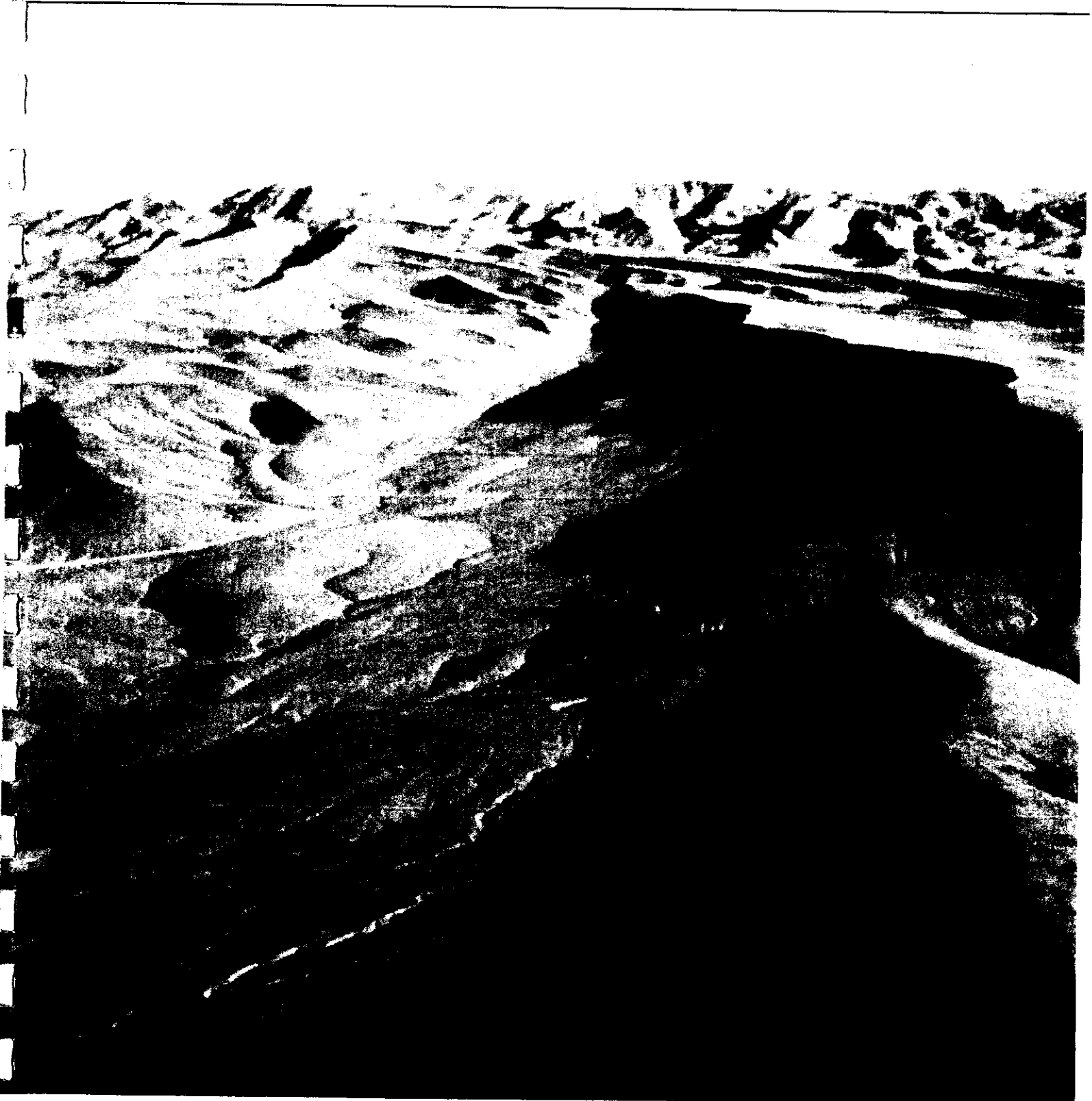


Finance Docket No. 35106

EXHIBIT E/F
Balance Sheet / Income Statement
For Fiscal Years 2005-2006 and 2006-2007

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

**Annual Financial Report
Years Ended September 30, 2006 and 2005**



**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

**Annual Financial Report
Years Ended September 30, 2006 and 2005**

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OVERVIEW

Reporting Entity

The Nuclear Waste Policy Act (NWPA) of 1982 (Public Law 97-425) established the Office of Civilian Radioactive Waste Management (OCRWM) within the U.S. Department of Energy (Department). OCRWM's mission is to manage and dispose of the nation's spent nuclear fuel (SNF) and high-level radioactive waste (HLW). OCRWM provides leadership in developing and implementing strategies to accomplish this mission that ensure public and worker health and safety, protect the environment, merit public confidence, and are economically viable.

The Nuclear Waste Policy Amendments Act of 1987 (Title V, Public Law 100-203) directed the Secretary of Energy to characterize only the Yucca Mountain site in Nevada as a candidate site to determine if it was suitable for a repository for SNF and HLW.

The characterization of the Yucca Mountain Site has been completed. On February 14, 2002, the Secretary of Energy recommended the site to the President for development of a nuclear waste repository. On February 15, 2002, the President recommended the site to Congress. On May 8 and July 9, 2002, the House of Representatives and the Senate, respectively, passed a resolution approving the site recommendation. On July 23, 2002, the President signed into law the Congressional Joint Resolution designating Yucca Mountain as the site for the Nation's first SNF and HLW repository. At that point, the focus of the Yucca Mountain Project changed to the activities associated with the Nuclear Regulatory Commission (NRC) licensing process for construction and receiving and possessing waste. The Waste Acceptance Storage and Transportation Project focus changed to the development of a national waste transportation capability.

In Fiscal Year 2006 a new Director, Mr. Edward F. Sproat, III was appointed by the President and approved by Congress. During the Congressional hearing four new strategic objectives were established. A summary of the four strategic objectives are:

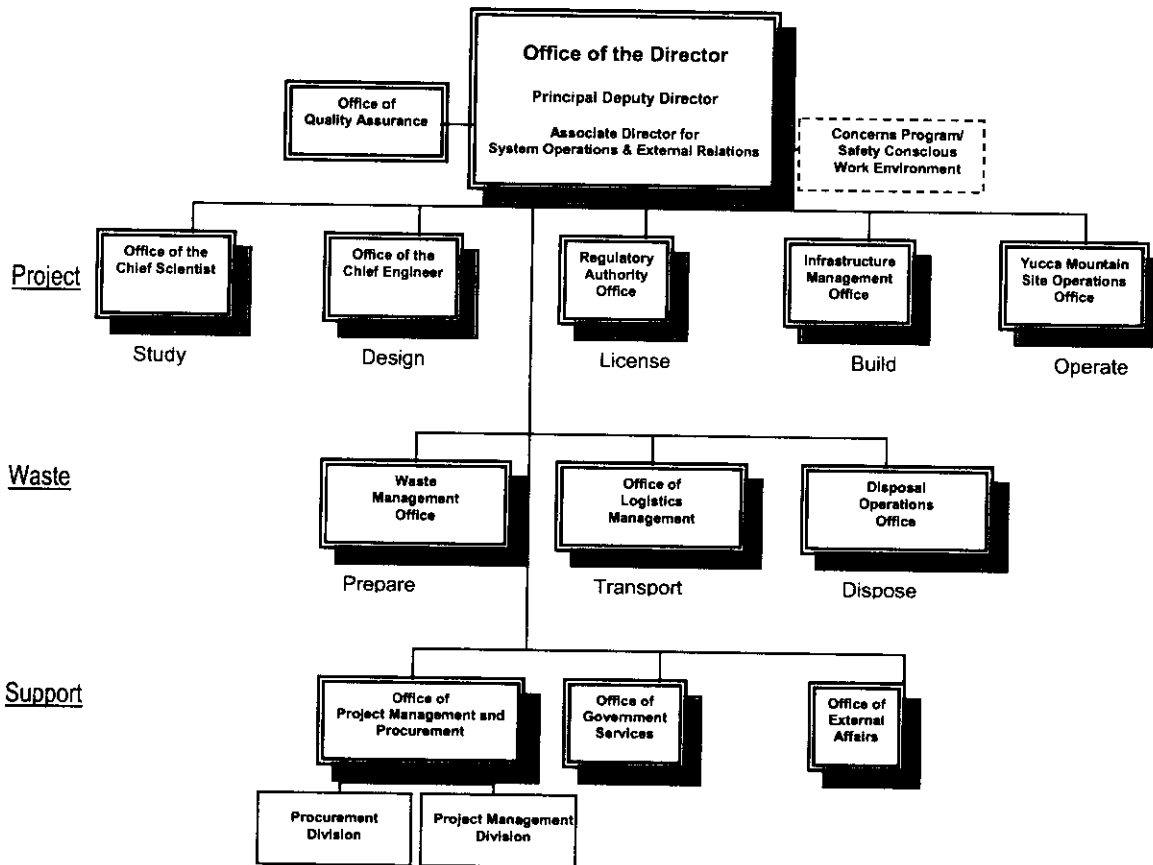
1. To submit a high-quality and docketable license application to the Nuclear Regulatory Commission no later than June 30, 2008.
2. To design, staff, and train the OCRWM organization such that it has the skills and culture needed to design, license, and manage the construction and operation of the Yucca Mountain Project with safety, quality, and cost effectiveness.
3. To address the Federal Government's mounting liability associated with unmet contractual obligations to move spent fuel from nuclear plant sites.
4. To develop and begin implementation of a comprehensive national spent fuel transportation plan that accommodates state, local and tribal concerns and input to the greatest extent possible.

In addition, during FY 2006 OCRWM's request for reorganization was approved by the Secretary. The approved organizational chart is provided below.

In FY 2006 the program accomplishments included the completion of conceptual design and other relevant documents to update Conceptual Design (CD-1) for a canisterized fuel receipt based system and request CD-1 approval from the acquisition executive; providing specification for developing Transportation Aging and Disposal (TAD) canister; and reducing the ratio of total administrative overhead cost to total program costs by 10 percent from the FY 2006 baseline ratio.

