit.

Intragovernmental Eliminations

The Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intraagency sales. Therefore, the Army was unable to reconcile intragovernmental accounts payable to the related intragovernmental account receivable that generated the payable.

The DoD summary level seller Accounts Receivables were compared to the Army Accounts Payable. An adjustment was posted to the Army Accounts Payable based on the comparison with the Accounts Receivable of the DoD Components providing goods and services to the Army. Positive differences were treated as unrecognized Accounts Payable and in the case of the Army, there were no adjustments made to Accounts Payable.

The Army intends to develop long-term systems improvements that will include sufficient upfront edits and controls to eliminate the need for after-the-fact reconciliations. However, the volume of intragovernmental transactions is so large that these reconciliations cannot be accomplished with existing or foreseeable resources.

Note Reference

See Note Disclosure 1. G. - Significant Accounting Policies for additional discussion on financial reporting requirements and the DoD policies governing accounting for Intragovernmental Activities.

Note 13. Debt

As of September 30 (Amounts in thousands)	2003 Beginning Balance	2003 Net Borrowings	2003 Ending Balance	2002 Ending Balance
1. Public Debt:				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
2. Agency Debt:				
A. Debt to the Treasury	$0	$0	$0	$0
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	0	0	0	157
D. Total Agency Debt	$0	$0	$0	$157
3. Total Debt:	$0	$0	$0	$157
4. Classification of Debt:				
A. Intra-governmental Debt			$0	$157
B. Non-Federal Debt			N/A	N/A
C. Total Debt			$0	$157

5. Other Information:

Relevant Information for Comprehension
Debt to Other Federal Agencies Department of Defense has been reclassified to Other Unfunded Employment-related Liabilities, reported in Note 15A, Other Liabilities, Line 1K, Other. The FY 2002 balance represents the unfunded interest payable on reimbursements to the DoD Education Benefits Trust Fund for education benefits paid on behalf of separated Army personnel. The DoD Board of Actuaries determined the amount of accumulated interest to be $76 thousand for FY 2003.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30 (Amounts in thousands)	2003 Current Liability	2003 Noncurrent Liability	2003 Total	2002 Total
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	$711,107	$2,984,995	$3,696,102	$4,168,533
2. Active Installations--ER for Closed Ranges	23,129	3,159,579	3,182,708	649,436
3. Formerly Used Defense Sites (FUDS) -- ER	264,972	3,974,412	4,239,384	4,304,856
4. FUDS--ER for Transferred Ranges	128,177	13,496,170	13,624,347	11,220,315
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	65,367	222,490	287,857	281,241
2. Active Installations--Environmental Closure Requirements	9,350	27,724	37,074	44,565
3. Active Installations--Environ.Response at Active Ranges	60,543	203,825	264,368	292,200
4. Other	0	0	0	15,160

As of September 30 (Amounts in thousands)	2003 Current Liability	2003 Noncurrent Liability	2003 Total	2002 Total
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	39,072	479,644	518,716	575,151
2. BRAC Installations--ER for Transferring Ranges	9,593	486,482	496,075	367,517
3. BRAC Installations--Environmental Corrective Action	2,099	45,932	48,031	72,306
4. Other	190,435	0	190,435	269,696
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0	0	0	0
2. Nuclear Powered Submarines	0	0	0	0
3. Other Nuclear Powered Ships	0	0	0	0
4. Other National Defense Weapons Systems	0	0	0	0
5. Chemical Weapons Disposal Program	1,387,803	9,422,512	10,810,315	12,817,304
6. Other	0	0	0	0
2. Total Environmental Liabilities:		$34,503,765	$37,395,412	$35,078,280

3. Other Information Related to Environmental Liabilities:

Relevant Information For Comprehension

Environmental Cost Liabilities

The Defense Environmental Restoration Program (DERP) was established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code (USC) 2701. Related sections in Title 10 of the USC, 2701-2706 and 2810-2811 further define the program. The DERP is implemented in accordance with the Department of Defense (DoD) Directive 4715.1, Environmental Security, February 24, 1996; and DoD Instruction 4715.7, Environmental Restoration Program, April 22, 1996, and the Management Guidance for the Defense Environmental Restoration Program, September 28, 2001. Environmental liabilities for the Department of the Army DERP and the Base Realignment and Closure (BRAC) are prepared in accordance with the Management Guidance for the Defense Environmental Restoration Program and the DoD Financial Management Regulation (FMR) 7000.14.

The assigned estimated total cleanup cost for the current operating period is the amount of the current year appropriation. The assigned total cleanup liability cost includes the current year budget and the total prior year unliquidated obligations.

There is no unrecognized portion of the estimated total cleanup cost associated with general property, plant and equipment and there are no material changes in the total estimated liability due to changes in laws, technology, or plans. The major change in technology affecting the liability estimate was standardizing use of the estimating tools consistently across the Army programs.

The estimates used for environmental liability calculations are estimates of the cost to complete all activities at a site of environmental concern. The cost estimates are calculated at the site level using a validated cost-estimating model or an engineered cost and entered into a database. There were no changes to the total liability cost due to inflation, deflation, or applicable laws and regulations.

Environmental Disposal Cost Liabilities
Army Accrued Environmental Costs (Non-DERP) - The Resource Conservation and Recovery Act (RCRA), as well as host nation requirements, require the Army to take corrective actions to clean up areas where there has been a release related to hazardous material/waste handling and/or storage activities. A release includes any activity that resulted in contamination due to disposal practices, leaks, spills, and other activities that create a risk to public health or the environment. Failure to comply with legal mandates and agreements can put the Army at risk of fines and penalties.

Range Characteristics
For FY 2002 and FY 2003, the Army estimated that its environmental liability at closed, transferred, and transferring ranges was $12,237,268 thousand and $17,303,130 thousand, respectively. The Army is inventorying closed ranges at 443 installations, transferred ranges at 1,701 properties, and transferring ranges at 63 installations.

Closed Ranges
The Army identified $3,182,708 thousand to characterize, investigate and cleanup closed ranges. Until characterization is complete, total environmental liabilities cannot be estimated. Closed ranges have been taken out of service as a range and put to new use (incompatible with range activities), or are not considered by the Military Departments to be a potential range area. A closed range is still under the control of a DoD Component.

Transferring Ranges
Site level investigations reveal that the total environmental liability for these types of ranges is $496,075 thousand. Transferring ranges are proposed for transfer or will be returned from DoD to another entity, including other federal entities.

Transferred Ranges
A total of 1,701 properties have completed range inventories and the estimated liability for those ranges is $13,624,347 thousand. These are properties formerly used as a military range that are no longer under military control and have been leased by DoD, transferred, or returned from the DoD to another entity, including federal entities.

Active Ranges
At this time, the Army is conducting only one active range investigation and characterization, that being for Massachusetts Military Reservation. The cost of characterization and investigation is $264,368 thousand. This amount pays for sampling and analysis, groundwater monitoring, feasibility studies, soil and groundwater cleanup, and unexploded ordnance (UXO) investigation and response. Active ranges include military ranges that are currently in service and are being regularly used, that are still considered by the cognizant Military Service to be a potential range area, and that have not been put to a new use that is incompatible with range activities.

Methodology Used to Estimate Environmental Liabilities
The Army uses annual cost-to-complete estimates as the basis for the environmental liability calculation. A cost-to-complete estimate is prepared for each site in the DERP in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

Accrued Environmental Restoration (DERP Funded) Costs:

For Active Installations the cost-to-complete estimate is collected in the Army Environmental Database - Restoration (AEDB-R). The current liability number is based on the FY 2004 allocation and unliquidated obligations (ULOs). The ULO data are pulled from reports provided by Defense Finance and Accounting Service (DFAS). Non-current liabilities include the cost-to-complete estimates from FY 2005 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Quarterly updates to the current liability numbers are based on changes to the unliquidated obligations reported in DFAS monthly reports.

At Formerly Used Defense Sites (FUDS) properties, the cost-to-complete estimate is collected in the FUDS Management Information System (FUDMIS). The current liability number is also based on FY 2004 allocation and the ULOs. The ULO data are obtained from the Corps of Engineers Financial Management System (CEFMS) for existing FUDS ULOs as of August 30, 2003. Non-current liabilities include the cost-to-complete estimates from FY 2005 through program completion in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Quarterly updates to the current liability numbers are based on changes to the unliquidated obligations recorded in CEFMS.

Active Installations - Environmental Restoration (ER) for Closed Ranges

The liability for ER for closed ranges is a developing requirement based on the results of an Army-wide inventory of all ranges. The inventory for closed ranges is 52 percent complete. The $3,182,708 thousand ER liability estimate for closed ranges is the probable cost and is based on site level data. Estimates for closed ranges that have not been inventoried are disclosed as a possible contingent liability in Note 16 - Commitments and Contingencies.

FUDS - Environmental Restoration for Transferred Ranges

The liability for ER for transferred ranges is also based on results of an inventory of transferred ranges at 1,701 properties. The inventory of transferred ranges is 100 percent complete with site level cost data collected from 1,701 properties.

Other Accrued Environmental Costs (Non-DERP Funds):

Active Installations - Environmental Corrective Action

This reflects the total of active projects in the FY 2002 Environmental Program Requirements (EPR) database which are reported under 1) RCRA Subtitle C with Environmental Category (ECAT) Corrective Actions (CORA), 2) RCRA Subtitle D with ECAT CORA, 3) RCRA Subtitle I with ECAT Underground Storage Tanks and the Superfund/Cleanup with all ECATs (including those for Preliminary Assessments/Site Investigations, Remedial Action (CONUS Cleanup), and Removal Actions (Overseas Cleanup). The current liability total reflects costs recorded in the EPR for FY 2003, while the noncurrent liability total reflects total estimated costs for FY 2004 through FY 2015. The change from amounts reported in September 2002 is due to receipt of an updated EPR report, which reflected funds obligated since the last report, improved cost estimates and site changes (both new sites identified and old ones determined not to require the original estimated cleanup level).

Active Installations - Environmental Closure Requirements

Reflects the total of validated December 2002 (FY 2003) active projects in the EPR database which are reported under 1) the Law/Reg RCRA-C with ECAT Closure Plan (CPLN) and 2) RCRA-D with ECAT CPLN. The Current Liability total reflects costs recorded in the EPR for FY 2003, while the noncurrent liability total reflects total estimated costs for FY 2004 through

FY 2015. The change from amounts reported in September 2002 is due to receipt of an updated EPR report, which reflected funds obligated since the last report, improved cost estimates and site changes (both new sites identified and old ones determined not to require the original estimated costs).

Active installations - Environmental Response at Active Ranges

The estimated total Non-DERP liability for Environmental Response at Active Ranges reflects costs for the Massachusetts Military Reservation, broken out into current and noncurrent liabilities. This amount includes soil and groundwater cleanup and UXO detection and removal. The change from amounts reported in September 2002 is due to receipt of an updated EPR report, which reflected funds obligated since the last report and improved cost estimates.

Base Realignment and Closure (BRAC):

For BRAC installations, the cost-to-complete estimate is collected in the AEDB-R. Because BRAC installations are funded separately using the base closure account, restoration and program management are reported as environmental restoration liabilities; munitions response is reported as Environmental Restoration for Transferring Ranges; and compliance is reported as Environmental Corrective Action. For current liabilities, the number is based on the FY 2004 allocation and reported unliquidated balances as of August 2003. Because prior year BRAC ULOs are not identified by individual program, BRAC ULOs for non-federal liabilities are provided as BRAC-Other. Non-current liabilities include the cost-to-complete estimates from FY 2005 through program completion (collected in AEDB-R) in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14. Quarterly updates to the current liability numbers are based on changes to the ULO obligations reported in DFAS monthly reports.

BRAC - Environmental Restoration for Transferring Ranges: The liability for ER for transferring ranges is based on results of an inventory of transferring ranges at 63 properties. The inventory of transferring ranges is 100 percent complete with site level cost data available for 63 properties.

Environmental Disposal for Weapons Systems Programs:

The Chemical Demilitarization Program is based on the fiscal year 1986 National Defense Authorization Act (PL 99-145, as amended by subsequent acts) that directed the DoD to destroy the unitary chemical stockpile by April 29, 2004. The Army, as Executive Agent within the DoD, provides policy, direction, and oversight for both the Chemical Stockpile Program and the Non-Stockpile Chemical Materiel Project. As such, the Army is responsible for the safe and economical disposal of the U.S. stockpile of lethal and incapacitating chemical warfare agents and munitions. The program objective is to destroy the U.S. Stockpile of unitary chemical agents and munitions in accordance with the public law and the schedules approved by the Defense Acquisition Decision Memorandum dated September 26, 2001, and updated in the April 2003 Acquisition Program Baseline.

Year-to-Year Changes in the Liability Estimate

The estimated total Active Installations - Environmental Restoration (ER) liability is $4,168,533 thousand and $3,696,102 thousand for FY 2002 and FY 2003, respectively. The current estimate is a 11 percent decrease from the liability reported as of September 30, 2002. The major factors contributing to the change are disbursements of current liability unliquidated obligations and the award of several performance based contracts. The estimated total Active Installations - ER liability for Closed Ranges is $649,436 thousand and $3,182,708 thousand for FY 2002 and FY 2003, respectively. The current estimate is an increase of 390 percent from the liability reported as of September 30, 2002. The substantial increase is due to an additional 39 percent of site level data collected through the Army range inventory, now at 52 percent completion.

The estimated total FUDS - Environmental Restoration (ER) liability is $4,304,856 thousand and $4,239,384 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 2 percent decrease from the liability reported as of September 30, 2002, due to disbursements of current unliquidated obligations. The estimated total FUDS - ER for Transferred Ranges is $11,220,315 thousand and $13,624,347 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 21 percent increase from the liability reported as of September 30, 2002. Besides the addition of over 50 new projects, the estimated cost for clearance of total range acreage increased almost 40 percent due to better data quality from newly prepared range characterization reports and changes in the DoD's database definitions for land use restrictions. Faced with 14 million or more acres of ranges that may require response action, no cleanup goals or standards, technology shortfalls, changing interpretations of what constitutes a range, it is expected that cost-to-complete will vacillate during the next several years.

The estimated total Active Installations - Environmental Corrective Action liability is $281,241 thousand and $287,857 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 2 percent increase from the liability reported as of September 30, 2002. The estimated total Active Installations - Environmental Closure liability is $44,565 thousand and $37,074 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 17 percent decrease from the liability reported as of September 30, 2002. The estimated total Active Installations - Environmental Response at Active Range liability is $292,200 thousand and $264,368 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 10 percent decrease from the liability reported as of September 30, 2002. The major factors contributing to the changes are improved cost estimates and revised estimated cleanup levels.

The estimated total BRAC Installations - Environmental Restoration (ER) liability is $575,151 thousand and $518,716 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 10 percent decrease from the liability reported as of September 30, 2002 due to re-characterization of sites. The estimated total BRAC Installations - ER for Transferring Ranges liability is $367,517 thousand and $496,075 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 35 percent increase from the liability reported as of September 30, 2002 due to the addition of new sites with the completion of the range inventory. The estimated total BRAC Installations - Environmental Corrective Action liability is $72,306 thousand and $48,031 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 34 percent decrease from the liability reported as of September 30, 2002. The major factor contributing to the decrease is current estimates that support regulatory closure. The estimated total Other - Unliquidated Obligations liability is $269,696 thousand and $190,435 thousand for FY 2002 and FY 2003 respectively. The current estimate is a 29 percent decrease from the liability reported as of September 30, 2002 due to disbursements of current unliquidated obligations.

The Chemical Weapons Disposal Program total of $10,810,315 thousand for year-end FY 2003 is based on the probable costs for the Program Manager for Elimination of Chemical Weapons (PMECW), the Chemical Stockpile Emergency Preparedness Project, and the Project Manager for the Assembled Chemical Weapons Alternatives (PMACWA). The liability estimate decreased 16 percent from the year-end FY 2002 total of $12,817,304 thousand due primarily to the use of a new Acquisition Program Baseline to formulate the PMECW estimate. As designs mature for the disposal technologies to be used by the PMACWA at Army facilities, future liabilities reported may change materially.

The Low Level Radioactive Waste (LLRW) Disposal Program facilitates the process of identifying, investigating, and remediating sites contaminated by low-level radioactive waste through RCRA corrective actions or Comprehensive Environmental Response, Compensation, and Liability Act response actions. The program classified its liabilities as possible and remote for year-end FY 2003 financial reporting. This information is disclosed in Note 16 - Commitments and Contingencies.

Other Information

Others Category Disclosure Comparative Table (amounts in thousands):

Types	FY 2003	FY 2002
Non-DERP - Other		
LLRW Disposal Program	$0	$15,160
Total	**$0**	**$15,160**
BRAC - Other		
Prior Year BRAC ULOs That Cannot Be Identified To A Specific Program	$190,435	$269,417
LLRW Disposal Program	0	279
Total	**$190,435**	**$269,696**

Note 15.A. Other Liabilities

As of September 30 (Amounts in thousands)	**2003** Current Liability	Noncurrent Liability	Total	**2002** Total
1. Intra-governmental:				
A. Advances from Others	$56,968	$0	$56,968	$65,329
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	67,914	0	67,914	(1,161)
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	952,130	0	952,130	300,378
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H . Judgement Fund Liabilities	0	144,222	144,222	75,246
I. FECA Reimbursement to the Department of Labor	119,974	156,445	276,419	269,624
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	172,665	0	172,665	166,987
L. Total Intra-governmental Other Liabilities	$1,369,651	$300,667	$1,670,318	$876,403

As of September 30 (Amounts in thousands)	2003 Current Liability	2003 Noncurrent Liability	2003 Total	2002 Total
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	$2,310,623	$0	$2,310,623	$2,111,116
B. Advances from Others	589,621	0	589,621	476,385
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	28
G. Temporary Early Retirement Authority	306	0	306	9,952
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	1,192,935	1,192,935	1,424,298
(4) Other	0	0	0	627
I. Accounts Payable--Cancelled Appropriations	0	81,543	81,543	68,528
J. Accrued Unfunded Annual Leave	2,634,641	0	2,634,641	2,712,350
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	11,742	59,397	71,139	81,939
M. Other Liabilities	1,171,422	1,335,090	2,506,512	2,123,521
N. Total Non-Federal Other Liabilities	$6,718,355	$2,668,965	$9,387,320	$9,008,744
3. Total Other Liabilities:	$8,088,006	$2,969,632	$11,057,638	$9,885,147

4. Other Information Pertaining to Other Liabilities:

Intragovernmental Liabilities

- Total Intragovernmental Other Liabilities increased $793,914 thousand or 91 percent, from FY 2002. The majority of the increase is attributable to Disbursing Officer Cash and Judgment Fund Liabilities.
- Advances from Others decreased $8,361 thousand or 13 percent, from FY 2002. The majority of the decrease is attributable to the Drug Enforcement Training Program that purchases equipment and instruction for state and local law enforcement officials. A large dollar amount was obligated on these contracts in FY 2003 and the majority was executed.
- The balance reported for Deposit Funds and Suspense Account liabilities increased by $69,075 thousand or 5,950 percent from FY 2002. The majority is attributable to increases in the Savings Deposit Program and the Servicemen's Group Life Insurance Funds suspense accounts.
- Disbursing Officer Cash increased $651,752 thousand or 217 percent, primarily in support of contingency missions Operation Iraqi Freedom and Operation Enduring Freedom.
- Judgment Fund Liabilities increased $68,976 thousand or 92 percent, based on a litigation settlement.

Non-Federal Liabilities

- Accrued Funded Payroll and Benefits increased $199,507 thousand or 9 percent. This increase is primarily due to the increase in the liability for military payroll.

- Advances from Others increased $113,236 thousand or 24 percent, primarily due to military construction for the district of Korea. The advances were received by the Corps of Engineer Pacific Ocean Division, and are for various construction projects.

- Temporary Early Retirement Authority (TERA) decreased $9,646 thousand or 97 percent. This program is being phased out and will decrease each year.

- Nonenvironmental Disposal Liabilities, Conventional Munitions Disposal decreased $231,363 thousand or 16 percent, from the year-end 2002 liability of $1,424,298 thousand. This decrease is due to a stockpile reduction of $69,455 thousand and a $161,908 thousand decrease as a result of a new weighted average cost per ton, taken from updated execution costs.

- Accounts Payable Cancelled Appropriation increased $13,015 thousand or 19 percent, primarily due to closed unliquidated obligations exceeding closed payable disbursement during the year.

- Accrued Unfunded Annual Leave decreased $77,709 thousand or 3 percent. The liability for civilian leave decreased $260,996 thousand as the liability for military leave increased $183,287 thousand.

- Capital Lease Liability decreased $10,800 thousand or 13 percent, as a result of annual amortizations and adjustments made to lease payment schedules to reconcile to actual lease documents. See Note 15B for additional disclosures.

Other (Non-Federal) Liabilities:

- Other Liabilities increased $382,991 thousand or 19 percent, primarily due to reporting of $283,046 thousand of total Contingent Liabilities, $278,139 thousand custodial liability for Seized Iraqi Cash, $57,781 thousand of Employer Contributions, and $10,294 thousand for Other Liabilities. The total Contingent Liabilities increase is due to capturing and reporting information for the first time from the U.S. Army Legal Services Agency's Environmental Law Division and Contract Appeals Division. Contract Holdbacks decreased $246,269 thousand from a change implemented at DFAS-Columbus to compute Contract Holdbacks for MOCAS.

Note 15.B. Capital Lease Liability

As of September 30 (Amounts in thousands)	2003 Land and Buildings	Asset Category Equipment	Other	Total	2002 Total
1. Future Payments Due:					
A. 2004	$20,785	$0	$0	$20,785	$20,785
B. 2005	20,785	0	0	20,785	20,785
C. 2006	20,785	0	0	20,785	20,785
D. 2007	18,009	0	0	18,009	20,785
E. 2008	8,529	0	0	8,529	18,009
F. After 5 Years	19,243	0	0	19,243	27,743
G. Total Future Lease Payments Due	$108,136	$0	$0	$108,136	$128,892
H. Less: Imputed Interest Executory Costs	36,997	0	0	36,997	46,953
I. Net Capital Lease Liability	$71,139	$0	$0	$71,139	$81,939
2. Capital Lease Liabilities Covered by Budgetary Resources:				$26,590	$10,800
3. Capital Lease Liabilities Not Covered by Budgetary Resources:				$44,549	$71,139

4. Other Information:

The Army is the lessee in eight capital leases for military family housing.

- **Capital Lease Liabilities Covered by Budgetary Resources**
  The two leases that originated after FY 1992 are required to be fully funded in the year of their inception. Therefore, the present value of those lease payments of $26,590 thousand is shown as Covered by Budgetary Resources. An analysis of the capital leases in FY 2003, revealed the distinction in these leases between covered and uncovered liabilities. In FY 2002, the covered amount of $10,800 thousand was reported as the total current amount of the liability. The correct amount of covered liabilities in FY 2002 was $26,836 thousand.

- **Capital Lease Liabilities Not Covered by Budgetary Resources**
  The remaining six leases, that originated before FY 1992, are funded on a fiscal year basis causing the noncurrent amounts of $44,549 thousand to be shown as Not Covered by Budgetary Resources. The correct amount in FY 2002 was $55,103 thousand.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Relevant Information for Comprehension

Nature of Contingency
The Army General Fund has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army's financial statements.

As of September 30, 2003, the Army General Fund has approximately $10,259,324 thousand in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table:

Estimate of the Possible Liability

Title of Contingent Liabilities	Estimate (in thousands)
Non-Stockpile Chemical Materiel Demilitarization	$8,970,000
Environmental Restoration -Formerly Used Defense Sites & Active Installations	856,831
U.S. Army Litigation Division	222,344
Army Environmental Law Division	107,000
Army Contract Appeals Division	46,000
Low-Level Radioactive Waste Disposal	36,048
Administrative Tort Claims (Judgment Fund)	10,000
European Environmental Claims (Army Fund)	10,000
Network Enterprise Technology Command	908
Personnel Claims	193
Total	**$10,259,324**

Note Reference
See Note Disclosure 1. S. - Significant Accounting Policies for additional discussion on financial reporting requirements and Department of Defense policies governing Contingencies and Other Liabilities.

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

(Amounts in thousands)	2003 Actuarial Present Value of Projected Plan Benefits	2003 Assumed Interest Rate (%)	2003 (Less: Assets Available to Pay Benefits)	2003 Unfunded Actuarial Liability	2002 Unfunded Actuarial Liability
1. Pension and Health Benefits:					
A. Military Retirement Pensions	$0		$0	$0	$0
B. Military Retirement Health Benefits	0		0	0	0
C. Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Benefits	$0		$0	$0	$0
2. Other:					
A. FECA	$1,761,318	3.84%	$0	$1,761,318	$1,624,557
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D.	0		0	0	0
E. Total Other	$1,761,318		$0	$1,761,318	$1,624,557
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$1,761,318		$0	$1,761,318	$1,624,557

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

Actuarial Cost Method Used: See below

Assumptions:See below

Market Value of Investments in Market-based and Marketable Securities: Not applicable

Military Retirement Pensions:

The portion of the military retirement benefits actuarial liability applicable to the Department of the Army is reported on the financial statements of the Military Retirement Fund.

Military Retirement Health Benefits:

Health benefits are funded centrally at the DoD level. As such, the portion of health benefits actuarial liability that is applicable to the Army is reported on the DoD Agency-wide financial statements.

Medicare-Eligible Retiree Benefits:

(Not reported by Military Retirement Systems)

Federal Employees' Compensation Act (FECA):

Actuarial Cost Method Used: The Army's actuarial liability for Workers' Compensation benefits is developed by the Department of Labor and provided to the Army each fiscal year end. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments.

Assumptions: The projected annual benefit payments are then discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year US Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits.

Note 18. Unexpended Appropriations

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Unexpended Appropriations:		
A. Unobligated, Available	$6,386,617	$4,551,201
B. Unobligated, Unavailable	1,240,179	1,069,634
C. Unexpended Obligations	40,047,918	25,847,886
D. Total Unexpended Appropriations	$47,674,714	$31,468,721

2. Other Information Pertaining to Unexpended Appropriations:

Definitions:
Unexpended appropriations - Budget authority remaining for disbursement against current or future obligations.

Unobligated balances - Fund balances classified as available or unavailable but not obligated. Unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed.

Unexpended obligations - Goods and services that have been ordered but not yet received/performed.

Fluctuations and/or Abnormalities:
The significant increase of $16,205,993 thousand or 51 percent, in the unexpended appropriation represents the overall increase in the FY 2003 Army budget. Detailed explanations for the increases are disclosed in Note 21A for the Statement of Budgetary Resources.

Relevant Information for Comprehension:
Unexpended Obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only by Direct Appropriated funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Provided on the Statement of Financing, which includes the change during the fiscal year in Unexpended Obligations against budget authority from the Army.

Note Reference
See Note 21, Statement of Budgetary Resources for additional line item information.

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

Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity. The amounts presented in the Statement of Net Cost (SoNC) are based on funding, obligation, accrual and disbursing transactions, which are not always recorded using accrual accounting. Army systems do not always record the transactions on an accrual basis as is required by the generally accepted accounting principles. The information presented also includes data from non-financial feeder systems to capture all cost and financing sources for the Army.

Program Costs:

The Total Net Costs increased by $27,416,029 thousand or 34 percent, in FY 2003. The net increase in Intragovernmental Net Costs of $10,070,838 thousand or 75 percent, and the increase in Net Costs With the Public of $17,345,190 thousand or 26 percent is due to increased FY 2003 funding. Further explanation on the increased funding is disclosed on Note 21A.

Earned Revenues:

Intragovernmental Earned Revenue increased $987,815 thousand. The increase reflects the addition of two new funded reimbursable programs. One program reimburses the Department of the Army for salaries paid to doctors assigned to those medical facilities treating retirees. Intragovernmental revenue from this program increased $252,267 thousand. The other program reimburses the Army for providing security to the Department of the Air Force, by placing soldiers as guards at Air Force facilities. Intragovernmental revenue from this program increased $566,136 thousand.

Earned Revenue from the Public increased $134,431 thousand. The FY 2002 amount was understated by $208,837 thousand, so the balance actually declined $69,406 thousand. Amounts reported in FY 2002 included public contra revenue which should have been classified as federal. Federal revenues for special receipt accounts require a contra account be recorded so the receipt account does not report a fund balance.

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

Not Applicable

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

Not Applicable

Note 19.D. Imputed Expenses

As of September 30	2003	2002
(Amounts in thousands)		
1. Civilian (e.g.,CSRS/FERS) Retirement	$339,888	$261,042
2. Civilian Health	403,346	330,812
3. Civilian Life Insurance	1,480	1,425
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	73,768	94,980
7. Total Imputed Expenses	$818,482	$688,259

8. Other Information

Total Imputed Expenses increased $130,223 thousand or 19 percent, from FY 2002. The majority included an increase in Civilian Retirement System/Federal Employees Retirement System (CSRS/FERS) of $78,846 thousand or 30 percent, and Civilian Health of $72,534 thousand or 22 percent. The Judgment Fund decreased $21,212 thousand or 22 percent. The increase in CSRS/FERS is due to the initial reporting of FERS imputed financing. The increase in Civilian Health is attributable to the use of a higher cost factor by the Office of Personnel Management. The decrease in Judgment Fund is attributable to reduced Judgment Fund claims reported by the Department of Treasury.

Note Reference

See Note 20.

Note 19.E. Benefit Program Expenses

Not applicable

Note 19. F. Exchange Revenue

Disclosures Related to the Exchange Revenue:

Exchange Revenue - arises when a government entity provides goods and services to the public or to another Government entity for a price, "earned revenue." Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges. The Army recognizes earned revenue for full recovery of costs incurred, to provide goods and services to other entities.

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

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

Not Applicable

Note 19.H. Stewardship Assets

Disclosures Related to Stewardship Assets:

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, Investments in Research and Development, and Military Equipment Deferred Maintenance. The current year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost. Yearly investment amounts related to stewardship assets are provided in the Required Supplemental Stewardship Information section of this financial statement.

Note 19.I. Intra-governmental Revenue and Expense

Disclosures Related to Intra-governmental Revenue and Expense:

Intragovernmental Revenue. The Army's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Army was unable to reconcile intragovernmental revenue balances with its trading partners. The Army 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 future resources.

The Army's operating expenses were adjusted based on a comparison between the Army accounts payable and the DoD summary level seller accounts receivables. An adjustment was posted to accounts payable and operating expenses to reflect unrecognized accounts payable and operating expenses. The operating expenses of the Army were adjusted downwards in the amount of $150,324 thousand.

Note 19.J. Suborganization Program Costs

Not applicable

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

As of September 30	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	Cumulative Results of Operations 2002	Unexpended Appropriations 2002
(Amounts in thousands)				
1. Prior Period Adjustments Increases (Decreases) to Net Position				
Beginning Balance:				
A. Changes in Accounting Standards	$97,897,585	$0	$0	$0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	(7,114,213)	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	$97,897,585	$0	($7,114,213)	$0

As of September 30	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	Cumulative Results of Operations 2002	Unexpended Appropriations 2002
(Amounts in thousands)				
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$339,888	$0	$261,042	$0
B. Civilian Health	403,346	0	330,812	0
C. Civilian Life Insurance	1,480	0	1,425	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	73,768	0	94,980	0
G. Total Imputed Financing	$818,482	$0	$688,259	$0

3. Other Information:

Prior Period Adjustments

Changes in Accounting Standards

Effective October 1, 2002, the Statement of Federal Financial Accounting Standards (SFFASs) No. 23, Eliminating the Category National Defense Property, Plant and Equipment (NDPP&E) revised the accounting principles for reporting Military Equipment (previously referred to as NDPP&E). The standard renames NDPP&E to Military Equipment, classifies Military Equipment as General Property, Plant, and Equipment (PP&E), and requires the capitalization and depreciation of the cost of Military Equipment, including the cost of modifications and upgrades.

Army recorded a prior period adjustment for FY 2003 of $97,897,585 thousand. The total increase is attributable to Army Procurement Changes in Accounting Standards as follows:

- Implementation of the SFFAS No 23 required an adjustment of General PP&E to recognize the investment, accumulated depreciation, and net book value of Military Equipment previously expensed. The prior period adjustment for $91,150,000 thousand was based on data provided by the Bureau of Economic Analysis, Department of Commerce.

- In FY 2002, the DoD, Inspector General directed that a prior period adjustment be made to remove the $6,747,585 thousand from Operating Materials and Supplies (OM&S) on the FY 2002 balance sheet. The adjustment removed all retail and wholesale guided missiles previously included as OM&S and classify as Military Equipment.

Errors and Omissions in Prior Year Accounting Reports

There were no Errors and Omissions in Prior Year Accounting Reports reported in FY 2003. The FY 2002 balance of $7,114,213 thousand was to remove all retail and wholesale guided missiles previously included in OM&S on the FY 2001 balance sheet.

Imputed Financing

Imputed Financing from Costs Absorbed by Others (Line 5.C.) increased by $130,223 thousand or 19 percent. The majority of the change is attributed to increases in

Civil Service Retirement System/Federal Employees Retirement System (CSRS/FERS) of $78,846 thousand or 30 percent, Civilian Health of $72,534 thousand or 22 percent, and a decrease in Judgment Fund of $21,211 thousand or 22 percent. The increase in CSRS/FERS is due to the initial reporting of FERS imputed financing. The increase in Civilian Health is attributable to the use of a higher cost factor by the Office of Personnel Management. The decrease in Judgment Fund is attributable to reduced Judgment Fund claims reported by the Department of Treasury.

Other Disclosures:

Cumulative Results of Operations
Appropriations Used (Line 4.D.) increased by $24,350,991 thousand or 30 percent, due to the $36,628,254 thousand increase in appropriations received.

Non-Exchange Revenue (Line 4.E.) and Other (Line 5.D.) decreased by $205,452 thousand or 99 percent, and increased from $0 to $115,102 thousand, respectively, due to a change in reporting of revenue for Deposit and Receipt accounts. In FY 2002, the revenue was reported on Line 4.E.

Donations and forfeitures of cash and cash equivalents (Line 4.F.) increased from $0 to $15,003 thousand. In FY 2002, donated revenue was erroneously omitted from this line. The increase is due to improved business processes in which donated revenue is properly captured.

Transfers-in/out without Reimbursement (Line 4.G.) increased from $0 to $479,218 thousand for a transfer-in of Unexpended Appropriations from the Natural Resources Risk Remediation Fund (NRRRF). These funds originated with a nonexpenditure transfer from Defense Cooperation Account to NRRRF.

Other Budgetary Financing Sources (Line 4.H.) decreased by $4,380,164 thousand or 589 percent. This is attributed to the use of Other Losses as the offset to internally balance reports and adjustments.

Transfers in/out without reimbursement (Line 5.B.) of ($321,356) thousand is comprised of ($918,816) thousand in inventory transferred to Army Working Capital Fund; $467,534 thousand in construction in progress transferred from the Missile Defense Agency; $10,228 thousand in property, plant, and equipment transferred from Army Working Capital Fund; and $11,224 thousand and $108,474 thousand in equipment transferred from Special Operations Command and Air Force, respectively.

Other (Line 5.D.) increased from $0 to $115,102 thousand. The total increase was due to mapping changes in FY 2003 to various receipt accounts. These were input to update the Statement of Financing's Other line.

Unexpended Appropriations
Increases in Appropriations received (Line 4.A), Appropriations transferred-in/out (Line 4.B.), Other adjustments (Line 4.C.), and Appropriations used (Line 4.D.) relate directly to the increase in the overall Army appropriations. Refer to Note 21.A. for an explanation on the additional funding.

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

As of September (Amounts in thousands)	2003	2002
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$44,008,029	$31,241,578
2. Available Borrowing and Contract Authority at the End of the Period	0	0

3. Other Information:

Fluctuations and/or Abnormalities:

Statement of Budgetary Resources
Overall 2003 funding increased $36,628,254 thousand or 45 percent; the major fluctuations are discussed below:

Military Pay appropriations increased $13,405,184 thousand primarily in support of Operations Enduring Freedom, Iraqi Freedom and Noble Eagle. The Army mobilized 169,954 Reserve and Army National Guard soldiers. The increase supports the incremental costs of Reserve forces on active duty in a war zone versus peacetime training. Additionally, the military pay appropriations received a 4.1 percent pay increase for all soldiers and a pay raise of up to 2.6 percent for selected military pay grades. The total Military Pay funding supports 480,000 Active Component, 350,000 Army National Guard, and 205,000 Army Reserve and provides better pay and incentives.

Operation and Maintenance, Army appropriations increased $19,550,772 thousand. The additional funding was directed for Operations Enduring Freedom, Iraqi Freedom, Noble Eagle, and Army Transformation, which ensures warfighting readiness and force protection. The increase funded approximately 1/3 of antiterrorism base operations and force protection needs. Additionally, the budget increased to fund training and recruiting, administrative and service wide activities, and land forces readiness. Security programs increased significantly because of the need for more security equipment.

Procurement appropriations increased $2,725,535 thousand. Funding was provided to procure Black Hawk helicopters and make modifications to several other helicopter systems (Apache, Longbow, etc.). The increase included $117,200 thousand provided for the Patriot Missile modifications and other missiles (e.g. Multiple Launch Rocket System). Ammunition budget increases were in small arms, tank, artillery, mines/countermine, and other ammunition. Other critical combat service support programs were increased significantly.

Research, Development, Test, and Evaluation appropriation increased by $525,682 thousand. The funding included research for developing future combat systems. This supports an accelerated Science and Technology program to upgrade weapon system technology and other system upgrades. The additional funding was provided to support development of the family of Interim Armored Vehicles, upgrade of UH-60 Black Hawk helicopter, and the Global Combat Support System - Army. Furthermore, the funding supported continued development of the Comanche, Crusader, and Brilliant Anti-Armor Submunition.

The Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period and specific line variances on the Statement of Budgetary Resources between FY 2002 and FY 2003 are mainly due to the 45 percent increase in funding. Line 9b, Exempt from Apportionment, increased by $25,665 thousand due to a change in processes where trust funds and receipt accounts are reallocated from Allotments - Realized Resources to Unobligated Funds not Subject to Apportionment.

Accounting Standard U.S. Standard General Ledger
The Army has not fully implemented the U.S. Government Standard General Ledger in all operational accounting systems. Guidance from the Treasury Financial Manual, Part 2, Chapter 4000, Federal Agencies' Centralized Trial Balance System II (FACTS II) is used in population of the Army's Statement of Budgetary Resources.

The Army's accounting systems do not provide or capture data needed for obligations incurred and recoveries of prior year obligations in accordance with Office of Management and Budget (OMB) Circular A-11, " Preparation, Submission, and Execution of the Budget" requirements. Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined, and may or may not be material.

Beginning Balance Adjustments
The Army's beginning balances for Undelivered Orders -Unpaid and Accounts Payable were adjusted between reimbursable and direct because accounting transactions, such as contract accruals and undistributed disbursements, do not include direct or reimbursable codes. FACTS II applies the direct and reimbursable distribution based on an allocation rate, therefore, beginning balance adjustments were performed to keep the Statement of Budgetary Resources and the Report of Execution (SF 133) in agreement. In addition, beginning balances brought forward in the financial statement reporting system were adjusted to match FACTS II beginning balances. Elimination and data call entries booked in FY 2002 but not posted in FACTS II caused the discrepancy. In FY 2004, an alternative method will be implemented to handle the direct and reimbursable allocation, the prior year elimination entries, and data call entries.

Ending Balance Adjustments
The ending balances for Undelivered Orders - Unpaid and Accounts Payable reported in the Statement of Budgetary Resources varied from the FACTS II submission because of the elimination process and the data call information reported for Voluntary Early Retirement Act/Voluntary Separation Incentive Pay (VERA/VSIP), Worker's Compensation, and Capital Leases. Adjustments made to Undelivered Orders - Unpaid and Accounts Payable totaled $227,813 thousand. This represents $6,739 thousand for Worker's Compensation, $84,152 thousand for VERA/VSIP, and $136,922 thousand for Capital Leases. In addition, the ending balances for Undelivered Orders - Paid and Expended Authority reported in the Statement of Budgetary Resources were changed by $150,323 thousand for the elimination process and $3,163,668 thousand for Outstanding Contract Financing Payment not recorded in FACTS II. The elimination process directs seller-side rule forcing the Army to modify their accounting records to agree with the seller's records. The adjustments do not affect bottom-line totals.

Other Information Related to the Statement of Budgetary Resources:

Intra-entity Transactions
The Statement of Budgetary Resources does not include eliminating entries and therefore a Disaggregated Statement of Budgetary Resources is included in the Required Supplementary Information section of the financial statements.

Apportionment Categories
OMB Bulletin No. 01-09 section 9.27 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B and Exempt from Apportionment. Obligation incurred consists of $124,340,443 thousand in Category A, Direct; $3,671,940 thousand in Category B, Direct; and $18,430,419 thousand in Category A, Reimbursable. This disclosure should agree with the aggregate of the related information as reported on the agency's Budgetary Execution Report (SF 133) and Lines 8A and 8B on the Statement of Budgetary Resources. Due to differences in handling delivered orders,

both direct and reimbursable, between FY 2002 and FY 2003, Lines 8A and 8B on the Statement of Budgetary Resources disagrees with the SF 133 by $2,648 thousand. The issue is being researched and will be corrected for FY 2004.

Lines 9A and 9B on the Statement of Budgetary Resources disagree with the SF 133 for $25,665 thousand due to FACTS II incorrectly reporting the status of funds for Basic Symbols 8063 (Trust Fund for Walter Reed Army Medical Center), 8927 (Trust Fund for Army General Fund Gift Funds), 5095 (Wildlife Conservation), 5098 (Restoration of Rocky Mountain Arsenal), 5286 (National Science Center), and 1096 (Iraqi Relief and Restoration Fund) in Allotments - Realized Resources rather than Unobligated Funds not Subject to Apportionment.

Lines 12, 14, and 15 on the Statement of Budgetary Resources disagrees with the SF 133 for $27 thousand, $22 thousand, and $5 thousand respectively due to FACTS II correctly excluding the Corp of Engineers allocation.

Separate Column for Non-budgetary Credit Program Financing Accounts

A Non-budgetary Credit Program Finance Account column allows for a clear distinction between budgetary and non-budgetary credit program financing. Non-budgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the United States Government. Separate reporting on the Statement of Budgetary Resources enhances reconciliation of the two sets of information.

Offsetting Receipts Line

Receipts are collections that are credited to the general, special, or trust fund receipt accounts. In addition, they represent offsetting receipts distributed to the Army. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the United States Government.

Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available are not included in the Spending Authority From Offsetting Collections on the Statement of Budgetary Resources or the Spending Authority for Offsetting Collections and Recoveries on the Statement of Financing.

Undelivered Orders

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds.

Deobligations

Systemic processes record deobligations in expired accounts separately from the obligation. Army funds management policy requires quarterly joint reviews of obligations by program managers and accounting sites. Goals and metrics reported by each Command tracks efforts to liquidate or deobligate expired obligations by fiscal year. This goal allows Army to maintain minimal closed payables when an appropriation closes. Analysis of single-year expired accounts identified net obligations for expired accounts of $1 billion versus the amount reported on the Statement of Budgetary Resources Line 4, Recoveries of Prior Year Obligations, of $6 billion for the same appropriations. The remaining $2 billion of the $8 billion on Line 4 is attributed to multi-year appropriation deobligations.

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

As of September 30 (Amounts in thousands)	Sep-01	Sep-02	Sep-03	(Decrease)/Increase from 2002 to 2003
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	$228,878	$160,726	$259,857	$99,131
B. Negative Unliquidated Obligations	34,245	20,985	26,251	5,266
2. Total In-transit Disbursements, Net	$910,960	$710,194	$1,086,574	$376,380

3. Other Information Related to Problem Disbursements and In-transit Disbursement

Definitions:
Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.

Unmatched Disbursements (UMDs) occur when payments do not match to a corresponding obligation in the accounting system.

Negative Unliquidated Obligations (NULOs) occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

In-Transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet attempted to be posted in an accounting system.

Aged UMDs and NULOs:
The Army absolute value UMDs, NULOs, and $892 thousand in aged in-transit disbursements (of the total in-transit disbursements of $1,086,574 thousand) represent disbursements of Army funds reported by a disbursing station to the Department of the Treasury but have not been matched against the source obligation for the disbursement. These payments have been made using available funds based on receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the Army's various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. Negative in-transits indicate collections rather than disbursements. UMDs and NULOs are considered aged immediately, while in-transits are considered normal business activity up to a certain aging category when they become perceived as problem disbursements.

The Problem Disbursement Reduction Goal is stated in absolute value UMDs, NULOs, and aged net in-transits. Therefore, the UMDs are shown in absolute value for comparison to the official Reduction Goal. In prior years, net UMDs and NULOs were reported together on the Line 1 of Note 21B, Problem Disbursements. To facilitate comparability with prior years and comprehension of the net dollar amounts, the net UMDs and NULOs are shown in the table on the next page (in thousands).

Problem Disbursement Type	Sept 2001	Sept 2002	Sept 2003
Net UMDs	$111,738	$133,251	$134,438
NULOs	34,245	20,985	26,251
Total Net Problem Disbursements	**$145,983**	**$154,236**	**$160,689**

4. Suspense/Budget Clearing Accounts,Net

Account	Sept 2001	Sept 2002	Sept 2003	(Decrease)/Increase
F3875	$0	$0	$0	$0
F3880	1,994	0	0	0
F3882	0	(739)	(908)	(169)
F3885	0	0	0	0
F3886	5,162	5,690	200	(5,490)
Total	$7,156	$4,951	($708)	($5,659)

5. Other Information Related to Suspense/Budget Clearing Accounts:
Fluctuations and/or Abnormalities:

The Army has made a concerted effort to reduce balances in the suspense and budget/clearing accounts related to disbursements. Additionally, the Army established policies and procedures to ensure accurate and consistent use of these accounts. Suspense reconciliations have been reported as a material weakness since 1997. The Army is currently implementing Public Law 107-314 which includes provisions for the write-off of unsupported balances and improvements in tracking and reporting Army suspense balances.

On September 30 of each fiscal year, most of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts. In the following month, the uncleared suspense/clearing account balances are reestablished. The Army transferred the following accounts to their Operation and Maintenance account (21 2020) for FY 2003 (in thousands):

Accounts	FY 2003	FY 2002
21 F3875 Budget Clearing Accounts	$82,292	$56,091
21 F3880 Check Cancellations	2,913	4,376
21 F3885 Intergovernmental Payment and Collection	370,885	16,494

In addition, Budget Clearing Accounts such as the Uniformed Service Thrift Savings Plan (F3882) and Federal Employees Retirement System (F3886) remain open at fiscal year end.

Negative amounts shown above do not indicate abnormal balances, but a preponderance of disbursements over collections.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

The Statement of Financing was expanded to further articulate and detail the relationship between net obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

Budgetary data is not in agreement with proprietary expenses and assets capitalized. A $89,671 thousand adjustment was made to Gross Cost with the Public on the Statement of Net Cost to bring it into agreement with the Statement of Financing. Differences between budgetary and proprietary data for the Army are a previously identified deficiency.

Intra-entity transactions have not been eliminated; therefore, the statements are presented as combined and combining.

Fluctuations and/or Abnormalities:

Obligations incurred (Line 1), Spending authority from offsetting collections and recoveries (Line 2), Undelivered orders (Line 12.A.) and Unfilled customer orders (Line 12.B.) relate directly to the $36,628,254 thousand increase in Army appropriations. This increase in direct appropriations generates an increase in reimbursable activity and in all other stages of budget execution as the new funds are obligated and executed. Refer to Note 21A for a complete description of the additional funding.

Offsetting receipts (Line 4) is comprised of $61,035 thousand in General Fund Proprietary Receipts, $11,392 thousand in Recoveries Under the Foreign Military Sales Program, $10,643 thousand in Recoveries of Government Property, $8,165 thousand in Sales of Hunting and Fishing Permits, $2,671 thousand in Forest and Wildlife Conservation, $1,658 thousand in Rocky Mountain Arsenal Restoration, and $7 thousand in Fees Collected for Use of National Science Center.

Transfers in/out without reimbursement (Line 7) is comprised of ($918,816) thousand in inventory transferred to Army Working Capital Fund; $467,534 thousand in construction in progress transferred from the Missile Defense Agency; $10,228 thousand in property, plant, and equipment transferred from Army Working Capital Fund; and $11,224 thousand and $108,474 thousand in equipment transferred from Special Operations Command and Air Force, respectively.

Other (Line 9) and Budgetary offsetting collections and receipts that do not affect net cost of operations (Line 14) increased from $0 to $115,102 thousand and $15,085 thousand, respectively, due to incorrect reporting in FY 2002 that was corrected in FY 2003.

Imputed financing from costs absorbed by others has increased by $130,223 or 19 percent. Refer to Note 20 for further explanation.

Resources that fund expenses recognized in prior periods (Line 13), Increase in annual leave liability (Line 19), Increase in environmental and disposal liability (Line 20), and Other (Line 23) represent the change in unfunded liabilities reported as covered and not covered by budgetary resources in Note 11. Explanation on the increase in environmental and disposal liability is provided in Note 14. Balances reported on Lines 13 and 23 have been moved to Lines 19 and 20.

Resources that finance the acquisition of assets (Line 15) increased by $25,062,604 thousand and Depreciation and amortization (Line 25) increased by $20,767,141 thousand due to the inclusion of Military Equipment in general plant, property, and equipment. Further explanation is provided in Note 10.

Revaluation of assets or liabilities (Line 26) represents excess, obsolete, and unserviceable inventory removed from the financial statements in accordance with guidance issued on August 12, 2002. The $1,793,293 thousand value in FY 2002 represents excess, obsolete, and unserviceable inventory from multiple years. The $10,681 thousand from FY 2003 represents the current year's excess, obsolete, and unserviceable inventory.

Other (Line 27) decreased by $429,510 thousand due to the FY 2002 business practice of adjusting Line 27 to bring budgetary data into agreement with proprietary expenses and assets capitalized. FY 2003 business practices adjust the Gross Cost with the Public to account for this deficiency.

Note 23. Disclosures Related to the Statement of Custodial Activity

Disclosures Related to the Statement of Custodial Activity:

During Operation Iraqi Freedom, the U.S. Government seized assets from the Iraqi Government that will be used in support of the Iraqi people. As of September 30, 2003, the Statement of Custodial Activity depicts $278,139 thousand of monetary seized assets that remain to be disbursed in support of the Iraqi people.

Source of Collections	
Seized Iraqi Cash	$808,866
Disposition of Collections	
Iraqi Salaries	$30,190
Repair/Reconstruction/Humanitarian Assistance	$170,635
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	$254,590
Fuel/Supplies	$75,312
Total Disbursed on behalf of the Iraqi People	$530,727
Retained for Future Support of the Iraqi People	$278,139
Total Disposition of Collections	$808,866
Net Custodial Collection Activity	**$0**

Fluctuations and/or Abnormalities:

Iraqi Seized Assets were first reported in FY 2003 attributing to the Statement of Custodial Activity's variances between FY 2002 and FY 2003.

Note 24.A. Other Disclosures

1. ENTITY AS LESSEE-Operating Leases
As of September 30
(Amounts in thousands)

B. Future Payments Due:		2003			2002
Fiscal Year	Land and Buildings	Equipment	Other	Total	Total
2004	$7,917	$0	$0	$7,917	$8,917
2005	6,790	0	0	6,790	7,610
2006	6,303	0	0	6,303	6,613
2007	6,298	0	0	6,298	6,303
2008	4,950	0	0	4,950	6,298
After 5 Years	21,462	0	0	21,462	24,910
Total Future Lease Payments Due	$53,720	$0	$0	$53,720	$60,651

Fluctuations and Abnormalities:
Operating lease commitments decreased by $6,931 thousand or 11 percent, due to the expiration of leases.

Definitions

- **Lessee -** a person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

- **Operating Lease -** a lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

Land and Buildings Leases consist of :
Description of Leases:
Land and Building lease periods vary and the leases are not expected to be renewed at the end of the lease term. There are no material escalation clauses or contingent rental restrictions. Costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements and the largest component is office space. Future year projections used the Consumer Price Index (CPI), rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.

Equipment Leases consist of :
Description of Leases: Not applicable

Other Leases consist of :
Description of Leases: Not applicable

Note 24.B. Other Disclosures

Not applicable

Department of Defense • Department of the Army
As of September 30, 2003 and 2002 ($ in thousands)

ASSETS (Note 2)	Active Army	Army Reserve	Army National Guard	Component Level
Intragovernmental:				
Fund Balance with Treasury (Note 3)				
Entity	$49,719,962	$1,740,978	$3,234,957	$0
Non-Entity Seized Iraqi Cash	$278,139	$0	$0	0
Non-Entity-Other	$61,443	$0	$0	0
Investments (Note 4)	$1,231	$0	$0	0
Accounts Receivable (Note 5)	$1,242,024	$15,663	$79,138	(813,478)
Other Assets (Note 6)	$5,998	$0	($13,984)	91,460
Total Intragovernmental Assets	$51,308,797	$1,756,641	$3,300,111	($722,018)
Cash and Other Monetary Assets (Note 7)	$954,368	$0	$0	$0
Accounts Receivable (Note 5)	467,769	19,575	27,235	0
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	32,676,658	0	0	0
General Property, Plant and Equipment (Note 10)	113,264,161	1,314,329	759,416	0
Investments (Note 4)	0	0	0	0
Other Assets (Note 6)	3,425,638	25,583	117,800	0
TOTAL ASSETS	$202,097,391	$3,116,128	$4,204,562	($722,018)
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$6,005,677	$519,986	$567,608	($6,008,306)
Debt (Note 13)	76	0	0	(76)
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	1,710,256	9,964	65,443	(115,345)
Total Intragovernmental Liabilities	$7,716,009	$529,950	$633,051	($6,123,727)
Accounts Payable (Note 12)	$3,502,744	$282,141	$112,932	$5,191,280
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,413,745	57,262	290,311	0
Environmental Liabilities (Note 14)	37,395,412	0	0	0
Loan Guarantee Liability (Note 8)	1,273	0	0	0
Other Liabilities (Note 15 & Note 16)	8,681,806	270,119	375,290	60,105
Debt Held by Public (Note 13)	0	0	0	0
TOTAL LIABILITIES	$58,710,989	$1,139,472	$1,411,584	($872,342)
NET POSITION				
Unexpended Appropriations (Note 18)	$44,005,556	$840,033	$2,678,801	$150,324
Cumulative Results of Operations	99,380,846	1,136,623	114,177	0
TOTAL NET POSITION	$143,386,402	$1,976,656	$2,792,978	$150,324
TOTAL LIABILITIES AND NET POSITION	$202,097,391	$3,116,128	$4,204,562	($722,018)

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet

Department of Defense • Department of the Army, General Fund
As of September 30, 2003 and 2002 ($ in thousands)

ASSETS (Note 2)	**Combined Total**	**Eliminations**	**2003 Consolidated**	**2002 Consolidated**
Intragovernmental:				
Fund Balance with Treasury (Note 3)				
Entity	$54,695,897	$0	$54,695,897	$39,515,905
Non-Entity Seized Iraqi Cash	278,139	0	278,139	0
Non-Entity-Other	61,443	0	61,443	(5,382)
Investments (Note 4)	1,231	0	1,231	5,240
Accounts Receivable (Note 5)	523,347	0	523,347	452,597
Other Assets (Note 6)	83,474	0	83,474	209,114
Total Intragovernmental Assets	$55,643,531	$0	$55,643,531	$40,177,474
Cash and Other Monetary Assets (Note 7)	$954,368	$0	$954,368	$301,747
Accounts Receivable (Note 5)	514,579	0	514,579	568,088
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	32,676,658	0	32,676,658	27,259,422
General Property, Plant and Equipment (Note 10)	115,337,906	0	115,337,906	18,700,626
Investments (Note 4)	0	0	0	0
Other Assets (Note 6)	3,569,021	0	3,569,021	3,582,796
TOTAL ASSETS	$208,696,063	$0	$208,696,063	$90,590,153
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$1,084,965	$0	$1,084,965	$774,545
Debt (Note 13)	0	0	0	157
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	1,670,318	0	1,670,318	876,404
Total Intragovernmental Liabilities	$2,755,283	$0	$2,755,283	$1,651,106
Accounts Payable (Note 12)	$9,089,097	$0	$9,089,097	$5,967,178
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,761,318	0	1,761,318	1,624,557
Environmental Liabilities (Note 14)	37,395,412	0	37,395,412	35,078,280
Loan Guarantee Liability (Note 8)	1,273	0	1,273	730
Other Liabilities (Note 15 & Note 16)	9,387,320	0	9,387,320	9,008,744
Debt Held by Public (Note 13)	0	0	0	0
TOTAL LIABILITIES	$60,389,703	$0	$60,389,703	$53,330,595
NET POSITION				
Unexpended Appropriations (Note 18)	$47,674,714	$0	$47,674,714	$31,468,721
Cumulative Results of Operations	100,631,646	0	100,631,646	5,790,837
TOTAL NET POSITION	$148,306,360	$0	$148,306,360	$37,259,558
TOTAL LIABILITIES AND NET POSITION	$208,696,063	$0	$208,696,063	$90,590,153

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Active Army	Army Reserve	Army National Guard	Conponent Level
Military Personnel				
Intragovernmental Gross Costs	$6,425,059	$1,075,049	$1,794,614	
(Less: Intragovernmental Earned Revenue)	(574,234)	(16,375)	(50,958)	
Intragovernmental Net Costs	$5,850,825	$1,058,674	$1,743,656	
Gross Costs With the Public	$29,987,293	$2,063,164	$3,375,236	
(Less: Earned Revenue From the Public)	(25,961)	(7)	498	
Net Costs With the Public	$29,961,332	$2,063,157	$3,375,734	
Total Net Cost	$35,812,157	$3,121,831	$5,119,390	
Operation and Maintenance				
Intragovernmental Gross Costs	$5,957,096	$121,713	$152,269	
(Less: Intragovernmental Earned Revenue)	(7,023,557)	(60,707)	(163,715)	
Intragovernmental Net Costs	($1,066,461)	$61,006	($11,446)	
Gross Costs With the Public	$42,512,075	$1,982,988	$3,965,345	
(Less: Earned Revenue From the Public)	(587,552)	(3,031)	(9,485)	
Net Costs With the Public	$41,924,523	$1,979,957	$3,955,860	
Total Net Cost	$40,858,062	$2,040,963	$3,944,414	
Procurement				
Intragovernmental Gross Costs	($1,424,376)	$0	$0	
(Less: Intragovernmental Earned Revenue)	(661,925)	0	0	
Intragovernmental Net Costs	($2,086,301)	$0	$0	
Gross Costs With the Public	$7,133,239	$0	$0	
(Less: Earned Revenue From the Public)	(57,532)	0	0	
Net Costs With the Public	$7,075,707	$0	$0	
Total Net Cost	$4,989,406	$0	$0	
Research, Development, Test & Evaluation				
Intragovernmental Gross Costs	$2,076,608	$0	$0	
(Less: Intragovernmental Earned Revenue)	(2,524,616)	0	0	
Intragovernmental Net Costs	($448,008)	$0	$0	
Gross Costs With the Public	7,737,924	0	0	
(Less: Earned Revenue From the Public)	(76,858)	0	0	
Net Costs With the Public	$7,661,066	$0	$0	
Total Net Cost	$7,213,058	$0	$0	

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Military Personnel				
Intragovernmental Gross Costs	$9,294,722	$0	$9,294,722	$5,944,033
(Less: Intragovernmental Earned Revenue)	(641,567)	0	(641,567)	(170,535)
Intragovernmental Net Costs	$8,653,155	$0	$8,653,155	$5,773,498
Gross Costs With the Public	$35,425,693	$0	$35,425,693	$26,580,745
(Less: Earned Revenue From the Public)	(25,470)	0	(25,470)	(19,281)
Net Costs With the Public	$35,400,223	$0	$35,400,223	$26,561,464
Total Net Cost	$44,053,378	$0	$44,053,378	$32,334,962
Operation and Maintenance				
Intragovernmental Gross Costs	$6,231,078	$0	$6,231,078	$11,839,845
(Less: Intragovernmental Earned Revenue)	(7,247,979)	0	(7,247,979)	(3,002,750)
Intragovernmental Net Costs	($1,016,901)	$0	($1,016,901)	$8,837,095
Gross Costs With the Public	$48,460,408	$0	$48,460,408	$18,813,804
(Less: Earned Revenue From the Public)	(600,068)	0	(600,068)	(650,528)
Net Costs With the Public	$47,860,340	$0	$47,860,340	$18,163,276
Total Net Cost	$46,843,439	$0	$46,843,439	$27,000,371
Procurement				
Intragovernmental Gross Costs	($1,424,376)	$0	($1,424,376)	$759,480
(Less: Intragovernmental Earned Revenue)	(661,925)	0	(661,925)	(427,552)
Intragovernmental Net Costs	($2,086,301)	$0	($2,086,301)	$331,928
Gross Costs With the Public	$7,133,239	$0	$7,133,239	$10,981,576
(Less: Earned Revenue From the Public)	(57,532)	0	(57,532)	(25,271)
Net Costs With the Public	$7,075,707	$0	$7,075,707	$10,956,305
Total Net Cost	$4,989,406	$0	$4,989,406	$11,288,233
Research, Development, Test & Evaluation				
Intragovernmental Gross Costs	$2,076,608	$0	$2,076,608	$218,549
(Less: Intragovernmental Earned Revenue)	(2,524,616)	0	(2,524,616)	(897,915)
Intragovernmental Net Costs	($448,008)	$0	($448,008)	($679,366)
Gross Costs With the Public	$7,737,924	0	7,737,924	7,292,395
(Less: Earned Revenue From the Public)	(76,858)	0	(76,858)	(126,198)
Net Costs With the Public	$7,661,066	$0	$7,661,066	$7,166,197
Total Net Cost	$7,213,058	$0	$7,213,058	$6,486,831

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Active Army	Army Reserve	Army National Guard	Conponent Level
Military Construction/Family Housing				
Intragovernmental Gross Costs	$3,370,740	$99,256	$57,790	
(Less: Intragovernmental Earned Revenue)	(2,117,682)	0	0	
Intragovernmental Net Costs	$1,253,058	$99,256	$57,790	
Gross Costs With the Public	$212,476	($23,655)	$112,687	
(Less: Earned Revenue From the Public)	(181,682)	0	0	
Net Costs With the Public	$30,794	($23,655)	$112,687	
Total Net Cost	$1,283,852	$75,601	$170,477	
Other				
Intragovernmental Gross Costs	($430,725)	$0	$0	$10,825,856
(Less: Intragovernmental Earned Revenue)	127,896	0	0	6,546,865
Intragovernmental Net Costs	($302,829)	$0	$0	$17,372,721
Gross Costs With the Public	$3,233,128	$0	$0	($17,523,045)
(Less: Earned Revenue From the Public)	22,471	0	0	0
Net Costs With the Public	$3,255,599	$0	$0	($17,523,045)
Total Net Cost	$2,952,770	$0	$0	($150,324)
Total Program Costs				
Intragovernmental Gross Costs	$15,974,402	$1,296,018	$2,004,673	$10,825,856
(Less: Intragovernmental Earned Revenue)	(12,774,118)	(77,082)	(214,673)	6,546,865
Intragovernmental Net Costs	$3,200,284	$1,218,936	$1,790,000	$17,372,721
Gross Costs With the Public	$90,816,135	$4,022,497	$7,453,268	($17,523,045)
(Less: Earned Revenue From the Public)	(907,114)	(3,038)	(8,987)	0
Net Costs With the Public	$89,909,021	$4,019,459	$7,444,281	($17,523,045)
Total Net Cost	$93,109,305	$5,238,395	$9,234,281	($150,324)
Cost Not Assigned to Programs	$0	$0	$0	$0
(Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	$93,109,305	$5,238,395	$9,234,281	($150,324)

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Military Construction/Family Housing				
Intragovernmental Gross Costs	$3,527,786	$0	$3,527,786	$20,806
(Less: Intragovernmental Earned Revenue)	(2,117,682)	0	(2,117,682)	(1,010,031)
Intragovernmental Net Costs	$1,410,104	$0	$1,410,104	($989,225)
Gross Costs With the Public	$301,508	$0	$301,508	$2,993,615
(Less: Earned Revenue From the Public)	(181,682)	0	(181,682)	(175,714)
Net Costs With the Public	$119,826	$0	$119,826	$2,817,901
Total Net Cost	$1,529,930	$0	$1,529,930	$1,828,676
Other				
Intragovernmental Gross Costs	$10,395,131	$0	($430,725)	$259,584
(Less: Intragovernmental Earned Revenue)	6,674,761	0	127,896	(22,411)
Intragovernmental Net Costs	$17,069,892	$0	($302,829)	$237,173
Gross Costs With the Public	($14,289,917)	$0	$3,233,128	$631,179
(Less: Earned Revenue From the Public)	22,471	0	22,471	212,284
Net Costs With the Public	($14,267,446)	$0	$3,255,599	$843,463
Total Net Cost	$2,802,446	$0	$2,952,770	$1,080,636
Total Program Costs				
Intragovernmental Gross Costs	$30,100,949	$0	$30,100,949	$19,042,297
(Less: Intragovernmental Earned Revenue)	(6,519,008)	0	(6,519,008)	(5,531,194)
Intragovernmental Net Costs	$23,581,941	$0	$23,581,941	$13,511,103
Gross Costs With the Public	$84,768,855	$0	$84,768,855	$67,293,314
(Less: Earned Revenue From the Public)	(919,139)	0	(919,139)	(784,708)
Net Costs With the Public	$83,849,716	$0	$83,849,716	$66,508,606
Total Net Cost	$107,431,657	$0	$107,431,657	$80,019,709
Cost Not Assigned to Programs	$0	$0	$0	$0
(Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	$107,431,657	$0	$107,431,657	$80,019,709

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	**Active Army**	**Army Reserve**	**Army National Guard**	**Component Level**
Beginning Balances	$4,532,604	$1,254,662	$3,574	$0
Prior period adjustments (+/-)	97,897,585	0	0	0
Beginning Balances, as adjusted	$102,430,189	$1,254,662	$3,574	$0
Budgetary Financing Sources:				
Appropriations received	0	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	92,269,670	5,251,432	9,534,153	(150,324)
Nonexchange revenue	131	0	0	0
Donations and forfeitures of cash and cash equivalents	15,003	0	0	0
Transfers-in/out without reimbursement (+/-)	479,218	0	0	0
Other budgetary financing sources (+/-)	(3,369,963)	(130,467)	(136,202)	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(267,680)	(609)	(53,067)	0
Imputed financing from costs absorbed by others	818,482	0	0	0
Other (+/-)	115,102	0	0	0
Total Financing Sources	$90,059,963	$5,120,356	$9,344,884	($150,324)
Net Cost of Operations (+/-)	93,109,305	5,238,395	9,234,281	(150,324)
Ending Balances	$99,380,847	$1,136,623	$114,177	$0

UNEXPENDED APPROPRIATIONS	**Active Army**	**Army Reserve**	**Army National Guard**	**Component Level**
Beginning Balances	$28,543,070	$683,764	$2,241,887	$0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$28,543,070	$683,764	$2,241,887	$0
Budgetary Financing Sources:				
Appropriations received	102,431,016	5,445,189	9,791,772	0
Appropriations transferred-in/out (+/-)	5,819,160	3,212	220,375	0
Other adjustments (rescissions, etc) (+/-)	(518,020)	(40,700)	(41,080)	0
Appropriations used	(92,269,670)	(5,251,432)	(9,534,153)	150,324
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$15,462,486	$156,269	$436,914	$150,324
Net Cost of Operations (+/-)	0	0	0	0
Ending Balances	$44,005,556	$840,033	$2,678,801	$150,324

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Beginning Balances	$5,790,840	$0	$5,790,840	$8,776,600
Prior period adjustments (+/-)	97,897,585	0	97,897,585	(7,114,213)
Beginning Balances, as adjusted	$103,688,425	$0	$103,688,425	$1,662,387
Budgetary Financing Sources:				
Appropriations received	0	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	106,904,931	0	106,904,931	82,553,941
Nonexchange revenue	131	0	131	205,583
Donations and forfeitures of cash and cash equivalents	15,003	0	15,003	0
Transfers-in/out without reimbursement (+/-)	479,218	0	479,218	0
Other budgetary financing sources (+/-)	(3,636,632)	0	(3,636,632)	743,531
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(321,356)	0	(321,356)	(43,155)
Imputed financing from costs absorbed by others	818,482	0	818,482	688,259
Other (+/-)	115,102	0	115,102	0
Total Financing Sources	$104,374,879	$0	$104,374,879	$84,148,159
Net Cost of Operations (+/-)	107,431,657	0	107,431,657	80,019,709
Ending Balances	$100,631,647	$0	$100,631,647	$5,790,837

UNEXPENDED APPROPRIATIONS	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Beginning Balances	$31,468,721	$0	$31,468,721	$28,895,571
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$31,468,721	$0	$31,468,721	$28,895,571
Budgetary Financing Sources:				
Appropriations received	117,667,977	0	117,667,977	80,338,428
Appropriations transferred-in/out (+/-)	6,042,747	0	6,042,747	4,903,508
Other adjustments (rescissions, etc) (+/-)	(599,800)	0	(599,800)	(114,845)
Appropriations used	(106,904,931)	0	(106,904,931)	(82,553,941)
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$16,205,993	$0	$16,205,993	$2,573,150
Net Cost of Operations (+/-)	0	0	0	0
Ending Balances	$47,674,714	$0	$47,674,714	$31,468,721

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY FINANCING ACCOUNTS	Active Army	Army Reserve	Army National Guard	Component Level	2003 Combined	2002 Combined
BUDGETARY RESOURCES						
Budget Authority:						
Appropriations received	$102,458,569	$5,445,189	$9,791,772	$0	$117,695,530	$81,067,276
Borrowing authority	0	0	0	0	0	0
Contract authority	0	0	0	0	0	0
Net transfers (+/-)	5,113,854	3,212	190,375	0	5,307,441	5,290,599
Other	0	0	0	0	0	0
Unobligated balance:						
Beginning of period	5,058,704	175,218	624,188	0	5,858,110	5,701,789
Net transfers, actual (+/-)	1,184,524	0	30,000	0	1,214,524	408,970
Anticipated Transfers balances	0	0	0	0	0	0
Spending authority from offsetting collections:						
Earned	0	0	0	0	0	0
Collected	13,786,438	83,683	225,615	0	14,095,736	12,012,602
Receivable from Federal sources	21,185	(3,573)	(4,638)	0	12,974	(146,322)
Change in unfilled customer orders	0	0	0	0	0	0
Advance received	119,260	(79)	157	0	119,338	87,119
Without advance from Federal sources	3,705,724	(1,297)	(49,109)	0	3,655,318	1,164,785
Anticipated for the rest of year, without advances	0	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0	0
Subtotal	$17,632,607	$78,734	$172,025	$0	$17,883,366	$13,118,184
Recoveries of prior year obligations	6,216,515	379,369	1,405,519	0	8,001,403	8,287,368
Temporarily not available pursuant to Public Law	0	0	0	0	0	0
Permanently not available	(979,564)	(93,288)	(231,728)	0	(1,304,580)	(1,569,179)
Total Budgetary Resources	$136,685,209	$5,988,434	$11,982,151	$0	$154,655,794	$112,305,007

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

STATUS OF BUDGETARY RESOURCES	Active Army	Army Reserve	Army National Guard	Component Level	2003 Combined	2002 Combined
Obligations incurred:						
Direct	$111,065,771	$5,654,735	$11,291,877	$0	$128,012,383	$91,731,863
Reimbursable	18,136,476	90,274	203,669	0	18,430,419	14,715,031
Subtotal	129,202,247	5,745,009	11,495,546	0	146,442,802	106,446,894
Unobligated balance:						
Apportioned	6,614,897	110,195	222,056	0	6,947,148	4,788,478
Exempt from apportionment	25,665	0	0	0	25,665	0
Other available	(1)	1	0	0	0	2
Unobligated Balances Not Available	842,401	133,229	264,549	0	1,240,179	1,069,633
Total, Status of Budgetary Resources	$136,685,209	$5,988,434	$11,982,151	$0	$154,655,794	$112,305,007
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:						
Obligated Balance, Net - beginning of period	$30,541,017	$1,171,039	$1,950,211	$0	$33,662,267	$31,626,562
Obligated Balance transferred, net (+/-)	0	0	0	0	0	0
Obligated Balance, Net - end of period:						
Accounts receivable	(1,380,310)	(15,879)	(84,517)	0	(1,480,706)	(1,467,731)
Unfilled customer order from Federal sources	(10,802,950)	(9,690)	(3,679)	0	(10,816,319)	(7,161,002)
Undelivered orders	42,107,379	566,378	2,062,135	0	44,735,892	30,611,343
Accounts payable	12,312,830	956,745	774,413	0	14,043,988	11,679,657
Outlays:						
Disbursements	107,562,893	5,043,996	9,345,632	0	121,952,521	95,105,359
Collections	(13,905,698)	(83,603)	(225,772)	0	(14,215,073)	(12,099,721)
Subtotal	$93,657,195	$4,960,393	$9,119,860	$0	$107,737,448	$83,005,638
Less: Offsetting receipts	(95,571)	0	0	0	(95,571)	(184,839)
Net Outlays	$93,561,624	$4,960,393	$9,119,860	$0	$107,641,877	$82,820,799

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

NONBUDGETARY FINANCING ACCOUNTS	Active Army	Army Reserve	Army National Guard	Component Level	2003 Combined	2002 Combined
BUDGETARY RESOURCES						
Budget Authority:						
Appropriations received	$0	$0	$0	$0	$0	$0
Borrowing authority	0	0	0	0	0	0
Contract authority	0	0	0	0	0	0
Net transfers (+/-)	0	0	0	0	0	0
Other	0	0	0	0	0	0
Unobligated balance:						
Beginning of period	730	0	0	0	730	691
Net transfers, actual (+/-)	0	0	0	0	0	0
Anticipated Transfers balances	0	0	0	0	0	0
Spending authority from offsetting collections:						
Earned	0	0	0	0	0	0
Collected	543	0	0	0	543	39
Receivable from Federal sources	0	0	0	0	0	0
Change in unfilled customer orders	0	0	0	0	0	0
Advance received	0	0	0	0	0	0
Without advance from Federal sources	0	0	0	0	0	0
Anticipated for the rest of year, without advances	0	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0	0
Subtotal	$543	$0	$0	$0	$543	$39
Recoveries of prior year obligations	0	0	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0	0	0
Permanently not available	0	0	0	0	0	0
Total Budgetary Resources	$1,273	$0	$0	$0	$1,273	$730

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

NONBUDGETARY FINANCING ACCOUNTS	Active Army	Army Reserve	Army National Guard	Component Level	2003 Combined	2002 Combined
STATUS OF BUDGETARY RESOURCES						
Obligations incurred:						
Direct	$0	$0	$0	$0	$0	$0
Reimbursable	0	0	0	0	0	0
Subtotal	$0	$0	$0	$0	$0	$0
Unobligated balance:						
Apportioned	1,273	0	0	0	1,273	730
Exempt from apportionment	0	0	0	0	0	0
Other available	0	0	0	0	0	0
Unobligated Balances Not Available	0	0	0	0	0	0
Total, Status of Budgetary Resources	$1,273	$0	$0	$0	$1,273	$730
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:						
Obligated Balance, Net - beginning of period	$0	$0	$0	$0	$0	$0
Obligated Balance transferred, net (+/-)	0	0	0	0	0	0
Obligated Balance, Net - end of period:						
Accounts receivable	0	0	0	0	0	0
Unfilled customer order from Federal sources	0	0	0	0	0	0
Undelivered orders	0	0	0	0	0	0
Accounts payable	0	0	0	0	0	0
Outlays:						
Disbursements	0	0	0	0	0	0
Collections	(543)	0	0	0	(543)	(39)
Subtotal	($543)	$0	$0	$0	($543)	($39)
Less: Offsetting receipts	0	0	0	0	0	0
Net Outlays						

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Resources Used to Finance Activities:	Active Army	Army Reserve	Army National	Component Level	2003 Combined	2002 Combined
Budgetary Resources Obligated						
Obligations incurred	$129,202,247	$5,745,009	$11,495,546	$0	$146,442,802	$106,446,894
Less: Spending authority from offsetting collections and recoveries (-)	(23,849,664)	(458,102)	(1,577,545)	0	(25,885,311)	(21,405,591)
Obligations net of offsetting collections and recoveries	$105,352,583	$5,286,907	$9,918,001	$0	$120,557,491	$85,041,303
Less: Offsetting receipts (-)	(95,571)	0	0	0	(95,571)	(184,839)
Net obligations	$105,257,012	$5,286,907	$9,918,001	$0	$120,461,920	$84,856,464
Other Resources						
Donations and forfeitures of property	0	0	0	0	0	0
Transfers in/out without reimbursement (+/-)	(267,680)	(609)	(53,067)	0	(321,356)	0
Imputed financing from costs absorbed by others	818,482	0	0	0	818,482	688,259
Other (+/-)	115,102	0	0	0	115,102	0
Net other resources used to finance activities	$665,904	($609)	($53,067)	$0	$612,228	$688,259
Total resources used to finance activities	$105,922,916	$5,286,298	$9,864,934	$0	$121,074,148	$85,544,723
Resources Used to Finance Items not Part of the Net Cost of Operations						
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided						
Undelivered Orders (-)	($15,667,378)	($66,969)	($595,566)	($150,324)	($16,480,237)	($2,138,888)
Unfilled Customer Orders	3,824,984	(1,377)	(48,951)	0	3,774,656	1,251,904
Resources that fund expenses recognized in prior periods	(280,255)	(2,440)	0	0	(282,695)	(5,656,745)
Budgetary offsetting collections and receipts that do not affect net cost of operations	15,085	0	0	0	15,085	0
Resources that finance the acquisition of assets	(24,741,519)	(273,203)	(200,121)	0	(25,214,843)	(152,239)
Other resources or adjustments to net obligated resources that do not affect net cost of operations						
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0	0	0	0
Other (+/-)	0	0	0	0	0	0
Total resources used to finance items not part of the net cost of operations	($36,849,083)	($343,989)	($844,638)	($150,324)	($38,188,034)	($6,695,968)
Total resources used to finance the net cost of operations	$69,073,833	$4,942,309	$9,020,296	($150,324)	$82,886,114	$78,848,755

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**Active Army**	**Army Reserve**	**Army National**	**Component Level**	**2003 Combined**	**2002 Combined**
Components Requiring or Generating Resources in Future Periods:						
Increase in annual leave liability	$191,258	$7,307	$92,923	$0	$291,488	$276,719
Increase in environmental and disposal liability	2,317,132	0	0	0	2,317,132	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0	0	0	0
Other (+/-)	388,733	4,810	15,760	0	409,303	1,486,858
Total components of Net Cost of Operations that will require or generate resources in future periods	$2,897,123	$12,117	$108,683	$0	$3,017,923	$1,763,577
Components not Requiring or Generating Resources:						
Depreciation and amortization	20,983,935	278,352	101,633	0	21,363,920	596,779
Revaluation of assets or liabilities (+/-)	(10,681)	0	0	0	(10,681)	(1,793,293)
Other (+/-)	165,097	5,617	3,667	0	174,381	603,891
Total components of Net Cost of Operations that will not require or generate resources	$21,138,351	$283,969	$105,300	$0	$21,527,620	($592,623)
Total components of net cost of operations that will not require or generate resources in the current period	$24,035,474	$296,086	$213,983	$0	$24,545,543	$1,170,954
Net Cost of Operations	$93,109,307	$5,238,395	$9,234,279	($150,324)	$107,431,657	$80,019,709

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Active Army	Army Reserve	Army National Guard	Component Level	2003 Combined	2002 Combined
SOURCE OF COLLECTIONS						
Deposits by Foreign Governments	$0	$0	$0	$0	$0	$0
Seized Iraqi Cash	808,866	0	0	0	808,866	0
Other Collections	0	0	0	0	0	0
Total Cash Collections	808,866	0	0	0	808,866	0
Accrual Adjustments (+/-)	0	0	0	0	0	0
Total Custodial Collections	$808,866	$0	$0	$0	$808,866	$0
DISPOSITION OF COLLECTIONS						
Disbursed on Behalf of Foreign Governments and International Organizations	$0	$0	$0	$0	$0	$0
Seized Assets Disbursed on behalf of Iraqi People	530,727	0	0	0	530,727	0
Increase (Decrease) in Amounts to be Transferred	0	0	0	0	0	0
Collections Used for Refunds and Other Payments	0	0	0	0	0	0
Retained by The Reporting Entity	0	0	0	0	0	0
Seized Assets Retained for Support of the Iraqi People	278,139	0	0	0	278,139	0
Total Disposition of Collections	$808,866	$0	$0	$0	$808,866	$0
NET CUSTODIAL COLLECTION ACTIVITY	$0	$0	$0	$0	$0	$0

The accompanying notes are an integral part of these statements.

NATIONAL DEFENSE PLANT, PROPERTY, AND EQUIPMENT

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond, and encouraged early implementation.

HERITAGE ASSETS

For Fiscal Year Ended September 30, 2003

(a)	(b) Measurement/ Quantity	(c) As Of 10/1/2002	(d) Additions	(e) Deletions	(f) As Of 9/30/2003
Museums (Note 2)	Each	221	1	105	117
Monuments & Memorials (Note 3)	Each	830	66	7	889
Cemeteries (Note 4)	Sites	530	4	10	524
Archeological Sites	Sites	0	0	0	0
Buildings & Structures (Note 1)	Each	5,756	4,912	822	9,846
Major Collections (Note 5)	Each	6	0	0	6

Narrative Statement:

In most cases, the additions/deletions are a result of installations defining cemeteries and historical facilities located on their installations as a result of CFO audits. Some deletions are a result of disposing of Base Realignment and Closure (BRAC) property.

Notes:

1. Historical Buildings and Structures: buildings and structures designated as historical exclude museums, monuments, and memorials. The number of Buildings and Structures increased as a result of the following initiatives:

   - Installations conducting real property surveys and making adjustments according to their findings
   - Active installations now reporting previously omitted National Guard Bureau buildings and structures designated as heritage assets
   - Both National Guard and Reserve are now reporting new buildings and structures designated as heritage assets

2. Museums: The Army Museum System consists of 117 museums and museum activities worldwide that comprise the active Army, Army Reserve, and the National Guard (Federal property only). One museum activity was closed during FY 2003 and its collections distributed among the remaining museums. One new museum activity (Michigan National Guard) was approved. In addition, there is historical property displayed in numerous regimental rooms, trophy rooms, officer's clubs, visitor's centers, chapels, and headquarters building elements that are not recognized by the Department of the Army as a museum or museum activity. Solely for reporting purposes, we have consolidated all of these separate and smaller collections during this reporting period.

3. Memorial/Monuments: only Monuments and Memorials are included (category code 76020)

4. Cemeteries: includes category code 76030

5. The US Army Tank-automotive & Armaments Command is reporting two (2) major collections under the Donation Program; Ceremonial Rifles and Monuments/Static. The U.S. Army Center of Military History is the proponent for all Army Historical property. Currently, there are four (4) major or significant collections that are maintained outside the definition of an Army museum and museum activity. The collections consist of the U.S. Army Center of Military History, Museum Division, Collections Branch, the Anniston Historical Clearinghouse, the Maple Leaf and Benton Small Arms collections. The general condition of the historical collection is stable. Multi-year conservation contracts have been let with certified conservators, who are members in good standing with the American Institute of Conservators. The ongoing effort ensures that the historical collection is preserved in accordance with statutory requirements, Army regulations, and professional museum standards, and is interpreted in the interest of history, the U.S. Army, and the American people. Furthermore, the historical collection actively supports training and development, and serves as a bridge for common interest between the military and civilian communities.