As of September 30, 2006, OCRWM employed a staff of 2,099 full-time equivalents (FTE). This included 166 OCRWM Federal FTE, 34 FTE at other Headquarters offices, 3 Federal FTE at the Department of Energy NNSA/Nevada Site Office, 36 U.S. Geological Survey FTE, and 2,016 contractor FTE, including employees of national laboratories.

OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT



PROGRAM GENERAL GOAL: NUCLEAR WASTE

License and construct a permanent repository for nuclear waste at Yucca Mountain and begin acceptance of waste.

How We Serve the Public

The construction and operation of new commercial nuclear power plants allows the United States to maintain a diverse energy portfolio and improves our energy security by successfully opening and operating a repository at Yucca Mountain for the disposal of commercial spent nuclear fuel.

Performance Against Key Targets

During FY 2006:

- Revised the project conceptual design report to adopt a primarily canister-based approach for handling commercial spent nuclear fuel to enable more efficient repository surface facility construction and simplify repository operations.
- Received Energy Systems Acquisition Advisory Board approval of a revised critical-decision-1 to proceed with the canister-based approach and prepare for critical-decision -2.
- Issued a revised Program schedule to submit a license application to the NRC by June 30, 2008, and begin initial operations by 2017.
- Designated Sandia National Laboratory as the lead laboratory to coordinate and organize all scientific work on the Yucca Mountain Project. Sandia will develop the total system performance assessment in order to strengthen and enhance long-term performance assessment by reducing model uncertainties and conservatisms. The laboratory will also review the existing infiltration model and prepare a new model to be used as part of the technical basis for the license application.
- Initiated operational planning activities in coordination with responsible Federal agencies while leveraging existing Departmental expertise in materials shipment to identify the long-lead logistical planning, rolling stock and hardware acquisition strategies, ancillary communication, traffic management and proactive technologies to enable the efficient, safe, and secure transport of radioactive materials by 2017.

During FY 2005:

- Focused on finalizing the draft license application and related actions, including: (1) completing total system performance assessment calculations and the final report, and (2) improving the design of the waste package, surface facilities, and subsurface facilities.
- The Department decided that the draft license application should not be submitted until issues including fuel oxidation, the Environmental Protection Agency's (EPA) radiation standard, and the infiltration model have been resolved. While this decision resulted in the Department not meeting the target as scheduled, resolution of the issues will enable the

Department to submit a defensible license application to construct and operate a permanent repository for nuclear waste.

- Completed indexing of approximately 98 percent of the Department's collection of documentary evidence material on the Licensing Support Network (LSN). The LSN is an internet-based document repository that has been established to support the application for a license to construct the Yucca Mountain repository. NRC regulations (10 CFR 2, Subpart J) require the Department and all other participants in the licensing proceedings to produce their relevant documents on the LSN. The Department was in the process of providing its remaining documents and completing various internal validations of its document production on the LSN when NRC's Atomic Safety and Licensing Board's Pre-License Application Presiding Board ordered the Department to produce copies of the draft license application on the LSN. The Department has appealed this order to the NRC. The Department will not certify its LSN collection until NRC has issued a decision on the appeal of this order.
- Completed the field studies, analysis, and conceptual engineering required to support the issuance of a draft Environmental Impact Statement (EIS) for the Nevada rail line. This achievement is crucial for establishing the detailed approach, timetable, costs, and capabilities for transporting the nuclear waste from an existing rail line in Nevada to the repository. The data was incorporated into the draft EIS for internal review in August 2005.

External Factors

The opening date of the Yucca Mountain repository will also depend on resolution of a number of external factors, including:

- **Regulatory Requirements:** The *Nuclear Policy Act*, as amended, requires that a repository at Yucca Mountain, Nevada, must be licensed by the NRC, which will base its review of the Department's license application submittal against its licensing requirements, including radiation protection standards issued by the Environmental Protection Agency (EPA). The EPA regulations have not yet been finalized. As a license applicant, the Department must also have its Licensing Support Network certification accepted by the NRC six months prior to the license application submittal.
- **Litigation:** Any actions by the Department or other agencies that advance either the repository or transportation, e.g., environmental impact statements are likely to be challenged in the courts.
- **Legislation:** Proposed legislation has been introduced that contains a number of provisions, to facilitate the licensing, construction and operation of a repository at Yucca Mountain. These provisions will permit the Department to accelerate fulfillment of its responsibilities, without diminishing the protection currently afforded workers, members of the public and the environment.

FISCAL YEAR FY 2006 and 2005 FINANCIAL PERFORMANCE

OCRWM is required by the Nuclear Waste Fund (NWF) to recover the full cost of the Program. The Program's total cost was estimated in the OCRWM 2006 Total System Life Cycle Cost report.

Program funding comes from the NWF and the Defense Nuclear Waste Disposal Appropriation (DNWDA). The NWF consists of fees paid by the owners and generators of SNF from commercial reactors, in accordance with provisions of their contracts with the Department for disposal services. NWF assets in excess of those authorized by Congress to pay program costs are invested in U.S. Treasury securities. The DNWDA was established by the Congress in lieu of direct payment of fees by the Department into the NWF, to pay for the disposal costs of the HLW resulting from atomic energy defense activities and other Department-managed nuclear materials. As of September 30, 2006, cumulative revenue from fees and the DNWDA, totaled approximately \$18.209 billion, and cumulative interest earnings and other revenue totaled approximately \$12.622 billion. Cumulative expenditures from appropriations and amounts authorized by Congress, including direct appropriations to the NRC, the now defunct Office of the Nuclear Waste negotiator, and the Nuclear Waste Technical Review Board, totaled approximately \$9.729 billion.

As of September 30, 2006, the U.S. Treasury securities held by OCRWM had a market value of \$19.346 billion compared to \$18.521 billion at the end of Fiscal Year 2005. Investment income and net gains on the sale of securities totaled \$933.320 million and \$881.502 million for Fiscal Years 2006 and 2005, respectively.

OCRWM's primary financial goal is to ensure that future spending needs can be met. Therefore, OCRWM relies on the asset-liability matching approach to investing used by pension funds and insurance companies. By matching investments to anticipated funding requirements, OCRWM reduces the risk that changes in interest rates will adversely affect the fee adequacy balance, ensures that identified spending projections will be met, and makes investments at the most favorable rates currently available.

The financial performance measure established by OCRWM for FY 2006 and FY 2005 related to the performance of its investments in U.S. Government securities:

- To reallocate existing investments and invest any additional surpluses to match the Program's cumulative profile for FY 2005 and FY 2006 through 2033 and 2035, respectively.

RESULTS: As of September 30, 2006, the NWF held investments with a market value of \$19.346 billion to provide for estimated gross program life-cycle liabilities of \$20.505 billion. Although most of the investments have a duration of 24 years or less, the NWF has placed recent income surpluses in 25-years and 26-years duration securities after the Treasury resumed issuance of 30-year bonds. New investments during FY 2006 were made in securities with the longest available duration and assets are now in place to fund the next 28 years.

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Analysis of systems, controls and legal compliance is performed, reported and audited at the Departmental level. The results of these reviews and assessments are incorporated in the Department's Performance and Accountability Report. A management significant issue, Nuclear Waste Disposal, was reported by OCRWM for both FY 2006 and FY 2005 and is described below.

Federal Managers' Financial Integrity Act

The *Federal Managers' Financial Integrity Act (FMFIA)* of 1982 requires that agencies establish internal control and financial systems to provide reasonable assurances that the integrity of Federal programs and operations are protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the Department developed an internal control program which holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of management controls. Annually, senior managers at the Department are responsible for evaluating the adequacy of the internal controls surrounding their activities and determining whether they conform to the principles and standards established by the Office of Management and Budget (OMB) and the Government Accountability Office. The results of these evaluations and other senior management information are used to determine whether there are any internal control problems to be reported as material weaknesses. The Departmental Internal Control and Audit Review Council, the organization responsible for oversight of the Management Control Program, makes the final assessment and decision for the Department.

Significant Issue - Nuclear Waste Disposal

Construction of a repository for the disposal of spent nuclear fuel and high-level radioactive waste, authorized under the NWPA, at Yucca Mountain, Nevada, has been delayed because of external factors and program adjustments. Funding shortfalls and the scientific and technical challenges encountered in this first-of-a-kind endeavor to develop a disposal system that must potentially endure a compliance period of a million years have complicated the steady progress necessary to achieve previously published milestones. Finalizing the EPA radiation protection standards and addressing the licensing requirements of the NRC to submit a license application are the key to achieving the new milestones published in July 2006.

Actions Taken and Remaining

The introduction of the *Nuclear Fuel Management and Disposal Act*, April 2006, seeks to provide stability, clarity and predictability to the Yucca Mountain Project. The proposed legislation addresses many of the uncertainties that are currently beyond the control of the Department and have the potential to significantly delay the opening date for the repository. The most important factor is the enactment of a provision that will facilitate Congressional funding needed to implement the Project.

The program adopted a primarily canister-based approach for handling commercial spent nuclear fuel. The revised approach enabled deployment of necessary surface and sub-surface facilities in a manner that could accommodate future funding and income streams and enhances repository operations and performance.

In January 2006, the Department designated Sandia National Laboratories the lead laboratory to coordinate and organize all scientific work on the Project. Sandia National Laboratories will also review the existing infiltration model and prepare a new model to be used as part of the technical basis for the license application.

The Program is implementing management controls in accordance with DOE O 413.3A, *Program and Project Management for the Acquisition of Capital Assets*, and performance metrics required under the Department's performance and accountability report system and OMB reporting requirements to ensure it achieves its revised milestones. Additionally, the Program is proceeding to certify its earned value management system, which will be in place prior to critical decision-2, Approve Performance Baseline.

Expected Completion

Submittal of a license application to the NRC by June 30, 2008; construction authorization from the NRC by 2011; and receipt of a license amendment from the NRC to receive and possess nuclear materials by 2017.