STEWARDSHIP LAND
For Fiscal Year Ended September 30, 2003
(Acres in Thousands)

(a) Land Use	(b) As Of 10/1/2002	(c) Additions	(d) Deletions	(e) As Of 9/30/2003
1. Mission (Note 1)	6,998.2	887.1	952.5	6,932.8
2. Parks & Historic Sites (Note 2)	0.91	0.0	0.0	0.91

Narrative Statement:

Additions/deletions are the result of: (a) acquiring additional land through donation or withdrawal from public domain; (b) identification of missing land records; and, (c) disposal of BRAC property.

Notes:

1. Mission Land includes the following category codes: 91120, 91131, 91141, 91210, 91310, 91320, 91330, 91410, 92111, 92121, 92131, and 92190. These category codes represent land that was not purchased, but was 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 Year Ended September 30, 2003
(In Millions of Dollars)

(a) Categories:	(b) FY 1999	(c) FY 2000	(d) FY 2001	(e) FY 2002	(f) FY 2003
Transferred Assets:					
1. National Defense Mission Related	$20.2	$4.7	$94.8	$7.4	$85.0
Funded Assets:					
2. National Defense Mission Related	0	0	0	0	0
Total:	$20.2	$4.7	$94.8	$7.4	$85.0

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 Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards requirements.

2. Data provided here are significant because these are properties that are owned by the various U.S. Property and Fiscal Offices 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 Year Ended September 30, 2003
(In Millions of Dollars)

(a) Categories:	(b) FY 1999	(c) FY 2000	(d) FY 2001	(e) FY 2002	(f) FY 2003
1. Basic Research	$175.4	$187.1	$209.2	$206.4	$226.9
2. Applied Research	574.3	677.6	806.6	864.1	847.2
3. Development:					
Advanced Technology Development	685.8	701.2	821.9	863.1	988.6
Advanced Component Development and Prototypes	498.6	476.5	622.6	897.7	880.1
Systems Development and Demonstration	1,221.1	1,326.4	1,653.0	1,954.9	2,265.1
Research, Development, Test and Evaluation Management Support	1,192.9	961.9	888.8	880.9	979.4
Operational Systems Development	$656.2	$605.4	$849.3	$970.4	$964.9
Total:	$5,004.3	$4,936.1	$5,851.4	$6,637.5	$7,152.2

Narrative Statement:
The following are two representative program examples for each of the above major categories:

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers. The following are two representative program examples for this category:

Defense Research Sciences: This program sustains U.S. Army scientific and technological superiority in land warfighting capability, provides new concepts and technologies for the Army's Future Force, and provides the means to exploit scientific breakthroughs and avoid technological surprises. It fosters innovation in Army niche areas and where the commercial incentive to invest is lacking due to limited markets. It also focuses university single investigators on research in areas of Army interest. 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 Research, Development and Evaluation Command (RDECOM) 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 basic research program is coordinated with the other Services via the Joint Directors of Laboratories panels, Project Reliance, and other interservice working groups. This program responds to the scientific and technological requirements of the Department of Defense Basic Research Plan by enabling the technologies that can significantly improve joint war fighting capabilities. Projects involve basic research efforts directed toward providing fundamental knowledge for the solution of military problems related to long-term national security needs. The work is consistent with Transformation Planning Guidance, the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and the Defense Technology Area Plan (DTAP).

University and Industry Research Centers: This program leverages research in the private sector through Collaborative Technology Alliances (CTA), Centers of Excellence, and the University Affiliated Research Centers. A significant portion of the work performed within this program directly supports Future Force requirements by providing the enabling technologies which will make development of Future Force equipment possible. CTAs are innovative alliances among government, industry and academic organizations to exploit scientific and technological breakthroughs and to transition these breakthroughs to exploratory development and applied research. This program includes the Army's Centers of Excellence, which couple state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in materials science, electronics and rotary wing technology. Also included is eCYBERMISSION, the Army national web-based competition to stimulate interest in science, math and technology in middle and high school students. This program also includes the Institute for Soldier Nanotechnologies (ISN) at the Massachusetts Institute of Technology. The ISN will emphasize revolutionary materials research for advanced soldier protection and survivability. A Biotechnology Center of Excellence was established in 2003. The Institute for Collaborative Biotechnologies will broaden the Army's use of biotechnology to non-medical areas such as the development of materials, sensors, and information processing. The Army's Institute of Creative Technologies (ICT) is also included in this program. The ICT is a partnership with academia and the entertainment and gaming industries 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. Historically Black Colleges and Universities and Minority Institution (HBCU/MI) Centers of Excellence address critical research areas for Army Transformation. Work is consistent with Transformation Planning Guidance, the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and the Defense Technology Area Plan (DTAP).

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts. The following are two representative program examples for this category:

Advanced Weapons Technology: This program matures technologies for the Army Transformation as related to High Energy Laser (HEL) weapon systems. Potential HEL weapon system missions in the areas of Information Dominance and Force Protection include countering airborne electro-optical sensors and defending against airborne threats, providing a new, low cost per shot, complement to conventional offensive and defensive weapons. At weapon system power levels, solid-state laser (SSL) technology has the potential to enhance Future Combat Systems (FCS) survivability by defeating Precision Guided Munitions. A key project within this program is the development of a multi-hundred kilowatt (kW) SSL laboratory demonstrator. This project will demonstrate a 15-25 kW diode-pumped SSL breadboard in 2004. By 2005, the Army will evaluate this concept against alternative SSL technology approaches being supported by the High Energy Laser Joint Technology Office High-Power Solid-State Laser program. The most promising technology will then be upgraded to a 100kW SSL laboratory device, scheduled for completion in 2007. The project will continue to mature the selected SSL technology into a multi-hundred kW laboratory device. The program element contains no duplication with any effort within the Military Departments. Work is consistent with Transformation Planning Guidance, the Army Science and Technology Master Plan (ASTMP) and the Army Modernization Plan, and the Defense Technology Area Plan (DTAP).

Combat Vehicle and Automotive Technology: This program researches, investigates and applies combat vehicle and automotive technologies that will improve survivability, mobility, sustainability, and maintainability of Army ground vehicles. As combat vehicle systems become smaller and lighter to provide the necessary strategic deployability and tactical mobility, one of the greatest technological and operational challenges is providing adequate protection without reliance on heavy passive armor. This challenge will be met using a layered approach, substituting long-range situational awareness, multi-spectral signature reduction, active protection systems and advanced lightweight armor for conventional armor. This program also advances technologies for critical power, propulsion and electric components, including energy storage, power distribution and pulse forming networks. 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. This program is coordinated with the Marine Corps through the Naval Surface Warfare Center and with other ground vehicle developers within the Departments of Energy, Commerce, Transportation, and Defense Advanced Research Projects Agency (DARPA). Work is consistent with Transformation Planning Guidance, the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and the Defense Technology Area Plan (DTAP).

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operation and producibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.

2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Demonstration and Validation are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are two representative program examples for this category:

Combat Vehicle and Automotive Advanced Technology: The goal of this program is to mature and demonstrate leap-ahead combat vehicle automotive technologies to realize the Army's vision and enable transformation to the Future Force. The Future Combat Systems (FCS), the Army's top priority Science and Technology program, is the primary effort funded here in support of Army Transformation. FCS Memorandum of Agreement (MOA) between the Army and Defense Advanced Research Projects Agency (DARPA) delineates the collaborative enabling technologies, cost-shared funding profile and responsibilities associated with this partnership.

In addition to FCS, this program supports maturation and demonstration of enabling technologies in the areas of survivability, mobility and intra-vehicular digital electronics. It also funds efforts to integrate and evaluate diverse vehicle technologies matured by the Army, other DoD agencies and industry. These advanced technologies are demonstrated in coordination with Army warfighter organizations through vehicle component and system level technology demonstrations. 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. This program is coordinated with the Marine Corps through the Naval Surface Warfare Center, the Naval Research Laboratory, Air Force Armaments Command, and other ground vehicle developers within the Departments of Energy, Commerce, Transportation and DARPA. Work is consistent with Transformation Planning Guidance, the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and the Defense Technology Area Plan (DTAP).

Army Test Ranges and Facilities: This program provides the institutional funding required to operate the developmental test activities required by Department of Defense (DoD), Department of the Army (DA) weapons systems developers and Research, Development, and Engineering Centers. This program provides resources to operate Army's Major Range and Test Facility Bases (MRTFB): White Sands Missile Range (WSMR), New Mexico; Aberdeen Test Center (ATC), Aberdeen Proving Ground (APG), Maryland; Yuma Proving Ground (YPG), Arizona. This program also provides the resources to operate the Army's developmental test capability at: Aviation Technical Test Center, Fort Rucker, AL; and Redstone Technical Test Center, Redstone Arsenal, AL. It also provides the resources for test planning and safety verification/confirmation. Developmental test capabilities at the test range have been uniquely established, are in place to support test and evaluation (T&E) requirements of funded weapons programs, and are required to assure technical performance, adherence to safety requirements, reliability, logistics supportability, and quality of materiel in development and in production. This program sustains the developmental T&E capability required to support all elements of Army Transformation, as well as Joint Service or Other Service systems, hardware, and technologies.

Department of the Army
General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 2003

Narrative Statement:

FY2003 sustainment requirements for the Army are from version 3.0 of the DoD Facilities Sustainment Model (FSM). The requirements and funding represent facilities funded from Operations & Maintenance (O&M), Army Family Housing (AFH), and Working Capital Fund (WCF) appropriations, and from Non-Appropriated Funds (NAF). Army sustainment data includes facilities that are multi-use heritage assets. Sustainment funding contributions from host nation funding (Japan) and military pay are included. The sustainment data excludes facilities funded from Research, Development, Test and Evaluation (RDTE), and Procurement appropriations, and Chemical Depots, because we lack separately identifiable sustainment funding for these locations.

Annual Sustainment FY 2003

Property Type	1. Required	2. Actual	3. Difference
Buildings, Structures, and Utilities	$3,046.4M	$2,254.1M	$792.3M

Annual Deferred Sustainment Trend FY 2003

Property Type	FY 2000	FY 2001	FY 2002	FY 2003
Buildings, Structures, and Utilities	$629.4M	$1,167.0M	$913.4M	$792.3M

Army Restoration & Modernization (R&M) requirements are modeled in the annual Installation Status Report (ISR). During ISR data collection, facility occupants evaluate the condition of each facility against published standards. Facilities are rated Green (complies with standards), Amber (does not fully meet standards), or Red (dysfunctional or substandard). ISR establishes a C-rating for groups of facilities, based on the proportion of facilities rated Green, Amber, and Red. Facility groups are rated C-1 (facilities fully support the mission), C-2 (facilities support the majority of assigned missions), C-3 (facilities impair mission performance), or C-4 (facilities significantly impair mission performance).

ISR develops cost estimates to improve groups of facilities to higher C-ratings. Using industry based improvement cost factors for each facility type, ISR builds the cost to improve Red and Amber facilities to Green in order to achieve higher C-ratings. The requirement reported for General PP&E R&M is the ISR cost to improve the quality of facilities to C-1. For FY2003, these requirements address facility types funded from Army appropriated operations and maintenance (O&M), working capital fund (WCF), and Army family housing (AFH) funds. The Army's R&M requirement does not include requirements for facilities funded by Department of Defense agencies (DECA, DLA, TMA, DODDS), non-appropriated funds-NAF (recreation, sports), Army Air Force Exchange Service, and private funding. The R&M requirement also excludes costs for utilities planned for privatization, closures from base realignment and closure (BRAC) decisions, ammunition plants and chemical depots.

Army facilities are predominantly C-3, due to years of underfunding sustainment. The Army's estimate to return these facilities to a C-1 status for FY2003 is $26.5B, based on the 2003 ISR. The increase of $6.3B in the R&M requirement is the result of a change in the Army's facility evaluation methodology. For the 2003 ISR collection, infrastructure inspection standards were revised to reflect a mission importance consideration of facility components in a manner consistent with ISR collection for 2001 and earlier years. Facility ratings with these standards were lower than ratings in 2002 ISR, and the corresponding improvement cost estimates increased.

Restoration & Modernization Requirements

Property Type	End FY 2002	End FY 2003	Change
Buildings, Structures, and Utilities	$20.2B	$26.5B	+$6.3B

Military Equipment Deferred Maintenance Amounts
As of September 30, 2003
(Amounts In Thousands)

(a) Major Type:	(b) Amount:
1. Aircraft	$71,300
2. Ships	0
3. Missiles	51,500
4. Combat Vehicles	118,500
5. Other Weapons Systems	163,000
6. Total:	$404,300

Statement of Dissagregated Budgetary Resources

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY RESOURCES	**Other**	**Research, Development, Test & Evaluation**	**Operation and Maintenance**	**Procurement**	**Military Personnel**
Budget Authority:					
Appropriations received	$1,923,876	$7,652,571	$48,527,523	$13,447,403	$43,838,160
Borrowing authority	0	0	0	0	0
Contract authority	0	0	0	0	0
Net transfers (+/-)	1,245,477	(12,522)	3,137,066	631,502	305,559
Other	0	0	0	0	0
Unobligated balance:					
Beginning of period	109,670	1,149,375	781,768	1,955,674	226,047
Net transfers, actual (+/-)	466,000	(7,092)	643,566	(5,208)	144,742
Anticipated Transfers Balances	0	0	0	0	0
Spending authority from offsetting collections:					
Earned	0	0	0	0	0
Collected	(4,775)	2,734,205	7,778,901	708,106	557,546
Receivable from Federal sources	(10,302)	(132,949)	57,873	11,341	109,452
Change in unfilled customer orders	0	0	0	0	0
Advance received	823	(5,066)	13,261	8,120	0
Without advance from Federal sources	(3,612)	335,739	2,095,272	408,320	(54,231)
Anticipated for the rest of year, without advances	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0
Subtotal	($17,866)	$2,931,929	$9,945,307	$1,135,887	$612,767
Recoveries of prior year obligations	36,679	807,233	5,197,497	650,772	925,321
Temporarily not available pursuant to Public Law	0	0	0	0	0
Permanently not available	(211)	(105,084)	(596,191)	(280,123)	(251,716)
Total Budgetary Resources	$3,763,625	$12,416,410	$67,636,536	$17,535,907	$45,800,880

STATUS OF BUDGETARY RESOURCES	**Other**	**Research, Development, Test & Evaluation**	**Operation and Maintenance**	**Procurement**	**Military Personnel**
Obligations incurred:					
Direct	$3,568,903	$8,045,894	$55,998,027	$13,254,532	$44,933,975
Reimbursable	17,475	3,058,163	10,713,564	795,340	643,728
Subtotal	3,586,378	11,104,057	66,711,591	14,049,872	45,577,703
Unobligated balance:					
Apportioned	145,477	1,246,696	27,309	3,355,401	85,961
Exempt from apportionment	25,665	0	0	0	0
Other available	0	0	0	0	0
Unobligated Balances Not Available	6,105	65,656	897,635	130,633	137,217
Total, Status of Budgetary Resources	$3,763,625	$12,416,409	$67,636,535	$17,535,906	$45,800,881

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY RESOURCES	Military Construction/ Family Housing	2003 Combined	2002 Combined
Budget Authority:			
Appropriations received	$2,305,997	$117,695,530	$81,067,276
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	359	5,307,441	5,290,599
Other	0	0	0
Unobligated balance:			
Beginning of period	1,635,578	5,858,110	5,701,789
Net transfers, actual (+/-)	(27,484)	1,214,524	408,970
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	2,321,752	14,095,736	12,012,602
Receivable from Federal sources	(22,440)	12,974	(146,322)
Change in unfilled customer orders	0	0	0
Advance received	102,200	119,338	87,119
Without advance from Federal sources	873,830	3,655,318	1,164,785
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$3,275,342	$17,883,366	$13,118,184
Recoveries of prior year obligations	383,901	8,001,403	8,287,368
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(71,256)	(1,304,580)	(1,569,179)
Total Budgetary Resources	$7,502,437	$154,655,794	$112,305,007

STATUS OF BUDGETARY RESOURCES	Military Construction/ Family Housing	2003 Combined	2002 Combined
Obligations incurred:			
Direct	$2,211,052	$128,012,383	$91,731,863
Reimbursable	3,202,149	18,430,419	14,715,031
Subtotal	5,413,201	146,442,802	106,446,894
Unobligated balance:			
Apportioned	2,086,303	6,947,148	4,788,478
Exempt from apportionment	0	25,665	0
Other available	0	0	2
Unobligated Balances Not Available	2,932	1,240,179	1,069,633
Total, Status of Budgetary Resources	$7,502,436	$154,655,794	$112,305,007

The accompanying notes are an integral part of these statements.

Statement of Dissagregated Budgetary Resources

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Relationship of Obligations to Outlays:	**Other**	**Research, Development, Test & Evaluation**	**Operation and Maintenance**	**Procurement**	**Military Personnel**
Obligated Balance, Net- beginning of period	$476,739	$3,451,904	$13,206,959	$11,607,075	$2,212,269
Obligated Balance transferred, net (+/-)	0	0	0	0	0
Obligated Balance, Net- end of period:					
Accounts receivable	(2,044)	(169,514)	(807,924)	(71,956)	(405,504)
Unfilled customer order from Federal sources	(33,419)	(1,545,800)	(4,636,319)	(1,410,095)	0
Undelivered orders	1,130,639	4,933,579	19,969,192	13,052,626	89,544
Accounts payable	143,629	557,052	8,275,351	963,644	3,892,359
Outlays:					
Disbursements	2,801,547	9,770,622	49,767,608	12,052,296	43,233,030
Collections	3,952	(2,729,139)	(7,792,161)	(716,226)	(557,546)
Subtotal	$2,805,499	$7,041,483	$41,975,447	$11,336,070	$42,675,484
Less: Offsetting receipts	(95,571)	0	0	0	0
Net Outlays	$2,709,928	$7,041,483	$41,975,447	$11,336,070	$42,675,484
BUDGETARY RESOURCES					
Budget Authority:					
Appropriations received	$0	$0	$0	$0	$0
Borrowing authority	0	0	0	0	0
Contract authority	0	0	0	0	0
Net transfers (+/-)	0	0	0	0	0
Other	0	0	0	0	0
Unobligated balance:					
Beginning of period	730	0	0	0	0
Net transfers, actual (+/-)	0	0	0	0	0
Anticipated Transfers Balances	0	0	0	0	0
Spending authority from offsetting collections:					
Earned	0	0	0	0	0
Collected	543	0	0	0	0
Receivable from Federal sources	0	0	0	0	0
Change in unfilled customer orders	0	0	0	0	0
Advance received	0	0	0	0	0
Without advance from Federal sources	0	0	0	0	0
Anticipated for the rest of year, without advances	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0
Subtotal	$543	$0	$0	$0	$0
Recoveries of prior year obligations	0	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0	0
Permanently not available	0	0	0	0	0
Total Budgetary Resources	$1,273	$0	$0	$0	$0

The accompanying notes are an integral part of these statements.

For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Relationship of Obligations to Outlays:	Military Construction/ Family Housing	2003 Combined	2002 Combined
Obligated Balance, Net- beginning of period	$2,707,322	$33,662,267	$31,626,562
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net- end of period:			
Accounts receivable	(23,763)	(1,480,706)	(1,467,731)
Unfilled customer order from Federal sources	(3,190,687)	(10,816,319)	(7,161,002)
Undelivered orders	5,560,312	44,735,892	30,611,343
Accounts payable	211,954	14,043,988	11,679,657
Outlays:			
Disbursements	4,327,417	121,952,521	95,105,359
Collections	(2,423,952)	(14,215,073)	(12,099,721)
Subtotal	$1,903,465	$107,737,448	$83,005,638
Less: Offsetting receipts	0	(95,571)	(184,839)
Net Outlays	$1,903,465	$107,641,877	$82,820,799
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$0	$0	$0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	0	730	691
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	0	543	39
Receivable from Federal sources	0	0	0
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$0	$543	$39
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	$0	$1,273	$730

The accompanying notes are an integral part of these statements.

Statement of Dissagregated Budgetary Resources

Department of Defense • Department of the Army, General Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Other	Research, Development, Test & Evaluation	Operation and Maintenance	Procurement	Military Personnel
STATUS OF BUDGETARY RESOURCES					
Obligations incurred:					
Direct	$0	$0	$0	$0	$0
Reimbursable	0	0	0	0	0
Subtotal	$0	$0	$0	$0	$0
Unobligated balance:					
Apportioned	1,273	0	0	0	0
Exempt from apportionment	0	0	0	0	0
Other available	0	0	0	0	0
Unobligated Balances Not Available	0	0	0	0	0
Total, Status of Budgetary Resources	$1,273	$0	$0	$0	$0
Relationship of Obligations to Outlays:					
Obligated Balance, Net- beginning of period	$0	$0	$0	$0	$0
Obligated Balance transferred, net (+/-)	0	0	0	0	0
Obligated Balance, Net- end of period:					
Accounts receivable	0	0	0	0	0
Unfilled customer order from Federal sources	0	0	0	0	0
Undelivered orders	0	0	0	0	0
Accounts payable	0	0	0	0	0
Outlays:					
Disbursements	0	0	0	0	0
Collections	(543)	0	0	0	0
Subtotal	($543)	$0	$0	$0	$0
Less: Offsetting receipts	0	0	0	0	0
Net Outlays	($543)	$0	$0	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Military Construction/ Family Housing	2003 Combined	2002 Combined
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$0	$0	$0
Reimbursable	0	0	0
Subtotal	$0	$0	$0
Unobligated balance:			
Apportioned	0	1,273	730
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$0	$1,273	$730
Relationship of Obligations to Outlays:			
Obligated Balance, Net- beginning of period	$0	$0	$0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net- end of period:			
Accounts receivable	0	0	0
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	0	0	0
Accounts payable	0	0	0
Outlays:			
Disbursements	0	0	0
Collections	0	(543)	(39)
Subtotal	$0	($543)	($39)
Less: Offsetting receipts	0	0	0
Net Outlays	$0	($543)	($39)

The accompanying notes are an integral part of these statements.

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part A DoD Intragovernmental Asset Balances ($ Amounts In Thousands)	Treasury Index:	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		$474			
Department of Agriculture	12		$1,113			
Department of Commerce	13		$617			
Department of the Interior	14		$451			
Department of Justice	15		$14,861			
Department of Labor	16		$1			
Navy General Fund	17		$48,294			
Department of State	19		$2,692			
Department of the Treasury	20	$55,035,480	$19,848		$1,231	
Department of Veterans Affairs	36		$589			
General Service Administration	47		$2,383			
Air Force General Fund	57		$183,527			$3,434
Federal Emergency Management Agency	58		$220			
Environmental Protection Agency	68		$225			
Department of Transportation	69		$27,310			
Department of Health and Human Services	75		$102			
National Aeronautics and Space Administration	80		$872			
Department of Housing and Urban Development	86		$20			
Department of Energy	89		$548			
Other Legislative Branch Agencies	9		$28			
Selective Service System	90		$7,822			
US Army Corps of Engineers	96		$3,574			$445
Other Defense Organizations General Funds	97		$159,102			$1,718
Other Defense Organizations Working Capital Funds	97-4930		$28,073			$48,845
Army Working Capital Fund	97-4930.001		$19,113			$28,985
Air Force Working Capital Fund	97-4930.003		$1,484			$47
Totals:		**$55,035,480**	**$523,343**		**$1,231**	**$83,474**

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part B DoD Intragovernmental Entity Liabilities ($ Amounts in Thousands)	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Executive Office of the President	11			$25,424
Department of Agriculture	12			$328
Department of Commerce	13			$19
Department of the Interior	14			$0
Department of Justice	15			$0
Department of Labor	16			$354,935
Navy General Fund	17	$12,315		$325
Department of State	19			$925
Department of the Treasury	20			$1,166,638
Office of Personnel Management	24			$90,525
Department of Veterans Affairs	36			$46
General Service Administration	47			$0
Air Force General Fund	57	$19,122		$1,482
Federal Emergency Management Agency	58			$251
Department of Transportation	69			$1,712
Department of Health and Human Services	75			$22,525
National Aeronautics and Space Administration	80			$888
Department of Energy	89			$111
Other Legislative Branch Agencies	9			$43
US Army Corps of Engineers	96	$5,451		
Other Defense Organizations General Funds	97	$130,583	$0	$4,109
Other Defense Organizations Working Capital Funds	97-4930	$532,101		$1
Army Working Capital Fund	97-4930.001	$365,836		$30
Navy Working Capital Fund	97-4930.002	$17,241		
Air Force Working Capital Fund	97-4930.003	$2,317		
Totals:		**$1,084,966**	**$0**	**$1,670,317**

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part C DoD Intragovernmental Revenue and Related Costs ($ Amounts in Thousands)	Treasury Index:	Earned Revenue
Executive Office of the President	11	$53,969
Department of Agriculture	12	$4,781
Department of Commerce	13	$2,892
Department of the Interior	14	$1,827
Department of Justice	15	$65,041
Department of Labor	16	$4
Navy General Fund	17	$510,392
Department of State	19	$60,736
Department of the Treasury	20	($111,175)
Department of Veterans Affairs	36	$2,527
General Service Administration	47	$8,789
Air Force General Fund	57	$1,345,832
Federal Emergency Management Agency	58	$2,143
Consumer Product Safety Commission	61	$5
Environmental Protection Agency	68	$1,877
Department of Transportation	69	$63,554
Department of Health and Human Services	75	$49,423
National Aeronautics and Space Administration	80	$19,497
Department of Housing and Urban Development	86	$20
Department of Energy	89	$4,587
Other Legislative Branch Agencies	9	$20
Selective Service System	90	$3,582
US Army Corps of Engineers	96	$27,704
Other Defense Organizations General Funds	97	$3,717,276
Other Defense Organizations Working Capital Funds	97-4930	$257,275
Army Working Capital Fund	97-4930.001	$281,652
Air Force Working Capital Fund	97-4930.003	$10,232
DoD Medicare-Eligible Retiree Health Care Fund		$134,546
Totals:		**$6,519,008**

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part E DoD Intragovernmental Non-exchange Revenues ($ Amounts in Thousands)	Treasury Index:	Transfers In	Transfers Out
Executive Office of the President	11	$466,000	
Air Force General Fund	57	$108,474	
Other Defense Organizations General Funds	97	$502,457	$10,481
Army Working Capital Fund	97-4930.001	$10,228	$918,816
Totals:		**$1,087,159**	**$929,297**

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

December 3, 2003

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Army General Funds Fiscal Year 2003 Principal Financial Statements (Report No. D-2004-028)

The Chief Financial Officers (CFO) Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Army General Funds as of September 30, 2003 and 2002, and the related Consolidated Statements of Net Cost and Changes in Net Position, the Combined Statement of Financing, the Combined Statement of Budgetary Resources, and the Statement of Custodial Activity for the fiscal years then ended. These financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations. In addition to our disclaimer of opinion on the financial statements, we are including the required reports on internal control and compliance with laws and regulations.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that (1) Army General Funds financial management systems do not substantially comply with Federal financial management systems requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level and (2) Army General Funds financial management and feeder systems cannot provide adequate evidence supporting various material amounts on the financial statements. Therefore, we did not perform auditing procedures to support material amounts on the financial statements. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards consistent with the representations made by management. The material deficiencies also affect the reliability of certain financial information contained in the accompanying Management's Discussion and Analysis and certain other information-much of which was taken from the same data sources as the principal financial statements.[1] These deficiencies would have precluded an audit opinion. As described above, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

[1] Other information includes the Supporting Consolidating and Combining Financial Statements, the Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

Summary of Internal Control

In planning and performing our audit, we considered Army internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions,[2] all of which are material, continue to exist in the following areas:

- financial management systems;
- accounting adjustments;
- intragovernmental transactions and eliminations;
- Fund Balance with Treasury;
- Accounts Receivable;
- Inventory and Related Property;
- General Property, Plant, and Equipment;
- Accounts Payable;
- Other Liabilities;
- problem disbursements;
- Statement of Net Cost;
- Statement of Financing; and
- Statement of Budgetary Resources.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that noncompliance, misstatements, or losses that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

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[2] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. The Army was unable to comply with the requirements of the CFO Act of 1990, as amended. The Army has acknowledged that many of its financial management and feeder systems do not comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The Army was also unable to comply with Government Performance and Results Act requirements because it did not have cost accounting systems in place to collect, process, and report operating costs. Therefore, we did not determine whether the Army was in compliance with all other applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

In order for DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing the DoD-wide Business Enterprise Architecture. DoD anticipates developing and implementing the enterprise architecture by 2007. Until the enterprise architecture is fully developed and implemented, the Army will be unable to fully comply with statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met;
- ensuring that the Army financial management systems substantially comply with FFMIA of 1996 requirements; and
- complying with applicable laws and regulations.

Paul J. Granetto

Paul J. Granetto, CPA
Director
Defense Financial Auditing
Service

Attachment
As stated

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States Article I, Section 9

Reports on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We performed reviews of the Army assertions that selected financial statement items were ready for audit and followed up on selected deficiencies in internal control over financial reporting identified in prior audit reports. We did not obtain sufficient evidence to support or express an opinion on internal control because previously identified reportable conditions, all of which are material, continue to exist. The following material internal control weaknesses precluded an audit opinion of the Army General Funds financial statements and significantly impaired the ability of DoD to detect and prevent fraud or theft of assets. A high risk of material misstatements will continue to exist until the internal control deficiencies are corrected.

Financial Management Systems. Army accounting systems lacked a single standard transaction-driven general ledger. In addition, the accounting systems did not produce account-oriented subsidiary ledgers, data for physical assets were compiled using "work-around" procedures, and data from management systems were not intended and not suitable for financial reporting. Consequently, the audit trails necessary to verify and reconcile account balances were inadequate. The Army also needed to upgrade or replace many of its feeder systems so that the requirements of financial statement reporting could be met. The lack of integrated, transaction-driven, financial management systems will continue to prevent the Army from preparing auditable financial statements.

The Army has disclosed its financial management system deficiencies in the footnotes to the Army General Funds financial statements. The Army stated that elements of Federal generally accepted accounting principles were not met due to limitations of its financial and non-financial management processes and systems. The Army derives its reported values and information for major asset and liability accounts from non-financial feeder systems, such as inventory and logistics systems. Major assets include Property, Plant, and Equipment (PP&E) and Inventory and Related Property. The Army generally records transactions on a budgetary basis, similar to a cash basis, and not an accrual accounting basis. Budgetary transactions were recorded, for example, in Fund Balance with Treasury, Accounts Receivable, Accounts Payable, gross costs, and earned revenues. Until the Army systems are updated, Army financial data will be based on budgetary transactions (obligations, disbursements, and collections).

Accounting Adjustments. Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army financial statements. The Defense Finance and Accounting Service (DFAS) Indianapolis made unsupported and undocumented adjustments to financial data recorded in the departmental general ledger system before the compilation of the financial statements was started. DFAS used these adjustments, called manual vouchers, to establish beginning balances for the departmental records implemented in FY 2003. DFAS Indianapolis used the departmental records to maintain department-level balances for public Accounts Receivables, contingent liabilities, environmental liabilities, and annual leave liabilities. DFAS Indianapolis prepared 21 manual vouchers, of which 15 were inadequately documented. In addition, DFAS Indianapolis made $65.7 billion in undocumented adjustments to record Accounts Payable for closing appropriations and to remove accounting data provided by field activities that was replaced by data calls.

In addition, DFAS Indianapolis did not adequately support $268.3 billion in journal voucher adjustments to the general ledger accounts that were used to prepare the Army General Funds financial statements. These unsupported adjustments related to specific line items in the financial statements are also discussed under separate headings in the remainder of this Attachment. Journal vouchers were not properly prepared, reviewed, and approved. These unsupported adjustments presented a material uncertainty regarding the line item balances on the FY 2003 Army General Funds financial statements. DFAS Indianapolis made:

- $207.1 billion in unsupported adjustments to force general ledger accounts to agree with status of appropriation data (or ending balance adjustments) without reconciling the differences or determining which data source was correct;
- $23.9 billion in unsupported adjustments to correct errors and reclassify amounts to other accounts;
- $23.1 billion in adjustments to intragovernmental accounts to force the accounts to agree with the records of Army's trading partners; and
- $14.2 billion in unsupported adjustments to force amounts to agree with other sources of information and records or financial statement lines.

DFAS Indianapolis also adjusted the status of appropriations data reported by field accounting entities. DFAS Indianapolis uses status of appropriations data for many of the financial assets reported on the financial statements; such as, Fund Balance With Treasury and Accounts Receivable. The status of appropriations data are maintained by a legacy accounting system, which does not have the ability to establish new beginning balances at the start of the fiscal year. DFAS Indianapolis compensates for this deficiency with a "FoxPro" (a software program) application that computes new beginning balances and enters them into the legacy system as an accounting adjustment. We examined the $1.0 trillion in beginning balance adjustments and found the support inadequate. We could not determine what portion of the adjustment was accurate.

Intragovernmental Transactions and Eliminations. DoD and Army accounting systems did not capture trading partner data at the transaction level in a manner that facilitated trading partner reconciliations, and DoD guidance did not require adequate support for eliminations. In addition, DoD procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. DFAS Indianapolis made $23.1 billion in unsupported adjustments to intragovernmental accounts to force the accounts to agree with the records of Army's trading partners. These adjustments caused Accounts Payable on the Balance Sheet and the breakout between intragovernmental and public costs on the Statement of Net Cost to be unsupported.

Fund Balance with Treasury. Cash balances between installation, headquarters, and U.S. Treasury records could not be reconciled. DoD financial systems were not integrated; errors in preparation and perpetuation of financial information occurred; and the DoD collection and payment process had weaknesses. DFAS Indianapolis increased Fund Balance with Treasury by $423.8 million in unsupported adjustments through the ending balance adjustment for FY 2003.

Accounts Receivable. DFAS made $1.1 billion in unsupported adjustments to increase the Accounts Receivable balance because of the ending balance adjustment for FY 2003. Also, the Army disclosed in its financial statement footnotes that it could not reconcile its $523.3 million intragovernmental Accounts Receivable or make proper eliminations.

Inventory and Related Property. Statements of Federal Financial Accounting Standards (SFFAS) No. 3 requires the use of the consumption method of accounting for Operating Materials and Supplies; however, the Army has acknowledged that it uses the standard purchase price to value Operating Materials and Supplies. Operating Materials and Supplies in-transit records were not properly closed out, and Operating Materials and Supplies were reported using the purchase method of accounting, instead of the consumption method. Inventories were reported at latest acquisition cost because Army systems do not maintain historical data.

General Property, Plant, and Equipment. SFFAS No. 6 requires that all PP&E be recorded at cost and that depreciation expense be recognized on all general PP&E. Depreciation is to be calculated through the systematic and rational allocation of the cost of general PP&E, less the estimated salvage or residual value, over the estimated useful life. Army systems were unable to capture the correct acquisition date and cost and could not provide reliable information for reporting account balances and computing depreciation. The Army was unable to support its assertion that personal property was ready for audit because it could not support the reported value of personal property. Also, the Army could not support the reported cost of Military Equipment in accordance with generally accepted accounting standards due to an absence of detailed cost information. For additional details, see Note 10 to the financial statements.

Accounts Payable. DFAS made $11.3 billion in unsupported adjustments that increased Accounts Payable balances. The Army disclosed that it could not reconcile its $1.1 billion intragovernmental Accounts Payable or make proper eliminations. As a result, DFAS Indianapolis made unsupported adjustments to increase Accounts Payable with the public and to decrease intragovernmental Accounts Payable in order to force the amounts to agree with Army's trading partners.

Other Liabilities. The Army was trying to determine what actions are needed to improve accountability over environmental liabilities. Processes and data used to report $26.4 billion in environmental liabilities on Army General Funds financial statements were unreliable. The Army used environmental budgetary estimates as the basis for the environmental liabilities reported on the financial statements. However, Army activities did not have effective controls in place to ensure adequate audit trails and documentation for estimates; and the Army did not comply with established guidance in developing estimates or have reliable feeder and coordination systems. As a result, environmental liabilities on the Balance Sheet and the footnotes are not adequately supported. In addition, the Army had not established controls and procedures to express an opinion in its legal representation letter on the likely outcome of 217 pending legal cases or to estimate value of the Government's potential monetary loss as required by Office of Management and Budget Bulletin No. 01-02, "Audit Requirement for Federal Financial Statements," October 16, 2002. However, some case narratives showed that the Government is seeking settlement, or that settlement is pending. As a result, contingent liabilities on the Balance Sheet or the footnotes may be understated. In addition, accrued funded payroll included an unsupported adjustment of $2 billion made to the general ledger data.

Problem Disbursements. Problem disbursements occurred because accounting and finance systems were not integrated, and disbursements were made by organizations that were not collocated with the accounting stations. Therefore, errors and delays occurred in posting disbursement data to accounting records. As of September 30, 2003, the Army General Funds reported $259.9 million (absolute value) of unmatched disbursements, $26.3 million (net value) of negative unliquidated obligations, and $1.1 billion (net value) of in-transit disbursements. These payments and collections have been reported to the Treasury, but have not been recorded in the Department's accounting records. This adversely affects expenditure rates and revenue recognition and distorts financial statements.

Statement of Net Cost. SFFAS No. 4 requires that Federal agencies provide reliable and timely information on the full cost of Federal programs, activities, and outputs. DoD entities use the major appropriation categories, as set forth by the Congress, instead of program-level information. This approach does not meet the intent of SFFAS No. 4. Appropriation categories are not consistent with DoD performance goals and measures and are inappropriate for the preparation of the Statement of Net Cost, which is intended to show the full net cost for entity programs. An appropriation is a funding mechanism that does not record accrued expenses, and a program may use more than one appropriation and include non-productive costs allocated to entity programs, such as accrued expenses. The Army also used budgetary data to record expenses. Specifically, DFAS made $29.9 billion in unsupported adjustments to force costs to agree with obligation information. In addition, Army intragovernmental transactions were not properly accounted for, reported, and appropriately eliminated because DoD did not require trading partner reconciliations, and DFAS Indianapolis was unable to reconcile Army intragovernmental transactions with its trading partners. As a result, DFAS Indianapolis made unsupported adjustments to increase intragovernmental costs and to decrease cost with the public in order to force buyer-side transaction data to agree with seller-side transaction data.

Statement of Financing. The Army has acknowledged that budgetary data do not agree with proprietary expenses and assets capitalized. The Army disclosed in the notes to the financial statements that an adjustment was made to Gross Cost with the Public on the Statement of Net Cost to bring it into agreement with the Statement of Financing. Differences between budgetary and proprietary data for the Army are a previously identified deficiency. Additionally, the Army prepared the Statement of Financing on a combined basis instead of the consolidated basis required by OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements."

Statement of Budgetary Resources. DFAS was unable to provide a single database supporting the summary transactions used to prepare the Army Reports on Budget Execution and the Army financial statements. In addition, DFAS Indianapolis made $316.1 million in unsupported adjustments to general ledger data used to prepare the Statement of Budgetary Resources.

Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Army was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Statutory Financial Management Systems Reporting Requirements. The Army is required to comply with the following financial management systems reporting requirements. For example, the FFMIA of 1996 requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires DoD to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. The CFO Act requires that each agency develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control. The system should comply with internal control standards, applicable accounting principles, standards, and requirements and provide for complete, reliable, consistent and timely information.

The Army acknowledged that many of its critical financial management and feeder systems do not comply substantially with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The Army is also unable to comply with the CFO Act because its financial management systems were not integrated and it has acknowledged that many of its financial management and feeder systems do not comply with applicable Federal accounting standards.

In an attempt to comply with statutory reporting requirements and applicable financial systems requirements in the future, DoD is developing a DoD-wide Business Enterprise Architecture. The enterprise architecture is intended to provide a "blueprint" of DoD financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is fully developed, the Army will be unable to fully comply with the statutory reporting requirements. Therefore, we did not perform tests of compliance for these requirements.

Government Performance and Results Act (GPRA). The GPRA requires that each Federal agency prepare a strategic plan and annual performance plans and reports. Until the DoD-wide financial management enterprise architecture is fully developed, DoD will be unable to fully measure its performance goals related to financial and information management. The Army did not comply with GPRA because it did not have cost accounting systems in place to collect, process, and report operating costs. This resulted in the Army Statement of Net Cost being unable to provide cost-of-operations data that were consistent with GPRA performance goals and measures.

Audit Disclosures

We recognize that there were additional laws and regulations pertinent to Army General Funds financial operations during FY 2003. However, in accordance with Public Law 107-107, the "National Defense Authorization Act for Fiscal Year 2002," we limited our audit scope and performed only the audit procedures required by generally accepted government auditing standards consistent with the representations made by the Assistant Secretary of the Army (Financial Management and Comptroller) in the April 14, 2003, Engagement Memorandum. Therefore, we did not perform tests of compliance for the following requirements.

- Antideficiency Act.
- Provisions Governing Claims of the United States Government.
- Federal Credit Reform Act of 1990.
- Pay and Allowance System for Civilian Employees.
- Prompt Payment Act.

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged in the April 14, 2003, Engagement Memorandum that the Army financial management systems could not provide adequate evidence supporting various material amounts on the financial statements. As a result, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal control, and compliance with laws and regulations.

This report does not include recommendations to correct the material weaknesses and instances of noncompliance because previous audit reports contained recommendations for corrective actions.

Department of Defense • Department of the Army
As of September 30, 2003 and 2002 ($ in thousands)

	2003 Consolidated	2002 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	$1,548,546	$251,030
Non-Entity Seized Iraqi Cash	0	0
Non-Entity-Other	0	0
Investments (Note 4)	0	0
Accounts Receivable (Note 5)	411,254	221,978
Other Assets (Note 6)	329	48
Total Intragovernmental Assets	$1,960,129	$473,056
Cash and Other Monetary Assets (Note 7)	$0	$0
Accounts Receivable (Note 5)	31,176	16,419
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	12,131,811	11,319,284
General Property, Plant and Equipment (Note 10)	926,751	1,250,240
Investments (Note 4)	0	0
Other Assets (Note 6)	269,877	251,298
TOTAL ASSETS	$15,319,744	$13,310,297
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$435,586	$77,527
Debt (Note 13)	0	0
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	94,499	262,039
Total Intragovernmental Liabilities	$530,085	$339,566
Accounts Payable (Note 12)	$342,365	$511,007
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	320,654	304,524
Environmental Liabilities (Note 14)	0	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 & Note 16)	231,004	212,055
Debt Held by Public (Note 13)	0	0
TOTAL LIABILITIES	$1,424,108	$1,367,152
NET POSITION		
Unexpended Appropriations (Note 18)	$11,960	$30,043
Cumulative Results of Operations	13,883,676	11,913,102
TOTAL NET POSITION	$13,895,636	$11,943,145
TOTAL LIABILITIES AND NET POSITION	$15,319,744	$13,310,297

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Costs

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	2003 Consolidated	2002 Consolidated
Program Costs		
Intragovernmental Gross Costs	$2,651,517	$1,424,466
(Less: Intragovernmental Earned Revenue)	(10,283,891)	(6,849,906)
Intragovernmental Net Costs	($7,632,374)	($5,425,440)
Gross Costs With the Public	7,334,031	6,358,713
(Less: Earned Revenue From the Public)	(222,087)	(345,171)
Net Costs With the Public	$7,111,944	$6,013,542
Total Net Cost	($520,430)	$588,102
Cost Not Assigned to Programs	0	0
(Less:Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	($520,430)	$588,102

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	CUMULATIVE RESULTS OF OPERATIONS		UNEXPENDED APPROPRIATIONS	
	2003 Consolidated	**2002 Consolidated**	**2003 Consolidated**	**2002 Consolidated**
Beginning Balances	$11,913,102	$11,767,917	$30,043	$38,860
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$11,913,102	$11,767,917	$30,043	$38,860
Budgetary Financing Sources:				
Appropriations received	0	0	249,000	167,400
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	267,083	176,217	(267,083)	(176,217)
Nonexchange revenue	0	170,039	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	(63,903)	202,799	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	908,589	74,348	0	0
Imputed financing from costs absorbed by others	121,311	109,884	0	0
Other (+/-)	217,064	0	0	0
Total Financing Sources	$1,450,144	$733,287	($18,083)	($8,817)
Net Cost of Operations (+/-)	(520,430)	588,102	0	0
Ending Balances	$13,883,676	$11,913,102	$11,960	$30,043

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY FINANCING ACCOUNTS	BUDGETARY RESOURCES		NON-BUDGETARY RESOURCES	
BUDGETARY RESOURCES	**2003 Combined**	**2002 Combined**	**2003 Combined**	**2002 Combined**
Budget Authority:				
Appropriations received	$249,000	$167,400	$0	$0
Borrowing authority	0	0	0	0
Contract authority	67,627	66,607	0	0
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	1,708,247	1,505,447	0	0
Net transfers, actual (+/-)	0	0	0	0
Anticipated Transfers balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	9,644,303	6,145,494	0	0
Receivable from Federal sources	236,175	(55,125)	0	0
Change in unfilled customer orders	0	0	0	0
Advance received	(179,239)	128,906	0	0
Without advance from Federal sources	2,351,152	177,233	0	0
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	$12,052,391	$6,396,508	$0	$0
Recoveries of prior year obligations	587,959	403,899	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	0	0	0	0
Total Budgetary Resources	$14,665,224	$8,539,861	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

NONBUDGETARY FINANCING ACCOUNTS	BUDGETARY RESOURCES		NON-BUDGETARY RESOURCES	
STATUS OF BUDGETARY RESOURCES	**2003 Combined**	**2002 Combined**	**2003 Combined**	**2002 Combined**
Obligations incurred:				
Direct	$249,028	$171,652	$0	$0
Reimbursable	12,322,493	6,659,961	0	0
Subtotal	$12,571,521	$6,831,613	$0	$0
Unobligated balance:				
Apportioned	2,093,704	1,708,248	0	0
Exempt from apportionment	0	0	0	0
Other available	(1)	0	0	0
Unobligated Balances Not Available	0	0	0	0
Total, Status of Budgetary Resources	$14,665,224	$8,539,861	$0	$0
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net - beginning of period	$918,667	$1,129,489	$0	$0
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(516,379)	(280,204)	0	0
Unfilled customer order from Federal sources	(4,651,613)	(2,300,462)	0	0
Undelivered orders	6,085,073	2,770,002	0	0
Accounts payable	981,250	729,331	0	0
Outlays:				
Disbursements	8,416,571	6,516,428	0	0
Collections	(9,465,064)	(6,274,399)	0	0
Subtotal	($1,048,493)	$242,029	$0	$0
Less: Offsetting receipts	0	0	0	0
Net Outlays	($1,048,493)	$242,029	$0	$0

The accompanying notes are an integral part of these statements.

Combined Statement of Financing

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	2003 Combined	2002 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$12,571,521	$6,831,613
Less: Spending authority from offsetting collections and recoveries (-)	(12,640,348)	(6,800,407)
Obligations net of offsetting collections and recoveries	($68,827)	$31,206
Less: Offsetting receipts (-)	0	0
Net obligations	($68,827)	$31,206
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	908,589	0
Imputed financing from costs absorbed by others	121,311	109,884
Other (+/-)	217,064	0
Net other resources used to finance activities	1,246,964	109,884
Total resources used to finance activities	$1,178,137	$141,090
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	($3,301,433)	$259,206
Unfilled Customer Orders	2,171,911	306,139
Resources that fund expenses recognized in prior periods	(2,765)	(4,133)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
Resources that finance the acquisition of assets	(324,219)	(338,258)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	0	0
Total resources used to finance items not part of the net cost of operations	($1,456,506)	$222,954
Total resources used to finance the net cost of operations	($278,369)	$364,044

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**2003 Combined**	**2002 Combined**
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	$1,995	$2,211
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the the public (-)	(6,079)	0
Other (+/-)	16,466	1,128
Total components of Net Cost of Operations that will require or generate resources in future periods	$12,382	$3,339
Components not Requiring or Generating Resources:		
Depreciation and amortization	194,093	105,065
Revaluation of assets or liabilities (+/-)	(448,536)	107,703
Other (+/-)	0	7,951
Total components of Net Cost of Operations that will not require or generate resources	($254,443)	$220,719
Total components of net cost of operations that will not require or generate resources in the current period	($242,061)	$224,058
Net Cost of Operations	($520,430)	$588,102

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army Working Capital Fund (AWCF), as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the AWCF in accordance with the "Department of Defense (DoD) Financial Management Regulation," Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible Generally Accepted Accounting Principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official accounting standards setting body for the federal government.

The accompanying financial statements account for all resources for which the AWCF is responsible, except information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The term classified means information, which, for reasons of national security, is specifically designated by a United States (U.S.) Government Agency for limited or restricted dissemination or distribution. 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 use of budgetary resources.

The AWCF is unable to fully implement all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial and nonfinancial management processes and systems. 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 systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the AWCF cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The AWCF continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems. The AWCF provides a more detailed explanation of these financial statement elements in the applicable footnotes.

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

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

1.B. Mission of the Reporting Entity

The AWCF is part of the Defense Working Capital Fund, and is divided into four separate activity groups: Supply Management, Depot Maintenance, Ordnance, and

Information Services. These separate activities ensure delivery, of critical items such as petroleum products, repair parts, consumable supplies, depot maintenance services and information services to support the deployment and projection of lethal force as and when required by the nation.

1.C. Appropriations and Funds

The Army's 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 Army's missions.

The AWCF (revolving funds) receives their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and uses 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 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.

1.D. Basis of Accounting

The AWCF generally records transactions on an accrual accounting basis required by Federal GAAP. For FY 2003, the AWCF's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the AWCF's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for Federal Agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

The AWCF has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). At this time, not all AWCF accounting systems are USSGL compliant. In addition, with the full implementation of the Logistics Modernization Program (LMP), the AWCF will be in compliance with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." As of September 30, 2003, LMP has been implemented at Tobyhanna Army Depot, Communications and Electronics Command, Soldiers System Command, and selected Army Materiel Command Headquarter activities. LMP will not be fully implemented until the end of FY 2004. Until such time as all of the processes are updated to collect and report financial information as required by Federal GAAP, some of the AWCF's financial data will be based on budgetary transactions (obligations, disbursements, collections), and nonfinancial feeder systems. For example, most financial information presented on the Statement of Net Costs is based on accrued costs; however, some of the financial information is based on obligations and disbursements.

In addition, the AWCF identifies programs based upon the major appropriation groups provided by the 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.

1.E. Revenues and Other Financing Sources

The AWCF's revenue is recognized according to the percentage of completion method for depot maintenance and ordnance activities. Revenue for supply management activities is recognized when an inventory item is sold. Information Services activities recognize revenue at the time the expense is incurred. Prices set for products and services offered through the AWCF are intended to recover the full costs (cost plus administrative fees) incurred by these activities. Unearned revenue is recorded as deferred revenue until earned.

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

1.F. Recognition of Expenses

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 in the AWCF's operations until depreciated as in the case of property, plant and equipment (PP&E). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are recognized in the period in which payments are made.

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

1.G. Accounting for Intra-governmental 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, nor do the financial 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). Employees and personnel covered by FERS also have varying coverages under Social Security. The AWCF funds a portion of the both retirement systems . Reporting civilian pensions under CSRS and FERS 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. The AWCF also recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

To prepare reliable financial statements, transactions occurring between components or activities within the AWCF must be eliminated for consolidated financial reporting purposes. However, the entire Federal Government, including the AWCF, cannot accurately identify all intragovernmental transactions by its related components or activities. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the AWCF. Beginning in FY 1999, seller entities within the AWCF provided summary seller-side balances for revenue, accounts receivable, transfers-in/out, and unearned revenue to the buyer-side internal AWCF accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. The AWCF intragovernmental balances are then eliminated.

The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the DoD and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The AWCF was not able to fully implement the policies and procedures in this Guide relating to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. However, the AWCF was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide" issued in October 2002 for reconciling intragovernmental transactions. These transactions pertain to Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the AWCF sells defense items 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 DoD has the authority to sell to these foreign entities generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

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

The AWCF's financial resources are maintained in U.S. Treasury accounts. DFAS, Military Services, U.S. Army Corp of Engineers (USACE) disbursing stations as well as the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments for the Federal Government worldwide. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the AWCF's and Treasury's records sometime result and are subsequently reconciled. Material disclosures are provided in Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B (Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts) specifically, differences caused by in-transit disbursements and unmatched disbursements which are not recorded in the accounting offices' detail-level records.

1.J. Foreign Currency

Not Applicable

1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable consists of accounts, claims, and refunds owed to the AWCF by other federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise from the provision of goods and services to state, local, and foreign governments. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances by fund type. The AWCF does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided in Note 5.

1.L. Loans Receivable. As Applicable.

Not Applicable

1.M. Inventories and Related Property

The AWCF's inventories are reported using the Latest Acquisition Cost (LAC), which approximates historical cost, adjusted for holding gains and losses, and Moving Average Cost (MAC). The AWCF uses the LAC method because its inventory systems were designed for material management rather than accounting, except for activities that have transitioned to the LMP. The systems provide accountability and visibility over inventory items. They do not maintain the exact historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property," nor can they directly produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996.

The AWCF began transitioning to the LMP during June of FY 2003. The LMP continues to be deployed to all AWCF activities during FY 2004. As such, accounting entries were made to reduce various inventory allowance accounts to zero, and to value inventory at adjusted LAC. Therefore, not all of the AWCF's inventory reported in the financial statements is valued using the same valuation method. In addition, prior years' audit findings identified uncertainties about the completeness and existence of quantities used to produce the reported values of inventories. The AWCF transition to LMP will also allow the use of a MAC methodology for valuing inventory that, when fully implemented, will allow the AWCF to comply with SFFAS No. 3 (See Note 9, Inventory and Related Property).

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

The AWCF implemented a new policy in FY 2002 to account for condemned material as excess, obsolete, and unserviceable. The net value of this type of inventory is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as excess, obsolete, and unserviceable, is included in held for use or held for repair categories according to its condition.

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

Not Applicable

1.O. General Property, Plant and Equipment

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two 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 are required to be capitalized. 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 FY's 1993, 1994, and 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on AWCF financial statements. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998.

For the AWCF activities, all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. For Heritage Assets and Stewardship Land owned or maintained on an AWCF installation are reported in the Supplemental Stewardship Report of the applicable military department. Material disclosures are provided in Note 10, General PP&E, Net.

Internal use software is capitalized at cost if the acquisition cost is $100,000 or more. For commercial off the shelf software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life for calculating amortization of software is 2 to 5 years using the straight-line method.

1.P. Advances and Prepayments

The AWCF records payments made prior to the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

1.Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) the AWCF records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The AWCF records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair value. The AWCF deems the use of estimates for these costs as 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. In addition, the AWCF classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

1.R. Other Assets

The AWCF conducts business with commercial contractors under two primary types of contracts--fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the AWCF provides financing payments. 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 Federal Acquisition Regulation, 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 DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." The DoD has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the 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.

1.T. Accrued Leave

The AWCF reports civilian annual leave and military leave that has been accrued and not used as of the balance sheet date as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates. Sick leave and other types of leave are expensed when used and no future liability is recognized for these amounts.

1.U. Net Position

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

Cumulative results of operations for AWCF represent the excess of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception. The AWCF is funded primarily from cumulative results, rather than unexpended appropriations.

1.V. Treaties for Use of Foreign Bases

The DoD components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are 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 non-retrievable 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.

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for the FY 2003. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between the FY 2002 and the FY 2003, are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The AWCF obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods or services not yet delivered.

Note 2. Nonentity and Entity Assets

	2003			2002
As of September 30	Nonentity	Entity	Total	Nonentity Assets
(Amounts in thousands)				
1. Intra-governmental Assets:				
A. Fund Balance with Treasury	$0	$1,548,546	$1,548,546	$0
B. Investments	0	0	0	0
C. Accounts Receivable	0	411,254	411,254	0
D. Other Assets	0	329	329	0
E. Total Intra-governmental Assets	$0	$1,960,129	$1,960,129	$0
2. Non-Federal Assets:				
A. Cash and Other Monetary Assets	$0	$0	$0	$0
B. Accounts Receivable	0	31,176	31,176	0
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	12,131,811	12,131,811	0
E. General Property, Plant and Equipment	0	926,751	926,751	0
F. Investments	0	0	0	0
G. Other Assets	0	269,877	269,877	0
H. Total Non-Federal Assets	$0	$13,359,615	$13,359,615	$0
3. Total Assets:	$0	$15,319,744	$15,319,744	$0

4. Other Information:

The presentation format for this footnote changed in FY 2003. Previously, the prior year comparative data column displayed the total assets. In FY 2003, it displays only the prior year nonentity asset balances.

Assets are categorized as:

Entity assets - resources that the Army Working Capital Fund (AWCF) has the authority to use or where management is legally obligated to use funds to meet entity obligations.

Nonentity asset - assets held by an entity but are not available for use in the operations of the entity. This is not applicable for the AWCF.

Other Assets - The composition of amounts reported as Intragovernmental Other Assets and Non-federal Other Assets are disclosed in Note 6, Other Assets.

Note Reference
For disclosure of changes in individual lines, see:
Note 3, Fund Balance with Treasury
Note 5, Accounts Receivable
Note 6, Other Assets
Note 9, Inventory
Note 10, Plant, Property, and Equipment

Note 3. Fund Balance with Treasury

As of September 30	2003	2002
(Amounts in thousands)		
1. Fund Balances:		
A. Appropriated Funds	$0	$0
B. Revolving Funds	1,548,546	251,030
C. Trust Funds	0	0
D. Other Fund Types	0	0
E. Total Fund Balances	$1,548,546	$251,030
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$1,548,546	$251,030
B. Fund Balance per Army Working Capital Fund	1,548,546	251,030
C. Reconciling Amount	$0	$0

3. Explanation of Reconciliation Amount:

4. Other Information Related to Fund Balance with Treasury:

Fluctuations and/or Abnormalities
The Fund Balance With Treasury (FBWT) available for the Army Working Capital Fund (AWCF) increased in FY 2003 by $1,297,516 thousand or 517 percent, from the FY 2002 balance. During FY 2003, the AWCF was allocated $249,000 thousand in appropriated funds to use for under-utilized plant capacity, purchase of war

reserves and purchase of spare parts. Interfund credits were reversed, causing an increase in cash of $348,000 thousand. In addition, Army Operation and Maintenance purchases of spare parts increased cash $600,000 thousand. Additional funds also were realized from increased sales in support of current military operations. Replacement inventory items are in procurement with an expected delivery date in FY 2004 and FY 2005.

The Intragovernmental Paying and Collecting (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. There are no IPAC differences reported for the Army as of FY 2003.

As of FY 2003, the AWCF has no unsupportable check issue discrepancies.

The deposit differences are reconcilable differences that represent deposit amounts reported by the Department of the Treasury for the organization. The amount applicable to the AWCF cannot be separately identified because the differences are tracked by the disbursing station serial number and not by appropriation. The Army has $29 thousand in deposit differences greater than 180 days old as of September 30, 2003, and reports these on the Army General Fund financial statements. The FY 2003 difference is a posting error by the bank for $22 thousand. Even though the transaction error occurred in September 2003, Treasury's rules post differences based on document date. The remaining $7 thousand difference is a duplicate transaction on the Treasury Statement of Accountability (1219). Corrective action for these differences is expected in October 2003.

Note Reference
See Note 1. I. - Significant Accounting Policies for related disclosures.

Note 4. Investments

Not applicable

Note 5. Accounts Receivable

As of September 30 (Amounts in thousands)	**2003** Gross Amount Due	Allowance for Estimated Collectibles	Accounts Receivable, Net	**2002** Accounts Receivable, Net
1. Intra-governmental Receivables:	$411,254	N/A	$411,254	$221,978
2. Non-Federal Receivables (From the Public):	$31,176	$0	$31,176	$16,419
3. Total Accounts Receivable:	$442,430	$0	$442,430	$238,397

4. Allowance method:

5. Other information:

Fluctuations and/or Abnormalities
Increased sales from supporting Operation Iraqi Freedom and the implementation of the Single Stock Fund Milestone 3 resulted in an increase of $189,274 thousand or 85 percent, in intragovernmental accounts receivable for FY 2003. The Single Stock Fund initiative records the movement of materiel from one brigade to another as a

sale and a corresponding receivable. In the past, these movements were recorded as materiel transfers. Over 88 percent of the $14,757 thousand increase in non-federal accounts receivable for FY 2003 can be attributed to an increase in contractor debt and Foreign Military Sales.

Allocation of Undistributed Collections - The DoD policy is to allocate supported undistributed reimbursements between intragovernmental and nonfederal categories based on the percentage of each category of receivables. However, the AWCF allocated supported undistributed reimbursements as intragovernmental because the majority of supported undistributed reimbursements are from intragovernmental sources. Normally an entity will not collect a reimbursement from a nonfederal source for another entity. As of FY 2003, the AWCF reported an abnormal balance of $51,425 thousand in undistributed collections. Reported intragovernmental accounts receivables do not include this balance. The balance was eliminated using the reporting entity as the buyer-side trading partner.

Elimination Adjustments - The AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile intragovernmental accounts receivable balances with its trading partners' accounts payable balances. The DoD intends to develop long-term systems improvements that will address this issue.

Intragovernmental Receivables Over 180 Days - Intragovernmental accounts receivable include $24,183 thousand in receivables over 180 days old.

Non-federal Receivables Over 180 Days - Non-federal accounts receivable includes $13,299 thousand over 180 days old, of this amount, $10,033 thousand was for contractor debt.

Non-federal Refunds Receivable (in thousands)

FY 2003 Non-federal Refunds Receivable	FY 2003 Non-federal Accounts Receivable (Net)	Percent of Net Amount
$5,380	$31,176	17

Note Reference

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

Note 6. Other Assets

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Intra-governmental Other Assets:		
A. Advances and Prepayments	$329	$48
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	$329	$48

As of September 30	2003	2002
(Amounts in thousands)		
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	$250,142	$232,513
B. Other Assets (With the Public)	19,735	18,785
C. Total Non-Federal Other Assets	$269,877	$251,298
3. Total Other Assets:	$270,206	$251,346

4. Other Information Related to Other Assets:

Fluctuations and/or Abnormalities

Intragovernmental advances and prepayments increased by $282 thousand or 591 percent, from the reported FY 2002 balance. This account balance is dictated by trading partner reports of unearned revenue made by other DoD entities with the bulk of the balance reported in FY 2002 attributable to the Army General Fund's Operations and Maintenance account and in FY 2003 to the Air Force Working Capital Fund.

Other Assets Non-Federal (in thousands)	
Type of Assets	
Advances to Others	
Contractor Advance	$19,418
Travel Advances	53
Prepayments	231
Creditable Material Returns	33
Totals	$19,735

Advances and Prepayments

In accordance with DoD elimination guidance, the FY 2003 AWCF intragovernmental advances to others balance increased by $330 thousand to agree with seller-side unearned revenue from others on the books of other DoD reporting entities.

Note Reference

See Note Disclosure 1. R. - Significant Accounting Policies for related additional disclosures.

Note 7. Cash and Other Monetary Assets

Not applicable

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

1. Direct Loan and/or Loan Guarantee Programs: The entity operates the following direct loan and/or Loan guarantee program(s):

Military Housing Privatization Initiative
Armament Retooling & Manufacturing Support Initiative

2. Other Information:
Not applicable

Note 8.B. Direct Loans Obligated After FY 1991

Not applicable

Note 8.C. Total Amount of Direct Loans Disbursed

Not applicable

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

Not applicable

Note 8.E. Subsidy Rate for Direct Loans

Not applicable

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

Not applicable

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

Not applicable

Note 8.H. Guaranteed Loans Outstanding

Not applicable

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

Not applicable

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

Not applicable

Note 8.K. Subsidy Rate for Loan Guarantees

Not applicable

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

Not applicable

Note 8.M. Administrative Expense

Not applicable

Note 9. Inventory and Related Property

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Inventory, Net (Note 9.A.)	$12,131,811	$11,319,284
2. Operating Materials & Supplies, Net (Note 9.B.)	0	0
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	$12,131,811	$11,319,284

Note 9.A. Inventory, Net

	2003			**2002**	Valuation
As of September 30	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Method
(Amounts in thousands)					
1. Inventory Categories:					
A. Available and Purchased for Resale	$13,073,000	($1,847,500)	$11,225,500	$10,160,304	O, LAC
B. Held for Repair	1,784,091	(888,993)	895098	1154180	O, LAC
C. Excess, Obsolete, and Unserviceable	351,311	(351,311)	0	0	NRV
D. Raw Materials	9,777	0	9777	0	O
E. Work in Process	1,436	0	1436	4800	LAC
F. Total	$15,219,615	($3,087,804)	$12,131,811	$11,319,284	

Legend for Valuation Methods:
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost

2. Restrictions of Inventory Use, Sale, or Disposition:
There are no restrictions on the use, sale, or disposition of inventory except in the following situations:
1) Distributions without reimbursement are made when authorized by DoD directives;

2) War reserve materiel includes petroleum products and subsistence items that are considered restricted; and

3) Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments; private parties; and contractors in accordance with current policies and guidance or at the direction of the President.

3. Other Information:

Definitions
Other- Moving Average Cost (MAC)

Inventory - spare and repair parts, clothing and textiles, petroleum products, and ammunition.

Inventory held for repair - damaged materiel that requires repair to make it usable.

Excess, obsolete, and unserviceable inventory - condemned materiel that must be retained for management purposes.

Raw materials - items consumed in the production of goods for sale or in the provision of services for a fee.

Work in process - munitions in production and maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services.

Future Sales
In addition to the account balances shown in Table 9.A., Federal Generally Accepted Accounting Principles require disclosure of the amount of inventory held for future sale. The Army Working Capital Fund (AWCF) estimates that $111,600 thousand of the Inventory Held for Sale will be sold more than 24 months after the end of FY 2003.

Fluctuations and/or Abnormalities
The Inventory Available and Purchased for Resale increased $1,065,196 thousand or 10 percent, during FY 2003. The increase is attributed to a direct appropriation of $189,000 thousand for the purpose of procuring additional inventory. In addition, the AWCF received a transfer of inventory from the Army General Fund of $918,800 thousand as part of the Single Stock Fund Milestone 3 implementation.

The inventory reported as Available and Purchased for Resale includes a net upward adjustment of $1,559,912 thousand to bring financial records into agreement with the logistics records in the Commodity Command Standard System. The Defense Finance and Accounting Service plans to implement new procedures in FY 2004 to reconcile the financial and logistics records on a daily basis.

The Inventory Held for Repair decreased $259,081 thousand or 22 percent, during FY 2003. The decrease is a result of the AWCF receiving additional obligation authority to repair parts and increase the Inventory Available and Purchased for Resale.

Raw Materials increased from zero to $9,777 thousand. The AWCF is reporting this category of inventory for the first time in FY 2003 as a result of activities transitioning to LMP. These items were previously reported as Available and Purchased for Resale.

Work in Process decreased $3,364 thousand or 70 percent during FY 2003, at Watervliet Arsenal. The nature of Watervliet's work performed this year in support of military operations resulted in delivery of more items and less carry over of work for FY 2004.

Logistics Modernization Program
The AWCF began transitioning to the Logistics Modernization Program (LMP) during June FY 2003. As such, accounting entries were made at those activities to reduce various inventory allowance accounts (unrealized holding gains) to zero prior to loading the inventory at MAC in LMP. As a result of this transition, the adjusting entries normally performed to convert inventory to LAC value were not made. The reported inventory balances include entries to close all inventory allowance accounts (Unrealized Holding Gains) resulting in an increase of $973,400 thousand to the inventory on hand. Therefore, not all of the AWCF's inventory reported in Note 9 is valued under the same method. Inventory at Tobyhanna Army Depot, Communications and Electronics Command, and Soldiers System Command is valued at MAC, with the exception of Tobyhanna's Project Stock, while the remainder of inventory is valued at LAC.

In addition, the AWCF inventory also decreased during the transition of several AWCF activities to LMP. The initial MAC value established in LMP was lower than the initial inventory value migrating from the Commodity Command Standard System (CCSS). The primary cause of the decrease is from the change from LAC to MAC. However, additional differences were identified at the time the statements were prepared, but the amounts could not be reconciled between the two systems.

Note 9.B. Operating Materials and Supplies, Net
Not applicable

Note 9.C. Stockpile Materials, Net
Not applicable

Note 10. General PP&E, Net

As of September 30	Depreciation/ Amortization Method	Service Life	2003 Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	2002 Prior FY Net Book Value
(Amounts in thousands)						
1. Major Asset Classes:						
A. Land	N/A	N/A	$0	N/A	$0	$10,254
B. Buildings, Structures, and Facilities	S/L	20 Or 40	1,773,572	(1,219,745)	553,827	591,647
C. Leasehold Improvements	S/L	lease term	95,320	(70,639)	24,681	27,394
D. Software	S/L	2-5 Or 10	187,431	(99,204)	88,227	137,368
E. Equipment	S/L	5 Or 10	1,551,230	(1,334,636)	216,594	446,268
F. Assets Under Capital Lease [1]	S/L	lease term	0	0	0	0
G.Construction-in-Progress	N/A	N/A	42,928	N/A	42,928	37,299
H. Other			494	0	494	10
I. Total General PP&E			$3,650,975	($2,724,224)	$926,751	$1,250,240

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

Legend for Valuation Methods:

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

2. Other Information:

Land - During FY 2003 a policy decision was published stating that the preponderance of use principle did not apply to land and that all land should be on the books of the Army General Fund. As a result of this change, the AWCF transferred $10,254 thousand in land to the Army General Fund.

Leasehold Improvements - The entire amount shown on this line is for improvements made to facilities at Corpus Christi Army Depot (CCAD). CCAD uses facilities on a Navy installation as a tenant with an ownership code on the real property records of Permit, Military. Improvements made on these facilities are recorded as leasehold improvements.

Software - Software decreased $49,141 thousand or 35 percent in FY 2003. The majority of the decrease is from the annual recording of depreciation.

Equipment - Equipment decreased in FY 2003 by $229,674 thousand or 51 percent. The decrease in value is due to additional depreciation recorded from the equipment review conducted at Watervliet (approximately $94,000 thousand), and from the annual recording of depreciation for the remaining equipment.

Construction in Progress - All maintenance and ordnance depots received capital improvement program funding for FY 2003. The majority of the increase in construction in progress was realized by Tobyhanna and Crane Army Depots for capital equipment replacement and minor construction projects.

Other - The balance shown on the Other line was reported in error at Tobyhanna Army Depot. Correcting entries will be processed in FY 2004.

Note Reference

See Note Disclosure 1.O. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing general property, plant and equipment (PP&E)

Note 10.A. Assets Under Capital Lease

Not applicable

Note 11. Liabilities Not Covered and Covered by Budgetary Resources

As of September 30 (Amounts in thousands)	**2003** Covered by Budgetary	Not Covered by Budgetary	Total	**2002** Not Covered by Budgetary
1. Intra-governmental Liabilities:				
A. Accounts Payable	$435,586	$0	$435,586	$0
B. Debt	0	0	0	0
C. Environmental Liabilities	0	0	0	0
D. Other	66,675	27,824	94,499	28,337
E. Total Intra-governmental Liabilities	$502,261	$27,824	$530,085	$28,337
2. Non-Federal Liabilities:				
A. Accounts Payable	$342,365	$0	$342,365	$0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	320,654	320,654	304,524
C. Environmental Liabilities	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	231,004	0	231,004	0
F. Total Non-Federal Liabilities	$573,369	$320,654	$894,023	$304,524
3. Total Liabilities:	$1,075,630	$348,478	$1,424,108	$332,861

4. Other Information:

Reporting requirements for this note changed in FY 2003. The FY 2002 Note 11 comparison was total Liabilities Covered and Uncovered by Budgetary Resources. In FY 2003, the comparison is only for Liabilities Not Covered by Budgetary Resources. Also, in FY 2002, the Not Covered by Budgetary column contained both covered and not covered liabilities, while the Covered by Budgetary Resources column contained funded liabilities. In FY 2003, the covered liabilities are included with the funded liabilities in the Covered by Budgetary Resources column. In FY 2002 the Not Covered by Budgetary Resources - Intragovernmental Liabilities: Other balance contained $21,789 thousand for FECA covered liabilities and $28,337 thousand for FECA not covered liabilities. The balance of $27,824 thousand shown for FY 2003 reflects only the liability for FECA not covered. The FECA covered balance is reported on the same line as Covered by Budgetary Resources. The FY 2002 balance for Not Covered by Budgetary Resources - Non-federal Liabilities: Other Liabilities reflects a balance of $73,362 thousand for annual leave covered liabilities. In FY 2003 the annual leave covered liabilities are included in the same line under Covered by Budgetary Resources.

Covered Liabilities - unobligated liabilities covered by budgetary resources.

Funded Liabilities - obligated liabilities covered by budgetary resources.

Liabilities Not Covered by Budgetary Resources - liabilities not covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources - liabilities incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include:

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

Other Liabilities (Amounts in thousands):

Intragovernmental - Other Liabilities	**Covered**	**Not Covered**
Advances From Others	$32,674	$0
FECA Reimbursement to the Dept of Labor	22,637	27,824
Employers share of VSIP	630	0
Employers share of CSRS/FERS, FEGLI, and FEHB	10,734	0
Total	**$66,675**	**$27,824**
Non-Federal -Other Liabilities		
Accrued Funded Payroll and Benefits	$84,525	$0
Advances From Others	33,421	0
Accrued Unfunded Annual Leave	72,592	0
Withholdings	805	
Contract Holdbacks	31,751	0
Employers Contribution to TSP and Taxes Payable	7,910	0
Total	**$231,004**	**$0**
Total Other Liabilities	$297,679	$27,824

Legend:

- FECA - Federal Employees Contribution Act
- VSIP - Voluntary Separation Incentive Pay
- CSRS - Civil Service Retirement System
- FERS - Federal Employees Retirement System
- FEGLI - Federal Employees Group Life Insurance
- FEHB - Federal Employees Health Benefits
- TSP - Thrift Savings Plan

The FECA reimbursement liability is classified as covered or not covered by budgetary resources based on the date the liability is due to be paid. If the liability is due to be paid within one year, it is considered in the rates for the current year and is therefore covered by budgetary resources. If the liability is not due within a year, it is not considered in the rates for the current year and is therefore not covered by budgetary resources. The FECA liability is due in October each year. The covered portion is due in October 2003, while the not covered portion is due in October 2004. Only the Depot Maintenance and Ordnance business areas report a FECA liability. Only Depot Maintenance and Ordnance have host installations responsible for paying Worker's Compensation. Supply Management, Army and Information Services activities are made up of selected personnel at other installations.

Note Reference

For Additional Line Item discussion, see:

Note 12, Accounts Payable

Note 15, Other Liabilities

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

Note 12. Accounts Payable

	2003			2002
As of September 30 (Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intra-governmental Payables:	$435,586	N/A	$435,586	$77,527
2. Non-Federal Payables (to the Public):	$342,365	$0	$342,365	$511,007
3. Total	$777,951	$0	$777,951	$588,534

4. Other Information:

Definitions

Intragovernmental Payables - amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables.

Nonfederal Payables (to the Public) - payables for debts owed to individuals and entities outside the Federal Government.

Fluctuation and/or Abnormalities
Total Intragovernmental Payables increased in FY 2003 by $358,060 thousand or 462 percent. The change is due, partially to increased purchases of goods and services from the Defense Logistics Agency (DLA), as the AWCF payables with them increased $368,219 thousand.

The DoD summary level seller accounts receivable balances were compared to the AWCF payable balances. As a result of this comparison, adjusting entries were entered to increase the AWCF's payables $35,861 thousand. Although it appears the increased activity with DLA affected the adjusting entry, this increase cannot be attributed to a single AWCF trading partner, as information is not available to perform a complete reconciliation at that level. For the majority of intragovernmental sales, the AWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile it intragovernmental payables with its trading partner's receivables. The DoD intends to develop long-term systems improvements that will address this issue.

Non-federal Payables decreased in FY 2003 by $168,641 thousand or 33 percent. The majority of the decrease was in the Supply Management business area as a result of the Army Materiel Command performing a review and clean up of aged payables prior to its transitioning to the Logistics Modernization Program (LMP).

Undistributed disbursements are the difference between disbursements recorded in the activity field records of the AWCF versus those reported by the U.S. Treasury. Non-federal Payables decreased in FY 2003 by $123,628 thousand for these payments.

The DoD policy is to allocate supported undistributed disbursements between intragovernmental and nonfederal categories based on the percentage of each category of payables. However, the AWCF allocated supported undistributed disbursements as non-federal because the majority of supported undistributed disbursements were for payments made to contractors. Unsupported undistributed disbursements should be recorded in United States Standard General Ledger account 2120, Disbursements in Transit. The AWCF's total amount of unsupported undistributed disbursements for FY 2003 is an abnormal debit balance of $63,286 thousand.

For the majority of intra-agency sales the AWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile its intragovernmental payables with its trading partners receivables.

Note Reference
See Note 1.G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for intragovernmental activities.

Note 13. Debt
Not applicable

Note 14. Environmental Liabilities and Disposal Liabilities
Not applicable

Note 15.A. Other Liabilities

As of September 30 (Amounts in thousands)	2003 Current Liability	2003 Noncurrent Liability	2003 Total	2002 Total
1. Intra-governmental:				
A. Advances from Others	$32,673	$0	$32,673	$204,748
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	0	0	0	0
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H . Judgement Fund Liabilities	0	0	0	0
I. FECA Reimbursement to the Department of Labor	22,638	27,824	50,462	50,126
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	11,364	0	11,364	7,165
L. Total Intra-governmental Other Liabilities	$66,675	$27,824	$94,499	$262,039
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	$85,330	$0	$85,330	$71,914
B. Advances from Others	33,421	0	33,421	31,279
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	0
J. Accrued Unfunded Annual Leave	72,592	0	72,592	73,362
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	39,661	0	39,661	35,500
N. Total Non-Federal Other Liabilities	$231,004	$0	$231,004	$212,055
3. Total Other Liabilities:	$297,679	$27,824	$325,503	$474,094

4. Other Information Pertaining to Other Liabilities:

Fluctuations and/or Abnormalities

The primary cause of the $172,075 thousand or 84 percent, decrease in the Intragovernmental Advances from Others in FY 2003, is the complete payback of a FY 2002 advance from the Army Ammunition Procurement account. By June 2002, the fund balance available for the operations of the Army Working Capital Fund (AWCF) fell to a level that posed the possibility of an Anti-Deficiency Act violation. To alleviate this problem, the Under Secretary of Defense authorized the AWCF to bill unfilled project orders in advance. Included in the September 2002 Advances From Others is $200,000 thousand in advance billings against unfilled project orders in the Depot Maintenance and Ordnance activity groups

Intragovernmental Other Liabilities increased $4,199 thousand or 59 percent, in FY 2003. The increase is in payroll fringe benefits and is a result of increased hiring and overtime to support current military operations

The Federal Employment Compensation Act (FECA) is administered by the Department of Labor (DOL), Office of Workers' Compensation Programs. Workers' Compensation claims are submitted to and approved by the DOL. The DOL pays the claim holders and prepares a chargeback billing to the AWCF. The FECA law, P.L. 93-416, Section 8147, essentially gives agencies two years to pay the chargeback bill; thereby allowing time for the applicable amount to be included in budget submissions. Pursuant to the FECA law, funding should be paid within 30 days. The current liability of $22,638 thousand is payable in October 2003, while the noncurrent liability of $27,824 thousand is payable in October 2004. Only the Depot Maintenance and Ordnance business areas report a FECA liability, as they are host installations responsible for paying Workers' Compensation. Supply Management and Information Services activities are made up of selected personnel at other installations.

Accrued Funded Payroll and Benefits increased in FY 2003 by $13,416 thousand or 19 percent. This is primarily due to increased hiring and overtime to support current military operations.

Non-federal Other Liabilities increased $4,161 thousand or 12% in FY 2003. Contract Holdbacks increased during FY 2003 as a result of additional purchases for inventory.

Other Liabilities (Amounts in Thousands):

	FY 2003	FY 2002
Intragovernmental - Other Liabilities		
VSIP	$630	$31
CSRS, FERS, FEGLI, FEHB	$10,734	$7,134
Total Intragovernmental Other Liabilities	**$11,364**	**$7,165**
Non-Federal -Other Liabilities		
Contract Holdbacks	$31,751	$20,912
Employers Contributions to TSP and Taxes Payable	7,910	14,588
Total Non-Federal Other Liabilities	**$39,661**	**$35,500**
Total Other Liabilities	**$51,025**	**$42,665**

Legend: VSIP - Voluntary Separation Incentive Pay
CSRS - Civil Service Retirement System
FERS - Federal Employees Retirement System
FEGLI - Federal Employees Group Life Insurance
FEHB - Federal Employees Health Benefits
TSP - Thrift Savings Plan

Note Reference
See Note Disclosure 1. S. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

Note 15.B. Capital Lease Liability

Not applicable

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:
There are no contingent liabilities for disclosure for FY 2003. The liability disclosed in FY 2002 is no longer a potential loss to the Army Working Capital Fund.

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

	2003				2002
As of September 30	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
(Amounts in thousands)					
1. Pension and Health Benefits:					
A. Military Retirement Pensions	$0		$0	$0	$0
B. Military Retirement Health Benefits	0		0	0	0
C. Medicare-Eligible Retiree Benefits	0		0	0	0
D. Total Pension and Health Benefits	$0		$0	$0	$0
2. Other:					
A. FECA	$320,654	3.84	$0	$320,654	$304,524
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D.	0		0	0	0
E. Total Other	$320,654		$0	$320,654	$304,524
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$320,654		$0	$320,654	$304,524

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:
Actuarial Cost Method Used:
Assumptions:
Market Value of Investments in Market-based and Marketable Securities:

Military Retirement Benefits
Army General Fund appropriations pay the military retirement benefits.

Federal Employment Compensation Act (FECA)
The Department of the Army's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. Only the Depot Maintenance and Ordnance business areas report FECA liability. Only Maintenance and Ordnance have host installations responsible for paying Worker's Compensation. Supply Management and Information Services activities are made up of selected personnel at other installations.

The Army Working Capital Fund (AWCF) computes its' portion of the total Army actuarial liability based on the percentage of the AWCF's FECA Liability to the total Army FECA liability. FECA current and noncurrent liabilities are further discussed in Note 15.A.

Note 18. Unexpended Appropriations

As of September 30	2003	2002
(Amounts in thousands)		
1. Unexpended Appropriations:		
A. Unobligated, Available	$0	$25
B. Unobligated, Unavailable	0	0
C. Unexpended Obligations	11,960	30,018
D. Total Unexpended Appropriations	$11,960	$30,043

2. Other Information Pertaining to Unexpended Appropriations:

Unobligated, Available
All direct appropriations received in FY 2003 have been obligated. The $25 thousand shown as available at the end of FY 2002 is from funds appropriated in FY 2000. The Army Working Capital Fund (AWCF) obligated this amount in FY 2003.