DETAILED PERFORMANCE RESULTS

<u>FY06</u>	<u>FY05</u>	<u>FY04</u>	<u>FY03</u>	Program Goal: Civilian Radioactive Waste Manage and dispose of high-level radioactive waste and spent nuclear fuel in a manner that protects health, safety and the environment; enhances national and energy security; and merits public confidence.
G	R	G	R	
<p><i>Results:</i> The combination of achieving the Modified Critical Decision -1 Package and Reduced Management Program Funding targets will directly contribute to the Office of Civilian Radioactive Waste Management (OCRWM) submitting a docketable License Application (LA) by June 30, 2008. The draft rail alignment environmental impact statement is rescheduled to be published in the Federal Register by June 2007. The submission and approval of an LA is critical if OCRWM is going to meet the 2017 waste acceptance date at Yucca Mountain.</p>				

FY 2006 Annual Targets

<u>FY06</u>	<u>FY05</u>	<u>FY04</u>	<u>FY03</u>	Modified Critical Decision-1 (CD-1) Package. Submit for Energy Systems Acquisition Advisory Board (ESAAB) approval a modified critical decision-1 package that describes the design and operating plan for the repository, and provides a schedule for license application completion and docketing. (RW GG 7.25.1)
G	NA	NA	NA	
<p><i>Results:</i> The Energy Systems Acquisition Advisory Board convened on July 6, 2006 and approved the Office of Civilian Radioactive Waste Management (OCRWM) CD-1 proposal for changes to the repository operational concept and facilities. The new direction will address the technical challenges with handling commercial spent nuclear fuel in dry transfer cells. The benefits of the new direction include reduced worker exposure to radiation at the Yucca Mountain site and maximized use of existing utility infrastructure. These improvements will help support a successful License Application submission on June 30, 2008, and ultimately Yucca Mountain's waste acceptance in 2017.</p> <p><i>Supporting Documentation:</i> The CD-1 package that is submitted to ESAAB.</p>				

<u>FY06</u>	<u>FY05</u>	<u>FY04</u>	<u>FY03</u>	Environmental Impact Statement. Publish draft rail alignment environmental impact statement (EIS) in the Federal Register. (RW GG 7.25.2)
R	G	NA	NA	
<p><i>Results:</i> Due to litigation regarding the Department's Environmental Impact Statement (EIS) for Yucca Mountain, the draft rail alignment EIS was not published in the Federal Register in FY 2006. The Department is currently expanding the scope of the draft rail alignment EIS to include the study of a new corridor, the Mina Rail Corridor, as an alternative in addition to the previously proposed Caliente Rail Corridor. The updated draft rail alignment EIS will be published in the Federal Register by June 2007. This will enable the Department to produce a final EIS that will be incorporated into the License Application (LA) submission on June 30, 2008. The LA will allow the Department to stay on schedule and achieve waste acceptance at Yucca Mountain in 2017.</p> <p><i>Supporting Documentation:</i> Federal Register Notice "Amended Notice of Intent to Expand the Scope of the Environmental Impact Statement for the Alignment, Construction, and Operation of a Rail Line to a Geological Repository at Yucca Mountain, Nye County, NV," Vol. 71, No. 198, Friday, October 13, 2006. pp. 60484-60490</p> <p><i>Action Plan:</i> The Department is currently expanding the scope of the draft rail alignment EIS to include the study of a new corridor, the Mina Rail Corridor, as an alternative in addition to the previously proposed Caliente Rail Corridor. The Department has extended the public comment period to December 12, 2006, which will provide the opportunity for the public to meet with project officials and to discuss issues concerning the newly proposed Mina Rail Corridor. The updated EIS will be published in the Federal Register by June 2007.</p>				

<u>FY06</u>	<u>FY05</u>	<u>FY04</u>	<u>FY03</u>	
G	G	NA	NA	Reduce Management Program Funding. Reduce the ratio of program direction/contractor management program funding to total program funding by 10 percent from the FY 2005 baseline ratio of 0.274. (RW GG 7.25.3)
<p><i>Results:</i> The Office of Civilian Radioactive Waste Management (OCRWM) surpassed its target by maintaining its FY 2006 ratio of administrative costs to total program costs at .220 (\$101,622,166/\$462,615,987), which is a 20 percent reduction from the FY 2005 ratio of .274. The management program funding is essentially the general and administrative (G&A) costs. By reducing the G&A costs, the Office of Civilian Radioactive Waste Management (OCRWM) can dedicate a greater portion on the total program funding to direct activities which support a successful submission of the License Application (LA). The LA will allow OCRWM to stay on schedule and achieve waste acceptance at Yucca Mountain in 2017. The baseline for administrative overhead rate is currently being validated. Further, the creation of a common approach for calculating total administrative overhead costs in applied R&D programs within the Department will allow some measure of comparability among program offices.</p> <p><i>Supporting Documentation:</i> OCRWM monthly cost performance reports</p>				

Legend for FY 2006 Annual Targets:

G-Green Y-Yellow R-Red NA-Not Applicable

Status of Unmet FY 2005 Performance Targets

Performance Target - Complete draft License Application documents incorporating improvements in safety analysis and design

A draft license application will be available for Departmental review no later than March 2008. On July 19, 2006, the Department announced that it will submit a license application to the NRC no later than June 30, 2008.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the accompanying balance sheets of the Office of Civilian Radioactive Waste Management (OCRWM) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, and financing (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2006 and 2005 audits, we also considered the OCRWM's internal controls over financial reporting and tested the OCRWM's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the OCRWM's financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our report emphasizes that the OCRWM is involved as a defendant in several matters of litigation relating to inability to accept waste by January 31, 1998, the date specified in the Nuclear Waste Policy Act of 1982, as amended.

Our report also emphasizes that the OCRWM changed its method of reporting earmarked funds in fiscal year 2006.

Our consideration of internal controls over financial reporting, Required Supplementary Stewardship Information, and performance measures in fiscal years 2006 and 2005 resulted in Financial Management and Reporting Controls being identified as a reportable condition. We consider this reportable condition to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts for fiscal years 2006 and 2005, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin Number (No.) 06-03.



The results of our tests of FFMIA for fiscal years 2006 and 2005 disclosed that the OCRWM's financial management systems did not substantially comply with the federal financial management systems and accounting standards requirements as OCRWM's financial management and reporting controls and related supporting data did not support the timely preparation of complete and accurate financial statements. This matter is related to the material weakness in internal controls, described above.

The following sections discuss:

- Our opinion on the OCRWM's financial statements;
- Our consideration of the OCRWM's internal controls over financial reporting;
- Our tests of the OCRWM's compliance with certain provisions of applicable laws, regulations, and contracts;
- Management's responsibilities; and
- Our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the OCRWM as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCRWM as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 and Note 12 to the financial statements, the OCRWM is involved as a defendant in several matters of litigation relating to its inability to accept waste by the January 31, 1998 date specified in the Nuclear Waste Policy Act of 1982, as amended.

As discussed in Note 2 to the financial statements, the OCRWM changed its method of reporting earmarked funds in fiscal year 2006 to adopt the provisions of Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

The information in the Overview and Required Supplementary Stewardship Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Supplementary Information – Schedules I and II for the years ended September 30, 2006, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of OCRWM as of and for the years ended September 30, 1983 through September 30, 2004 (none of which are presented herein), and we expressed unqualified opinions on those financial statements. The supplementary information included in Schedules I and II related to OCRWM's financial statements as of and for the years ended September 30, 1983 through September 30, 2004 was subjected to auditing procedures applied in the audits of those financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements from which it has been derived.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the OCRWM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 and 2005 audits, we noted certain matters involving internal control over financial reporting and its operation that we consider to be a reportable condition. The following reportable condition, described in more detail in Exhibit I, is considered to be a material weakness.

Financial Management and Reporting Controls – Our work for fiscal year 2005 identified deficiencies in the OCRWM's financial management and reporting controls that precluded the OCRWM from preparing its fiscal year 2005 financial statements and supporting documentation in a



complete, accurate, and timely manner. The OCRWM financial management and reporting is substantially supported by the Department of Energy (Department) through the use of its accounting systems and accounting staff. Due primarily to issues resulting from the Department of Energy's implementation of its new accounting system and attrition associated with the reorganization and consolidation of the Department's finance and accounting services organization, the OCRWM was unable to develop adequate reporting and other internal controls essential to the deployment of the new system and preparing timely financial statements. In addition to impairing the OCRWM's financial reporting, the lack of these critical controls detracted from the ability of the accounting staff to complete routine accounting reconciliations and impacted the ability of the OCRWM's officials to manage their programs and monitor the status of obligations.

We found during our work on the fiscal year 2006 financial statements that the Department had made extensive progress in correcting many of the issues we identified in fiscal year 2005, but still experienced significant delays preparing the OCRWM's fiscal year 2006 and 2005 financial statements, footnotes and supporting documentation. The Department continued to be unable to develop adequate reporting and other internal controls essential to the deployment of the new system as it related to the timely preparation of the OCRWM's financial statements. In addition to impairing the OCRWM's financial reporting, the lack of these critical controls continued to detract from the ability of the accounting staff to complete routine accounting reconciliations and impacted the ability of the OCRWM's officials to manage their programs and monitor the status of obligations. Continued action to address these weaknesses is needed to correct the OCRWM's financial management and reporting problems and to improve the ability of program officials to monitor and control obligations and expenditures.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03 the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.



Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 and 2005 audits, we noted no matters involving the internal control and its operation related to Required Supplementary Stewardship Information that we considered to be material weaknesses as defined above.

Further, in our fiscal year 2006 and 2005 audits, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance with certain provisions of other laws and regulations for fiscal years 2006 and 2005, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests of FFMIA for fiscal years 2006 and 2005 disclosed that the OCRWM's financial management systems did not substantially comply with the federal financial management systems and accounting standards requirements, discussed in the Responsibilities section of this report, which prevented the OCRWM from preparing timely and accurate financial statements and supporting data for audit. This matter is related to the material weakness in internal controls, described in the Internal Control over Financial Reporting section of this report. Our related recommendations are presented in Exhibit I.

The results of our tests of FFMIA disclosed no instances in which the OCRWM's financial management systems did not substantially comply with requirements of applying the United States Government Standard General Ledger at the transaction level.

* * * * *

RESPONSIBILITIES

Management's Responsibilities.