Unexpended Obligations
During FY 2003, the AWCF received, obligated, and expended $249 million of Appropriated Funds (see Note 21A, Disclosures Related to the Statement of Budgetary Resources, for further details).

Unexpended obligations reported as a component of Unexpended Appropriations includes both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated funds. This amount is distinct from Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Received (Line 12) of the Statement of Financing, which includes the change during the FY in unexpended obligations against budget authority from all sources.

Fluctuations and/or Abnormalities
Unexpended Appropriations decreased $18,083 thousand or 60 percent, from FY 2002. During FY 2003, the AWCF received delivery of goods obligated in FY 2000 and expended these obligations. Also included in this amount is $25 thousand of FY 2000 appropriations previously reported as Unobligated, Available, that were obligated and expended in FY 2003.

Note Reference
For Additional Line Item discussion, see:
Note 21, Disclosures Related to the Statement of Budgetary Resources

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

Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the Federal Government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the Federal Government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

While the Army Working Capital Fund (AWCF) activities generally record transactions on an accrual basis, as is required by Federal Generally Accepted Accounting Principles (GAAP), the systems do not always capture actual costs. Information presented on the Statement of Net Cost is primarily based on budgetary obligation, disbursements, or collection transactions, as well as information from nonfinancial feeder systems. The Army is in the process of upgrading its financial and logistical feeder systems to the Logistics Modernization Program (LMP), to address this issue.

Fluctuations and/or Abnormalities
The AWCF's net costs decreased by $1,108,532 thousand or 188 percent, during FY 2003, primarily due to increased Intragovernmental Earned Revenue to the Army General Fund in support of Operation Enduring Freedom, Operation Iraqi Freedom, and the Global War on Terrorism. The increased sales also translate to increased Intragovernmental Gross Costs and Gross Costs with the Public, as the AWCF replenishes inventory. The changes are as follows:

Intragovernmental gross costs increased by $1,227,051 thousand or 86 percent.
Intragovernmental earned revenue increased by $3,433,985 thousand or 50 percent
Gross costs with the public increased by $975,318 thousand or 15 percent
Gross earned revenue with the public decreased by $123,084 thousand or 36 percent

In addition, eliminating balance entries to bring the AWCF's buyer-side costs into agreement with the seller-side revenues caused a reclassification of $2,974,635 thousand in Intragovernmental Gross and Net Costs to Public Gross and Net Costs.

Inventory Gains/Losses

The AWCF recognized a gain of $1,312,211 thousand during FY 2003, as the Communications and Electronics Command (CECOM) transitioned its accounting support from the Commodity Command Standard System to LMP. During the transition, the inventory valuation method was changed from Latest Acquisition Cost to Moving Average Cost. Also, CECOM's revenue was reduced by $225,145 thousand, as some inventory allowance account balances were reclassed to a contra revenue account in FY 2003. The net increase to the Statement of Net Cost for these two events is $1,087,066 thousand. This gain was offset by a FY 2003 non-recoverable inventory loss of $1,181,952 thousand for items transferred to the Defense Reutilization and Marketing Office.

Note Reference

See Note 19.I. - Intragovernmental Revenue and Expense for related additional disclosures.

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

Not applicable

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

Not applicable

Note 19.D. Imputed Expenses

As of September 30 (Amounts in thousands)	2003	2002
1. Civilian (e.g.,CSRS/FERS) Retirement	$59,046	$49,291
2. Civilian Health	62,086	60,422
3. Civilian Life Insurance	179	171
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	$121,311	$109,884

8. Other Information

Legend: CSRS - Civil Service Retirement System
FERS - Federal Employees Retirement System

Fluctuations and/or Abnormalities

Civilian (e.g., CSRS/FERS) Retirement increased $9,755 thousand or 20 percent, due to revised estimates received from the Office of Personnel Management (OPM) for future employee benefit costs. Federal Generally Accepted Accounting Principles requires the reporting of government employee benefits. The amounts remitted to the OPM by and for covered employees do not generally cover the actual cost of the benefits those employees will receive after their careers are over. As a consequence, for FY 2003, the Army Working Capital Fund must recognize an imputed cost equal to the difference between the true cost of providing future benefits to its employees and the employee and employer contribution they remit to the OPM.

Note 19.E. Benefit Program Expenses

Not applicable

Note 19. F. Exchange Revenue

Disclosures Related to the Exchange Revenue:

Definitions

Exchange Revenue - arises when a government entity provides goods and services to the public or to another government entity for a price (earned revenue). Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges. The Army Working Capital fund reported only exchange revenue in FY 2003.

Note Disclosure

See Note 1.E. Significant Account Policies for related additional disclosures.

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

Not applicable.

Note 19.H. Stewardship Assets

Not applicable.

Note 19.I. Intra-governmental Revenue and Expense

Disclosures Related to Intra-governmental Revenue and Expense:

Intragovernmental Revenue

For the majority of buyer-side transactions, the AWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AWCF was unable to reconcile intragovernmental accounts payable balances with its' trading partners. The DoD intends to develop long-term system improvements that will address this issue.

Operating Expenses

The DoD summary level seller accounts receivable and revenues were compared to the AWCF's accounts payables and expenses. As a result of this comparison, the following adjustments were posted as of FY 2003:

1. an increase of $35,861 thousand to accounts payable

2. an increase of $330 thousand to advances to others and

3. a total increase of $38,906 thousand to expenses (consisting of a decrease of $2,974,635 thousand to intragovernmental operating expenses with a corresponding increase of $3,013,541 thousand in non-federal operating expenses).

Note 19.J. Suborganization Program Costs

Not applicable

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

As of September 30	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	Cumulative Results of Operations 2002	Unexpended Appropriations 2002
(Amounts in thousands)				
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:				
A. Changes in Accounting Standards	$0	$0	$0	$0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	0	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	$0	$0	$0	$0
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$59,046	$0	$49,291	$0
B. Civilian Health	62,086	0	60,422	0
C. Civilian Life Insurance	179	0	171	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	0	0	0	0
G. Total Imputed Financing	$121,311	$0	$109,884	$0

3. Other Information:

Prior Period Adjustments

As of Fiscal Year (FY) 2002, The Department of the Treasury emphasized the reporting of Prior Period Adjustments for material changes only. The Office of the Secretary of Defense (OSD) and the Defense Finance and Accounting Service (DFAS) guidance also emphasized the position that use of Prior Period Adjustments should be infrequent. Individual entities within the Army Working Capital Fund (AWCF) submitted prior period adjustments, which were subsequently reported on the AR 1307 report. OSD reviewed these adjustment and denied approval to report them as prior period adjustments on the financial statements. The balances were reclassified to accounts that would have been affected if they had occurred in the current year. The net amount of reclassified Prior Period Adjustments, in thousands of dollars, are as follows:

Depot Maintenance	$21,296
Ordnance	(13,745)
Supply Management	324, 997
Information Services	4,344
Total AWCF	**$336,892**

Fluctuations and/or Abnormalities
The AWCF received direct appropriations of $100,000 thousand for spare parts, $89,000 thousand received for War Reserves and $60,000 thousand received for underutilized plant capacity, totaling $249,000 thousand. This was an increase of $81,600 thousand or 49 percent, from FY 2002. All $249,000 thousand of the direct appropriations received during FY 2003 were obligated and expended during FY 2003. The Statement of Changes in Net Position shows $267,083 thousand as appropriations used. This represents the $249,000 thousand direct appropriations received and expended during FY 2003, plus $18,083 thousand of FY 2000 direct appropriations that were expended during FY 2003 (see Note 18, Unexpended Appropriations, for details on the FY 2000 appropriation).

In FY 2002, the AWCF reported Nonexchange Revenue of $170,039 for cash infusions. No cash infusions were reported for FY 2003.

Other Budgetary Financing Sources decreased by $266, 701 or 132 percent between FY 2002 and FY 2003 primarily due to a change in reporting policy. Transfers in and out without trading partners were previously reported on this line. As of FY 2003, these transfers are being reported as Other Financing Sources.

The Transfers In/Out Without Reimbursement reported in FY 2003 includes a transfer in of $918, 816 thousand in inventory from the Army General Fund during the implementation of the Single Stock Fund Milestone 3 and a transfer out of $10,228 to the Army General Fund for land. This created an increase on the transfers line of $834,239 or 1122 percent, when compared to the FY 2002 balance.

During FY 2003 Civilian (e.g., CSRS/FERS) Retirement increased $9,755 thousand or 20 percent due to revised estimates received from the Office of Personnel Management (OPM) for future employee benefit costs. The amounts remitted to the OPM by and for covered employees do not generally cover the actual cost of the benefits those employees will receive after their careers are over. As a consequence, for FY 2003, the AWCF must recognize an imputed cost equal to the difference between the true cost of providing future benefits to their employees and the employee and employer contributions they remit to OPM.

The amount reported as Other consists of $67,534 thousand in net gains due to a reclassification of field reported transfers in and out of assets without a trading partner and a $149,530 thousand gain to adjust the materiel return liability to agree with the reported materiel returns for a total of $217,064 thousand. If the trading partner cannot be identified, the transfers must be reclassified as other gains and losses. These were previously reported under Other Budgetary Financing Sources.

The Net Cost of Operations decreased by $1,108,532 thousand or 188 percent (see Note 19, General Disclosures Relating to the Statement of Net Cost for additional detail).

Note Reference

For Additional Line Item discussion, see:

Note 19, General Disclosures Relating to the Statement of Net Cost

Note 21, Disclosures Related to the Statement of Budgetary Resources

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

As of September 30	2003	2002
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$6,102,853	$2,801,419
2. Available Borrowing and Contract Authority at the End of the Period	$2,443,489	$2,375,862

3. Other Information:

The net amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period consists of $11,960 thousand Direct Obligations and $6,090,893 thousand Reimbursable Obligations (see Note 18, Unexpended Appropriations, for details on the Direct Obligations).

Primary funding for the Army Working Capital Fund (AWCF) is earned through customer orders, as described in Note 1C. In addition to revenues earned, direct appropriations were received and used by the following business areas, in thousands of dollars, during FY 2003:

Business Area	Appropriations Received	Appropriations Used
Ordnance	$54,174	$54,174
Depot Maintenance	5,826	5,826
Supply Management	189,000	207,083
Information Services	0	0
Total AWCF	**$249,000**	**$267,083**

These appropriations are permanent, indefinite appropriations, available for obligation until exhausted.

Available borrowing and contract authority as of September 30, 2003, in thousands of dollars, is as follows:

Available September 30, 2003	Unused Contract Authority as of Sept 30, 2002	Contract Authority Realized for FY 2003	Contract Authority Withdrawn Sept 30, 2002	Contract Authority Available Sept 30, 2003
Depot Maintenance	$7,974	$2,689	$0	$10,663
Ordnance	5,055	1,952	0	7,007
Supply Management	2,362,833	62,986	0	2,425,819
Information Services	0	0	0	0
Total AWCF	**$2,375,862**	**$67,627**	**$0**	**$2,443,489**

The reason for the increase in Supply Management New Contract Authority is $1 billion authorized to buy spares.

Unobligated balances from spending authority from offsetting collections (revenues earned) as of September 30, 2003, in thousands of dollars are as follows:

Business Area	Earned	Change Unfilled Orders	Anticipated	Total Spending Authority from Offsetting Collections
Depot Maintenance	$2,012,493	$517.379	$0	$2,529,872
Ordnance	711,665	120,702	0	832,367
Supply Management	7,059,773	1,549,240	0	8,609,013
Information Services	96,547	(15,410)	0	81,137
Total AWCF	**$9,880,478**	**$2,171,911**	**$0**	**$12,052,389**

The AWCF does not make eliminating entries in the Statement of Budgetary Resources because the statements are presented as combined and combining and therefore are presented as a Disaggregated Statement of Budgetary Resources in the Required Supplementary Information section of the financial statements.

Fluctuations and/or Abnormalities

All business activity increased during FY 2003 over this same period in FY 2002 due to increased activity with the Army General Fund, as well within the AWCF. Supply Management received additional obligation authority to increase its inventory of spare parts through increased repair work at the Army Depot Maintenance facilities.

The AWCF contains obligation and unliquidated obligation values that were migrated into the Logistics Modernization Program (LMP) at a value higher than the value reported in the respective legacy systems at time of migration. This overstatement occurred at the three Supply Management activities for the Communication and Electronics Command and Tobyhanna Army Depot. Work continues to reconcile these balances for correction in FY 2004.

Spending Authority from Offsetting Collections increased $5,655,882 thousand or 88 percent in FY 2003. This increase occurred primarily within the Supply Management Business Area, from increased demand from the Army General Fund, except as noted below:

Earned - Collected increased by $ 3,498,809 thousand or 57 percent in FY 2003.

Earned - Receivable from Federal Sources decreased by $291,300 thousand or 528 percent in FY 2003.

Change in Unfilled Customer Orders - Advance Received decreased by $308,146 thousand or 239 percent in FY 2003. Due to cash shortages experienced during FY 2002, the AWCF was authorized to advance bill the Army General Fund. These advances were repaid in FY 2003.

Change in Unfilled Customer Orders - Without Advance from Federal Sources increased by $2,173,918 thousand or 1,227 percent in FY 2003.

Recoveries of Prior Year Obligations increased by $184,060 thousand or 46 percent in FY 2003, primarily in the Supply Management Business Area. Two conditions contributed to this increase. The accounting function is transitioning to the LMP and is reviewing and correcting their outstanding Unliquidated Obligations.

Direct Obligations Incurred increased by $77,376, thousand or 45 percent in FY 2003. This is due to the obligation, accrual, and expenditure of direct funds received during FY 2003. In FY 2003, these funds were appropriated for spare parts ($100,000 thousand), war reserves ($89,000 thousand), and underutilized plant capacity ($60,000 thousand), totaling $249,000 thousand. All direct appropriations received this year have been obligated and expended. Reimbursable obligations increased by $5,662,332 thousand or 80 percent, primarily in the Supply Management Business Area due to the purchase of spares and war reserve materials.

Unobligated Balance, Apportioned has increased by $385,445 thousand or 23 percent in FY 2003 due to the authorization of $1,000,000 thousand in Supply Management contract authority to buy spare parts.

Accounts Receivable increased $236,175 thousand or 84 percent. Accounts receivable as shown on the Statement of Budgetary Resources differs from the balance shown on the Balance Sheet by the amount of contractor debt, $107 thousand; refunds receivable, $15,124 thousand; and eliminations, $89,180 thousand. The Statement of Budgetary resources does not eliminate for intragovernmental receivables nor does it include contractor debt or refunds receivable. (See Note 5, Accounts Receivable, for further explanation.)

Unfilled Customer Orders from Federal Sources increased $2,351,151 thousand or 102 percent in FY 2003. This is due to an increase in customer demand, mainly in support of Operation Iraqi Freedom.

Undelivered Orders increased $3,315,071 thousand or 120 percent, primarily for the Supply Management Business Area. The increase is due to increased demand during the war efforts in the Middle East, and partially to replenish spare parts. Supply Management was authorized $1,000,000 thousand in contract authority and $100,000 thousand in appropriated funds to purchase spare parts.

Accounts Payable increased $251,919 thousand or 35 percent. Accounts payable on the Statement of Budgetary Resources includes the wages and salaries liability, and does not eliminate for intragovernmental payables. The Balance Sheet eliminates for intragovernmental payables and reports the wages and salaries liability in other liabilities. This results in different balances on the two statements. (see Note 12 for additional disclosures on accounts payable).

Net Outlays decreased by $1,290,520 thousands or 533 percent in FY 2003. This is a reflection of the Full Cost Recovery planned during the setting of FY 2003 rates and the increased sales to support the various Army missions. Rates were set to recover all costs in FY 2003; therefore, the percentage of collections as compared to disbursements increased over FY 2002 (see Note 19, General Disclosures Related to the Statement of Net Cost, for discussion of rates and full cost recovery).

The AWCF is unable to fully implement all elements of Federal Generally Accepted Accounting Principles (GAAP) and Office of Management and Budget (OMB) Bulletin No. 01-09 due to limitations of its financial and non-financial management processes and systems. See Note 1, Significant Accounting Policies, for a full disclosure of accounting policies not in compliance with these standards.

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds.

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the Adjustments line on the Statement of Budgetary Resources), are not included in the Spending Authority From Offsetting Collections and Adjustments line on the Statement of Budgetary

Resources or the Spending Authority for Offsetting Collections and Adjustments line on the Statement of Financing.

Note Reference

For Additional Line Item discussion, see:

Note 1,Significant Accounting Policies
Note 5, Accounts Receivable
Note 12, Accounts Payable
Note 18, Unexpended Appropriations
Note 19, General Disclosures Related to the Statement of Net Cost

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

As of September 30 (Amounts in thousands)	Sep-01	Sep-02	Sep-03	(Decrease)/Increase from 2002 to 2003
1. Total Problem Disbursements	$7,241	$17,301	$46,298	$28,997
A. Absolute Unmatched Disbursements				
B. Negative Unliquidated Obligations	11,708	4,477	2,850	(1,627)
2. Total In-transit Disbursements, Net	$83,580	$65,368	$69,687	$4,319
3. Other Information Related to Problem Disbursements and In-transit Disbursement				
4. Suspense/Budget Clearing Accounts,Net				
Account	Sep-01	Sep-02	Sep-03	(Decrease)/Increase
F3875	$0	$0	$0	$0
F3880	0	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
Total	$0	$0	$0	$0

3. Other Information Related to Problem Disbursements and In-transit Disbursement

Definitions

Absolute value - sum of the positive values of debit and credit transactions without regard to the sign.

Unmatched Disbursements (UMD) - occur when payments do not match to a corresponding obligation in the accounting system.

Negative Unliquidated Obligations (NULO) - occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

In Transit Disbursements - represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet attempted to be posted in an accounting system.

The values for FY 2003 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 for AWCF are $46,298 thousand million in absolute value UMDs, $2,850 thousand in NULOs, and $41 thousand in aged in-transit disbursements (of the total in-transit disbursements of $69,687 thousand). These payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the AWCF's various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. Negative Intransits indicates intransit collections, rather than disbursements. UMDs and NULOs are considered aged immediately, while Intransit Disbursements are considered normal business activity up to a certain aging category.

The problem disbursement reduction goal is stated in absolute value UMDs, NULOs, and Net Intransits. Therefore, the UMDs presented above are shown in absolute value, when possible, for comparison to the official reduction goal. In prior years, Net UMDs and NULOs were reported together on the Problem Disbursements line of Note 21. To facilitate comparability with prior years and comprehension of the net dollar amounts, the net UMDs and NULOs, in thousands of dollars, are shown in the table below.

Problem Disbursement Type	**Sept 2001**	**Sept 2002**	**Sept 2003**
Net UMDs	$3,355	$6,346	$8,452
NULOs	11,707	4,476	2,850
Total Net Problem Disbursements	**$15,062**	**$10,823**	**$11,304**

4. Suspense/Budget Clearing Accounts,Net

Account	September 2001	September 2002	September 2003	(Decrease)/Increase
F3875	$0	$0	$0	$0
F3880	0	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
Total	$0	$0	$0	$0

5. Other Information Related to Suspense/Budget Clearing Accounts:
The Suspense/Budget Clearing Accounts shown above are maintained and reported by the Army General Fund. Some transactions relating to the AWCF may be in suspense accounts, but are not identifiable. When they are identified to the AWCF, they will be transferred from the suspense/clearing account to the correct Treasury appropriation.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

The objective of the Statement of Financing is to allow users to understand the difference between the Statement of Budgetary Resources and the Statement of Net Cost. The statement provides this understanding through a comprehensive reconciliation process.

The Army Working Capital Fund's (AWCF) budgetary data does not agree with its proprietary expenses and assets capitalized. This results in a difference in net cost between the Statement of Net Cost and the Statement of Financing. Resources that finance the acquisition of assets were decreased by $387,625 thousand to bring the statements into agreement. The differences between budgetary and proprietary data for the AWCF were reported as material weaknesses in the FY 2002 AWCF's financial statement report.

Fluctuations and/or Abnormalities

Obligations Incurred increased in FY 2003 by $5,739,908 thousand or 84 percent, due to increased demand from customers and the receipt of direct funds and increased contract authority (see Note 18, Unexpended Appropriations and Note 21, Disclosures Related to the Statement of Budgetary Resources).

Spending Authority from Offsetting Collections and Recoveries increased in FY 2003 by $5,839,941 thousand or 86 percent, due to increased demand from customers.

Transfers In/Out Without Reimbursement increased in FY 2003 by $908,588 thousand or 100 percent, due to receipt of the inventory transfers from the Army General Fund during implementation of the Single Stock Fund Milestone 3 Initiative and the transfer out of land to the Army General Fund.

Imputed Financing and Imputed Costs increased in FY 2003 by $11,427 thousand or 10 percent due to revised estimates received from the Office of Personnel Management (OPM) for future employee benefit costs. Federal Generally Accepted Accounting Principles requires the reporting of government employee benefits. The amounts remitted to the OPM by and for covered employees do not generally cover the actual cost of the benefits those employees will receive after their careers are over. As a consequence, for FY 2003, the AWCF must recognize an imputed cost equal to the difference between the true cost of providing future benefits to its employees and the employee and employer contribution they remit to the OPM.

The Other Resources Other line increased by $217,065 thousand or 100 percent. Beginning in FY 2003, the balances in the transfers in/out without reimbursement accounts for which trading partners could not be identified, were moved to this line. Previously it had been included on the line for revaluation of assets or liabilities.

Change in Undelivered Orders increased in FY 2003 by $3,560,640 thousand or 1,373 percent, due to increased customer orders, increased demand during the war efforts in the Middle East, and initiatives to replenish spare parts (see Note 21, Disclosures Related to the Statement of Budgetary Resources, for additional disclosures).

Change in Unfilled Customer Orders increased in FY 2003 by $1,865,772 thousand or 609 percent, due to increased customer demand for inventory (see Note 21, Disclosures Related to the Statement of Budgetary Resources, for additional disclosures).

Resources that Fund Expenses Recognized in Prior Periods changed in FY 2003 by $1,368 thousand or 33 percent. The FY 2002 balance reflected a $4,133 thousand decrease in the FECA actuarial liability, in FY 2003 that liability increased. The FY 2003 balance for this line reflects the difference between that and $2,765 thousand decrease in annual leave liability recognized by the Information Services and Supply business areas. Increases in future funded liabilities are reported on Components Requiring or Generating Resources in Future Periods: Other or line 23 of the Statement of Financing.

The decrease in Exchange Revenue Receivable From the Public of $6,079 thousand in FY 2003 was not reported in prior reporting periods. This amount reflects a change in reporting policy in order to comply with the guidance in the Treasury Finance Manual. It represents the increase in Public Receivables in FY 2003.

Other Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period increased in FY 2003 by $15,339 thousand or 1,360 percent, due to and increase in the Federal Employee Compensation Act (FECA) actuarial liability (see note 17 for additional disclosures on the FECA liability).

Depreciation and Amortization increased by $89,028 thousand or 85 percent. This increase resulted from a change in policy with the implementation of the Logistics Modernization Program (LMP). Prior to the implementation of LMP, the AWCF recorded unfunded depreciation in accounts that would bypass depreciation expense and the Statement of Net Cost. With the implementation of LMP, all depreciation flows through the depreciation account. The depot maintenance business area realized $90,483 thousand in additional depreciation expense due to this change.

Revaluation of Assets or Liabilities decreased in FY 2003 by $556,239 thousand or 516 percent, due to a change in reporting policy for the recording of Loss on Disposal for Excess, Obsolete, and Unserviceable Inventory. The loss on disposal was previously reported as part of Other Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period.

Other Components of the Net Cost of Operations that will Not Require or Generate Resources in the Current Period decreased in FY 2003 by $7,951 thousand or 100 percent, due to a reclassification of the amounts to the Revaluation of Assets or Liabilities.

Net costs decreased in FY 2003 by $1,108,530 thousand or 188 percent (see Note 19, General Disclosures Related to the Statement of Net Cost, for complete disclosure).

Intra-AWCF transactions have not been eliminated because the statements are presented as combined and combining.

Note Reference
For Additional Line Item discussion, see:

Note 10, General PP&E
Note 11, Liabilities Not Covered and Covered by Budgetary Resources
Note 18, Unexpended Appropriations
Note 19, General Disclosures Relating to the Statement of Net Cost
Note 21, Disclosures Related to the Statement of Budgetary Resources

Note 23. Disclosures Related to the Statement of Custodial Activity

Not applicable

Note 24.A. Other Disclosures

Not applicable

Note 24.B. Other Disclosures

Not applicable

Consolidating Balance Sheet

Department of Defense • Department of the Army, Army Working Capital Fund
As of September 30, 2003 and 2002 ($ in thousands)

ASSETS (Note 2)	Depot Maintenance	Supply Management	Information Service	Ordnance
Intragovernmental:				
Fund Balance with Treasury (Note 3)				
Entity	($22,182)	$1,445,783	$7,985	($177,664)
Non-Entity Seized Iraqi Cash	$0	$0	$0	$0
Non-Entity-Other	$0	$0	$0	$0
Investments (Note 4)	$0	$0	$0	$0
Accounts Receivable (Note 5)	$156,136	$244,130	$6,635	$54,493
Other Assets (Note 6)	$13,475	$42,972	$0	$482
Total Intragovernmental Assets	$147,429	$1,732,885	$14,620	($122,689)
Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0
Accounts Receivable (Note 5)	2,997	24,676	0	3,503
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	192,111	11,902,310	0	37,390
General Property, Plant and Equipment (Note 10)	500,327	97,941	50	328,433
Investments (Note 4)	0	0	0	0
Other Assets (Note 6)	52	269,563	0	262
TOTAL ASSETS	$842,916	$14,027,375	$14,670	$246,899

LIABILITIES (Note 11)	Depot Maintenance	Supply Management	Information Service	Ordnance
Intragovernmental:				
Accounts Payable (Note 12)	$111,506	$346,775	$7,604	$23,020
Debt (Note 13)	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	57,201	58,563	191	35,474
Total Intragovernmental Liabilities	$168,707	$405,338	$7,795	$58,494
Accounts Payable (Note 12)	$49,150	$312,296	$5,442	($277)
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	185,437	0	0	135,217
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	101,216	71,650	2,172	55,966
Debt Held by Public (Note 13)	0	0	0	0
TOTAL LIABILITIES	$504,510	$789,284	$15,409	$249,400
NET POSITION				
Unexpended Appropriations (Note 18)	$0	$11,960	$0	$0
Cumulative Results of Operations	338,406	13,226,131	(739)	(2,501)
TOTAL NET POSITION	$338,406	$13,238,091	($739)	($2,501)
TOTAL LIABILITIES AND NET POSITION	$842,916	$14,027,375	$14,670	$246,899

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
As of September 30, 2003 and 2002 ($ in thousands)

ASSETS (Note 2)	Component Level	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Intragovernmental:					
Fund Balance with Treasury (Note 3)					
Entity	$294,624	$1,548,546	$0	$1,548,546	$251,030
Non-Entity Seized Iraqi Cash	$0	$0	$0	$0	$0
Non-Entity-Other	$0	$0	$0	$0	$0
Investments (Note 4)	$0	$0	$0	$0	$0
Accounts Receivable (Note 5)	($50,140)	$411,254	$0	$411,254	$221,978
Other Assets (Note 6)	($56,600)	$329	$0	$329	$48
Total Intragovernmental Assets	$187,884	$1,960,129	$0	$1,960,129	$473,056
Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0	$0
Accounts Receivable (Note 5)	0	31,176	0	31,176	16,419
Loans Receivable (Note 8)	0	0	0	0	0
Inventory and Related Property (Note 9)	0	12,131,811	0	12,131,811	11,319,284
General Property, Plant and Equipment (Note 10)	0	926,751	0	926,751	1,250,240
Investments (Note 4)	0	0	0	0	0
Other Assets (Note 6)	0	269,877	0	269,877	251,298
TOTAL ASSETS	$187,884	$15,319,744	$0	$15,319,744	$13,310,297
LIABILITIES (Note 11)					
Intragovernmental:					
Accounts Payable (Note 12)	($53,319)	$435,586	$0	$435,586	$77,527
Debt (Note 13)	0	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0	0
Other Liabilities (Note 15 & Note 16)	(56,930)	94,499	0	94,499	262,039
Total Intragovernmental Liabilities	($110,249)	$530,085	$0	$530,085	$339,566
Accounts Payable (Note 12)	($24,246)	$342,365	$0	$342,365	$511,007
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	320,654	0	320,654	304,524
Environmental Liabilities (Note 14)	0	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0	0
Other Liabilities (Note 15 & Note 16)	0	231,004	0	231,004	212,055
Debt Held by Public (Note 13)	0	0	0	0	0
TOTAL LIABILITIES	($134,495)	$1,424,108	$0	$1,424,108	$1,367,152
NET POSITION					
Unexpended Appropriations (Note 18)	$0	$11,960	$0	$11,960	$30,043
Cumulative Results of Operations	322,379	13,883,676	0	13,883,676	11,913,102
TOTAL NET POSITION	$322,379	$13,895,636	$0	$13,895,636	$11,943,145
TOTAL LIABILITIES AND NET POSITION	$187,884	$15,319,744	$0	$15,319,744	$13,310,297

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Costs

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Component Level				
Intragovernmental Gross Costs	($4,454,511)	$0	($4,454,511)	$0
(Less: Intragovernmental Earned Revenue)	1,476,501	0	1,476,501	0
Intragovernmental Net Costs	($2,978,010)	$0	($2,978,010)	$0
Gross Costs With the Public	$3,013,541	$0	$3,013,541	$506
(Less: Earned Revenue From the Public)	0	0	0	0
Net Costs With the Public	$3,013,541	$0	$3,013,541	$506
Total Net Cost	$35,531	$0	$35,531	$506
Depot Maintenance				
Intragovernmental Gross Costs	$561,486	$0	$561,486	$566,107
(Less: Intragovernmental Earned Revenue)	(1,997,588)	0	(1,997,588)	(980,816)
Intragovernmental Net Costs	($1,436,102)	$0	($1,436,102)	($414,709)
Gross Costs With the Public	$1,532,077	$0	$1,532,077	$856,033
(Less: Earned Revenue From the Public)	(36,285)	0	(36,285)	(41,331)
Net Costs With the Public	$1,495,792	$0	$1,495,792	$814,702
Total Net Cost	$59,690	$0	$59,690	$399,993
Information Service				
Intragovernmental Gross Costs	$4,278	$0	$4,278	$10,526
(Less: Intragovernmental Earned Revenue)	(96,444)	0	(96,444)	(44,200)
Intragovernmental Net Costs	($92,166)	$0	($92,166)	($33,674)
Gross Costs With the Public	$86,500	$0	$86,500	$80,279
(Less: Earned Revenue From the Public)	0	0	0	(1,675)
Net Costs With the Public	$86,500	$0	$86,500	$78,604
Total Net Cost	($5,666)	$0	($5,666)	$44,930

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Ordnance				
Intragovernmental Gross Costs	$54,744	$0	$54,744	$86,339
(Less: Intragovernmental Earned Revenue)	(687,834)	0	(687,834)	(514,825)
Intragovernmental Net Costs	($633,090)	$0	($633,090)	($428,486)
Gross Costs With the Public	794,785	0	794,785	613,539
(Less: Earned Revenue From the Public)	(23,831)	0	(23,831)	(82,203)
Net Costs With the Public	$770,954	$0	$770,954	$531,336
Total Net Cost	$137,864	$0	$137,864	$102,850
Supply Management				
Intragovernmental Gross Costs	$6,485,520	$0	$6,485,520	$761,494
(Less: Intragovernmental Earned Revenue)	(8,978,526)	0	(8,978,526)	(5,310,065)
Intragovernmental Net Costs	($2,493,006)	$0	($2,493,006)	($4,548,571)
Gross Costs With the Public	1,907,128	0	1,907,128	4,808,356
(Less: Earned Revenue From the Public)	(161,971)	0	(161,971)	(219,962)
Net Costs With the Public	$1,745,157	$0	$1,745,157	$4,588,394
Total Net Cost	($747,849)	$0	($747,849)	$39,823
Total Program Costs				
Intragovernmental Gross Costs	$2,651,517	$0	$2,651,517	$1,424,466
(Less: Intragovernmental Earned Revenue)	(10,283,891)	0	(10,283,891)	(6,849,906)
Intragovernmental Net Costs	($7,632,374)	$0	($7,632,374)	($5,425,440)
Gross Costs With the Public	7,334,031	0	7,334,031	6,358,713
(Less: Earned Revenue From the Public)	(222,087)	0	(222,087)	(345,171)
Net Costs With the Public	$7,111,944	$0	$7,111,944	$6,013,542
Total Net Cost	($520,430)	$0	($520,430)	$588,102
Cost Not Assigned to Programs	$0	$0	$0	$0
(Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	($520,430)	$0	($520,430)	$588,102

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	Depot Maintenance	Supply Management	Information Service	Ordnance
Beginning Balances	$349,920	$11,012,547	($8,970)	$201,695
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$349,920	$11,012,547	($8,970)	$201,695
Budgetary Financing Sources:				
Appropriations received	0	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	5,826	207,083	0	54,174
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	(63,903)	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(33,956)	1,155,715	141	(145,777)
Imputed financing from costs absorbed by others	76,306	17,310	2,424	25,271
Other (+/-)	0	149,530	0	0
Total Financing Sources	$48,176	$1,465,735	$2,565	($66,332)
Net Cost of Operations (+/-)	59,690	(747,849)	(5,666)	137,864
Ending Balances	$338,406	$13,226,131	($739)	($2,501)
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$0	$30,043	$0	$0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$0	$30,043	$0	$0
Budgetary Financing Sources:				
Appropriations received	5,826	189,000	0	54,174
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	(5,826)	(207,083)	0	(54,174)
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	$0	($18,083)	$0	$0
Net Cost of Operations (+/-)	0	0	0	0
Ending Balances	$0	$11,960	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	Component Level	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Beginning Balances	$357,910	$11,913,102	$0	$11,913,102	$11,767,917
Prior period adjustments (+/-)	0	0	0	0	0
Beginning Balances, as adjusted	$357,910	$11,913,102	$0	$11,913,102	$11,767,917
Budgetary Financing Sources:					
Appropriations received	0	0	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0	0
Appropriations used	0	267,083	0	267,083	176,217
Nonexchange revenue	0	0	0	0	170,039
Donations and forfeitures of cash and cash equivalents	0	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0	0
Other budgetary financing sources (+/-)	0	(63,903)	0	(63,903)	202,799
Other Financing Sources:					
Donations and forfeitures of property	0	0	0	0	0
Transfers-in/out without reimbursement (+/-)	(67,534)	908,589	0	908,589	74,348
Imputed financing from costs absorbed by others	0	121,311	0	121,311	109,884
Other (+/-)	67,534	217,064	0	217,064	0
Total Financing Sources	$0	$1,450,144	$0	$1,450,144	$733,287
Net Cost of Operations (+/-)	35,531	(520,430)	0	(520,430)	588,102
Ending Balances	$322,379	$13,883,676	$0	$13,883,676	$11,913,102
UNEXPENDED APPROPRIATIONS					
Beginning Balances	$0	$30,043	$0	$30,043	$38,860
Prior period adjustments (+/-)	0	0	0	0	0
Beginning Balances, as adjusted	$0	$30,043	$0	$30,043	$38,860
Budgetary Financing Sources:					
Appropriations received	0	249,000	0	249,000	167,400
Appropriations transferred-in/out (+/-)	0	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0	0
Appropriations used	0	(267,083)	0	(267,083)	(176,217)
Nonexchange revenue	0	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0	0
Other Financing Sources:					
Donations and forfeitures of property	0	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0	0
Other (+/-)	0	0	0	0	0
Total Financing Sources	$0	($18,083)	$0	($18,083)	($8,817)
Net Cost of Operations (+/-)	0	0	0	0	0
Ending Balances	$0	$11,960	$0	$11,960	$30,043

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY FINANCING ACCOUNTS

BUDGETARY RESOURCES	**Depot Maintenance**	**Supply Management**	**Information Service**	**Ordnance**
Budget Authority:				
Appropriations received	$5,826	$189,000	$0	$54,174
Borrowing authority	0	0	0	0
Contract authority	2,689	62,986	0	1,952
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	983,916	1,106	39,966	583,259
Net transfers, actual (+/-)	0	0	0	0
Anticipated Transfers balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	1,915,625	6,938,004	99,145	693,283
Receivable from Federal sources	96,868	121,769	(2,598)	18,382
Change in unfilled customer orders	0	0	0	0
Advance received	(34,252)	(1,757)	(47)	(143,183)
Without advance from Federal sources	551,632	1,550,997	(15,363)	263,886
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	$2,529,873	$8,609,013	$81,137	$832,368
Recoveries of prior year obligations	2,346	580,338	0	5,275
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	0	0	0	0
Total Budgetary Resources	$3,524,650	$9,442,443	$121,103	$1,477,028

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY FINANCING ACCOUNTS BUDGETARY RESOURCES	Component Level	2003 Combined	2002 Combined
Budget Authority:			
Appropriations received	$0	$249,000	$167,400
Borrowing authority	0	0	0
Contract authority	0	67,627	66,607
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	100,000	1,708,247	1,505,447
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	(1,754)	9,644,303	6,145,494
Receivable from Federal sources	1,754	236,175	(55,125)
Change in unfilled customer orders	0	0	0
Advance received	0	(179,239)	128,906
Without advance from Federal sources	0	2,351,152	177,233
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$0	$12,052,391	$6,396,508
Recoveries of prior year obligations	0	587,959	403,899
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	$100,000	$14,665,224	$8,539,861

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

STATUS OF BUDGETARY RESOURCES	Depot Maintenance	Supply Management	Information Service	Ordnance
Obligations incurred:				
Direct	$5,826	$189,028	$0	$54,174
Reimbursable	2,179,368	9,229,749	106,985	806,391
Subtotal	2,185,194	9,418,777	106,985	860,565
Unobligated balance:				
Apportioned	1,339,456	23,666	14,119	616,463
Exempt from apportionment	0	0	0	0
Other available	0	0	(1)	0
Unobligated Balances Not Available	0	0	0	0
Total, Status of Budgetary Resources	$3,524,650	$9,442,443	$121,103	$1,477,028
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net - beginning of period	($297,297)	$1,548,399	($28,823)	($196,731)
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(158,355)	(255,556)	(6,636)	(56,792)
Unfilled customer order from Federal sources	(1,192,101)	(2,848,219)	(22,522)	(588,771)
Undelivered orders	447,543	5,463,411	20,612	189,368
Accounts payable	230,583	674,971	13,531	50,549
Outlays:				
Disbursements	1,909,381	5,679,465	91,136	781,937
Collections	(1,881,373)	(6,936,248)	(99,098)	(550,099)
Subtotal	$28,008	($1,256,783)	($7,962)	$231,838
Less: Offsetting receipts	0	0	0	0
Net Outlays	$28,008	($1,256,783)	($7,962)	$231,838

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

STATUS OF BUDGETARY RESOURCES	Component Level	2003 Combined	2002 Combined
Obligations incurred:			
Direct	$0	$249,028	$171,652
Reimbursable	0	12,322,493	6,659,961
Subtotal	0	12,571,521	6,831,613
Unobligated balance:			
Apportioned	100,000	2,093,704	1,708,248
Exempt from apportionment	0	0	0
Other available	0	(1)	0
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$100,000	$14,665,224	$8,539,861
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
Obligated Balance, Net - beginning of period	($106,881)	$918,667	$1,129,489
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	(39,040)	(516,379)	(280,204)
Unfilled customer order from Federal sources	0	(4,651,613)	(2,300,462)
Undelivered orders	(35,861)	6,085,073	2,770,002
Accounts payable	11,616	981,250	729,331
Outlays:			
Disbursements	(45,348)	8,416,571	6,516,428
Collections	1,754	(9,465,064)	(6,274,399)
Subtotal	($43,594)	($1,048,493)	$242,029
Less: Offsetting receipts	0	0	0
Net Outlays	($43,594)	($1,048,493)	$242,029

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Resources Used to Finance Activities:	**Depot Maintenance**	**Supply Management**	**Information Service**	**Ordnance**
Budgetary Resources Obligated				
Obligations incurred	$2,185,194	$9,418,777	$106,985	$860,565
Less: Spending authority from offsetting collections and recoveries (-)	(2,532,218)	(9,189,351)	(81,137)	(837,642)
Obligations net of offsetting collections and recoveries	($347,024)	$229,426	$25,848	$22,923
Less: Offsetting receipts (-)	0	0	0	0
Net obligations	($347,024)	$229,426	$25,848	$22,923
Other Resources				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	(33,956)	1,155,715	141	(145,777)
Imputed financing from costs absorbed by others	76,306	17,310	2,424	25,271
Other (+/-)	0	149,530	0	0
Net other resources used to finance activities	$42,350	$1,322,555	$2,565	($120,506)
Total resources used to finance activities	($304,674)	$1,551,981	$28,413	($97,583)
Resources Used to Finance Items not Part of the Net Cost of Operations				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered Orders (-)	($177,959)	($3,074,737)	($18,352)	($65,916)
Unfilled Customer Orders	517,379	1,549,240	(15,410)	120,702
Resources that fund expenses recognized in prior periods	0	(2,372)	(393)	0
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0	0
Resources that finance the acquisition of assets	(29,299)	(441,379)	(24)	146,483
Other resources or adjustments to net obligated resources that do not affect net cost of operations				
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0	0
Other (+/-)	0	0	0	0
Total resources used to finance items not part of the net cost of operations	$310,121	($1,969,248)	($34,179)	$201,269
Total resources used to finance the net cost of operations	$5,447	($417,267)	($5,766)	$103,686

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Resources Used to Finance Activities:	Component Level	2003 Combined	2002 Combined
Budgetary Resources Obligated			
Obligations incurred	$0	$12,571,521	$6,831,613
Less: Spending authority from offsetting collections and recoveries (-)	0	(12,640,348)	(6,800,407)
Obligations net of offsetting collections and recoveries	$0	($68,827)	$31,206
Less: Offsetting receipts (-)	0	0	0
Net obligations	$0	($68,827)	$31,206
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	(67,534)	908,589	0
Imputed financing from costs absorbed by others	0	121,311	109,884
Other (+/-)	67,534	217,064	0
Net other resources used to finance activities	$0	$1,246,964	$109,884
Total resources used to finance activities	$0	$1,178,137	$141,090
Resources Used to Finance Items not Part of the Net Cost of Operations			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	$35,531	($3,301,433)	$259,206
Unfilled Customer Orders	0	2,171,911	306,139
Resources that fund expenses recognized in prior periods	0	(2,765)	(4,133)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0
Resources that finance the acquisition of assets	0	(324,219)	(338,258)
Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
Total resources used to finance items not part of the net cost of operations	$35,531	($1,456,506)	$222,954
Total resources used to finance the net cost of operations	$35,531	($278,369)	$364,044

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**Depot Maintenance**	**Supply Management**	**Information Service**	**Ordnance**
Components Requiring or Generating Resources in Future Periods:				
Increase in annual leave liability	$657	$0	$0	$1,338
Increase in environmental and disposal liability	0	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0	0
Increase in exchange revenue receivable from the the public (-)	(616)	(3,557)	0	(1,906)
Other (+/-)	3,426	0	0	13,040
Total components of Net Cost of Operations that will require or generate resources in future periods	$3,467	($3,557)	$0	$12,472
Components not Requiring or Generating Resources:				
Depreciation and amortization	123,795	39,244	100	30,954
Revaluation of assets or liabilities (+/-)	(73,019)	(366,269)	0	(9,248)
Other (+/-)	0	0	0	0
Total components of Net Cost of Operations that will not require or generate resources	$50,776	($327,025)	$100	$21,706
Total components of net cost of operations that will not require or generate resources in the current period	$54,243	($330,582)	$100	$34,178
Net Cost of Operations	$59,690	($747,849)	($5,666)	$137,864

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**Component Level**	**2003 Combined**	**2002 Combined**
Components Requiring or Generating Resources in Future Periods:			
Increase in annual leave liability	$0	$1,995	$2,211
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	(6,079)	0
Other (+/-)	0	16,466	1,128
Total components of Net Cost of Operations that will require or generate resources in future periods	$0	$12,382	$3,339
Components not Requiring or Generating Resources:			
Depreciation and amortization	0	194,093	105,065
Revaluation of assets or liabilities (+/-)	0	(448,536)	107,703
Other (+/-)	0	0	7,951
Total components of Net Cost of Operations that will not require or generate resources	$0	($254,443)	$220,719
Total components of net cost of operations that will not require or generate resources in the current period	$0	($242,061)	$224,058
Net Cost of Operations	$35,531	($520,430)	$588,102

The accompanying notes are an integral part of these statements.

Statement of Dissagregated Budgetary Resources

Department of Defense • Department of the Army, Army Working Capital Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY RESOURCES	Working Capital Funds	2003 Combined	2002 Combined
Budget Authority:			
Appropriations received	$249,000	$249,000	$167,400
Borrowing authority	0	0	0
Contract authority	67,627	67,627	66,607
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	1,708,248	1,708,247	1,505,447
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	9,644,303	9,644,303	6,145,494
Receivable from Federal sources	236,175	236,175	(55,125)
Change in unfilled customer orders	0	0	0
Advance received	(179,240)	(179,239)	128,906
Without advance from Federal sources	2,351,151	2,351,152	177,233
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	$0	$0	$0
Subtotal	$12,052,389	$12,052,391	$6,396,508
Recoveries of prior year obligations	587,959	587,959	403,899
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	$14,665,223	$14,665,224	$8,539,861

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

STATUS OF BUDGETARY RESOURCES	Working Capital Funds	2003 Combined	2002 Combined
Obligations incurred:			
Direct	$249,028	$249,028	$171,652
Reimbursable	12,322,493	12,322,493	6,659,961
Subtotal	12,571,521	12,571,521	6,831,613
Unobligated balance:			
Apportioned	2,093,704	2,093,704	1,708,248
Exempt from apportionment	0	0	0
Other available	0	(1)	0
Unobligated Balances Not Available	0	0	0
Total, Status of Budgetary Resources	$14,665,225	$14,665,224	$8,539,861
Relationship of Obligations to Outlays:			
Obligated Balance, Net- beginning of period	$918,667	$918,667	$1,129,489
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net- end of period:			
Accounts receivable	(516,379)	(516,379)	(280,204)
Unfilled customer order from Federal sources	(4,651,613)	(4,651,613)	(2,300,462)
Undelivered orders	6,085,073	6,085,073	2,770,002
Accounts payable	981,250	981,250	729,331
Outlays:			
Disbursements	8,416,571	8,416,571	6,516,428
Collections	(9,465,063)	(9,465,064)	(6,274,399)
Subtotal	($1,048,492)	($1,048,493)	$242,029
Less: Offsetting receipts	0	0	0
Net Outlays	($1,048,492)	($1,048,493)	$242,029

The accompanying notes are an integral part of these statements.

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part A DoD Intragovernmental Asset Balances ($ Amounts in Thousands)	**Treasury Index:**	**Fund Balance with Treasury**	**Accounts Receivable**	**Loans Receivable**	**Investments**	**Other**
Department of Agriculture	12		$56			
Department of Commerce	13		$1			
Department of the Interior	14		$2			
Department of Justice	15		$6			
Navy General Fund	17		$8,817			
United States Postal Service	18		$3			
Department of State	19		$64			
Department of the Treasury	20	$1,548,546	$67			
Army General Fund	21		$365,836			$30
General Service Administration	47		$863			
Air Force General Fund	57		$4,453			
Federal Emergency Management Agency	58		$1,156			
Department of Transportation	69		$271			
Department of Health and Human Services	75		$4			
National Aeronautics and Space Administration	80		$18			
Department of Energy	89		$3			
Other Defense Organizations General Funds	97		$5,060			
Other Defense Organizations Working Capital Funds	97-4930		$2,794			
Navy Working Capital Fund	97-4930.002		$9,085			
Air Force Working Capital Fund	97-4930.003		$12,655			$299
Homeland Security			$42			
Totals:		**$1,548,546**	**$411,256**			**$329**

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part B DoD Intragovernmental Entity Liabilities ($ Amounts in Thousands)	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Labor	16			$50,462
Navy General Fund	17			$95
Army General Fund	21	$19,113		$28,985
Office of Personnel Management	24			$11,364
General Service Administration	47			$112
Air Force General Fund	57			$643
Department of Transportation	69			$100
Department of Health and Human Services	75			$50
Other Defense Organizations General Funds	97	$3,257		$1,703
Other Defense Organizations Working Capital Funds	97-4930	$411,663		$50
Navy Working Capital Fund	97-4930.002	$1,141		$933
Air Force Working Capital Fund	97-4930.003	$412		$3
Totals:		**$435,586**		**$94,500**

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part C DoD Intragovernmental Revenue and Related Costs. ($ Amounts in Thousands)	Treasury Index:	Earned Revenue
Department of Agriculture	12	$19
Department of the Interior	14	$29
Department of Justice	15	$2
Navy General Fund	17	$382,891
United States Postal Service	18	$13
Department of State	19	$146
Department of the Treasury	20	$195
Army General Fund	21	$9,144,909
General Service Administration	47	$1,307
Air Force General Fund	57	$50,297
Department of Transportation	69	$1
Department of Energy	89	$41
US Army Corps of Engineers	96	$366
Other Defense Organizations General Funds	97	$230,172
Other Defense Organizations Working Capital Funds	97-4930	$32,133
Navy Working Capital Fund	97-4930.002	$147,650
Air Force Working Capital Fund	97-4930.003	$282,984
Homeland Security		$10,737
Totals		**$10,283,892**

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part E DoD Intragovernmental Non-exchange Revenues. ($ Amounts in Thousands)	Treasury Index:	Transfers In	Transfers Out
Army General Fund	21	$918,816	$10,228
Totals:		**$918,816**	**$10,228**

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

December 3, 2003

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Army Working Capital Fund Fiscal Year 2003 Principal Financial Statements (Report No. D-2004-029)

The Chief Financial Officers (CFO) Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Army Working Capital Fund as of September 30, 2003 and 2002, and the related Consolidated Statement of Net Cost, Statement of Changes in Net Position, Combined Statement of Financing, and Combined Statement of Budgetary Resources for the fiscal years then ended. These financial statements are the responsibility of Army Working Capital Fund management. The Army Working Capital Fund management is also responsible for implementing effective internal control and for complying with laws and regulations. In addition to our disclaimer of opinion on the financial statements, we are including the required reports on internal control and compliance with laws and regulations.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the financial management and feeder systems that DoD relies on to provide evidence supporting the Army Working Capital Fund financial statements do not comply with Federal financial management system requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. The Army also acknowledged that the previously reported material weaknesses related to the Balance Sheet, Statements of Net Cost and Financing, and intragovernmental eliminations were applicable to the FY 2003 Army Working Capital Fund Financial Statements. Therefore, we did not perform auditing procedures to support material amounts on the financial statements. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. These material deficiencies also affect the reliability of certain information contained in the accompanying Management's Discussion and Analysis and certain other information-much of which is taken from the same data sources as the principal financial statements. These deficiencies would have precluded an audit opinion. As described above, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

[1] Other information includes the Supporting Consolidating and Combining Financial Statements and Required Supplementary Information.

Summary of Internal Control
In planning and performing our audit, we considered the Army Working Capital Fund's internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance, but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions,[2] all of which are material, continue to exist in the following areas:

- financial management systems and processes;
- Inventory and Related Property;
- General Property, Plant, and Equipment;
- accounting adjustments;
- Accounts Payable;
- intragovernmental eliminations;
- Statement of Net Cost; and
- Statement of Financing.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

Summary of Compliance with Laws and Regulations
Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance and previously reported instances of noncompliance continue to exist. The Army is unable to comply with the requirements of the CFO Act of 1990 as amended. The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged that many of its critical financial management and feeder systems do not comply with the requirements of the Federal Financial Management Information Act of 1996 (FFMIA). Therefore, we did not determine whether the Army Working Capital Fund was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

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[2] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

In order for DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing the DoD-wide Business Enterprise Architecture. The DoD anticipates developing and implementing the Business Enterprise Architecture by the end of 2007. The Army is also working to reengineer and modernize wholesale logistics processes and has contracted for modernizing Army logistics functions through the Logistics Modernization Program. However, until the architecture is fully developed and implemented, the Army Working Capital Fund will be unable to fully comply with the statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Management Responsibility
Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles,
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met,
- ensuring that the Army Working Capital Fund's financial management systems substantially comply with FFMIA requirements, and
- complying with applicable laws and regulations.

We provided a draft of this report to Army officials, who expressed general agreement with the conclusions in the report.

Paul J. Granetto, CPA
Director
Defense Financial Auditing
Service

Attachment
As stated

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States Article I, Section 9

Reports on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data is accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of internal control over financial reporting for the Army Working Capital Fund and we did not obtain sufficient evidence to support or express an opinion on internal control. We limited our tests because previously identified reportable conditions, all of which are material, continue to exist. These material internal control weaknesses significantly impair the ability of the Army to detect and investigate fraud or theft of assets. A high risk of material misstatements will continue to exist until the following internal control deficiencies are corrected.

Financial Management Systems and Processes. The Army Working Capital Fund's systems are unable to meet all of the requirements for full accrual accounting because the systems used were not designed to collect and record financial information, as required by generally accepted accounting principles. Financial and non-financial feeder systems are not integrated and do not contain an audit trail for the proprietary and budgetary accounts. The Army Working Capital Fund derives most of its financial information for major accounts from noncompliant financial systems, such as the Commodity Command Standard System. The Army Working Capital Fund disclosed financial management system deficiencies in the footnotes to the FY 2003 financial statements. Until such time as all of the processes are updated to collect and report financial information as required by generally accepted accounting principles, some of the Army Working Capital Fund's financial data will be based on budgetary transactions and non-financial feeder systems. The DoD-wide systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely.

Inventory and Related Property. The existing inventory valuation method does not produce an auditable approximation of historical cost because the associated gains and losses cannot be accurately tracked to specific items or purchases. The Army Working Capital Fund uses the latest acquisition cost method of valuing most of its inventory because its legacy inventory systems were designed for materiel management rather than accounting. The systems provide accountability and visibility over inventory items, but did not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, the systems could not directly produce financial transactions using the U.S. Government Standard General Ledger, and neither the Defense Finance and Accounting Service (DFAS) nor the Army reconciled all differences between the accounting records and the logistical records. Instead, they accepted the data from the logistical records and adjusted the accounting records by $1.8 billion. In FY 2003, the Army Working Capital Fund began transitioning to the Logistics Modernization Program that uses the moving-average-cost method of valuing inventory and also uses the U.S. Government Standard General Ledger. Further, physical inventories have not been completed and adequate controls had not been established over items in transit.

General Property, Plant, and Equipment. The value of Army Working Capital Fund General Property, Plant, and Equipment is not reliably reported because of the lack of supporting documentation and the failure to correctly compute depreciation. Information on the acquisition date and cost was not always available and was sometimes recorded incorrectly. In addition, the Integrated Facilities System, the system that provides real property information to the Defense Property Accountability System, was a noncompliant system. The Integrated Facilities System was not able to calculate depreciated values for real property, preserve previous values by handling both positive and negative numbers, or provide an audit trail of all real property. Further, the value of property in the possession of contractors was not fully reported.

Accounting Adjustments. DFAS Indianapolis did not adequately support approximately $6.3 billion of $21.0 billion in adjusting accounting entries it made to the general ledger accounts used to prepare the FY 2003 Army Working Capital Fund Financial Statements. The unsupported adjusting accounting entries presented a material uncertainty regarding the line item balances on the FY 2003 Army Working Capital Fund Financial Statements. DFAS Indianapolis made the following adjustments:

- $4.2 billion in adjustments to force internal reports to balance, or to force intragovernmental buyer-side data to agree with seller-side data
- $2.1 billion in adjustments that did not have adequate documentation attached to the journal vouchers to support either the reason for the adjustments or the dollar values

DFAS Indianapolis did not always follow the established minimum requirements for documenting journal vouchers to support adjusting accounting entries made to the general ledger accounts.

Accounts Payable. DFAS Indianapolis made significant adjustments to the accounts payable balances to derive the reported balances. DFAS Indianapolis adjusted accounts payable with the public downward by $63.3 million for undistributed disbursements. Also, the Army Working Capital Fund was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. As a result, DFAS made unsupported adjustments to increase intragovernmental accounts payable to force the amounts to agree with Army trading partners. In addition, accounts payable in the Supply Management activity group were not established in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," which requires that an accounts payable be established when the entity accepts title to the goods or services. The Army Working Capital Fund recognized accounts payable based on the physical receipt of the goods or services rather than when the Government accepted title to the goods or services. As a result, the Army Working Capital Fund could not ensure that its accounts payable were not materially misstated.

Intragovernmental Eliminations. The inability to reconcile most intragovernmental transactions results in adjustments that cannot be verified. DoD and Army accounting systems were not capable of capturing trading partner data at the transaction level in a manner that facilitated trading partner reconciliations, and DoD guidance did not require adequate support for intragovernmental eliminations. As a result, DoD did not require trading partner reconciliations, but required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. DFAS Indianapolis made adjustments to intragovernmental accounts to force the accounts to agree with the records of Army Working Capital Fund trading partners.

Statement of Net Cost. Accounting systems were unable to accurately capture costs for Army Working Capital Fund programs and to properly account for intragovernmental transactions and related eliminations. In addition, some of the Army Working Capital Fund's financial data presented on the Statement of Net Cost were based on budgetary transactions. DFAS Indianapolis made unsupported adjustments to decrease intragovernmental costs and increase costs with the public in order to force buyer-side data to agree with seller-side data. Further, the Statement of Net Cost was not presented by responsibility segments that were consistent with DoD performance goals and measures.

Statement of Financing. The Army cannot reconcile budgetary obligations to net cost without making adjustments. In addition, the Army prepared the Statement of Financing on a combined basis instead of a consolidated basis as required by Office of Management and Budget Bulletin No. 01-09, "Form and Content of Agency Financial Statements." As a result, the Army Working Capital Fund made unsupported adjustments to force the Statement of Financing to reconcile with information on the Statement of Net Cost.

Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Army Working Capital Fund was in compliance with significant provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Statutory Financial Management Systems Reporting Requirements. The Army Working Capital Fund is required to comply with the following financial management systems reporting requirements.

- The FFMIA requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires DoD to evaluate its systems and to annually report whether those systems are in compliance with applicable requirements.
- The CFO Act of 1990 requires that each agency develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control. The system should comply with internal control standards and applicable accounting principles, standards, and requirements; and provide complete, reliable, consistent, and timely information.

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management systems requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. The Army was also unable to comply with the CFO Act, which requires agencies to develop and maintain integrated agency accounting and financial systems.

In an attempt to comply with statutory reporting requirements and applicable financial systems requirements, DoD is developing a DoD-wide Business Enterprise Architecture. The architecture is intended to provide a “blueprint” of the Department's financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is fully developed, the Army Working Capital Fund will be unable to fully comply with the statutory reporting requirements. Therefore, we did not perform tests of compliance with these requirements.

Audit Disclosures

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army and DFAS financial management systems could not provide adequate evidence supporting various material amounts on the financial statements. As a result, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal control, and compliance with laws and regulations.

Our review of internal control was limited to followup work on deficiencies identified in previous audit reports. We primarily focused on the deficiencies related to the material weaknesses reported in the audits of the FYs 2000 and 2002 Army Working Capital Fund Financial Statements.[3]

We performed limited tests of Army Working Capital Fund compliance with laws and regulations that have a direct and material effect on the financial statement information. We recognize that there were additional laws and regulations pertinent to the Army Working Capital Fund financial operations during FY 2003. However, in accordance with Section 1008(d) of the FY 2002 National Defense Authorization Act, we limited our audit scope and only performed audit procedures required by generally accepted government auditing standards that were consistent with the representations made by the Assistant Secretary of the Army (Financial Management and Comptroller) in the engagement memorandum signed on June 4, 2003. Therefore, we did not perform tests of compliance for the following requirements.

- Antideficiency Act
- Provisions Governing Claims of the United States Government
- Federal Credit Reform Act of 1990
- Pay and Allowance System for Civilian Employees
- Prompt Payment Act

This report does not include recommendations to correct the material control weaknesses and instances of noncompliance because previous reports contained recommendations for corrective actions.

[3] The Army did not prepare FY 2001 Army Working Capital Fund Financial Statements due to the loss of financial management personnel during the September 11 terrorist attack on the Pentagon. Therefore, the audit was not performed.

Department of Defense • Department of the Army
As of September 30, 2003 and 2002 ($ in thousands)

ASSETS (Note 2)	2003 Consolidated	2002 Consolidated
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	$2,588,857	$2,502,677
Non-Entity Seized Iraqi Cash	0	0
Non-Entity-Other	6,865	41,280
Investments (Note 4)	2,478,454	2,269,086
Accounts Receivable (Note 5)	423,774	528,150
Other Assets (Note 6)	0	0
Total Intragovernmental Assets	$5,497,950	$5,341,193
Cash and Other Monetary Assets (Note 7)	$1,278	$817
Accounts Receivable (Note 5)	1,935,567	922,931
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	62,605	63,139
General Property, Plant and Equipment (Note 10)	30,909,056	34,204,467
Investments (Note 4)	0	0
Other Assets (Note 6)	0	77
TOTAL ASSETS	$38,406,456	$40,532,624
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$92,764	$83,815
Debt (Note 13)	17,386	24,667
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	2,096,480	1,146,944
Total Intragovernmental Liabilities	$2,206,630	$1,255,426
Accounts Payable (Note 12)	$568,108	$595,952
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0
Environmental Liabilities (Note 14)	0	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 & Note 16)	705,384	590,776
Debt Held by Public (Note 13)	0	0
TOTAL LIABILITIES	$3,480,122	$2,442,154
NET POSITION		
Unexpended Appropriations (Note 18)	$636,846	$1,064,864
Cumulative Results of Operations	34,289,488	37,025,606
TOTAL NET POSITION	$34,926,334	$38,090,470
TOTAL LIABILITIES AND NET POSITION	$38,406,456	$40,532,624

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Costs

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	2003 Consolidated	2002 Consolidated
Program Costs		
Intragovernmental Gross Costs	$819,199	$786,630
(Less: Intragovernmental Earned Revenue)	(1,011,769)	(616,437)
Intragovernmental Net Costs	($192,570)	$170,193
Gross Costs With the Public	$9,466,972	$6,314,764
(Less: Earned Revenue From the Public)	(298,633)	(121,740)
Net Costs With the Public	$9,168,339	$6,193,024
Total Net Cost	$8,975,769	$6,363,217
Cost Not Assigned to Programs	0	0
(Less:Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	$8,975,769	$6,363,217

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	CUMULATIVE RESULTS OF OPERATIONS		UNEXPENDED APPROPRIATIONS	
	2003 Consolidated	**2002 Consolidated**	**2003 Consolidated**	**2002 Consolidated**
Beginning Balances	$39,695,092	$37,604,229	$1,064,864	$1,214,901
Prior period adjustments (+/-)	(2,669,485)	0	0	0
Beginning Balances, as adjusted	$37,025,607	$37,604,229	$1,064,864	$1,214,901
Budgetary Financing Sources:				
Appropriations received	0	0	4,027,057	4,324,965
Appropriations transferred-in/out (+/-)	0	0	196,111	198,408
Other adjustments (rescissions, etc) (+/-)	0	0	(344,418)	(153,374)
Appropriations used	4,323,711	4,704,846	(4,306,768)	(4,520,036)
Nonexchange revenue	931,241	819,255	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	863,243	(706,651)	0	0
Other budgetary financing sources (+/-)	(32,536)	(3,166)	0	0
Other Financing Sources:				
Donations and forfeitures of property	4,648	303	0	0
Transfers-in/out without reimbursement (+/-)	(56,344)	744,279	0	0
Imputed financing from costs absorbed by others	225,066	208,986	0	0
Other (+/-)	(19,379)	16,743	0	0
Total Financing Sources	$6,239,650	$5,784,595	($428,018)	($150,037)
Net Cost of Operations (+/-)	8,975,769	6,363,217	0	0
Ending Balances	$34,289,488	$37,025,607	$636,846	$1,064,864

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY FINANCING ACCOUNTS	BUDGETARY RESOURCES		NON-BUDGETARY RESOURCES	
BUDGETARY RESOURCES	**2003 Combined**	**2002 Combined**	**2003 Combined**	**2002 Combined**
Budget Authority:				
Appropriations received	$7,652,893	$4,324,965	$0	$0
Borrowing authority	0	0	0	0
Contract authority	0	0	0	0
Net transfers (+/-)	160,964	1,006,223	0	0
Other	0	0	0	0
Unobligated balance:				
Beginning of period	1,741,013	1,713,303	0	0
Net transfers, actual (+/-)	0	(23,140)	0	0
Anticipated Transfers balances	0	0	0	0
Spending authority from offsetting collections:				
Earned	0	0	0	0
Collected	5,065,570	4,837,613	0	0
Receivable from Federal sources	(74,841)	(53,523)	0	0
Change in unfilled customer orders	0	0	0	0
Advance received	(16,318)	37,345	0	0
Without advance from Federal sources	262,126	115,628	0	0
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	$5,236,537	$4,937,063	$0	$0
Recoveries of prior year obligations	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(8,653)	(16,515)	0	0
Total Budgetary Resources	$14,782,754	$11,941,899	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

NONBUDGETARY FINANCING ACCOUNTS				
STATUS OF BUDGETARY RESOURCES	**2003 Combined**	**2002 Combined**	**2003 Combined**	**2002 Combined**
Obligations incurred:				
Direct	$5,516,359	$5,415,360	$0	$0
Reimbursable	5,033,749	4,785,522	0	0
Subtotal	$10,550,108	$10,200,882	$0	$0
Unobligated balance:				
Apportioned	1,387,762	1,246,051	0	0
Exempt from apportionment	2,844,875	494,957	0	0
Other available	0	0	0	0
Unobligated Balances Not Available	9	9	0	0
Total, Status of Budgetary Resources	$14,782,754	$11,941,899	$0	$0
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net - beginning of period	$1,047,323	$1,097,971	$0	$0
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, Net - end of period:				
Accounts receivable	(160,601)	(235,443)	0	0
Unfilled customer order from Federal sources	(1,635,255)	(1,373,128)	0	0
Undelivered orders	1,628,915	1,475,183	0	0
Accounts payable	1,174,565	1,180,711	0	0
Outlays:				
Disbursements	10,402,525	10,189,428	0	0
Collections	(5,049,251)	(4,874,959)	0	0
Subtotal	$5,353,274	$5,314,469	$0	$0
Less: Offsetting receipts	(904,214)	(819,255)	0	0
Net Outlays	$4,449,060	$4,495,214	$0	$0

The accompanying notes are an integral part of these statements.

Combined Statement of Financing

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Resources Used to Finance Activities:	**2003 Combined**	**2002 Combined**
Budgetary Resources Obligated		
Obligations incurred	$10,550,108	$10,200,882
Less: Spending authority from offsetting collections		
and recoveries (-)	(5,236,537)	(4,937,063)
Obligations net of offsetting collections and recoveries	$5,313,571	$5,263,819
Less: Offsetting receipts (-)	(904,214)	(819,255)
Net obligations	$4,409,357	$4,444,564
Other Resources		
Donations and forfeitures of property	4,648	303
Transfers in/out without reimbursement (+/-)	(56,344)	1,171
Imputed financing from costs absorbed by others	225,066	208,986
Other (+/-)	(19,379)	16,743
Net other resources used to finance activities	153,991	227,203
Total resources used to finance activities	$4,563,348	$4,671,767
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods,		
services and benefits ordered but not yet provided		
Undelivered Orders (-)	($154,315)	($2,705)
Unfilled Customer Orders	245,807	152,974
Resources that fund expenses recognized in prior periods	0	0
Budgetary offsetting collections and receipts that	904,695	819,255
do not affect net cost of operations		
Resources that finance the acquisition of assets	1,399,859	(2,461,629)
Other resources or adjustments to net obligated resources		
that do not affect net cost of operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0
Other (+/-)	0	0
Total resources used to finance items not part of the net cost of operations	$2,396,046	($1,492,105)
Total resources used to finance the net cost of operations	$6,959,394	$3,179,662

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**2003 Combined**	**2002 Combined**
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	$0	$0
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the the public (-)	0	(3,429)
Other (+/-)	66,422	41,498
Total components of Net Cost of Operations that will require or generate resources in future periods	$66,422	$38,069
Components not Requiring or Generating Resources:		
Depreciation and amortization	447,661	475,535
Revaluation of assets or liabilities (+/-)	1,477,630	0
Other (+/-)	24,662	2,669,951
Total components of Net Cost of Operations that will not require or generate resources	$1,949,953	$3,145,486
Total components of net cost of operations that will not require or generate resources in the current period	$2,016,375	$3,183,555
Net Cost of Operations	$8,975,769	$6,363,217

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers (USACE) Civil Works, as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the USACE in accordance with the "Department of Defense Financial Management Regulation (DoDFMR)," the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and to the extent possible, generally accepted accounting principles (GAAP). The USACE's financial statements are in addition to the financial reports also prepared by the USACE pursuant to OMB directives that are used to monitor and control the USACE's use of budgetary resources.

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

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

1.B. Mission of the Reporting Entity

Some of the missions of the 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
9600/013121	General Investigations (00/01)

9602/033121	General Investigations (02/03)
96X3122	Construction, General
96X3123	Operation and Maintenance, General
96X3124	General Expenses
96X3125	Flood Control and Coastal Emergencies
96X3126	Regulatory Program
96X3128	Washington Aqueduct Capital Improvements
96033129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X3130	FUSRAP
Revolving Funds	
96X4902	Revolving Fund
Special Funds	
96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
Trust Funds	
96X8217	South Dakota Terrestrial Wildlife habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
9620X8861	Inland Waterways Trust Fund
96X8862	Rivers and Harbors Contributed and Advance Funds
9620X8863	Harbor Maintenance Trust Fund
Transfer Funds	
96 12X1105	State and Private Forestry, Forest Service
96 13X2050	Economic Development Administration
96 14X1039	Construction National Park Service
96 14X5035	Land Acquisition and State Assistance, National Park Service
96 21X2020	OMA, American Samoa Projects
96 69X8083	Federal Aid Highways
96 89X4045	Bonneville Power Administration
96 72 99/00 1021	Development Assistance, Agency for International Development

Non-Entity:
Deposit Funds

96X6094	Advances from the District of Columbia
96X6500	Advances without Orders from Non-Federal Sources
96X6501	Small Escrow Amounts

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
961060	Forfeitures of Unclaimed Money and Property
961099	Fines, Penalties, and forfeitures Not Otherwise Classified
961435	General Fund Proprietary Interest, Not Otherwise Classified
963220	General Fund Proprietary Receipts. Not Otherwise Classified, All Other
965007	Special Recreation Use Fees
965066	Hydraulic Mining in California
965090	Receipts from leases of lands acquired for flood control, navigation, and allied purposes
965125	Licenses under Federal Power Act, Improvements of navigable water, maintenance and operation of dams, etc., (50%)
968217.001	Payment from the General Fund, South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
968217.002	Earnings on Investments, South Dakota Terrestrial Wildlife Restoration Trust Fund
968862.001	Contributions and Advances, Rivers and Harbors

1.C. Appropriations and Funds

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

The Civil Works Program receives Federal funding through annual Energy and Water Development Appropriations Acts. Program funding also comes from non-Federal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the 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 following three years (1997 through 1999) to finance capital improvements to the Washington Aqueduct. Appropriation 96X3128 was established to record financial transactions for these capital improvements.

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

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

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

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

1.D. Basis of Accounting

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

CEFMS is used at all divisions, districts, centers, laboratories and field offices. CEFMS is a fully automated, comprehensive financial management system that simplifies the management of all aspects of the Corps business, including civil, military, revolving funds and reimbursable activity. The general ledger chart of accounts in CEFMS is substantially compliant with the U.S. Government Standard General Ledger.

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

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

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

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

1.G. Accounting for Intra-governmental 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 consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between entities within the Department or between two or more federal agencies must be eliminated.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the Department of the Treasury, FMS issued the “Federal Intragovernmental Transactions Accounting Policies and Procedures Guide.” The Corps implemented the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. In addition, the Corps implemented the policies and procedures contained in the “Intragovernmental Fiduciary Transactions Accounting Guide,” as updated by the “Federal Intragovernmental Transactions Accounting Policies and Procedures Guide,” issued October 2002, for reconciling intragovernmental transactions. These transactions pertain to investments in Federal securities, borrowings from United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

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

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

The 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 USACE disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic transfers, interagency transfers and deposits.

In addition, the DFAS centers and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Corps recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

1.J. Foreign Currency

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

1.K. Accounts Receivable

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

1.L. Loans Receivable. As Applicable.

Not applicable.

1.M. Inventories and Related Property

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

The related property portion of the amount reported on the Inventory and Related Property line includes operating materials and supplies (OM&S). The OM&S are valued at standard purchase price. For the most part, the Department is using the consumption method of accounting for OM&S, as defined in the SFFAS No. 3, "Accounting for Inventory and Related Property" as material that has not been issued to the end user. Once OM&S is issued, the material is expensed. Material disclosures related to inventory and related property are provided at Note 9.

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

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

Investments in U. S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The Corps' intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities, because in the majority of cases, they are held to maturity. Amounts reported reflect the value of investments in the South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance Trust Fund accounts, which are managed by the Treasury Department. Material disclosures are provided at Note 4.

1.O. General Property, Plant and Equipment

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals $25,000 (one exception is all buildings and structures related to hydro- power projects are capitalized regardless of cost.) During 2003 the Corps increased its buildings and structures threshold to $25K (from $0) for all Civil Works Appropriations with the exception of Revolving Fund and Power Marketing Agency (PMA) assets. All Civil Works Appropriations Buildings and Structures currently capitalized under $25K (excluding Revolving Fund and PMA) were expensed in FY 2003 and removed from Corps of Engineers Financial Management System (CEFMS). Starting in FY 2004 all Civil Works Buildings and Structures over $25K will be expensed except for PMA assets.

Due to the change in policy (increasing the Buildings and Structures threshold) the Corps expensed about 17,760 buildings and structures valued at about $63,261 thousand during FY 2003.

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

The Corps of Engineers is in the process of conducting a study to determine the proper supported value of their Land. This is due to a lack of supporting documentation for older Land administrative costs.

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

To bring the Corps into compliance with federal accounting standards, the Department has issued new property accountability and reporting regulations that require the

DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

The DoD Capitalization threshold is $100K and the Corps is in process of requesting Official exception from that policy.

Material disclosures are provided at Note 10.

1.P. Advances and Prepayments

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

1.Q. Leases

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

1.R. Other Assets

The 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.

DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, “Prompt Payment.” DoD concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Corps. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated.

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Comparative Data

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY2003. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between FY2002 and FY2003 are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

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

Note 2. Nonentity and Entity Assets

As of September 30	2003 Nonentity	2003 Entity	2003 Total	2002 Nonentity Assets
(Amounts in thousands)				
1. Intra-governmental Assets:				
A. Fund Balance with Treasury	$6,865	$2,588,857	$2,595,722	$41,280
B. Investments	0	2,478,454	2,478,454	0
C. Accounts Receivable	0	423,775	423,775	0
D. Other Assets	0	0	0	0
E. Total Intra-governmental Assets	$6,865	$5,491,086	$5,497,951	$41,280
2. Non-Federal Assets:				
A. Cash and Other Monetary Assets	$1,278	$0	$1,278	$817
B. Accounts Receivable	1,871,575	63,992	1,935,567	915,452
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	62,605	62,605	0
E. General Property, Plant and Equipment	0	30,909,055	30,909,055	0
F. Investments	0	0	0	0
G. Other Assets	0	0	0	0
H. Total Non-Federal Assets	$1,872,853	$31,035,652	$32,908,505	$916,269
3. Total Assets:	$1,879,718	$36,526,738	$38,406,456	$957,549

4. Other Information:

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

Composition of Other Nonentity Assets

Non-federal nonentity accounts receivable represents all current and non-current receivables due from non-federal sources. Non-entity receivables include $878,276 thousand in long-term receivables due from state and local municipalities for water storage contracts, $45,131 thousand in current receivables due from state and local municipalities for water storage, $946,746 thousand in accrued interest receivable, $1,828 thousand in penalties, fines and administrative fees receivable, and $1,600 thousand in long-term receivable for hydraulic mining. The additional $876 thousand represents amount due from the leasing of land acquired for flood control purposes. Non-entity receivables are recorded in unavailable receipt accounts and funds will be returned to Treasury when collected. The allowance for doubtful accounts totals $2,882 thousand.

Other non-federal entity assets are comprised of $24,894 thousand in assets awaiting disposal and $10,429 thousand in cultural or archeologically significant assets.

Intra-governmental Non-Entity Fund Balance with Treasury consists of amounts collected into deposit, suspense and budget clearing accounts.

Line 2A - The amount on Line 2A includes $4 thousand in imprest funds. $768 thousand in Disbursing Officer's cash, and $506 thousand in foreign currency, as listed in Note 7.

Note Reference

For Additional Line Item discussion, see:

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

Note 3. Fund Balance with Treasury

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Fund Balances:		
A. Appropriated Funds	$1,127,663	$1,177,288
B. Revolving Funds	990,006	902,533
C. Trust Funds	67,482	59,954
D. Other Fund Types	410,571	404,182
E. Total Fund Balances	$2,595,722	$2,543,957
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$2,530,007	$2,484,784
B. Fund Balance per USACE	2,595,722	2,543,957
C. Reconciling Amount	($65,715)	($59,173)

3. Explanation of Reconciliation Amount:

Fund Balance per USACE includes $65,728 thousand cash reported by Treasury for Inland Waterways and Harbor Maintenance Trust Funds, for which the Corps is identified as the lead agency for reporting.

Funds Balance per USACE also includes disbursements of $12 thousand that were not reported to Treasury until October 2003.

4. Other Information Related to Fund Balance with Treasury:

Borrowing Authority Fund Balance with Treasury was erroneously reported as appropriated funds in FY 2002. It should have been reported as Other Fund Types. The FY 2002 column Line 1.A. is overstated and Line 1.D. is understated by $773 thousand.

Fund Balance per USACE includes $40,304 thousand in transfer appropriations that were not reported by the Corps in the Treasury FACTS II System. Those transfer appropriations are reported by the parent agencies on the FMS 2108. The parent agencies are Department of Energy, Department of Transportation, and Department of Commerce. According to the Treasury Financial Manual, Part 2, Chapter 4000, Federal Agencies' Centralized Trial-Balance System, paragraph 4030.60, if an allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation in all of its financial statements, except the Statement of Budgetary Resources. The Corps has determined that these balances are material and have included them in all of our financial statements.

Other Fund types consists of $6,865 thousand in deposit, suspense and clearing accounts that are not available to finance the Corps' activities, $645 thousand in borrowing authority, and $388,451 thousand in contributed funds. The $14,609 thousand in the suspense account established to finance Washington Aqueduct operations is also included in this balance.

There are no restrictions for future use of unobligated balance.

The Funds Balance with Treasury line does not include any amounts for which the Department of the Treasury is willing to accept corrections to cancelled appropriation accounts, in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, paragraph 37 "Accounting for Selected Assets and Liabilities."

Fluctuations

Line 1C. The increase is for excise taxes collected by Treasury for the Inland Waterways and Harbor Maintenance Trust Funds. The funds have not been invested yet by Treasury. The Corps is the lead agency for reporting these two trust funds.

Balance Sheet Line 1.A.1.c. Funds Balance with Treasury, Non-Entity Other. In FY 2002, $20,713 thousand in funds received for work to be performed on the Washington Aqueduct were erroneously reported as non-entity funds. These funds are entity funds. The remaining difference is due to a reduction of the budget clearing account. Litigation related to a collection in the budget clearing account was resolved and $13,000 thousand was disbursed from the account.

Note Reference

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

Note 18 for Status of Unexpended Balance.

Note 4. Investments

As of September 30	2003 Cost	Amortization Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	2002 Investments, Net
(Amounts in thousands)						
1. Intra-governmental Securities:						
A. Marketable	$0	Interest	$0	$0	$0	$0
B. Non-Marketable, Par Value	0	Interest	0	0	0	0
C. Non-Marketable, Market-Based	2,503,585	Effective Interest	(36,814)	2,466,771	2,505,019	2,264,451
D. Subtotal	$2,503,585		($36,814)	$2,466,771	$2,505,019	$2,264,451
E. Accrued Interest	$11,683			$11,683	$11,683	$4,635
F. Total Intragovernmental Securities	$2,515,268		($36,814)	$2,478,454	$2,516,702	$2,269,086
2. Other Investments:	$0		$0	$0	$0	$0

3. Other Information:

Investments for the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration Trust Funds are reported by the Treasury and included in U.S. Army Corps of Engineers' Financial Statements. Investment amounts include $392,809 thousand in Inland Waterways, $2,032,558 thousand in Harbor Maintenance and $53,087 thousand in the South Dakota Terrestrial Wildlife account. Investments include $285,496 thousand in one-day certificates and $2,181,275 thousand in bonds and notes. See Note 3 for further discussion of Inland Waterways and Harbor Maintenance Trust Funds.

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

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

The Department of the Treasury also provides the investment market value based on the bid price provided by the Federal Reserve Bank of New York on September 30, 2003.

Note Reference

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

See Note 21A for further discussion of Trust Funds.

Note 5. Accounts Receivable

As of September 30	2003 Gross Amount Due	2003 Allowance For Estimated Uncollectibles	2003 Accounts Receivable, Net	2002 Accounts Receivable, Net
(Amounts in thousands)				
1. Intra-governmental Receivables:	$423,775	N/A	$423,775	$528,150
2. Non-Federal Receivables (From the Public):	$1,938,745	($3,178)	$1,935,567	$922,931
3. Total Accounts Receivable:	$2,362,520	($3,178)	$2,359,342	$1,451,081

4. Allowance method:

The method of calculating the allowance for estimated uncollectibles is based on the cumulative balance of delinquent public receivables aged in accordance with current USACE policy. The calculation was performed automatically in the Corps of Engineers Financial Management System.

The Code of Federal Regulations (4CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables.

5. Other information:

Elimination Adjustments

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

Intragovernmental Receivables Over 180 Days

The amount of intragovernmental receivables over 180 days old is $13,174 thousand. No intragovernmental receivables have been submitted to the General Accounting office for opinion.

Public Receivables Over 180 Days

The amount of public receivables over 180 days old is $45,632 thousand. Receivables with the public include $29,175 thousand in accrued interest on delinquent receivables.

Nonfederal Refunds Receivable

The amount of public receivables includes $159 thousand in refunds receivable.

Other Disclosures

Public receivables include $45,047 thousand in current and $878,276 thousand in long-term accounts receivable (principal) associated with water storage contracts, $946,746 thousand in accrued interest receivable, and $1,828 thousand in penalties, fines, and and administrative fees receivable. Public receivables also includes $1,600 thousand in long-term receivable for hydraulic mining and $876 thousand due from the leasing of land acquired for flood control purposes, and $55,936 thousand due from the D.C. Public Schools and Department of Housing. The remaining $8,436 thousand is for accounts receivable.

Civil works water storage contracts include 167 projects with municipal and industrial water supply as an authorized purpose. It supplies water to 10 million people in 115 cities.