Management is responsible for the financial statements, including:



- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Overview (including the performance measures), and the Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, and contracts applicable to the OCRWM, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 financial statements of the OCRWM based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCRWM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2006 and 2005 audits, we considered the OCRWM's internal control over financial reporting by obtaining an understanding of the OCRWM's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls



necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on the OCRWM's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 and 2005 audits, we considered the OCRWM's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the OCRWM's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over Required Supplementary Stewardship Information in accordance with OMB Bulletin 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 and 2005 audits, with respect to internal control related to performance measures determined by management to be key and reported in the Overview, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the OCRWM's fiscal year 2006 and 2005 financial statements are free of material misstatement, we performed tests of the OCRWM's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the OCRWM financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the OCRWM. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether the OCRWM's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the



transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

RESTRICTED USE

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

KPMG LLP

October 15, 2007

Independent Auditors' Report
Exhibit I – Material Weakness
Financial Management and Reporting Controls

We identified a material weakness in OCRWM's financial management and reporting controls that delayed the OCRWM from preparing its fiscal year 2006 and 2005 financial statements and supporting documentation in a complete, accurate, and timely manner. Under the current financial reporting structure, the OCRWM is dependent on the Department's office of the Chief Financial Officer (CFO) for preparation of the OCRWM's financial statements and footnotes through the use of the Department's accounting systems and accounting staff.

The Department encountered a number of challenges resulting from the fiscal year 2005 implementation of its new accounting system, the Standard Accounting and Reporting System (STARS), consolidation and realignment of its financial and accounting services organization, and the adoption of a new chart of accounts. Specifically, in October 2004, the Department centralized certain operations previously performed by multiple field offices and accounting service centers and restructured its overall financial and accounting services organization. These changes, coupled with higher than normal attrition, had a negative impact on the financial accounting staffing levels and skills mix throughout the Department. Shortly thereafter, in April 2005, the Department implemented STARS and a new chart of accounts.

While the Department conducted extensive STARS pre-deployment testing, it encountered implementation issues related to converting data from its legacy accounting system, developing new accounting processes to effectively use the new system, and identifying related reporting requirements. The Department's new financial and accounting services organization was unable to fully address many of these implementation issues prior to September 30, 2005. Reports needed for management, control, and audit purposes were not available following STARS deployment, and a number of system reconciliations remained incomplete. Furthermore, new STARS-specific accounting processes had not been fully documented, and operational control procedures were not yet being performed routinely. Problems resulting from the lack of these critical controls significantly delayed preparation of the OCRWM's fiscal year 2005 financial statements and supporting data, and impacted the ability of management officials to monitor and control their budgets. The Department recognized these issues and classified financial control and reporting as a reportable problem in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2005, and as a non-compliance matter in its *Federal Financial Management Improvement Act* reporting. Because of the Department's remediation efforts to resolve these issues, the Department was unable to devote personnel specifically to establish policies and procedures that ensure the preparation of the OCRWM's fiscal year 2005 financial statements and footnotes in a complete, accurate, and timely manner.

We found during our work on the fiscal year 2006 financial statements that the Department had made extensive progress in correcting many of the issues we identified in fiscal year 2005, but still experienced significant delays preparing the OCRWM's fiscal year 2006 and 2005 financial statements and footnotes. We determined that the Department continued to have had limited staff available to devote attention to developing the policies and procedures specific to the preparation of the OCRWM's financial statements and footnotes.

Specifically, we noted the following issue areas:

Development of financial reporting policies and procedures – The Department's office of the CFO experienced a higher than normal attrition rate that significantly impacted its ability to timely preparing the OCRWM's fiscal year 2006 and 2005 financial statements using information generated by the STARS. Specifically, we found that the Department's office of the CFO did not have a sufficient number of personnel with the requisite financial accounting background, knowledge, and expertise, to both (i) establish, and (ii) effectively manage the financial reporting needs for the OCRWM.

Obligations, budget execution and funds control – Our work on the fiscal year 2005 obligations found unreconciled differences between the general ledger, subsidiary modules, and various other information systems used to manage obligation and cost data. Some field organizations entered and controlled obligations using separate information systems (feeder systems) that interface with the STARS purchase order module, while others recorded obligation data directly in the purchase order module. Some sites summarized transactions for posting in a manner that prevented the obligation data in STARS from being readily traced or reconciled to source documents. In addition, because the sites had not fully developed control procedures unique to their feeder systems and data entry methods, they could not ensure the accuracy of obligation data through timely reconciliation to the STARS general ledger totals. STARS data is needed for official funds control purposes. Without routine reconciliations, there is significant risk that the obligations reported in the OCRWM's financial statements may be misstated and that field office and program managers may be using incomplete or inaccurate data for financial management decisions. Field offices also reported that they could not identify and resolve some differences between STARS and contract file data. Because of the unexplained differences, several field offices expressed concerns regarding the accuracy of their unclosed and unpaid obligations balances, which adversely affected their ability to monitor and control their budgets. These and other program officials also expressed concerns regarding incorrect conversion of legacy system data, potential funds distribution errors, and inappropriate accrual of interest penalties. Finally, a number of program officials said that they needed additional training in using available reporting tools to monitor obligations and expenditures.

Our work on the OCRWM's fiscal year 2006 obligations found that the Department had resolved the issues we identified during our test work on the fiscal year 2005 obligations.

Reconciling disbursements and collections – The Department had difficulty reconciling its disbursement and collection activity, including that of the OCRWM, with the U.S. Treasury's records beginning April 2005 through September 30, 2005. These payment reconciliation issues have significantly complicated and delayed efforts to verify the accuracy of the Fund Balance with Treasury account. Because of these difficulties, the Department's submissions to Treasury and OMB as of June 30, 2005, were based on estimated disbursement data. In September 2005, corrected SF-224s, *Monthly Statement of Transactions*, were submitted to Treasury for the period April through June 2005. The Department was unable to timely complete its September 2005 Fund Balance with Treasury reconciliation until November 4, 2005.

Our work on the OCRWM's fiscal year 2006 financial statements found that the Department had resolved the reconciliation issues discussed above.

Integrated contractor trial balances – A number of unreconciled differences existed between STARS and the separate financial systems maintained by the Department's integrated contractors for fiscal year 2005 that related to the OCRWM. A task force formed to identify and resolve these differences found that they resulted from errors in data conversion and incomplete reconciliation and cross-walk instructions. While the Department believed that substantially all of the remaining differences resulted from misclassifications of data between contractors and field office reporting units - misclassifications that do not affect the accuracy of the consolidated financial statements - it had not completed most of the reconciliations for individual contractors, and the effect of the remaining corrections on the OCRWM financial statements was not known.

Our work on the OCRWM's fiscal year 2006 financial statements found that the Department had resolved the identified integrated contractor trial balance reconciliation issues and implemented routine reconciliations.

Reconciliation of data – Data conversion and operational problems created out-of-balance conditions between the STARS purchase order, accounts payable, and accounts receivable modules and the general ledger. The Department identified a number of reconciling differences and adjustments, but had not completed reconciliations of all modules to the general ledger as of September 30, 2005. In addition, the Department reported that several hundred fiscal year 2005 general ledger posting errors identified by STARS edit routines were unresolved. Although the Department implemented system changes to prevent many of these errors from recurring, it did not complete its review and correction of unresolved errors until after September 30, 2005. The Department requires field offices to resolve many of these errors, but staffing levels were not adequate to complete the work for timely and accurate preparation of the OCRWM's fiscal year 2005 financial statements. Prompt

resolution of data posting errors is an essential component of financial data integrity, and its absence could make the safeguards against misappropriation or unauthorized use of funds less effective.

Our work on the fiscal year 2006 financial statements found that the Department had resolved the above data reconciliation issues.

Recommendations:

We recommend that the Director of OCRWM ensure that the Department's CFO hire and or allocate existing personnel with the requisite financial accounting background, knowledge, and expertise, to both (i) establish, and (ii) effectively manage the financial reporting needs for the OCRWM.

Management's Response:

The Department concurs with the recommendation and actions have already been taken to address this condition. Specifically, in May 2007, the Department added to the resources supporting OCRWM financial reporting by hiring an accountant dedicated solely to financial reporting for OCRWM. Resolution of the Department's material weaknesses related to the implementation of a new accounting system in April 2005 and the addition of personnel within the CFO has corrected this financial reporting weakness. The CFO has demonstrated the requisite financial accounting background, knowledge, and expertise to address OCRWM's financial reporting with the completion of all required financial reporting for prior years including the FY 2005/2006 financial statements and through all interim reporting to date for FY 2007.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Balance Sheets

As of September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
ASSETS		
Intragovernmental		
Fund Balance with Treasury ^(Note 3)	\$ 66,359	\$ 19,412
Investments, Net ^(Note 4)	17,952,783	16,512,346
Accounts Receivable:		
Receivables from Defense Fees and Interest ^(Note 7)	-	764,503
Utilities ^(Note 5)	11,782	11,532
Accrued Investment Interest ^(Note 4)	48,952	53,849
Other Accounts Receivable	137	86
Other Intragovernmental Assets	147	203
Total Intragovernmental Assets	<u>\$ 18,080,160</u>	<u>\$ 17,361,931</u>
Accounts Receivable:		
Utilities ^(Note 5)	3,153,382	3,023,490
Other Accounts Receivable	21	17
General Property, Plant, and Equipment, Net ^(Note 6)	10,581	10,128
Other Assets	995	584
Total Assets	<u>\$ 21,245,139</u>	<u>\$ 20,396,150</u>
LIABILITIES		
Intragovernmental:		
Accounts Payable ^(Note 8)	\$ 9,563	\$ 8,628
Deferred Revenue ^(Note 10)	293,896	769,188
Other Liabilities	354	277
Total Intragovernmental Liabilities	<u>\$ 303,813</u>	<u>\$ 778,093</u>
Accounts Payable	37,762	78,047
Deferred Revenue ^(Note 10)	20,821,447	19,500,890
Pension and Other Actuarial Liabilities	11,529	10,205
Other Liabilities	19,538	14,821
Commitments and Contingencies ^(Note 9)	6,717,598	5,222,852
Total Liabilities ^(Note 8)	<u>\$ 27,911,687</u>	<u>\$ 25,604,908</u>
NET POSITION		
Unexpended Appropriations - Other Funds	51,050	14,094
Cumulative Results of Operations - Other Funds	<u>(6,717,598)</u>	<u>(5,222,852)</u>
Total Net Position	<u>\$ (6,666,548)</u>	<u>\$ (5,208,758)</u>
Total Liabilities and Net Position	<u>\$ 21,245,139</u>	<u>\$ 20,396,150</u>