The amount of Public Receivables on the Treasury Report on Receivables Due From the Public is $2,901 thousand greater than the balance of public receivables reported on the balance sheet. The difference is attributed to the allowance for estimated uncollectibles of $3,178 thousand less the amount of receivables of $277 thousand reclassified from public to intragovernmental after the completion of the Report on Receivables Due from the Public.

Trust fund receivables for currently invested balances include $327,164 thousand for the Coastal Wetlands Restoration Trust Fund and $7,389 thousand for the Inland Waterways Trust Fund. To accommodate cash management practices, funds will remain invested until needed for disbursement. The budget authority is realized and obligations may be incurred before the actual transfer of funds.

Fluctuations

Line 1. The Corps aggressively pursued collection of intragovernmental receivables in FY 2003. The largest amounts collected were from Environmental Protection Agency and Federal Emergency Management Agency. Of considerable impact were General Services Administration, U.S. Fish and Wildlife, Department of Energy (several bills for small amounts), Department if Interior and Department of Agriculture (few bills for large amounts).

Line 2. The increase in the amount of public receivables is due to the reporting of the non-current portion of the interest receivable for $879,952 thousand for water storage contracts. This amount was not reported last year.

Note Reference

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

Note 6. Other Assets

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Intra-governmental Other Assets:		
A. Advances and Prepayments	$0	$0
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	$0	$0
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	$0	$0
B. Other Assets (With the Public)	0	77
C. Total Non-Federal Other Assets	$0	$77
3. Total Other Assets:	$0	$77

4. Other Information Related to Other Assets:

Fluctuations
Line 2.C. In FY 2002 the Corps had advances to the public recorded as other assets. These advances have been reduced to zero in FY 2003.

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

Note 7. Cash and Other Monetary Assets

As of September 30	2003	2002
(Amounts in thousands)		
1. Cash	$772	$654
2. Foreign Currency (non-purchased)	506	163
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$1,278	$817

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

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

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

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

Other Corps Disclosures
Cash consists of $768 thousand in Disbursing Officers' Cash and $4 thousand in Imprest Funds. Disbursing Officer's Cash differs from the Statement of Accountability by $220 thousand due to erroneous reporting on the Statement of Accountability. The reporting errors will be corrected on the next reporting cycle.

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.

Fluctuations
Line 1. The increase in Disbursing Officers cash is due to an increase in travel advances issued and receivables related to travel advances. Travel credit cards are being phased out for employees who do not travel frequently.

Line 2. The increase in cash is due primarily to an increase in foreign currency as a result of routine business practices. The Corps Finance Center now disburses for Japan and Korea Districts. Foreign currency is now bought in bulk.

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

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

1. Direct Loan and/or Loan Guarantee Programs: The entity operates the following direct loan and/or Loan guarantee program(s):

Military Housing Privatization Initiative
Armament Retooling & Manufacturing Support Initiative

2. Other Information:
Not Applicable

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

Note 8.B. Direct Loans Obligated After FY 1991

Not applicable

Note 8.C. Total Amount of Direct Loans Disbursed

Not applicable

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

Not applicable

Note 8.E. Subsidy Rate for Direct Loans

Not applicable

Note 8.F. Schedule for Reconciling Subsidy Cost Allowance Balances for

Post-1991 Direct Loans
Not applicable

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

Not applicable

Note 8.H. Guaranteed Loans Outstanding

Not applicable

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

Not applicable

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

Not applicable

Note 8.K. Subsidy Rate for Loan Guarantees

Not applicable

Note 8.L. Schedule for Reconciling Loan Guarantee Liability Balances for

Post-1991 Loan Guarantees

Not applicable

Note 8.M. Administrative Expense

Not applicable

Note 9. Inventory and Related Property

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Inventory, Net (Note 9.A.)	62,570	63,037
2. Operating Materials & Supplies, Net (Note 9.B.)	35	102
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	62,605	63,139

Note 9.A. Inventory, Net

As of September 30	2003 Inventory, Gross Value	2003 Revaluation Allowance	2003 Inventory, Net	2002 Inventory, Net	Valuation
(Amounts in thousands)					
1. Inventory Categories:					
A. Available and Purchased for Resale	$87,984	($46,969)	$41,015	$40,548	O
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	11	0	11	0	O
D. Raw Materials	0	0	0	0	
E. Work in Process	21,544	0	21,544	22,489	O
F. Total	$109,539	($46,969)	$62,570	$63,037	

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. Other Information:

Definitions

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

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

Excess, Obsolete, and Unserviceable inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. Potentially reusable material, presented in previous years as "Excess, Obsolete and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

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

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

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

The inventory valuation method is based on a moving weighted average based on actual cost divided by quantity. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost as new receipts are recorded.

For regulatory discussion on Inventory, Net, see DoD FMR, Volume 6B, chapter 10, paragraph 1011.

Note Reference
See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property.

Note 9.B. Operating Materials and Supplies, Net

	2003			2002	Valuation
As of September 30	Value	Allowance	OM&S, Net	OM&S, Net	Method
(Amounts in thousands)					
1. OM&S Categories:					
A. Held for Use	$35	$0	$35	$102	O
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	0	
D. Total	$35	$0	$35	$102	

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

3. Other Information:
For regulatory discussion on OM&S, see DoD FMR, volume 6B, Chapter 10, paragraph 101107.

Fluctuations
The decrease in Operating Materials and Supplies is attributed to a depletion of the metered mail account at Fort Worth District.

Note Reference
See Note Disclosure 1. M. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property.

Note 9.C. Stockpile Materials, Net

Not applicable

Note 10. General PP&E, Net

As of September 30	Depreciation/ Amortization Method	Service Life	2003 Acquisition Value	2003 (Accumulated Depreciation/ Amortization)	2003 Net Book Value	2002 Prior FY Net Book Value
(Amounts in thousands)						
1. Major Asset Classes:						
A. Land	N/A	N/A	$8,131,547	N/A	$8,131,547	$8,045,799
B. Buildings, Structures, and Facilities	S/L	2 - 100	$31,076,251	($12,796,064)	$18,280,187	$18,036,740
C. Leasehold Improvements	S/L	lease term	26,105	(8,984)	17,121	18,598
D. Software	S/L	5-Feb	56,058	(32,157)	23,901	30,916
E. Equipment	S/L	5 - 100	1,210,536	(577,810)	632,726	650,783
F. Assets Under Capital Lease [1]	S/L	lease term	0	0	0	0
G. Construction-in-Progress	N/A	N/A	3,788,250	N/A	3,788,250	7,373,045
H. Other			35,323	0	35,323	48,586
I. Total General PP&E			$44,324,070	($13,415,015)	$30,909,055	$34,204,467

2. Other Information:

General PP&E - Significant Amount of Assets
Intangible assets totaling $2.1 billion were reclassified as land. These assets are comprised of historical costs associated with the acquisition of land in conjunction with power projects. Costs were originally classified as intangible assets in order to comply with Federal Energy Regulatory Commission guidelines on cost recovery. However, the decision was made that these costs were improperly classified in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment", as they were part of the initial acquisitions cost of the land and should have been classified as such. We have also made a reversing entry for current year amortization in our statements to properly reflect the effect of the transfer into land (category 00) where accumulated depreciation is inappropriate. There is a significant amount reported on land, buildings and structures, and construction in progress that originated in COEMIS (Corps of Engineers Management Information System) that source documentation is not available to support amounts. The Corps and DoDIG are continuing to work toward agreement on a baseline for these older items.

Due to the change in policy (increasing Buildings and Structures threshold), the Corps expensed about 17,760 buildings and structures valued at about $63,261 thousand during FY 2003. The service life for our multiple purpose project assets are derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The Power Marketing Administration related assets make up $7,560,155 thousand of the book value of the Corps Property, Plant and Equipment.

Corps policy requires all capital improvements to real property, occupied but not owned by the Corps, with a useful life of two or more years and cost of $25,000 to be capitalized as leasehold improvements.

For regulatory discussion on General PP&E, Net, see DoD FMR, Volume 6B, Chapter 10, paragraph 1012.

Fluctuations
Line 1D - Software: The net book value of software decreased primarily due to an increase in the amount of amortization. The monthly amount of amortization increased due to new assets placed in service and a change to the useful life of the Corps' Financial Management System. In addition, adjustments for approximately $ 3,000 thousand were made due to the change in the useful life of the financial management software system and a change to the placed in service date for the Corps' Water Management System.

Line 1G - Construction-in-Progress: Cost share and other construction in progress projects were transferred and recorded as a loss.

Line 1H - Other: Other assets consist of assets awaiting disposal. Approximately $13,263 thousand in assets were disposed of during FY 2003.

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

See Note 20 for further discussion on adjustment for construction-in-progress.

Note 10.A. Assets Under Capital Lease

Not applicable

Note 11. Liabilities Not Covered and Covered by Budgetary Resources

As of September 30	2003 Covered by Budgetary Resources	2003 Not Covered by Budgetary Resources	2003 Total	2002 Not Covered by Budgetary Resources
(Amounts in thousands)				
1. Intra-governmental Liabilities:				
A. Accounts Payable	$92,764	$0	$92,764	$0
B. Debt	395	16,991	17,386	24,113
C. Environmental Liabilities	0	0	0	0
D. Other	1,907,689	188,791	2,096,480	185,293
E. Total Intra-governmental Liabilities	$2,000,848	$205,782	$2,206,630	$209,406

As of September 30 (Amounts in thousands)	2003 Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	2002 Not Covered by Budgetary Resources
2. Non-Federal Liabilities:				
A. Accounts Payable	$568,108	$0	$568,108	$0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	0	0	0
C. Environmental Liabilities	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	642,461	62,923	705,384	0
F. Total Non-Federal Liabilities	$1,210,569	$62,923	$1,273,492	$0
3. Total Liabilities:	$3,211,417	$268,705	$3,480,122	$209,406

4. Other Information:

Definitions

Liabilities Not Covered by Budgetary Resources

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

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

Liabilities Covered by Budgetary Resources

Resources incurred by the reporting entity which are covered by realized budget resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include the following:

- New budget authority.
- Spending authority from offsetting collections (credited to an appropriation or fund account).

- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations.
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year.
- Borrowing authority or permanent indefinite appropriations, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

Other Corps Information

Intragovernmental other liabilities (not covered by budgetary resources) include judgment fund liabilities in the amount of $145,907 thousand and the FY 2003 Workmen's Compensation liabilities in the amount of $42,884 thousand.

Intragovernmental other liabilities (covered) includes $1,758,227 thousand representing future revenue from long term water storage contracts and $1,500 thousand representing future revenue from long term hydraulic mining contracts. Once collected, these monies are returned to the Department of Treasury's general fund receipt account and have no budgetary impact. This category also includes $21,207 thousand in employer contributions and payroll taxes, $768 thousand in Disbursing Officer Cash, $114,516 thousand to offset interest receivables and account receivables which, when collected, will be returned to Treasury, $510 thousand in the suspense account and $10,959 thousand in unearned advances.

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

Non-federal other liabilities (covered) includes $443,414 thousand in accrued funded payroll and leave, $40,739 thousand in contract holdbacks, $110,265 thousand in unearned advances, $40,982 thousand maintained to fund contingent liabilities arising from casualty losses and $7,060 thousand in deposit fund and clearing account liabilities.

Non-federal other liabilities (not covered by budgetary resources) include $62,923 thousand for the liability for contracts with continuation clause.

Fluctuations

Line 1B. Liability for Debt: The liability for debt decreases as principal is steadily being reduced.

Line 1D. Other Intragovernmental Liabilities: The increase in other intragovernmental liabilities is due to the reporting of the long-term portion of the interest receivable for water storage contracts of $879,952 thousand. This is the first year for reporting this liability.

Line 2E. Other Liabilities not Covered by Budgetary Resources: This amount increased due to the recording of a liability for contracts with continuation clauses. This amount was not reported in FY 2002.

Note Reference

For additional line item discussion, see:

Note 8, Direct Loans and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Debt
Note 14, Environmental Restoration Liabilities and Environmental Disposal Liabilities
Note 15, Other Liabilities
Note 16, Commitments and Contingencies
Note 17, Military Retirement Benefits and Other Employment-Related Actuarial Liabilities

Note 12. Accounts Payable

	2003			2002
As of September 30	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in thousands)				
1. Intra-governmental Payables:	$92,764	N/A	$92,764	$83,815
2. Non-Federal Payables (to the Public):	$568,108	$0	$568,108	$595,952
3. Total	$660,872	$0	$660,872	$679,767

4. Other Information:

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Payables (to the Public) are payments to nonfederal government entities.

The Corps has no known delinquent accounts payable, therefore no amount is reported for interest, penalties, and administrative fees. For the period ending September 30, 2003, the Corps paid $557 thousand in interest, from Civil Works appropriations, on payments subject to the Prompt Payment Act.

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

Fluctuations

Line 1. Intra-governmental accounts payable includes $7,389 thousand for the transfer of currently invested balances from the Treasury Department to the Inland Waterways Trust Fund. This is the first year for the reporting of the trust fund payable.

Note Reference

See Note Disclosure 1.G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

Note 13. Debt

As of September 30	2003			2002
(Amounts in thousands)	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
1. Public Debt:				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
2. Agency Debt:				
A. Debt to the Treasury	$24,668	($7,282)	$17,386	$24,667
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	0	0	0	0
D. Total Agency Debt	$24,668	($7,282)	$17,386	$24,667
3. Total Debt:	$24,668	($7,282)	$17,386	$24,667
4. Classification of Debt:				
A. Intra-governmental Debt			$17,386	$24,667
B. Non-Federal Debt			N/A	N/A
C. Total Debt			$17,386	$24,667

5. Other Information:

During fiscal years 1997, 1998 and 1999, the Corps of Engineers executed three promissory notes totaling $75,000 thousand with the Department of the Treasury. Funds provided were used for capital improvements to the Washington Aqueduct. Arlington County and Falls Church, Virginia and the District of Columbia provide funding to repay the debt. Actual drawdown of the funds has been made from the Treasury in the amount of $74,896 thousand. Accrued interest payable at September 30, 2003 is $395 thousand. During fiscal year 2003, actual drawdown of funds from the Treasury totals $1,530 thousand. Principal repayments during fiscal year 2003 were $8,653 thousand. Total principal repayments as of September 30, 2003 are $57,905 thousand.

The difference from FY 2002 represents principal repayments towards liquidating the debt.

Note Reference

See Note Disclosure 1. G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounting for Intragovernmental Activities, Public Debt.

See Note 21A for further discussion on the Washington Aqueduct project.

Note 14. Environmental Liabilities and Disposal Liabilities

Not applicable

Note 15.A. Other Liabilities

As of September 30 (Amounts in thousands)	2003 Current Liability	Noncurrent Liability	Total	2002 Total
1. Intra-governmental:				
A. Advances from Others	$10,959	$0	$10,959	$17,312
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	510	0	510	14,413
D. Resources Payable to Treasury	0	0	0	33,643
E. Disbursing Officer Cash	768	0	768	653
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H . Judgement Fund Liabilities	145,907	0	145,907	144,641
I. FECA Reimbursement to the Department of Labor	16,693	26,191	42,884	40,652
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	135,723	1,759,729	1,895,452	895,630
L. Total Intra-governmental Other Liabilities	$310,560	$1,785,920	$2,096,480	$1,146,944
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	$443,414	$0	$443,414	$388,375
B. Advances from Others	110,265	0	110,265	112,410
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	7,060	0	7,060	6,524
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	0
J. Accrued Unfunded Annual Leave	0	0	0	0
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	144,645	0	144,645	83,467
N. Total Non-Federal Other Liabilities	$705,384	$0	$705,384	$590,776
3. Total Other Liabilities:	$1,015,944	$1,785,920	$2,801,864	$1,737,720

4. Other Information Pertaining to Other Liabilities:

Other Liabilities

Intragovernmental

The Corps of Engineers Civil Works Directorate has recognized 28 unfunded liabilities arising from Judgment Fund Contract Disputes Act settlement in accordance with the interpretation of Federal Financial Accounting Standards Number 2, Accounting for Treasury Judgment Fund Transactions.

Federal Employees' Workman's Compensation costs reflect cost incurred for income lost and medical costs for federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The costs are paid from the Federal Employees' Compensation Act (FECA). Fiscal year 2003 costs of $16,693 thousand are reflected as a current liability.

Intra-governmental other liabilities (current) includes $21,207 thousand for employer contributions and payroll taxes and $114,516 thousand to offset interest and accounts receivables which, when collected, will be returned to Treasury. Intra-governmental other liabilities (noncurrent) represent future revenue of $1,758,227 thousand from long term water storage and $1,500 thousand from hydraulic mining contracts.

Non-Federal

Non-federal other liabilities includes $40,982 thousand to fund contingent liabilities arising from casualty losses. An additional $40,739 thousand in contract holdbacks on construction-in-progress payments and $62,923 thousand for unfunded accounts payable are also included.

Intragovernmental Reconciliations for Fiduciary Transactions
With respect to the major fiduciary balances with the Office of Personnel Management (OPM) and the Department of Labor (DOL), the Corps was able to reconcile with the OPM and the DOL.

Fluctuations
Line 1.A. Intragovernmental Advances from others decreased because work was completed and advances were earned.

Line 1.C. Deposit Funds and Suspense Account liabilities was reduced with the disposition of a disputed collection related to a water storage contract. Disposition of the collection was delayed pending the settlement of litigation.

Line 1.D. Resources Payable to Treasury was used in FY 2002 to record the offset to accounts receivable in receipt accounts. The receipts are collected into Treasury receipt accounts. Per audit recommendation, these liabilities are now reported in line 1K, Other Liabilities.

Line 1.E. The increase in the liability for Disbursing Officer Cash is attributed an increase in travel advances issued and receivables related to travel advances. Travel credit cards are being phased out for employees who do travel infrequently.

Line 1.K. The increase in other liabilities is due to the reporting of the offset for long-term interest receivables. Interest receivable and the corresponding liability were not reported in FY 2002 and prior because the interest had not been earned yet. Per audit recommendation, we are now including the offset for interest receivable in the amount of $881,926 thousand. Other Liabilities also increased due to the change in reporting resources payable to Treasury from line 1D.

Line 2.M. The increase in Non-Federal Other Liabilities is attributed to recording an unfunded liability for contracts with continuation clause. The continuation clause allows contractors to continue work without funds being obligated.

Note Reference
See Note Disclosure 1.S. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

Note 15.B. Capital Lease Liability

Not applicable

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Proprietary contingencies are commonly referred to as contingent liabilities. The Corps of Engineers has thirty-four cases pending litigation, in which the relief requested is $7.6 million or more. The Corps' Legal Counsel is of the opinion that it is "reasonably possible" that the outcome of the litigation will result in a loss. Since these cases fail to satisfy the criteria to record a contingent liability in accordance with the Federal Financial Accounting Standard Number 5, Accounting for Liabilities of the Federal Government, no amount is included in our financial statements.

Note Reference
See Note Disclosure 1.S. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

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

Not applicable

Note 18. Unexpended Appropriations

As of September 30	**2003**	**2002**
(Amounts in thousands)		
1. Unexpended Appropriations:		
A. Unobligated, Available	$381,759	$694,450
B. Unobligated, Unavailable	8	8
C. Unexpended Obligations	255,079	369,982
D. Total Unexpended Appropriations	$636,846	$1,064,440

2. Other Information Pertaining to Unexpended Appropriations:

Definitions

Unexpended appropriations are the amount of budget authority remaining for disbursement against current or future obligations.

Unobligated balances represent the cumulative amount of budgetary authority that has not been set aside to cover outstanding commitments and 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 funds that have been committed for goods that have not been received or services that have not been performed.

Fluctuations

The variance in unexpended appropriations is due to the change in recording the amount of appropriated receipts from unavailable receipt accounts to the expenditure accounts. In prior years, these amounts in Special and Contributed Funds have been recorded as appropriations received, which updated unexpended appropriations. According to Treasury proforma entry A184, these amounts are to be recorded as transfers in. Transfers in do not update unexpended appropriations. An adjustment was made to remove the unexpended balances in Special Funds ($78 thousand) and Contributed Funds ($342,591 thousand) and report as transfers in.

Prior Year column total is less than Balance Sheet Line 5A prior year column by $424 thousand. This was due to an unreconciled difference in the funds balance between Washington Aqueduct and Treasury for appropriation 96X6094. Budgetary accounts were adjusted in order to reconcile with Treasury FACTS II submission edits. This difference has been corrected in the current year.

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

Disclosures Related to the Statement of Net Cost

Statement of Net Cost

The Consolidated Statement of Net Cost (SoNC) in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the Statement of Net Cost are based on obligations, disbursements and accruals. The Corps records transactions on an accrual basis as required by generally accepted accounting principles.

Fluctuations and Abnormalities

Line 1B - Intragovernmental Earned Revenue increased this year due a change in our method of identifying eliminations for other Corps revenue for the revolving fund. The Corps developed system queries to identify trading partners for labor and other transactions paid from military and other civil appropriations. Revenue of $532,270 thousand had previously been included in Level 3 intra-entity eliminations. Revenue from D.C. Public Schools in the amount of $161,583 thousand was previously recorded as intragovernmental because the source appropriation was Treasury Index 95. We have since received direction from Treasury that D.C. Public Schools is considered public.

Line 1D - Gross Costs with the Public also increased by $1,606,247 thousand due to the change in our method of figuring eliminations for the revolving fund. In FY 2002 we reclassified revenue from our DoD trading partners (level 2) to Corps (level 3) because we could not identify the trading partners. As a result of this reclassification, we also had to eliminate a corresponding amount of expense at the Corps level. Costs were understated for FY 2002 for the revolving fund. During FY 2003 we developed system queries to identify DoD trading partners. Costs are more accurately stated in FY 2003. Costs also increased due to the recognition of losses associated with cost share and other construction in progress projects of $1,498,356 thousand. We also incurred additional costs of $62,923 thousand related to the recognition of the liability for contracts with continuation clauses. The liability and costs were not recognized in FY 2002. Costs associated with the transfer appropriations also increased by $67,743 thousand due to an increase in funding.

Line 1E - Earned Revenue with the Public increased due a reclassification of revenue of $161,583 thousand from intragovernmental to public related to the D.C. Public Schools. The revenue was previously recorded as intragovernmental because the source appropriation was Treasury Index 95. We have since received direction from Treasury that D.C. Public Schools is considered public.

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

Not applicable

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

Not applicable

Note 19.D. Imputed Expenses

As of September 30
(Amounts in thousands)

	2003	2002
1. Civilian (e.g.,CSRS/FERS) Retirement	$106,317	$81,319
2. Civilian Health	108,142	102,986
3. Civilian Life Insurance	385	366
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	10,222	24,316
7. Total Imputed Expenses	$225,066	$208,987

Note 19.E. Benefit Program Expenses

Not applicable

Note 19. F. Exchange Revenue

Disclosures Related to the Exchange Revenue:

Exchange revenue arises when a government entity provides goods and services to the public or to another government entity for a price, “earned revenue'. Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges.

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.

For regulatory discussion on Exchange Revenue, see DoD FMR, Volume 6B, Chapter 10, paragraph 102120.

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

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

Not Applicable

Note 19.H. Stewardship Assets

Disclosures Related to Stewardship Assets:

Not Applicable

Note 19.I. Intra-governmental Revenue and Expense

Disclosures Related to Intra-governmental Revenue and Expense:

The Corps of Engineers Financial Management System (CEFMS) captures trading partner data at the transaction level in a manner that facilitates trading partner reconciliation and elimination entries. There were no material reconciling differences.

Note 19.J. Suborganization Program Costs

Not applicable

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

As of September 30	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	Cumulative Results of Operations 2002	Unexpended Appropriations 2002
(Amounts in thousands)				
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:				
A. Changes in Accounting Standards	$0	$0	$0	$0
B. Errors and Omissions in Prior Year Accounting Reports	(2,669,485)	0	0	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	($2,669,485)	$0	$0	$0
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$106,317	$0	$81,319	$0
B. Civilian Health	108,142	0	102,986	0
C. Civilian Life Insurance	385	0	366	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	10,222	0	24,316	0
G. Total Imputed Financing	$225,066	$0	$208,987	$0

3. Other Information:

Other Corps Disclosures

Reference Footnote 10 that the Corps of Engineers made a prior period adjustment of $2,669,485 thousand to remove the prior year cost share costs from the contruction in progress account.

Taxes and Other Nonexchange Revenue include $847,514 thousand in tax collections and $56,701 thousand in interest income deposited into the trust fund accounts. Excise taxes totaling $89,520 thousand were deposited into the Inland Waterways Trust Fund. Taxes totaling $757,994 thousand were collected and deposited into The Harbor Maintenance Trust Fund. These taxes were derived from:

Tax on Foreign Trade	$87,344 thousand
Tax on Imports	624,436 thousand
Tax on Passengers	5,295 thousand
Tax on Domestics	40,647 thousand
Tax on Exports	272 thousand

Transfers-in include $10 million transferred into the South Dakota Terrestrial Wildlife Restoration Trust Fund, $56,938 thousand in budget authority transferred into the Coastal Wetlands Restoration Trust Fund from the Aquatic Resources Trust Fund, $101,551 thousand transferred into the Inland Waterways Trust Fund from Treasury, and $568,900 thousand in budget authority transferred into the Harbor Maintenance Trust Fund from Treasury. An additional $576 thousand was transferred from the Department of Energy into the Corps' General Fund and $46 thousand was transferred from the Department of Defense in the Corps' General Fund.

Transfers out to other government agencies include $2,981 thousand to the Customs Department and $13,974 thousand to the Saint Lawrence Seaway Development Corporation from the Harbor Maintenance Trust Fund. An additional $56,649 thousand was transferred from the General Fund to the Department of the Interior.

Due to DDRS mapping problem, lines 4e and 5d for FY2002 have changed from what was published in FY2002.

Fluctuations
Line 2G. Imputed Financing - Judgment Fund: The amount of Judgment Fund claims paid by Treasury decreased by $14,526 thousand during FY 2003.

Cumulative Results of Operations

Line 4E. The increase in nonexchange revenue is caused by a fluctuation in taxes and interest in the trust funds. The Corps is the lead agency for reporting for the Inland Waterways and Harbor Maintenance Trust Funds.

Line 4G. The increase in transfers in is due to recording the appropriated receipts transferred in for Special and Contributed Funds. The funding was recorded as appropriations received in prior years. The increase is also due to a change in reporting the transfers-in for the Harbor Maintenance and Inland Waterways Trust Funds. During FY 2002 transfers-in to these trust funds were reported on Line 5B as other financing sources. This year the transfers-in to these trust funds are correctly reported on Line 4G.

Line 4H. The decrease in other budgetary financing sources is attributed to a loss on disposition of assets in the Revolving Fund.

Line 5A. The increase in donations and forfeitures of property is due to land tracts donated to Jacksonville District.

Line 5B. The decrease in transfers-in is due to a change in reporting the transfers-in to the Harbor Maintenance and Inland Waterways Trust Funds. During FY 2002 the transfers-in to these trust funds were reported as other financing sources on Line 5B. However, the transfers-in should be reported as budgetary financing sources on Line 4G.

Line 5D. The difference is due to a change in the non-exchange revenue related to receivables that are collected directly to Treasury receipt accounts.

Unexpended Appropriations

Line 4C. The difference is due to the change in the way of reporting appropriated receipts from Special and Trust Funds. The funds had previously been reported as appropriations received.

Note Reference
See Note 10 for further discussion of the construction in progress adjustment.
For Regulatory Disclosure Related to The Statement of Changes in Net Position" see, Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1022.

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

As of September 30 (Amounts in thousands)	2003	2002
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$1,407,415	$1,368,628
2. Available Borrowing and Contract Authority at the End of the Period	$31,840	$42,134

3. Other Information:

Intra-entity Transactions
The Statement of Budgetary Resources (SBR) does not include intra-entity transactions because the statements are presented as combined and combining.

Apportionment Categories
The amount of direct and reimbursable obligations incurred against amounts apportioned under category A, B and exempt from apportionment in the SBR include: $5,516,359 thousand for direct obligations; $5,033,749 thousand for reimbursable obligations; and $29,796 thousand for direct obligations exempt from apportionment.

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

Spending Authority from Offsetting Collections
Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the SBR), are not included in the "Spending Authority from Offsetting Collections and Adjustments" line on the SBR or the "Spending Authority for Offsetting Collections and Adjustments" line on the Statement of Financing.

Offsetting Receipts
Special Fund and Trust Fund receipts reported in Treasury Table B for FY 2003 are not reported on Line 16 of the Statement of Budgetary Resources as offsetting receipts. These receipts are not appropriated nor received until the following fiscal year.

Borrowing Authority
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.

Fluctuations
Line 1D reflects a decrease in net transfers due to a change in reporting the budgetary data for the Trust Funds. As the lead agency for reporting for the Harbor Maintenace and Inland Waterways Trust Funds, the Corps must report all budgetary data for these two trust funds. The net effect of reporting both sides of the budgetary data reduces the net transfers between Treasury and the Corps to zero for these two trust funds. This is the first year to report all the budgetary data for these trust funds and accounts for the large decrease in net transfers.

Line B1A, B9B and B16 of the SBR reflects changes made in the Trust Funds to include budgetary data for prior years not previously reported. The Corps is the lead agency for reporting for the Inland Waterways and Harbor Maintenance Trust funds. The Treasury Department manages the investments and maintains the accounting records for these funds but the Corps is responsible for reporting the budgetary and proprietary data on the financial statements. The Corps has not reported all the budgetary data in the past but the corrections are now reported in these year-end statements. We have recorded the beginning balance amount for total actual resources collected of $2,259,417 thousand for these two trust funds as current year appropriations received. Appropriations received also includes current year interest income and tax collections of $828,909 thousand for the Harbor Maintenance and Inland Waterways Trust Funds.

Line B2B reflects a transfer out in FY2002 for Non-Federal Use of Disposal Facilities (96X5493).

Line B3A2 reflects a decrease in receivables from Federal sources of $39,000 thousand in General Funds and an increase of $17,000 thousand in Revolving Fund.

Line B3B1 reflects a decrease in unfilled customer orders with advance of $32,500 thousand in General Funds and a decrease of $21,000 thousand in Revolving Fund.

Line B3B2 reflects an increase in unfilled customer orders without advance of $134,500 thousand in General Funds and an increase of $10,500 thousand in Revolving Fund.

Line B6 reflects a reduction in principal repayment for Borrowing Authority.

Line B9A reflects a decrease in apportioned unobligated balance of $23,500 thousand in Contributed Funds; an increase of 72,500 thousand in General Funds; and an increase of $93,500 thousand in Revolving Fund.

Line B14A reflects a decrease in accounts receivables of $71,000 thousand in General Funds and a decrease of $4,000 thousand in Revolving Fund.

Line B14B reflects an increase in unfilled customer orders from Federal sources of $254,500 thousand in General Funds and an increase of $8,500 thousand in Revolving Fund.

Line B14C reflects an increase in undelivered orders of $9,500 thousand in Contributed Funds; an increase of $105,500 thousand in General Funds; an increase of $31,500 thousand in Revolving Fund; an increase of $12,500 thousand in Trust Funds; and a decrease of $4,500 thousand in Transfer Funds.

Note Reference
See Note 13 for further discussion on the Washington Aqueduct project.

See Note 4 for further discussion of investments.

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

As of September 30 (Amounts in thousands)	September-01	September-02	September-03	(Decrease)/Increase from 2002 to 2003
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	$0	$0	$0	$0
B. Negative Unliquidated Obligations	0	0	0	0
2. Total In-transit Disbursements, Net	$0	$0	$0	$0
3. Other Information Related to Problem Disbursements and In-transit Disbursement				
The Corps has no problem or in-transit disbursements to report.				
4. Suspense/Budget Clearing Accounts,Net				
Account	September-01	September-02	September-03	(Decrease)/Increase
F3875	$17,422	$14,228	$850	($13,378)
F3880	(5)	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
Total	$17,417	$14,228	$850	($13,378)

5. Other Information Related to Suspense/Budget Clearing Accounts:

Other Corps Disclosures

F3875 includes a portion of receipts from leases of land to the public for flood control, navigation and allied purposes. The portion of lease receipts when the term of the lease extends into fiscal year 2004 is collected into F3875. The collections are transferred out in the year following collection.

The decrease in F3875 is also attributed to the resolution of $13 million disputed collection on a water storage contract at Tulsa District.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

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

Footnote 20 includes an explanation for the prior period adjustment of $2,669,485 thousand.

Line 4. The increase in offsetting receipts is attributed to an increase in tax receipts and interest income on Trust Funds.

Line 6. The change in Donations and forfeitures of property is due to a donation of land tracts to Jacksonville District.

Line 7. The change in transfers in/out is due to an increase in transfers-out. The Corps transferred assets for $56,649 thousand to the Department of Interior alone during FY 2003.

Line 9. The difference is due to a change in the non-exchange revenue related to receivables that are collected directly to Treasury receipt accounts.

Line 12a. The change is due to a reduction in undelivered orders for reimbursable work in the General Fund.

Line 12b. The increase is from customer orders from other Federal agencies totaling $102,213 thousand in the General Fund.

Line 14. The increase in offsetting collections and receipts is attributed to an increase in tax receipts in the Trust Funds.

Line 15. The change in capitalized assets resulted from policy change to the capitalization threshold for buildings and structures. All civil works buildings and structures currently capitalized under $25 thousand, excluding Revolving Fund and Power Marketing Agencies, will be expensed in the current year. Another cause of the change is the reduction to the construction in progress account for cost share projects and transfers to the public.

Line 23. The change is mostly attributed to the increase in future funded expense for contracts with a continuation clause.

Line 25. Pursuant to auditor recommendation, all Corps Districts were directed to identify and correct errors related to depreciation for property, plant and equipment.

Line 26. This line represents current year activity for transfers of construction in progress for cost share projects to the public.

Line 27. This line represents bad debt expense related to accounts receivable and expenses related to a trust fund payable. The FY 2002 amount has been restated to reflect a transfer out of construction in progress of $2,669,485 thousand.

Note 23. Disclosures Related to the Statement of Custodial Activity

Disclosures Related to the Statement of Custodial Activity:

This Statement is prepared at the Department of Defense level only.

Note 24.A. Other Disclosures

Not applicable

Note 24.B. Other Disclosures

Other Disclosures:

During FY 2003 the Corps of Engineers received $137,875 thousand in direct appropriations from the Power Marketing Administration.

Not applicable

Consolidating Balance Sheet

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

ASSETS (Note 2)	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority	Revolving Funds	Contributed Funds
Intragovernmental:						
Fund Balance with Treasury (Note 3)						
Entity	$3,076	$67,482	$40,304	$645	$990,006	$388,451
Non-Entity Seized Iraqi Cash	$0	$0	$0	$0	$0	$0
Non-Entity-Other	$0	$0	$0	$0	$0	$0
Investments (Note 4)	$0	$2,478,454	$0	$0	$0	$0
Accounts Receivable (Note 5)	$0	$334,552	$0	$0	$11,077	$1
Other Assets (Note 6)	$0	$0	$0	$0	$0	$0
Total Intragovernmental Assets	$3,076	$2,880,488	$40,304	$645	$1,001,083	$388,452
Cash and Other Monetary Assets (Note 7)	$0	$0	$0	$0	$0	$0
Accounts Receivable (Note 5)	2,264	0	0	0	2,429	0
Loans Receivable (Note 8)	0	0	0	0	0	0
Inventory and Related Property (Note 9)	0	0	0	0	45,706	0
General Property, Plant and Equipment (Note 10)	1,204	731,479	188,444	8,704	862,879	12,300
Investments (Note 4)	0	0	0	0	0	0
Other Assets (Note 6)	0	0	0	0	0	0
TOTAL ASSETS	$6,544	$3,611,967	$228,748	$9,349	$1,912,097	$400,752
LIABILITIES (Note 11)						
Intragovernmental:						
Accounts Payable (Note 12)	$0	$7,815	$1,348	$0	$42,174	$683
Debt (Note 13)	0	0	0	17,386	0	0
Environmental Liabilities (Note 14)	0	0	0	0	0	0
Other Liabilities (Note 15 & Note 16)	2,279	6,000	0	0	24,325	1,170
Total Intragovernmental Liabilities	$2,279	$13,815	$1,348	$17,386	$66,499	$1,853
Accounts Payable (Note 12)	$623	$7,843	$4,690	$264	$81,753	$21,977
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0	0	0
Other Liabilities (Note 15 and Note 16)	1,102	11,540	1,860	67	502,847	9,033
Debt Held by Public	0	0	0	0	0	0
TOTAL LIABILITIES	$4,004	$33,198	$7,898	$17,717	$651,099	$32,863
NET POSITION						
Unexpended Appropriations (Note 18)	$0	$0	$32,406	$0	$0	$0
Cumulative Results of Operations	2,540	3,578,769	188,444	(8,368)	1,260,998	367,889
TOTAL NET POSITION	$2,540	$3,578,769	$220,850	($8,368)	$1,260,998	$367,889
TOTAL LIABILITIES AND NET POSITION	$6,544	$3,611,967	$228,748	$9,349	$1,912,097	$400,752

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

ASSETS (Note 2)	General Funds	FUSRAP	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Intragovernmental:						
Fund Balance with Treasury (Note 3)						
Entity	$1,063,063	$35,830	$2,588,857	$0	$2,588,857	$2,502,677
Non-Entity Seized Iraqi Cash	$0	$0	$0	$0	$0	$0
Non-Entity-Other	$6,865	$0	$6,865	$0	$6,865	$41,280
Investments (Note 4)	$0	$0	$2,478,454	$0	$2,478,454	$2,269,086
Accounts Receivable (Note 5)	$80,112	$0	$425,742	$1,968	$423,774	$528,150
Other Assets (Note 6)	$897	$0	$897	$897	$0	$0
Total Intragovernmental Assets	$1,150,937	$35,830	$5,500,815	$2,865	$5,497,950	$5,341,193
Cash and Other Monetary Assets (Note 7)	$1,278	$0	$1,278	$0	$1,278	$817
Accounts Receivable (Note 5)	1,930,873	1	1,935,567	0	1,935,567	922,931
Loans Receivable (Note 8)	0	0	0	0	0	0
Inventory and Related Property (Note 9)	16,899	0	62,605	0	62,605	63,139
General Property, Plant and Equipment (Note 10)	29,104,009	37	30,909,056	0	30,909,056	34,204,467
Investments (Note 4)	0	0	0	0	0	0
Other Assets (Note 6)	0	0	0	0	0	77
TOTAL ASSETS	$32,203,996	$35,868	$38,409,321	$2,865	$38,406,456	$40,532,624
LIABILITIES (Note 11)						
Intragovernmental:						
Accounts Payable (Note 12)	$42,486	$226	$94,732	$1,968	$92,764	$83,815
Debt (Note 13)	0	0	17,386	0	17,386	24,667
Environmental Liabilities (Note 14)	0	0	0	0	0	0
Other Liabilities (Note 15 & Note 16)	2,063,603	0	2,097,377	897	2,096,480	1,146,944
Total Intragovernmental Liabilities	$2,106,089	$226	$2,209,495	$2,865	$2,206,630	$1,255,426
Accounts Payable (Note 12)	$420,259	$30,699	$568,108	$0	$568,108	$595,952
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0	0	0
Other Liabilities (Note 15 and Note 16)	178,799	136	705,384	0	705,384	590,776
Debt Held by Public	0	0	0	0	0	0
TOTAL LIABILITIES	$2,705,147	$31,061	$3,482,987	$2,865	$3,480,122	$2,442,154
NET POSITION						
Unexpended Appropriations (Note 18)	$599,670	$4,770	$636,846	$0	$636,846	$1,064,864
Cumulative Results of Operations	28,899,179	37	34,289,488	0	34,289,488	37,025,606
TOTAL NET POSITION	$29,498,849	$4,807	$34,926,334	$0	$34,926,334	$38,090,470
TOTAL LIABILITIES AND NET POSITION	$32,203,996	$35,868	$38,409,321	$2,865	$38,406,456	$40,532,624

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Costs

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Borrowing Authority				
Intragovernmental Gross Costs	$264	$27	$237	$802
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$264	$27	$237	$802
Gross Costs With the Public	$8,626	$0	$8,626	$16,000
(Less: Earned Revenue From the Public)	(9,049)	0	(9,049)	(16,940)
Net Costs With the Public	($423)	$0	($423)	($940)
Total Net Cost	($159)	$27	($186)	($138)
Contributed Funds				
Intragovernmental Gross Costs	$30,627	$23,162	$7,465	$5,051
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$30,627	$23,162	$7,465	$5,051
Gross Costs With the Public	$900,965	$0	$900,965	$601,520
(Less: Earned Revenue From the Public)	(10)	0	(10)	(2)
Net Costs With the Public	$900,955	$0	$900,955	$601,518
Total Net Cost	$931,582	$23,162	$908,420	$606,569
FUSRAP				
Intragovernmental Gross Costs	$7,579	$5,055	$2,524	$2,209
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$7,579	$5,055	$2,524	$2,209
Gross Costs With the Public	$137,757	$0	$137,757	$147,444
(Less: Earned Revenue From the Public)	0	0	0	(600)
Net Costs With the Public	$137,757	$0	$137,757	$146,844
Total Net Cost	$145,336	$5,055	$140,281	$149,053
General Funds				
Intragovernmental Gross Costs	$1,331,374	$1,066,354	$265,020	$290,137
(Less: Intragovernmental Earned Revenue)	(479,526)	(27)	(479,499)	(604,225)
Intragovernmental Net Costs	$851,848	$1,066,327	($214,479)	($314,088)
Gross Costs With the Public	$6,314,004	$0	$6,314,004	$5,114,686
(Less: Earned Revenue From the Public)	(264,819)	0	(264,819)	(88,170)
Net Costs With the Public	$6,049,185	$0	$6,049,185	$5,026,516
Total Net Cost	$6,901,033	$1,066,327	$5,834,706	$4,712,428

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Revolving Funds				
Intragovernmental Gross Costs	$515,084	$0	$515,084	$480,519
(Less: Intragovernmental Earned Revenue)	(1,641,855)	(1,109,585)	(532,270)	(12,212)
Intragovernmental Net Costs	($1,126,771)	($1,109,585)	($17,186)	$468,307
Gross Costs With the Public	$1,379,197	$0	$1,379,197	($227,050)
(Less: Earned Revenue From the Public)	(24,755)	0	(24,755)	(16,028)
Net Costs With the Public	$1,354,442	$0	$1,354,442	($243,078)
Total Net Cost	$227,671	($1,109,585)	$1,337,256	$225,229
Special Funds				
Intragovernmental Gross Costs	$765	$629	$136	$0
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$765	$629	$136	$0
Gross Costs With the Public	$11,212	$0	$11,212	$12,290
(Less: Earned Revenue From the Public)	0	0	0	0
Net Costs With the Public	$11,212	$0	$11,212	$12,290
Total Net Cost	$11,977	$629	$11,348	$12,290
Transfer Funds				
Intragovernmental Gross Costs	$10,816	$7,817	$2,999	$224
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$10,816	$7,817	$2,999	$224
Gross Costs With the Public	$70,313	$0	$70,313	$2,569
(Less: Earned Revenue From the Public)	0	0	0	0
Net Costs With the Public	$70,313	$0	$70,313	$2,569
Total Net Cost	$81,129	$7,817	$73,312	$2,793
Trust Funds				
Intragovernmental Gross Costs	$32,302	$6,568	$25,734	$7,688
(Less: Intragovernmental Earned Revenue)	0	0	0	0
Intragovernmental Net Costs	$32,302	$6,568	$25,734	$7,688
Gross Costs With the Public	$644,898	$0	$644,898	$647,305
(Less: Earned Revenue From the Public)	0	0	0	0
Net Costs With the Public	$644,898	$0	$644,898	$647,305
Total Net Cost	$677,200	$6,568	$670,632	$654,993

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Costs

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Program Costs	Combined Total	Eliminations	2003 Consolidated	2002 Consolidated
Total Program Costs				
Intragovernmental Gross Costs	$1,928,811	$1,109,612	$819,199	$786,630
(Less: Intragovernmental Earned Revenue)	(2,121,381)	(1,109,612)	(1,011,769)	(616,437)
Intragovernmental Net Costs	($192,570)	$0	($192,570)	$170,193
Gross Costs With the Public	$9,466,972	$0	$9,466,972	$6,314,764
(Less: Earned Revenue From the Public)	(298,633)	0	(298,633)	(121,740)
Net Costs With the Public	$9,168,339	$0	$9,168,339	$6,193,024
Total Net Cost	$8,975,769	$0	$8,975,769	$6,363,217
Cost Not Assigned to Programs	$0	$0	$0	$0
(Less:Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	$8,975,769	$0	$8,975,769	$6,363,217

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority	Revolving Funds
Beginning Balances	$1,950	$3,388,693	$218,068	$45,057	$1,249,424
Prior period adjustments (+/-)	0	0	0	0	0
Beginning Balances, as adjusted	$1,950	$3,388,693	$218,068	$45,057	$1,249,424
Budgetary Financing Sources:					
Appropriations received	0	0	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0	0
Appropriations used	0	0	62,911	0	17,133
Nonexchange revenue	0	904,214	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0	0
Transfers-in/out without reimbursement (+/-)	14,086	49,983	0	0	0
Other budgetary financing sources (+/-)	15	0	0	0	7,501
Other Financing Sources:					
Donations and forfeitures of property	0	0	0	0	100
Transfers-in/out without reimbursement (+/-)	(1,534)	(86,922)	(11,327)	(62,237)	(333)
Imputed financing from costs absorbed by others	0	0	0	0	214,844
Other (+/-)	0	0	(78)	8,653	0
Total Financing Sources	$12,567	$867,275	$51,506	($53,584)	$239,245
Net Cost of Operations (+/-)	11,977	677,200	81,129	(159)	227,671
Ending Balances	$2,540	$3,578,768	$188,445	($8,368)	$1,260,998

UNEXPENDED APPROPRIATIONS	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority	Revolving Funds
Beginning Balances	$78	$0	$37,081	$0	$0
Prior period adjustments (+/-)	0	0	0	0	0
Beginning Balances, as adjusted	$78	$0	$37,081	$0	$0
Budgetary Financing Sources:					
Appropriations received	0	0	0	0	0
Appropriations transferred-in/out (+/-)	0	0	58,236	0	0
Other adjustments (rescissions, etc) (+/-)	(78)	0	1	0	0
Appropriations used	0	0	(62,912)	0	0
Nonexchange revenue	0	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0	0
Other Financing Sources:					
Donations and forfeitures of property	0	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0	0
Other (+/-)	0	0	0	0	0
Total Financing Sources	($78)	$0	($4,675)	$0	$0
Net Cost of Operations (+/-)	0	0	0	0	0
Ending Balances	$0	$0	$32,406	$0	$0

The accompanying notes are an integral part of these statements.