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Statements of Net Costs

For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
First Repository Costs	\$ 311,830	\$ 359,362
All Other Program Costs:		
Program Support	\$ 121,007	\$ 112,974
Transfers of Appropriations (Note 7)	49,229	71,649
Waste Acceptance, Storage and Transportation	34,061	49,139
Imputed and Other Costs	1,909	1,879
Total All Other Program Costs	\$ 206,206	\$ 235,641
Total First Repository and Other Program Costs	\$ 518,036	\$ 595,003
Less Earned Revenues (Note 10)	(516,127)	(593,124)
Net First Repository Costs	\$ 1,909	\$ 1,879
Estimated liability for waste acceptance obligations	\$ 1,602,091	\$ 3,303,333
Net cost of operations	\$ 1,604,000	\$ 3,305,212

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Statements of Changes in Net Position

For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	Consolidated 2006	2005
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$ (5,222,852)	\$ (1,919,519)
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others	\$ 109,254	\$ 1,879
Total Other Financing Sources	\$ 109,254	\$ 1,879
Net Cost of Operations	(1,604,000)	(3,305,212)
Net Change	\$ (1,494,746)	\$ (3,303,333)
Ending Balance - Cumulative Results of Operations	\$ (6,717,598)	\$ (5,222,852)
UNEXPENDED APPROPRIATIONS:		
Beginning Balance	\$ 14,094	\$ 48,076
Budgetary Financing Sources Related to Appropriations:		
Appropriations Received (Note 2)	\$ 350,000	\$ 231,000
Other Adjustments	(3,500)	(1,848)
Appropriations Used	(309,544)	(263,134)
Total Budgetary Financing Sources Related to Appropriations	\$ 36,956	\$ (33,982)
Ending Balance Unexpended Appropriations	\$ 51,050	\$ 14,094
Total Net Position	\$ (6,666,548)	\$ (5,208,758)

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

**Statements of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)**

	2006	2005
BUDGETARY RESOURCES		
Unobligated balance, Brought Forward, October 1	\$ 24,266	\$ 13,179
Recoveries of Prior Year Unpaid Obligations	-	8
Budget Authority:		
Appropriations	\$ 450,000	\$ 649,227
Spending Authority from Offsetting Collections:		
Earned:		
Collected	1,326	-
Subtotal	\$ 451,326	\$ 649,227
Nonexpenditure Transfers, Net, Anticipated and Actual	-	(71,649)
Temporarily not Available Pursuant to Public Law	(1,000)	(3,346)
Permanently Not Available	(3,500)	(1,848)
Total Budgetary Resources	<u>\$ 471,092</u>	<u>\$ 585,571</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 346,164	\$ 230,951
Exempt from Apportionment	112,186	330,354
Total Obligations Incurred	<u>\$ 458,350</u>	<u>\$ 561,305</u>
Unobligated Balance:		
Apportioned	347	10
Exempt from Apportionment	12,395	24,256
Total Status of Budgetary Resources	<u>\$ 471,092</u>	<u>\$ 585,571</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 279,309	\$ 234,943
Total Unpaid Obligated Balance, Net, October 1		
Obligations Incurred	458,350	561,305
Less: Recoveries of Prior Year Unpaid Obligations, Actual	-	(8)
Less: Gross Outlays	(500,962)	(516,931)
Obligated Balance, Unpaid Obligations, Net, End of Period:	<u>\$ 236,697</u>	<u>\$ 279,309</u>
NET OUTLAYS		
Gross Outlays	\$ 500,962	\$ 516,931
Less: Offsetting collections	(1,326)	-
Less: Distributed Offsetting Receipts	(1,293,194)	(1,885,151)
Net Outlays	<u>\$ (793,558)</u>	<u>\$ (1,368,220)</u>

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Statements of Financing

For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 458,350	\$ 561,305
Less: Spending Authority from Offsetting Collections and Recoveries	(1,326)	(8)
Obligations, Net of Offsetting Collections and Recoveries	<u>\$ 457,024</u>	<u>\$ 561,297</u>
Offsetting Receipts:		
Fees for Disposal of Spent Nuclear Fuel	\$ (751,537)	\$ (736,070)
Earnings on Investments	(541,656)	(1,149,077)
Other Offsetting Receipts	(1)	(4)
Total Offsetting Receipts	<u>\$ (1,293,194)</u>	<u>\$ (1,885,151)</u>
Net Obligations	<u>\$ (836,170)</u>	<u>\$ (1,323,854)</u>
Other Resources:		
Imputed Financing from Costs Absorbed by Others	\$ 109,254	\$ 1,879
Other:		
Offsetting Receipts, Deferred	\$ 1,723,720	\$ 2,157,364
Defense Fees and Related Interest	-	134,581
Adjustment for Department of Energy Appropriation	(309,544)	(263,292)
Total Other	<u>\$ 1,414,176</u>	<u>\$ 2,028,653</u>
Net Other Resources Used to Finance Activities	<u>\$ 1,523,430</u>	<u>\$ 2,030,532</u>
Total Resources Used to Finance Activities	<u>\$ 687,260</u>	<u>\$ 706,678</u>
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	\$ 4,266	\$ (46,032)
Resources that Finance the Acquisition of Assets	(2,935)	(806)
Resources that Fund Expenses Recognized in Prior Periods	(1,831)	(866)
Other Resources and Adjustments	20,604	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>\$ 20,104</u>	<u>\$ (47,704)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 707,364</u>	<u>\$ 658,974</u>
NET COST ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Increases in Unfunded Liability Estimates	\$ 1,502,423	\$ 3,308,313
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	\$ (657,677)	\$ (509,689)
Revaluation of Assets and Liabilities	(10)	(388)
Other	51,900	(151,998)
Total Components Not Requiring or Generating Resources	<u>\$ (605,787)</u>	<u>\$ (662,075)</u>
Total Net Cost Items That Do Not Require or Generate Resources in Current Period	<u>\$ 896,636</u>	<u>\$ 2,646,238</u>
NET COST OF OPERATIONS	<u>\$ 1,604,000</u>	<u>\$ 3,305,212</u>

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

(1) Legislative Background

The Nuclear Waste Policy Act of 1982 (NWP) was signed into law on January 7, 1983. The NWP establishes a framework for the financing, siting, licensing, operating and decommissioning of one or more mined geologic repositories for the Nation's spent nuclear fuel (SNF) and high-level radioactive waste (HLW) which is to be carried out by the Department of Energy's (Department) Office of Civilian Radioactive Waste Management (OCRWM). In addition, the NWP contains other provisions including:

- Assigning responsibility for the full payment of disposal costs to the owners and generators of SNF and HLW and creating a special Nuclear Waste Fund (NWF) within the Department of Treasury of the United States for the collection of fees related to such costs;
- Providing for contracts between the Department and the owners and generators of SNF and HLW pursuant to which the Department is to take title to the SNF or HLW as expeditiously as possible, following commencement of repository operations and, in return for payment of fees established by the NWP, to begin disposal of the SNF or HLW not later than January 31, 1998; and
- Requiring evaluation of the use of civilian disposal capacity for the disposal of HLW resulting from atomic energy defense activities (defense waste). In April 1985, the President notified the Department of his determination that a separate defense waste repository was not necessary and directed the Department to proceed with arrangements for disposal of such waste. Fees, equivalent to those paid by commercial owners, must be paid for this service by the Federal Government to the NWF account.

On December 22, 1987, the President signed into law the Budget Reconciliation Act, Subtitle A of Title V, of which contained amendments to the NWP. The legislation directed the Department to characterize only the Yucca Mountain site in Nevada as a candidate site for the first repository. The legislation also provided for the termination of site-specific activities at all candidate sites other than the Yucca Mountain site, within 90 days of enactment, and for phasing out, not later than six months after enactment, all research programs in existence that were designed to evaluate the suitability of crystalline rock as a potential repository host medium. In the event that the Yucca Mountain site proves unsuitable for use as a repository, the legislation requires the Department to terminate site-specific activities and report to Congress.

(2) Significant Accounting Policies

Basis of Presentation – These financial statements have been prepared to report the financial position and results of operations of OCRWM and include all activity related to OCRWM, including the Nuclear Waste Fund Appropriation and the Defense Nuclear Waste Disposal Appropriation, used for the disposal of SNF and HLW. The financial statements have been prepared from the books and records of the Department for OCRWM in accordance with accounting principles generally accepted in the United States of America as applicable to Federal entities.

Basis of Accounting – OCRWM's financial statements are prepared using the accrual method of accounting. 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. OCRWM also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT

Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

Revenue Recognition – Fees, related accrued interest, and investment income are recognized as exchange (earned) revenue to the extent of expenses incurred, subject to Congressional authorization as discussed below. Fees billed, related accrued interest, and investment income in excess of current expenses are deferred.

The NWPA requires the civilian owners and generators of nuclear waste to pay their share of the full cost of the Civilian Radioactive Waste Management Program (Program) and, to that end, establishes a fee for electricity generated and sold by civilian nuclear power reactors which the Department must collect and annually assess to determine its adequacy. A one-time fee (see Note 5) was recorded by OCRWM as of April 7, 1983, related to the disposal of SNF generated prior to that date. Fees recognized by OCRWM are based upon kWh of electricity generated and sold by civilian nuclear reactors on and after April 7, 1983.

Fees associated with the disposal of the Department's SNF and HLW are also recognized as the related costs are incurred and allocated. To estimate the share of the total Program costs that should be allocated to the Department, the methodology announced by the Department in the Federal Register in August 1987 was used. The most recent cost estimate, *Analysis of the Total System Life Cycle Cost of the Civilian Radioactive Waste Management Program (TSLCC)*, issued in March 2006, of the surrogate single repository system (without interim storage) established the amounts to allocate.

Appropriations – Expenditure authority for OCRWM is provided by two separate appropriations as follows:

- For fiscal years 2006 and 2005, Congress appropriated \$350,000 and \$231,000, respectively, from the Defense Nuclear Waste Disposal Appropriation to be used for nuclear waste disposal activities. Pursuant to the Consolidated Appropriations Acts for fiscal years 2006 and 2005, \$3,500 and \$1,848, respectively, were rescinded.
- For fiscal years 2006 and 2005, Congress authorized \$150,000 and \$346,000, respectively, to be used for nuclear waste disposal activities and remain available until expended. This expenditure authority enables OCRWM to finance activities using the NWF special accounts. Pursuant to the Consolidated Appropriations Acts, for fiscal years 2006 and 2005, \$1,000 and \$3,346, respectively, were rescinded. Of the \$150,000 authorized for fiscal year 2006, \$100,000 was to be derived from the NWF with the remaining \$50,000 funded directly to the Department from Treasury's general fund for use in developing a spent nuclear fuel recycling plan.

Fee payments and investment income are deposited into the NWF account and are made available to the Department through the annual expenditure authority provided by Congress. Investments are made in U.S. Treasury securities from funds in excess of current needs. If, at any time, monies available in the NWF are insufficient to discharge responsibilities under the NWPA, borrowings may be made from the U.S. Treasury. The NWPA limits the OCRWM from incurring expenditures, entering into contracts, and obligating amounts to be expended except as provided in advance by appropriation acts. Appropriated dedicated receipts such as these are excluded from appropriations received on the *Statements of Changes in Net Position*.

Imputed Financing Sources – In certain instances, operating costs of OCRWM are paid out of funds appropriated to other federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management (OPM). When costs directly attributable to OCRWM's operations are paid by other agencies, OCRWM recognizes these amounts on the *Statements of Net Costs*. In addition, these amounts are recognized as imputed financing sources in the *Statements of Changes in Net Position*.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

Earmarked Funds – In fiscal year 2006, OCRWM implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 27, Identifying and Reporting Earmarked Funds, which requires separate identification of earmarked funds on the Balance Sheets, Statements of Changes in Net Position, and other selected footnotes.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues (see Note 11). In certain instances, operating costs of OCRWM are paid out of funds appropriated to other federal agencies. In accordance with the implementation guidance, earmarked funds are not separately identified in FY 2005.

Investments – Investments are in U.S. Treasury securities and are stated at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

General Property, Plant, and Equipment – Purchases of general property, plant, and equipment (PP&E) exceeding \$50 are capitalized if they have a useful life greater than two years. PP&E is depreciated on a straight-line basis over the estimated useful lives of the assets. Useful lives range from 5 to 30 years. Maintenance costs are borne by OCRWM for equipment either on loan from or shared with other programs.

Accounts Receivable – Payment of accounts receivable will not be complete until OCRWM starts accepting waste, which is currently planned to begin in 2017. Interest is accrued quarterly on the outstanding amount receivable including accrued interest. The interest rate used is the 13-week U.S. Treasury bill rate. An allowance for doubtful accounts related to one-time spent fuel fees has not been recorded as of September 30, 2006 or 2005, as OCRWM is not obligated to accept waste without payment of fees.

Accrued Investment Interest Receivable – Investment interest is accrued on the outstanding investment balance using the applicable interest rate for the investments.

Liabilities – Liabilities represent the amount of monies or other resources that are likely to be paid by OCRWM as the result of a transaction or event that has already occurred. However, no liability can be paid by OCRWM absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified in these notes as liabilities not covered by budgetary resources and there is no certainty that the appropriation will be enacted. Also, liabilities other than contracts can be abrogated by the Government acting in its sovereign capacity.

Accrued Annual Leave – Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates and unused annual leave balances. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

Tax Status – OCRWM, as a part of the Department of Energy, which is a Federal agency, is not subject to federal, state, or local income taxes.

First Repository Costs – For the years ended September 30, 2006 and 2005, first repository costs consist primarily of Yucca Mountain costs. The general goals are that of licensing and construction of a permanent repository for nuclear waste at Yucca Mountain and to begin acceptance of waste at the facility.

Retirement Plans – Federal Employees – There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, OCRWM also contributes the employer's matching share for Social Security. OCRWM does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM and the FERS. OCRWM does report, as an imputed financing source and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by OPM.

Contractor Employees – OCRWM's primary integrated contractor maintains a defined benefit pension plan under which they promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. OCRWM's cost under the contract includes reimbursement of annual employer contributions to the pension plans.

Each year an amount is calculated for employers to contribute to the pension plan to ensure the plan assets are sufficient to provide for the full accrued benefits of contractor employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. OCRWM reports assets and liabilities of these pension plans as if it were the plan sponsor.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
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(Dollars in thousands unless otherwise noted)

(3) Fund Balance with Treasury

A summary of the status of fund balances with the U.S. Treasury for appropriated and special funds as of September 30, 2006 and 2005, are as follows:

Fiscal Year 2006	Appropriated Funds	Special Funds	Total
Unobligated budgetary resources			
Available	\$ 347	\$ 12,395	\$ 12,742
Obligated balance not yet disbursed			
Undelivered orders	50,703	127,687	178,390
Accounts payable and deposit fund liabilities	6,245	52,062	58,307
Budgetary resources invested in Treasury securities	-	(183,080)	(183,080)
Total FY 2006 Fund balance with Treasury	\$ 57,295	\$ 9,064	\$ 66,359

Fiscal Year 2005

Unobligated budgetary resources			
Available	\$ 10	\$ 24,256	\$ 24,266
Obligated balance not yet disbursed			
Undelivered orders	14,084	168,473	182,557
Accounts payable and deposit fund liabilities	2,079	94,667	96,746
Budgetary resources invested in Treasury securities	-	(284,157)	(284,157)
Total FY 2005 Fund balance with Treasury	\$ 16,173	\$ 3,239	\$ 19,412

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

(4) Investments, Net

For the years ended September 2006 and 2005, the NWF received proceeds of \$149,715 and \$2,706,947 respectively, from the sale of securities. For the years ended September 2006 and 2005 realized gains on the sale of securities were \$1,865 and \$29,644, respectively.

Accrued interest receivable on investments, as of September 30, 2006 and 2005, totaled \$48,952 and \$53,849, respectively.

Investments in U.S. Treasury securities held as of September 30 of each year consisted of the following:

	<u>2006</u>	<u>2005</u>
Face Value	\$ 36,482,066	\$ 33,549,362
Unamortized discount, net	(18,529,283)	(17,037,016)
Investments, net	<u>\$ 17,952,783</u>	<u>\$ 16,512,346</u>
Unrealized market gains, net	1,393,390	2,008,314
Investments at fair value	<u>\$ 19,346,173</u>	<u>\$ 18,520,660</u>

(5) Receivables Due from Utilities

Owners and generators of civilian SNF and HLW have entered into contracts with the Department for disposal services and for payment of fees to the NWF.

The NWPA specifies two types of fees to be paid to the NWF for disposal services: (a) a one-time charge per kilogram of heavy metal in solidified SNF or HLW existing prior to April 7, 1983; and (b) a one mil per kWh fee on all net electricity generated and sold by civilian nuclear power reactors on and after April 7, 1983. The Secretary of Energy shall annually review the adequacy of the fees established. In the event the Secretary of Energy determines either insufficient or excess revenue is being collected, the Secretary of Energy shall propose an adjustment to the fee to ensure full cost recovery. The kWh fees are due when billed. The contracts between the Department and the owners and generators of the waste provide three options for payment of the one-time spent fuel fee, one of which must have been selected by June 30, 1985, or within two years of contract execution. The options were:

1. Payment of the amount due, plus interest earned from April 7, 1983, in 40 quarterly installments with the final payment due on or before the first scheduled delivery of SNF to the Department;
2. Payment of the amount due, plus interest from April 7, 1983, in a single payment anytime prior to the first delivery of SNF to the Department; or
3. Payment of the amount due any time prior to June 30, 1985, or two years after contract execution, in the form of a single payment, with no interest due.

Under options (1) and (2), interest accrues from April 7, 1983, to date of first payment at the 13-week U.S. Treasury bill rate compounded quarterly. Under option (1), beginning with the first payment, interest is calculated at the 10-year Treasury note rate in effect at the time. Two utilities selected option (1); neither has begun making payments.

**UNITED STATES DEPARTMENT OF ENERGY
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Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

In fiscal year 2006, there were no payments or adjustments of one-time spent fuel fees by owners and generators of civilian SNF and HLW.

Accounts receivables from public and intragovernmental utilities at September 30 of each year were as follows:

	<u>2006</u>	<u>2005</u>
Accounts receivable - utilities		
Accounts receivable - intragovernmental utilities		
Kilowatt hour fees	\$ 11,782	\$ 11,532
Accounts receivable - public utilities		
Kilowatt hour fees	\$ 169,301	\$ 167,600
One-time spent nuclear fuel fees:		
Option (1)	\$ 143,531	\$ 143,531
Option (2)	736,958	736,958
Total one-time spent nuclear fuel fees	<u>\$ 880,489</u>	<u>\$ 880,489</u>
Accrued interest on one-time spent nuclear fuel fees:		
Option (1)	\$ 343,322	\$ 322,578
Option (2)	1,760,270	1,652,823
Total accrued interest on one-time spent nuclear fuel fees	<u>\$ 2,103,592</u>	<u>\$ 1,975,401</u>
Total accounts receivable - public utilities	<u>\$ 3,153,382</u>	<u>\$ 3,023,490</u>
Total accounts receivable - utilities	<u>\$ 3,165,164</u>	<u>\$ 3,035,022</u>

(6) General Property, Plant, and Equipment, Net

General property, plant, and equipment and related accumulated depreciation consisted of the following at September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
General property, plant, and equipment	\$ 48,913	\$ 47,632
Less accumulated depreciation	<u>(38,332)</u>	<u>(37,504)</u>
General property, plant, and equipment	<u>\$ 10,581</u>	<u>\$ 10,128</u>

**UNITED STATES DEPARTMENT OF ENERGY
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Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

(7) Transactions with the Department and Other Federal Government Agencies

The NWPAs established OCRWM within the Department to carry out the provisions of the NWPAs and created the Nuclear Waste Fund in the U.S. Treasury. The investment and borrowing powers of the NWF are limited to transactions with the U.S. Treasury. In discharging its obligations under the NWPAs, the Department contracts for services with numerous contractors including other Federal Government agencies. Further, significant administrative services are provided by the Department.