Consolidating Statement of Changes in Net Position

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	Contributed Funds	General Funds	FUSRAP	Combined Total
Beginning Balances	$918,329	$33,873,540	$31	$39,695,092
Prior period adjustments (+/-)	(424,837)	(2,244,648)	0	(2,669,485)
Beginning Balances, as adjusted	$493,492	$31,628,892	$31	$37,025,607
Budgetary Financing Sources:				
Appropriations received	0	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	0	4,098,325	145,342	4,323,711
Nonexchange revenue	0	27,027	0	931,241
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	809,174	(10,000)	0	863,243
Other budgetary financing sources (+/-)	0	(40,052)	0	(32,536)
Other Financing Sources:				
Donations and forfeitures of property	0	4,548	0	4,648
Transfers-in/out without reimbursement (+/-)	(2,324)	108,333	0	(56,344)
Imputed financing from costs absorbed by others	0	10,222	0	225,066
Other (+/-)	(872)	(27,082)	0	(19,379)
Total Financing Sources	$805,978	$4,171,321	$145,342	$6,239,650
Net Cost of Operations (+/-)	931,582	6,901,033	145,336	8,975,769
Ending Balances	$367,888	$28,899,180	$37	$34,289,488

UNEXPENDED APPROPRIATIONS	Contributed Funds	General Funds	FUSRAP	Combined Total
Beginning Balances	$342,591	$679,060	$6,054	$1,064,864
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	$342,591	$679,060	$6,054	$1,064,864
Budgetary Financing Sources:				
Appropriations received	0	3,882,999	144,058	4,027,057
Appropriations transferred-in/out (+/-)	0	137,875	0	196,111
Other adjustments (rescissions, etc) (+/-)	(342,591)	(1,750)	0	(344,418)
Appropriations used	0	(4,098,514)	(145,342)	(4,306,768)
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	($342,591)	($79,390)	($1,284)	($428,018)
Net Cost of Operations (+/-)	0	0	0	0
Ending Balances	$0	$599,670	$4,770	$636,846

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

CUMULATIVE RESULTS OF OPERATIONS	Eliminations	2003	2002
Beginning Balances	$0	$39,695,092	$37,604,229
Prior period adjustments (+/-)	0	(2,669,485)	0
Beginning Balances, as adjusted	$0	$37,025,607	$37,604,229
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	4,323,711	4,704,846
Nonexchange revenue	0	931,241	819,255
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	863,243	(706,651)
Other budgetary financing sources (+/-)	0	(32,536)	(3,166)
Other Financing Sources:			
Donations and forfeitures of property	0	4,648	303
Transfers-in/out without reimbursement (+/-)	0	(56,344)	744,279
Imputed financing from costs absorbed by others	0	225,066	208,986
Other (+/-)	0	(19,379)	16,743
Total Financing Sources	$0	$6,239,650	$5,784,595
Net Cost of Operations (+/-)	0	8,975,769	6,363,217
Ending Balances	$0	$34,289,488	$37,025,607
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$0	$1,064,864	$1,214,901
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	$0	$1,064,864	$1,214,901
Budgetary Financing Sources:			
Appropriations received	0	4,027,057	4,324,965
Appropriations transferred-in/out (+/-)	0	196,111	198,408
Other adjustments (rescissions, etc) (+/-)	0	(344,418)	(153,374)
Appropriations used	0	(4,306,768)	(4,520,036)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Total Financing Sources	$0	($428,018)	($150,037)
Net Cost of Operations (+/-)	0	0	0
Ending Balances	$0	$636,846	$1,064,864

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY RESOURCES	**Special Funds**	**Trust Funds**	**Transfer Funds**	**Borrowing Authority**	**Revolving Funds**
Budget Authority:					
Appropriations received	$14,008	$3,145,245	$0	$0	$0
Borrowing authority	0	0	0	0	0
Contract authority	0	0	0	0	0
Net transfers (+/-)	0	(35,456)	58,236	0	0
Other	0	0	0	0	0
Unobligated balance:					
Beginning of period	61	200,131	21,283	637	57,351
Net transfers, actual (+/-)	0	0	0	0	0
Anticipated Transfers balances	0	0	0	0	0
Spending authority from offsetting collections:					
Earned	0	0	0	0	0
Collected	0	0	38	9,049	3,883,934
Receivable from Federal sources	0	0	0	0	(3,930)
Change in unfilled customer orders	0	0	0	0	0
Advance received	0	0	0	0	(13,001)
Without advance from Federal sources	0	0	(4)	0	8,359
Anticipated for the rest of year, without advances	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0
Subtotal	$0	$0	$34	$9,049	$3,875,362
Recoveries of prior year obligations	0	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0	0
Permanently not available	0	0	0	(8,653)	0
Total Budgetary Resources	$14,069	$3,309,920	$79,553	$1,033	$3,932,713

STATUS OF BUDGETARY RESOURCES	**Special Funds**	**Trust Funds**	**Transfer Funds**	**Borrowing Authority**	**Revolving Funds**
Obligations incurred:					
Direct	$14,032	$719,154	$58,206	$1,016	$0
Reimbursable	0	0	38	397	3,851,645
Subtotal	14,032	719,154	58,244	1,413	3,851,645
Unobligated balance:					
Apportioned	37	0	21,302	0	92,724
Exempt from apportionment	0	2,590,767	0	(380)	(11,657)
Other available	0	(1)	(1)	0	1
Unobligated Balances Not Available	0	0	8	0	0
Total, Status of Budgetary Resources	$14,069	$3,309,920	$79,553	$1,033	$3,932,713

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

BUDGETARY RESOURCES	**Contributed**	**General Funds**	**FUSRAP**	**2003 Combined**	**2002 Combined**
Budget Authority:					
Appropriations received	$466,583	$3,882,999	$144,058	$7,652,893	$4,324,965
Borrowing authority	0	0	0	0	0
Contract authority	0	0	0	0	0
Net transfers (+/-)	0	138,184	0	160,964	1,006,223
Other	0	0	0	0	0
Unobligated balance:					
Beginning of period	250,945	1,208,181	2,424	1,741,013	1,713,303
Net transfers, actual (+/-)	0	0	0	0	(23,140)
Anticipated Transfers balances	0	0	0	0	0
Spending authority from offsetting collections:					
Earned	0	0	0	0	0
Collected	130	1,164,996	7,423	5,065,570	4,837,613
Receivable from Federal sources	0	(70,915)	4	(74,841)	(53,523)
Change in unfilled customer orders	0	0	0	0	0
Advance received	(10)	(3,307)	0	(16,318)	37,345
Without advance from Federal sources	35	254,557	(821)	262,126	115,628
Anticipated for the rest of year, without advances	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0
Subtotal	$155	$1,345,331	$6,606	$5,236,537	$4,937,063
Recoveries of prior year obligations	0	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0	0
Permanently not available	0	0	0	(8,653)	(16,515)
Total Budgetary Resources	$717,683	$6,574,695	$153,088	$14,782,754	$11,941,899

STATUS OF BUDGETARY RESOURCES	**Contributed Funds**	**General Funds**	**FUSRAP**	**2003 Combined**	**2002 Combined**
Obligations incurred:					
Direct	$455,768	$4,124,442	$143,741	$5,516,359	$5,415,360
Reimbursable	113	1,174,649	6,907	5,033,749	4,785,522
Subtotal	455,881	5,299,091	150,648	10,550,108	10,200,882
Unobligated balance:					
Apportioned	57	1,271,202	2,440	1,387,762	1,246,051
Exempt from apportionment	261,745	4,400	0	2,844,875	494,957
Other available	0	1	0	0	0
Unobligated Balances Not Available	0	1	0	9	9
Total, Status of Budgetary Resources	$717,683	$6,574,695	$153,088	$14,782,754	$11,941,899

The accompanying notes are an integral part of these statements.

Combining Statement of Budgetary Resources

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Special Funds	Trust Funds	Transfer Funds	Borrowing Authority	Revolving Funds
Obligated Balance, Net - beginning of period	$24	$123,150	$24,208	$1,532	$845,181
Obligated Balance transferred, net (+/-)	0	0	0	0	0
Obligated Balance, Net - end of period:					
Accounts receivable	0	0	0	0	(21,589)
Unfilled customer order from Federal sources	0	0	0	0	(38,318)
Undelivered orders	2,416	118,777	11,097	164	368,874
Accounts payable	623	9,163	7,898	726	599,973
Outlays:					
Disbursements	11,017	714,365	63,462	2,054	3,783,460
Collections	0	0	(38)	(9,049)	(3,870,933)
Subtotal	$11,017	$714,365	$63,424	($6,995)	($87,473)
Less: Offsetting receipts	0	(904,214)	0	0	0
Net Outlays	$11,017	($189,849)	$63,424	($6,995)	($87,473)

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Contributed Funds	General Funds	FUSRAP	2003 Combined	2002 Combined
Obligated Balance, Net - beginning of period	$111,958	($96,222)	$37,492	$1,047,323	$1,097,971
Obligated Balance transferred, net (+/-)	0	0	0	0	0
Obligated Balance, Net - end of period:					
Accounts receivable	0	(139,007)	(5)	(160,601)	(235,443)
Unfilled customer order from Federal sources	(54)	(1,595,077)	(1,806)	(1,635,255)	(1,373,128)
Undelivered orders	101,043	1,022,408	4,136	1,628,915	1,475,183
Accounts payable	25,660	499,457	31,065	1,174,565	1,180,711
Outlays:					
Disbursements	441,154	5,231,446	155,567	10,402,525	10,189,428
Collections	(120)	(1,161,688)	(7,423)	(5,049,251)	(4,874,959)
Subtotal	$441,034	$4,069,758	$148,144	$5,353,274	$5,314,469
Less: Offsetting receipts	0	0	0	(904,214)	(819,255)
Net Outlays	$441,034	$4,069,758	$148,144	$4,449,060	$4,495,214

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Resources Used to Finance Activities:	**Special Funds**	**Trust Funds**	**Transfer Funds**	**Borrowing Authority**	**Revolving Funds**	**Contributed Funds**
Budgetary Resources Obligated						
Obligations incurred	$14,032	$719,154	$58,244	$1,413	$3,851,645	$455,881
Less: Spending authority from offsetting collections and recoveries (-)	0	0	(34)	(9,049)	(3,875,362)	(155)
Obligations net of offsetting collections and recoveries	$14,032	$719,154	$58,210	($7,636)	($23,717)	$455,726
Less: Offsetting receipts (-)	0	(904,214)	0	0	0	0
Net obligations	$14,032	($185,060)	$58,210	($7,636)	($23,717)	$455,726
Other Resources						
Donations and forfeitures of property	0	0	0	0	100	0
Transfers in/out without reimbursement (+/-)	(1,534)	(86,922)	(11,327)	(62,237)	(333)	(2,324)
Imputed financing from costs absorbed by others	0	0	0	0	214,844	0
Other (+/-)	0	0	(78)	8,653	0	(872)
Net other resources used to finance activities	($1,534)	($86,922)	($11,405)	($53,584)	$214,611	($3,196)
Total resources used to finance activities	$12,498	($271,982)	$46,805	($61,220)	$190,894	$452,530

Resources Used to Finance Items not Part of the Net Cost of Operations	**Special Funds**	**Trust Funds**	**Transfer Funds**	**Borrowing Authority**	**Revolving Funds**	**Contributed Funds**
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided						
Undelivered Orders (-)	($2,399)	($12,637)	$4,705	$568	($31,329)	($9,365)
Unfilled Customer Orders	0	0	(4)	0	(4,643)	25
Resources that fund expenses recognized in prior periods	0	0	0	0	0	0
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	904,214	0	0	0	0
Resources that finance the acquisition of assets	731	25,821	28,574	60,493	12,999	633
Other resources or adjustments to net obligated resources that do not affect net cost of operations						
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0	0	0	0
Other (+/-)	0	0	0	0	0	0
Total resources used to finance items not part of the net cost of operations	($1,668)	$917,398	$33,275	$61,061	($22,973)	($8,707)
Total resources used to finance the net cost of operations	$10,830	$645,416	$80,080	($159)	$167,921	$443,823

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Resources Used to Finance Activities:	General Funds	FUSRAP	2003 Combined	2002 Combined
Budgetary Resources Obligated				
Obligations incurred	$5,299,091	$150,648	$10,550,108	$10,200,882
Less: Spending authority from offsetting collections and recoveries (-)	(1,345,331)	(6,606)	(5,236,537)	(4,937,063)
Obligations net of offsetting collections and recoveries	$3,953,760	$144,042	$5,313,571	$5,263,819
Less: Offsetting receipts (-)	0	0	(904,214)	(819,255)
Net obligations	$3,953,760	$144,042	$4,409,357	$4,444,564
Other Resources				
Donations and forfeitures of property	4,548	0	4,648	303
Transfers in/out without reimbursement (+/-)	108,333	0	(56,344)	1,171
Imputed financing from costs absorbed by others	10,222	0	225,066	208,986
Other (+/-)	(27,082)	0	(19,379)	16,743
Net other resources used to finance activities	$96,021	$0	$153,991	$227,203
Total resources used to finance activities	$4,049,781	$144,042	$4,563,348	$4,671,767

Resources Used to Finance Items not Part of the Net Cost of Operations	General Funds	FUSRAP	2003 Combined	2002 Combined
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered Orders (-)	($105,978)	$2,120	($154,315)	($2,705)
Unfilled Customer Orders	251,250	(821)	245,807	152,974
Resources that fund expenses recognized in prior periods	0	0	0	0
Budgetary offsetting collections and receipts that do not affect net cost of operations	481	0	904,695	819,255
Resources that finance the acquisition of assets	1,270,613	(5)	1,399,859	(2,461,629)
Other resources or adjustments to net obligated resources that do not affect net cost of operations				
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0	0
Other (+/-)	0	0	0	0
Total resources used to finance items not part of the net cost of operations	$1,416,366	$1,294	$2,396,046	($1,492,105)
Total resources used to finance the net cost of operations	$5,466,147	$145,336	$6,959,394	$3,179,662

The accompanying notes are an integral part of these statements.

Combining Statement of Financing

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**Special Funds**	**Trust Funds**	**Transfer Funds**	**Borrowing Authority**	**Revolving Funds**	**Contributed Funds**
Components Requiring or Generating Resources in Future Periods:						
Increase in annual leave liability	$0	$0	$0	$0	$0	$0
Increase in environmental and disposal liability	0	0	0	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0	0	0	0
Other (+/-)	1,102	10,647	0	0	1,790	5,892
Total components of Net Cost of Operations that will require or generate resources in future periods	$1,102	$10,647	$0	$0	$1,790	$5,892
Components not Requiring or Generating Resources:						
Depreciation and amortization	16	2,626	1,049	0	57,936	104
Revaluation of assets or liabilities (+/-)	0	10	0	0	0	481,763
Other (+/-)	29	18,501	0	0	24	0
Total components of Net Cost of Operations that will not require or generate resources	$45	$21,137	$1,049	$0	$57,960	$481,867
Total components of net cost of operations that will not require or generate resources in the current period	$1,147	$31,784	$1,049	$0	$59,750	$487,759
Net Cost of Operations	$11,977	$677,200	$81,129	($159)	$227,671	$931,582

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	**General Funds**	**FUSRAP**	**2003 Combined**	**2002 Combined**
Components Requiring or Generating Resources in Future Periods:				
Increase in annual leave liability	$0	$0	$0	$0
Increase in environmental and disposal liability	0	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0	(3,429)
Other (+/-)	46,991	0	66,422	41,498
Total components of Net Cost of Operations that will require or generate resources in future periods	$46,991	$0	$66,422	$38,069
Components not Requiring or Generating Resources:				
Depreciation and amortization	385,930	0	447,661	475,535
Revaluation of assets or liabilities (+/-)	995,857	0	1,477,630	0
Other (+/-)	6,108	0	24,662	2,669,951
Total components of Net Cost of Operations that will not require or generate resources	$1,387,895	$0	$1,949,953	$3,145,486
Total components of net cost of operations that will not require or generate resources in the current period	$1,434,886	$0	$2,016,375	$3,183,555
Net Cost of Operations	$6,901,033	$145,336	$8,975,769	$6,363,217

The accompanying notes are an integral part of these statements.

HERITAGE ASSETS

For Fiscal Year Ended September 2003

(a)	(b) Measurement Quantity	(c) As Of 10/1/2002	(d) Additions	(e) Deletions	(f) As Of 9/30/2003
Museums	Each				
Monuments & Memorials	Each	1	1		
Cemeteries	Sites	0	0		
Archeological Sites	Sites	120	9		129
Buildings & Structure	Each	324	3		327
Major Collections	Each	1			1

Narrative Statement

We have one (1) Major Collection, that being the collection of historical memorabilia, historic artifacts and records managed by the Headquarters, U.S. Army Corps of Engineers Office of History.

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

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

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

Cemeteries and Archeological Sites are archeological properties listed on or eligible for, the National Register of Historic Places. These archeological assets cover almost the entire range of human occupation of the Continental United States beginning with the Kennewick Man Discovery Site in Washington State, dating to approximately 10,000 years before present, to archeological remains of early European-American settlements such as Fort Independence in Georgia.

Buildings and Structures include a range of historic resources from a covered bridge in Sacramento District to early farming structures in Savannah District. It also includes some non-traditional structures such as a snag boat that operated on the Mississippi River.

General Property, Plant and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 2003

(a)	(b)
Property Type/Major Class	
1. Real Property	
A. Buildings	
B. Structures	$772,000,000
2. Total	$772,000,000

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 analyses and historical experience.

Disaggregated Statement of Budgetary Resources

Department of Defense • Department of the Army, Civil Works Fund
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Civil Works	2003 Combined	2002 Combined
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	$7,652,892	$7,652,893	$4,324,965
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	160,963	160,964	1,006,223
Other	0	0	0
Unobligated balance:			
Beginning of period	1,741,016	1,741,013	1,713,303
Net transfers, actual (+/-)	0	0	(23,140)
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	5,065,570	5,065,570	4,837,613
Receivable from Federal sources	(74,842)	(74,841)	(53,523)
Change in unfilled customer orders	0	0	0
Advance received	(16,319)	(16,318)	37,345
Without advance from Federal sources	262,126	262,126	115,628
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	$5,236,535	$5,236,537	$4,937,063
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(8,653)	(8,653)	(16,515)
Total Budgetary Resources	$14,782,753	$14,782,754	$11,941,899

The accompanying notes are an integral part of these statements.

Department of Defense • Department of the Army
For the Years Ended September 30, 2003 and 2002 ($ in thousands)

	Civil Works	2003 Combined	2002 Combined
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$5,516,360	$5,516,359	$5,415,360
Reimbursable	5,033,749	5,033,749	4,785,522
Subtotal	$10,550,109	$10,550,108	$10,200,882
Unobligated balance:			
Apportioned	1,387,762	1,387,762	1,246,051
Exempt from apportionment	2,844,875	2,844,875	494,957
Other available	0	0	0
Unobligated Balances Not Available	8	9	9
Total, Status of Budgetary Resources	$14,782,754	$14,782,754	$11,941,899
Relationship of Obligations to Outlays:			
Obligated Balance, Net- beginning of period	$1,047,323	$1,047,323	$1,097,971
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net- end of period:			
Accounts receivable	(160,601)	(160,601)	(235,443)
Unfilled customer order from Federal sources	(1,635,255)	(1,635,255)	(1,373,128)
Undelivered orders	1,628,914	1,628,915	1,475,183
Accounts payable	1,174,564	1,174,565	1,180,711
Outlays:			
Disbursements	$10,402,525	$10,402,525	$10,189,428
Collections	(5,049,251)	(5,049,251)	(4,874,959)
Subtotal	$5,353,274	$5,353,274	$5,314,469
Less: Offsetting receipts	(904,214)	(904,214)	(819,255)
Net Outlays	$4,449,060	$4,449,060	$4,495,214

The accompanying notes are an integral part of these statements.

Schedule, Part A DoD Intragovernmental Asset Balances	Treasury Index:	Fund Balance with Treasury	Accounts Receivable	Loans	Investments	Other
The Judiciary	10		$20			
Department of Agriculture	12		$2,238			
Department of Commerce	13		$65			
Department of the Interior	14		$327,918			
Department of Justice	15		$980			
Department of Labor	16		$4			
Navy General Fund	17		$2,170			
United States Postal Service	18		$18			
Department of State	19		$2,760			
Department of the Treasury	20	$2,595,723	$95		$2,478,454	
Army General Fund	21		$5,451			
Office of Personnel Management	24		$0			
Social Security Administration	28		$1			
Smithsonian Institution	33		$1,824			
Department of Veterans Affairs	36		$120			
Government Printing Office	4		$1			
General Service Administration	47		$678			
National Science Foundation	49		$19			
General Accounting Office	5		$1			
Air Force General Fund	57		$1,619			$0
Federal Emergency Management Agency	58		$19,004			
Railroad Retirement Board	60		$3			
National Labor Relations Board	63		$0			
Tennessee Valley Authority	64		$40			
Environmental Protection Agency	68		$27,836			
Department of Transportation	69		$9,218			
Agency for International Development	72		$848			
Small Business Administration	73		$6			
Department of Health and Human Services	75		$1,698			
National Aeronautics and Space Administration	80		$10,403			
Department of Energy	89		$174			
Department of Education	91		$46			
Independent Agencies	95		$6			
Other Defense Organizations General Funds	97		$400			
Other Defense Organizations Working Capital Funds	97-4930		$30			
Navy Working Capital Fund	97-4930.002		$3			
The General Fund of the Treasury	99		$7,389			
Homeland Security			$688			
Totals:		**$2,595,723**	**$423,774**		**$2,478,454**	

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part B DoD Intragovernmental Entity Liabilities ($ Amounts in Thousands)	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
The Judiciary	10	$57		
Department of Agriculture	12	$1,290		$6
Department of Commerce	13	$3,985		$496
Department of the Interior	14	$17,502		$1,683
Department of Justice	15	$526		$7
Department of Labor	16	$10		$42,884
Navy General Fund	17	$507		
United States Postal Service	18			$46
Department of State	19	$793		$18
Department of the Treasury	20	$733	$17,386	$147,185
Army General Fund	21	$3,574		$445
Office of Personnel Management	24	$82		$21,207
Library of Congress	3	$129		
Nuclear Regulatory Commission	31	$1		
Department of Veterans Affairs	36	$211		$22
Government Printing Office	4	$135		
U.S. Equal Employment Opportunity Commission	45	$1		
Appalachian Regional Commission	46	$29		
General Service Administration	47	$37,587		$55
National Science Foundation	49	$180		
Air Force General Fund	57	$148		
Federal Emergency Management Agency	58	$12		$19
Tennessee Valley Authority	64	$2,726		
Environmental Protection Agency	68	$487		
Department of Transportation	69	$712		$11
Department of Health and Human Services	75	$541		$58
National Aeronautics and Space Administration	80	$58		
Department of Housing and Urban Development	86			$2,956
Department of Energy	89	$2,897		$3,179
Department of Education	91			$1,515
Independent Agencies	95	$7		$444
Other Defense Organizations General Funds	97	$1,541		
Other Defense Organizations Working Capital Funds	97-4930	$8,318		
Navy Working Capital Fund	97-4930.002	$394		
Air Force Working Capital Fund	97-4930.003	$5		
The General Fund of the Treasury	99	$7,389		$1,874,244
Homeland Security		$198		
Totals:		**$92,765**	**$17,386**	**$2,096,480**

Schedule, Part C DoD Intragovernmental Revenue and Related Costs ($ Amounts in	Treasury Index:	Earned Revenue
The Judiciary	10	$39
Department of Agriculture	12	$8,184
Department of Commerce	13	$4,743
Department of the Interior	14	$59,973
Department of Justice	15	$63,144
Department of Labor	16	$12
Navy General Fund	17	$2,835
United States Postal Service	18	$104
Department of State	19	$16,650
Department of the Treasury	20	$5,167
Army General Fund	21	$434,991
Social Security Administration	28	$7
Nuclear Regulatory Commission	31	$232
Smithsonian Institution	33	$4,971
Department of Veterans Affairs	36	$4,018
Government Printing Office	4	$1
U.S. Equal Employment Opportunity Commission	45	$5
General Service Administration	47	$1,799
Independent Agencies	48	$0
National Science Foundation	49	$1,795
General Accounting Office	5	$396
Air Force General Fund	57	$48,029
Federal Emergency Management Agency	58	$73,520
Railroad Retirement Board	60	$22
National Labor Relations Board	63	$0
Tennessee Valley Authority	64	$161
Environmental Protection Agency	68	$121,248
Department of Transportation	69	$34,758
Agency for International Development	72	$11,072
Small Business Administration	73	$6
American Battle Monuments	74	$3
Department of Health and Human Services	75	$10,623
National Aeronautics and Space Administration	80	$22,281
Department of Housing and Urban Development	86	$2,721
Department of Energy	89	$19,048
Department of Education	91	$1,585
Independent Agencies	95	$389
Other Defense Organizations General Funds	97	$44,644
Other Defense Organizations Working Capital Funds	97-4930	$96
Army Working Capital Fund	97-4930.001	$6
Navy Working Capital Fund	97-4930.002	$102
Homeland Security		$12,387
Totals:		**$1,011,767**

Governmental Transactions from the Consolidating Trial Balance

Schedule, Part E DoD Intragovernmental Non-exchange Revenues ($ Amounts in Thousands)	**Treasury Index:**	**Transfers In**	**Transfers Out**
Department of the Interior	14	$56,938	$56,649
Navy General Fund	17	$40	
Department of the Treasury	20	$833,260	$10,000
General Service Administration	47		$257
Air Force General Fund	57		$1
Tennessee Valley Authority	64		$56
Department of Energy	89	$576	
Other Defense Organizations Working Capital Funds	97-4930	$6	
The General Fund of the Treasury	99	$670,451	$687,406
Homeland Security			$3
Totals:		**$1,561,271**	**$754,372**

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

December 3, 2003

MEMORANDUM FOR COMMANDER, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2003 Principal Financial Statements (Report No. D 2004 032)

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the U.S. Army Corps of Engineers, Civil Works, (USACE) as of September 30, 2003 and 2002, and the related Consolidated Statements of Net Cost and Changes in Net Position and the Combined Statements of Financing and Budgetary Resources for the fiscal years then ended. These financial statements are the responsibility of the USACE management. USACE is also responsible for implementing effective internal control and for complying with laws and regulations. In addition to our disclaimer of opinion on the USACE financial statements, we are including the required reports on internal control and compliance with laws and regulations.

Disclaimer of Opinion on the Financial Statements

USACE acknowledged to us that the USACE FY 2003 Financial Statements are presented fairly in accordance with generally accepted accounting principles. Our audit of the USACE FY 2003 Financial Statements was limited to the Consolidated Balance Sheet. USACE was unable to provide sufficient audit-ready evidential material for the auditors to complete the audit. Therefore, we are unable to express, and we do not express, an opinion on the USACE FY 2003 Consolidated Balance Sheet. We did not audit the USACE FY 2003 Consolidated Statements of Net Cost and Changes in Net Position and the Combined Statements of Financing and Budgetary Resources. Therefore, we do not express an opinion on those statements.

Time constraints precluded USACE from providing sufficient audit-ready evidential material for the auditors to complete the audit of the USACE FY 2002 Consolidated Balance Sheet. Under an attestation agreement with USACE, the auditors identified material weaknesses related to General Property, Plant, and Equipment; Accounts Payable; and general and application controls of their financial management systems. Therefore, we are still unable to express an opinion on the USACE FY 2002 Financial Statements.

Summary of Internal Control

In planning and performing our audit, we considered the USACE internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget (OMB) guidance but not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions,[1] all of which are material, continue to exist in the following areas: General Property, Plant, and Equipment and Accounts Payable. A material internal control weakness was also identified in the compilation of the financial statements.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that noncompliance, misstatements, or losses that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because previously reported instances of noncompliance continue to exist. In addition, the USACE was unable to provide sufficient audit-ready evidential material for the auditors to complete the audit. However, our review of the FY 2003 Balance Sheet revealed that the USACE was not compliant with:

- Statement of Federal Financial Accounting Standard (SFFAS) No. 6, “Accounting for Property, Plant, and Equipment,”
- SFFAS No. 1, “Accounting for Selected Assets and Liabilities,”
- Department of Defense Financial Management Regulation (DoD FMR), volume 4, chapter 6, “Property, Plant, and Equipment,”
- DoD FMR, volume 6A, chapter 2, “Financial Reports Roles and Responsibilities,” and
- Federal Financial Management Improvement Act (FFMIA) of 1996.

In previously issued audit reports, the General Accounting Office (GAO) and the Army Audit Agency (AAA) noted instances of noncompliance with:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982,
- OMB Circular A-123, “Management Accountability and Control,”
- OMB Circular A-130, “Management of Federal Information Resources,”
- OMB Circular A-127, “Federal Management Systems,” and
- FFMIA of 1996.

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[1] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

See the Attachment for additional details on compliance with laws and regulations. Our review of USACE compliance with laws and regulations would not necessarily disclose all noncompliance issues. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Management Responsibility
Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA of 1982 are met;
- ensuring that USACE financial management systems substantially comply with FFMIA of 1996 requirements; and
- complying with applicable laws and regulations.

Paul J. Granetto, CPA
Director
Defense Financial Auditing
Service

Attachment
As stated

Reports on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We performed limited tests of internal control over financial reporting for USACE, and we did not obtain sufficient evidence to support or express an opinion on internal control. We limited our audit tests because previously identified reportable conditions, all of which are material, continue to exist in the compilation of the financial statements, Accounts Payable, Equipment, and Buildings and Structures. These material internal control weaknesses significantly impair the ability of USACE to detect and investigate fraud or theft of assets. A high risk of material misstatements will continue to exist until the internal control deficiencies are corrected.

Compilation of Financial Statements. The U.S. Army Corps of Engineers Financial Management System (CEFMS) chart of accounts was substantially in compliance with the U.S. Government Standard General Ledger (USSGL). However, the controls over the processes used to compile the financial statements were not adequate, resulting in undocumented modifications to the financial data used to prepare the FY 2003 financial statements. In addition, journal vouchers used to make accounting adjustments were unsupported and inadequately controlled, and accounting transactions were not processed in accordance with the USSGL.

Accounts Payable. Internal control testing identified departures from generally accepted accounting principles to include misclassification of general ledger accounts when making accounting journal entries for Accounts Payable.

Equipment. As discussed in our FY 2002 financial statement disclaimer opinion, internal controls were not adequate to ensure that USACE districts maintain supporting documentation over equipment valuation. This continues to be an issue on the USACE FY 2003 Balance Sheet.

Buildings and Structures. Internal controls were insufficient because USACE guidance was not consistently implemented and strictly enforced. For example, the placed-in-service and retirement dates were often unsupported or improperly established in CEFMS and the book cost of the structures that were removed from CEFMS may not have been properly valued and classified in CEFMS. In addition, internal controls did not ensure that systems access was properly controlled and that information in the systems was complete and accurate.

Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because USACE was unable to provide sufficient audit-ready evidential material for the auditors to complete the audit of compliance with laws and regulations. However, our review of the FY 2003 USACE Consolidated Balance Sheet revealed instances of noncompliance, and GAO and AAA noted instances of noncompliance in previously issued audit reports. Therefore, we did not determine whether USACE was in compliance with all applicable laws and regulations related to financial reporting. Our objective was not to express, and we do not express, an opinion on compliance with applicable laws and regulations.

Compilation of the Financial Statements. The FFMIA of 1996 requires USACE to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. In addition, the

FMFIA of 1982 requires USACE to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. The Chief Financial Officers Act of 1990 requires DoD to prepare a 5-year Financial Management Plan describing activities that DoD will conduct during the next 5 years to improve financial management.

USACE did not process all accounting transactions in accordance with the FFMIA. FFMIA states that entities' financial reporting systems must substantially comply with the USSGL at the transaction level. However, USACE did not have a process in place to ensure that the CEFMS general ledger correlations were promptly updated or that deficiencies were corrected. As a result, USACE had to make adjustments to financial data to correct accounting errors because of general ledger correlation deficiencies. The adjustments reduced the reliability of the USACE financial statements and caused an increase in effort to complete the compilation of the financial statements. For example, the USACE classification of Federal and non-Federal transactions, accounting for Net Position, and accounting for budgetary transactions were recorded improperly.

USACE was noncompliant with DoD FMR, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities." Upon reviewing 22 journal vouchers valued at $5.7 billion, we discovered that USACE could not provide adequate supporting documentation, as required by DoD FMR, volume 6A, chapter 2.

Land. USACE did not comply with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and DoD FMR, volume 4, chapter 6, "Property, Plant, and Equipment," because neither the supporting documentation nor the estimates were provided as required. SFFAS No. 6 states that the cost of General Property, Plant, and Equipment shall include all costs incurred to bring the property to a form and location suitable for its intended use. SFFAS No. 6 requires the use of estimates if historical cost data have not been maintained. In addition, DoD FMR, volume 4, chapter 6, requires proper supporting documentation, such as purchase invoices, sales and procurement contracts, military and real property transfer and acceptance forms, work order completion reports, construction contracts, and work orders. Administrative costs continue to be an issue because of the lack of supporting documentation; therefore, USACE cannot ensure that land costs are not misstated.

Accounts Payable. USACE does not recognize liabilities in accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," which requires that Accounts Payable be established when goods or services are received. In addition, USACE did not comply with SFFAS No. 1 because they do not record unfunded Accounts Payable.

Buildings and Structures. USACE was not in compliance with DoD FMR, volume 4, chapter 6. USACE useful life estimates were not validated. USACE should base decisions about useful life standards on a reasonable estimate of how long an asset will actually be used. Thus, we recommend that their useful life estimates comply with DoD FMR, volume 4, chapter 6, useful life standards.

Financial Management Systems. USACE is required to comply with the following financial management systems reporting requirements.

- The FFMIA of 1996 is intended to advance Federal financial management by ensuring that the Federal financial management systems can and do provide reliable, consistent disclosure of financial data that are uniform across the Federal Government from year to year, using generally accepted accounting principles. It is also intended to provide the basis for ongoing use of reliable financial information in program management and in oversight by the President, the Congress, and the public. FFMIA requires each agency to implement and maintain systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. FFMIA also requires auditors to report on the agency's compliance with the FFMIA. Further, FFMIA requires agency heads to determine whether their financial management systems comply with the

FFMIA, based on audit reports and other information, and to develop remediation plans and file them with OMB if the financial management systems do no comply with FFMIA.

- The FMFIA of 1982 requires agencies to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. When systems are not in compliance, the statement must include a report of internal accounting and administrative control material weaknesses and plans and a schedule for correcting the material weaknesses.
- OMB Circular A-123, revised June 21, 1995, requires agencies and individual Federal mangers to take systematic and proactive measures to: assess the adequacy of management controls in Federal programs and operation, identify needed improvements, take corresponding corrective actions, and report annually on management controls.
- OMB Circular A-130, Appendix III, establishes a minimum set of controls to be included in Federal automated information security programs, assigns Federal agency responsibilities for the security of automated information, and links agency information security programs and agency management control systems established in accordance with OMB Circular A-123. Agencies should implement and maintain their automated security programs to ensure that adequate security is provided for all agency information that is collected, processed, transmitted, stored, or disseminated in general support systems and major applications.
- OMB Circular A-127, revised July 23, 1993, requires agencies to develop, operate, evaluate, and report on financial management systems. It also requires that financial management systems provide complete, reliable, consistent, timely, and useful information.

According to the GAO and AAA prior audit reports, USACE did not fully comply with the FMFIA and OMB Circulars A-123 and A-130 requirements to protect the integrity of its financial management systems, identify needed improvements, and take corresponding corrective actions. OIG DoD audit work is currently ongoing for both the GAO and AAA prior year audit reports. According to AAA, USACE does not comply with the FFMIA because the lack of computer controls impairs the ability of USACE to ensure the reliability, confidentiality, and availability of financial and sensitive data. The USACE remediation plan has been requested but not received as of November 2003. According to GAO and AAA, the continued CEFMS general and application computer controls vulnerabilities impair the ability of USACE to ensure reliability, confidentiality, and availability of financial and sensitive data, as required by OMB Circular A-127.

Federal agencies reporting under the Government Management Reform Act of 1994 are to follow accounting standards and concepts adopted by OMB, Department of the Treasury, and GAO. OMB Bulletin 01-09, "Form and Content of Agency Financial Statements," requires the Statement of Net Cost to present costs by major programs. However, USACE did not fully implement the requirements established by OMB for its FY 2003 Statement of Net Cost. Instead, USACE presented the statement by appropriation as required by the DoD FMR. The DoD FMR, which implements the OMB bulletins for DoD, requires the Statement of Net Cost to be presented by program units or appropriation groupings.

Audit Disclosures

We were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal control, and compliance with laws and regulations.

This report does not include recommendations to correct the material control weaknesses and instances of noncompliance because previous audit reports contained recommendations for corrective actions.

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