As of September 30, 2006 and 2005, OCRWM owed other Federal Government agencies \$9,563 and \$8,628, respectively, for services and costs provided to OCRWM. For the years ended September 30, 2006 and 2005, OCRWM incurred costs of \$34,986 and \$40,616, respectively, for services and costs provided by other Federal Government agencies. In addition to these incurred costs, OCRWM made the following Congressional authorized transfers from the NWF to the following entities:

	2006	2005
Nuclear Regulatory Commission	\$ 46,082	\$ 68,498
Nuclear Waste Technical Review Board	3,147	3,151
Total transfers to Other Federal Government Agencies	\$ 49,229	\$ 71,649

OCRWM has entered into Memoranda of Agreement (MOA) with the Department's Office of Environmental Management and the Department's Office of Naval Nuclear Propulsion. The MOA established the terms and conditions for acceptance of Department-owned SNF and HLW (Defense Waste) for disposal. Those estimated liabilities are included in the TSLCC that is used to calculate the estimate of the Department's share of total current and future Program costs for Defense Waste. During FY 2006 assumption changes were made to the calculation and as a result the Department's liability to OCRWM was eliminated as of September 30, 2006.

The Department's Defense Waste total cost share as of September 30, 2006 is estimated to be \$2,642,414, including interest amounting to \$638,232 based on the methodology published in the Federal Register in August 1987. As of September 30, 2006 and 2005, the NWF was due \$0 and \$764,503 from the Department, respectively.

**UNITED STATES DEPARTMENT OF ENERGY
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Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

(8) Liabilities Not Covered by Budgetary Resources

A summary of liabilities not covered by budgetary resources as of September 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Liabilities not covered by budgetary resources:		
Intragovernmental		
Deferred revenue	\$ 293,896	\$ 769,188
Non-Intragovernmental		
Deferred revenue	20,821,447	19,500,890
Pension and actuarial liabilities	11,529	10,205
Other liabilities	9,890	4,952
Estimated liability for waste acceptance obligation	<u>6,717,598</u>	<u>5,222,852</u>
Total liabilities not covered by budgetary resources	<u>\$ 27,854,360</u>	<u>\$ 25,508,087</u>
Liabilities covered by budgetary resources:		
Intragovernmental		
Accounts payable	\$ 9,563	\$ 8,628
Other liabilities	354	277
Non-Intragovernmental		
Accounts payable	37,762	78,047
Contract holdback	122	122
Other liabilities	<u>9,526</u>	<u>9,747</u>
Total liabilities covered by budgetary resources	<u>\$ 57,327</u>	<u>\$ 96,821</u>
Total Liabilities	<u>\$ 27,911,687</u>	<u>\$ 25,604,908</u>

(9) Commitments and Contingencies

In accordance with the NWPA, the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the Nuclear Waste Fund, the Department agreed to begin disposal of SNF by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, the Department has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

To date, six suits have been settled involving utilities that collectively produce about 18.6 percent of the nuclear-generated electricity in the United States. Under the terms of the settlement, the Treasury's Judgment Fund paid \$188 million to the settling utilities for delay damages they have incurred through 2006 and will make annual payments to them for future costs as they are incurred. In addition, one case has been tried and a judgment entered (and subsequently affirmed on appeal) under which the utility was awarded no damages based on the court's finding that the utility had incurred no compensable costs as a result of the Government's delay as of the time of trial.

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Notes to Financial Statements
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Fifty-six cases remain pending in the Court of Federal Claims. Liability is probable in these cases, and in many of these cases orders have already been entered establishing the Government's liability and the only outstanding issue to be litigated is ascertaining the amount of damages to be awarded. The industry is reported to estimate that damages for all utilities with which the Department has contracts ultimately will be at least \$50 billion. The Department believes that the industry's estimate is highly inflated, and that the disposition of the 13 cases that have been resolved to date suggests that the Government's ultimate liability is likely to be significantly less than that estimate.

In addition, as previously reported, the Department did not meet its goal of submitting a license application for the Yucca Mountain repository to the NRC by the end of calendar year 2004. The Department has since acknowledged that it will be unable to meet its goal of commencing disposal operations at a repository by 2010, and has projected a new opening date of 2017. Given this revised opening date, OCRWM has estimated damages of approximately \$7 billion.

Under current law, any damages or settlements will be paid out of the Treasury's Judgment Fund, which the Department will not be required to reimburse.

Current and former contractors of OCRWM face a class action lawsuit alleging exposure by contractor employees to toxic dust at the repository. The amount of the damages that may be assessed against the contractors and OCRWM's responsibility for payment are uncertain, and no provision for such damages is included in OCRWM's financial statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

(10) Deferred Revenue

As described in Note 2, all fees, both kWh fees and Defense high-level radioactive waste fees, as well as the related interest and investment income, are recognized as revenue to the extent of expenses incurred. Amounts in excess of current expenses are deferred. Deferred revenue at September 30, 2006 and 2005 was as follows:

	<u>2006</u>	<u>2005</u>
Intragovernmental		
Fees billed:		
One-time spent nuclear fuel fees:		
kWh fees	\$ 43,611	\$ 45,406
Defense high-level waste fees	(425,248)	159,020
Defense share advance payments	289,211	-
Interest:		
Income on investments	931,455	851,858
Defense high-level waste fees	(318,922)	16,207
Non-intragovernmental		
Fees billed:		
kWh fees	711,228	688,017
Interest:		
One-time spent nuclear fuel fees	128,192	71,305
Other revenue	1,865	29,644
Total revenues	<u>\$ 1,361,392</u>	<u>\$ 1,861,457</u>
Less earned revenue	<u>(516,127)</u>	<u>(593,124)</u>
Change in deferred revenue	\$ 845,265	\$ 1,268,333
Deferred revenue - beginning balance	<u>20,270,078</u>	<u>19,001,745</u>
Deferred revenue - ending balance	<u>\$ 21,115,343</u>	<u>\$ 20,270,078</u>

Other revenue primarily consists of funds returned and net gains on sale of investments.

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Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

(11) Earmarked Funds

	Earmarked Funds	All Other Funds	FY 2006 Consolidated	FY 2005 Consolidated
Balance Sheet as of September 30, 2006				
Assets				
Fund Balance with Treasury	\$ 9,064	\$ 57,295	\$ 66,359	\$ 19,412
Investments, Net	17,952,783	-	17,952,783	16,512,346
Accounts Receivable	3,214,274	-	3,214,274	3,853,477
General Property, Plant, and Equipment, Net	10,626	(45)	10,581	10,128
Other Assets	1,142	-	1,142	787
Total Assets	<u>\$ 21,187,889</u>	<u>\$ 57,250</u>	<u>\$ 21,245,139</u>	<u>\$ 20,396,150</u>
Liabilities and Net Position				
Accounts Payable	\$ 42,623	\$ 4,702	\$ 47,325	\$ 86,675
Deferred Revenue	20,821,447	293,896	21,115,343	20,270,078
Pension and Other Actuarial Liabilities	10,031	1,498	11,529	10,205
Other Liabilities	19,892	-	19,892	14,976
Commitments and Contingencies	-	6,717,598	6,717,598	5,222,852
Unexpended Appropriations	-	51,050	51,050	14,094
Cumulative Results of Operations	-	(6,717,598)	(6,717,598)	(5,222,852)
Total Liabilities and Net Position	<u>\$ 20,893,993</u>	<u>\$ 351,146</u>	<u>\$ 21,245,139</u>	<u>\$ 20,396,028</u>
Statement of Net Costs for the Year Ended September 30, 2006				
Total First Repository and Other Program Costs	\$ 207,077	\$ 310,959	\$ 518,036	\$ 595,003
Less Earned Revenues	(207,077)	(309,050)	(516,127)	(593,124)
Net First Repository Costs	\$ -	\$ 1,909	\$ 1,909	\$ 1,879
Estimated liability for waste acceptance obligations	\$ -	\$ 1,602,091	\$ 1,602,091	\$ 3,303,333
Net cost of operations	\$ -	\$ 1,604,000	\$ 1,604,000	\$ 3,305,212
Statement of Changes in Net Position for the Year Ended September 30, 2006				
Beginning Balance - Cumulative Results of Operations	\$ -	\$ (5,222,852)	\$ (5,222,852)	\$ (1,919,519)
Imputed Financing from Costs Absorbed by Others	-	109,254	109,254	1,879
Other Gains and Losses	-	-	-	-
Net Cost of Operations	-	(1,604,000)	(1,604,000)	(3,305,212)
Ending Balance - Cumulative Results of Operations	<u>\$ -</u>	<u>\$ (6,717,598)</u>	<u>\$ (6,717,598)</u>	<u>\$ (5,222,852)</u>
Beginning Balance - Unexpended Appropriations	\$ -	\$ 14,094	\$ 14,094	\$ 48,076
Appropriations Received	-	350,000	350,000	231,000
Other Adjustments	-	(3,500)	(3,500)	(1,848)
Appropriations Used	-	(309,544)	(309,544)	(263,134)
Ending Balance - Unexpended Appropriations	<u>\$ -</u>	<u>\$ 51,050</u>	<u>\$ 51,050</u>	<u>\$ 14,094</u>
Total Net Position	<u>\$ -</u>	<u>\$ (6,666,548)</u>	<u>\$ (6,666,548)</u>	<u>\$ (5,208,758)</u>

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2006 and 2005

(Dollars in thousands unless otherwise noted)

(12) Subsequent Events

The final budget authority received for FY 2007 was \$100 million below the amount requested. While the OCRWM is still evaluating the impact of the final FY 2007 appropriation in conjunction with the President's FY 2008 request, it is likely but not yet certain, that we will not be able to meet our best-achievable schedule for opening the repository. As a result of these delays, Office of Civilian Radioactive Waste Management's estimate of damages has increased to approximately \$11 billion (unaudited). (see Note 9).

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Required Supplementary Stewardship Information for Fiscal Years ending
September 30, 2006

(Dollars in thousands unless otherwise noted)

Expenses for research and development programs applicable to the Nuclear Waste to conduct activities on the long-term storage of high-level nuclear waste at a permanent underground repository were as follows:

	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
FY 2006 APPLIED			
Environmental Quality	<u>\$259,325</u>	<u>\$3,031</u>	<u>\$262,356</u>
FY 2005 APPLIED			
Environmental Quality	<u>\$143,966</u>	<u>\$1,905</u>	<u>\$145,871</u>
FY 2004 APPLIED			
Environmental Quality	<u>\$65,312</u>	<u>\$1,772</u>	<u>\$67,084</u>
FY 2003 APPLIED			
Environmental Quality	<u>\$75,782</u>	<u>\$1,049</u>	<u>\$76,831</u>
FY 2002 APPLIED			
Environmental Quality	<u>\$62,523</u>	<u>\$2,577</u>	<u>\$65,100</u>
FY 2001 APPLIED			
Environmental Quality	<u>\$60,393</u>	<u>\$3,107</u>	<u>\$63,500</u>
FY 2001 DEVELOPMENT			
Environmental Quality	<u>\$58,662</u>	<u>\$4,738</u>	<u>\$63,400</u>

**UNITED STATES DEPARTMENT OF ENERGY
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Supplementary Information - Schedule I
Schedule of Cumulative Net First and Second Repository Costs for the
Twenty Four Years Ended September 30, 2006

(Dollars in thousands unless otherwise noted)

First Repository Costs	<u>\$ 6,727,990</u>
All Other Program Costs:	
Program Support	\$ 1,801,391
Transfers of Appropriations	471,868
Waste Acceptance, Storage and Transportation	473,777
Imputed and Other Costs	<u>146,012</u>
Total All Other Program Costs	<u>\$ 2,893,048</u>
Second Repository Costs	<u>\$ 108,896</u>
Total First and Second Repository Costs and Other Program Costs	\$ 9,729,934
Less Earned Revenue	<u>(9,716,084)</u>
Cumulative Net First and Second Repository Costs	<u><u>\$ 13,850</u></u>

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Supplementary Information - Schedule II
Schedule of Cumulative Revenues and Deferred Revenue for the
Twenty Four Years Ended September 30, 2006

(Dollars in thousands unless otherwise noted)

Intragovernmental:

Fees billed:

kWh fees	\$	622,987
One-time spent nuclear fuel fees		174,598
Defense high-level waste fees		2,004,182
Defense share advance payments		289,211

Interest:

Income on investments		9,146,922
Defense high-level waste fees		638,232

Non-intragovernmental:

Fees billed:

kWh fees:		12,943,495
One-time spent nuclear fuel fees		2,174,802

Interest:

One-time spent nuclear fuel fees		2,133,360
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Other revenue

703,638

Total revenues

\$ 30,831,427

Less earned revenue

(9,716,084)

Deferred revenue

\$ 21,115,343

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**



**Annual Financial Report
Years Ended September 30, 2007 and 2006**

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

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OVERVIEW

Reporting Entity

The Nuclear Waste Policy Act (NWPA) of 1982 (Public Law 97-425) established the Office of Civilian Radioactive Waste Management (OCRWM) within the U.S. Department of Energy (Department). OCRWM's mission is to manage and dispose of the nation's spent nuclear fuel (SNF) and high-level radioactive waste (HLW). OCRWM provides leadership in developing and implementing strategies to accomplish this mission that ensure public and worker health and safety, protect the environment, merit public confidence, and are economically viable.

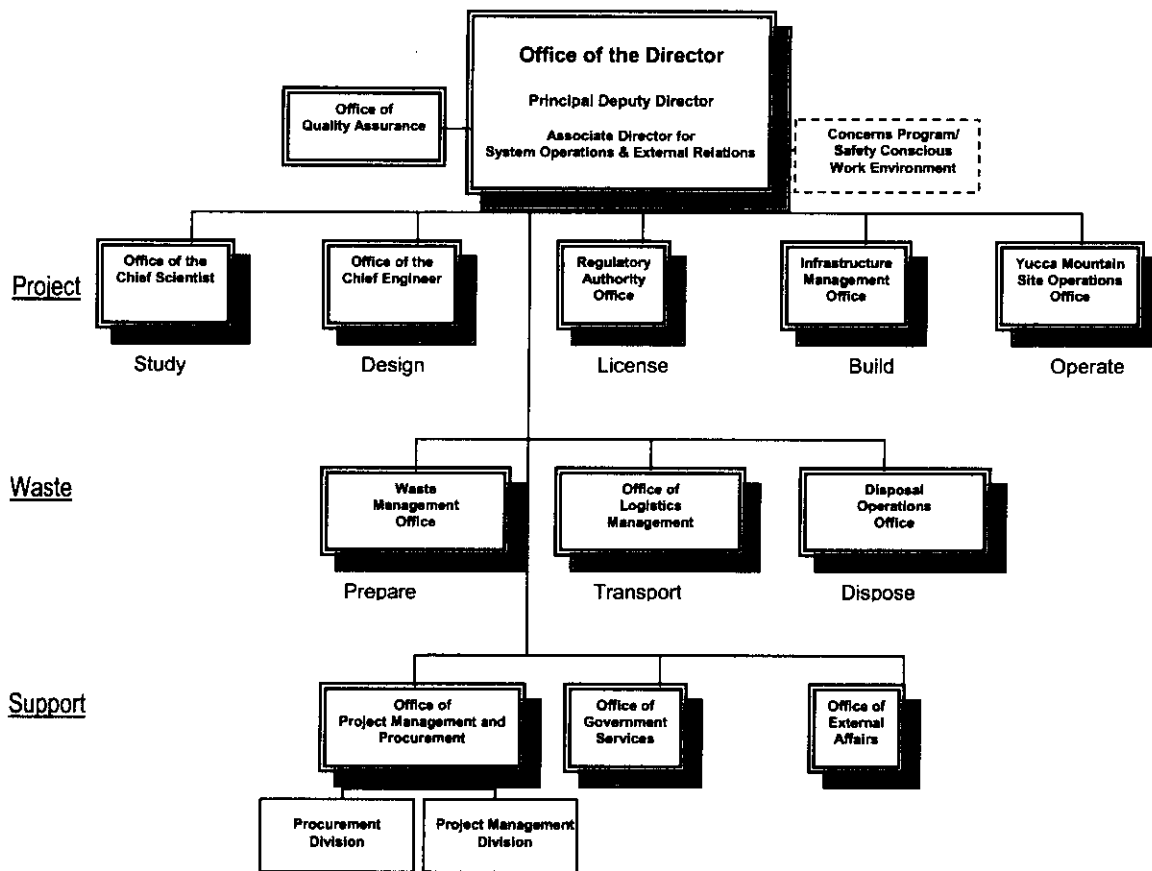
The Nuclear Waste Policy Amendments Act of 1987 (Title V, Public Law 100-203) directed the Secretary of Energy to characterize only the Yucca Mountain site in Nevada as a candidate site to determine if it was suitable for a repository for SNF and HLW.

The characterization of the Yucca Mountain Site has been completed. On February 14, 2002, the Secretary of Energy recommended the site to the President for development of a nuclear waste repository. On February 15, 2002, the President recommended the site to Congress. On May 8 and July 9, 2002, the House of Representatives and the Senate, respectively, passed a resolution approving the site recommendation. On July 23, 2002, the President signed into law the Congressional Joint Resolution designating Yucca Mountain as the site for the Nation's first SNF and HLW repository. At that point, the focus of the Yucca Mountain Project changed to the activities associated with the Nuclear Regulatory Commission (NRC) licensing process for construction and receiving and possessing waste. The Waste Acceptance Storage and Transportation Project focus changed to the development of a national waste transportation capability.

The FY 2007 program accomplishment included, completion of a high-quality License Application consistent with the established schedule and content requirements; completing processing of documents and emails dated June 30, 2007 or earlier to be ready for the LSN; publishing a draft Rail Alignment Environmental Impact Statement for public comment; and maintaining total administrative overhead cost in relation to total program cost of less 22%.

As of September 30, 2007, OCRWM employed a staff of 2,308 full-time equivalents (FTE). This included 186 OCRWM Federal FTE, 34 FTE at other Headquarters offices, 3 Federal FTE at the Department of Energy NNSA/Nevada Site Office, 63 U.S. Geological Survey FTE, and 2,022 contractor FTE, including employees of national laboratories.

OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT



PROGRAM GENERAL GOAL: NUCLEAR WASTE

License and construct a permanent repository for nuclear waste at Yucca Mountain and begin acceptance of waste.

How We Serve the Public

The construction and operation of new commercial nuclear power plants allows the United States to maintain a diverse energy portfolio and improves our energy security by successfully opening and operating a repository at Yucca Mountain for the disposal of commercial spent nuclear fuel.

Performance Against Key Targets

During FY 2007:

- Two of the 71 License Application sections at the 100% level versus five planned; 23 LA sections have been completed at the 90 % level versus 20 planned; and 70 of the 71 LA sections have been completed at the 50% level, exceeding the planned amount.
- The License Support Network Certification was submitted to the NRC on October 19, 2007.
- The Rail Alignment Environmental Impact Statement (EIS) was approved to be published on September 14, 2007. The Rail Alignment EIS was placed on the OCRWM website.
- OCRWM achieved the milestone of maintaining administrative overhead costs in relation to total program costs of less than 22%

External Factors

The opening date of the Yucca Mountain repository will also depend on resolution of a number of external factors, including:

- **Regulatory Requirements:** The *Nuclear Policy Act*, as amended, requires that a repository at Yucca Mountain, Nevada, must be licensed by the NRC, which will base its review of the Department's license application submittal against its licensing requirements, including radiation protection standards issued by the Environmental Protection Agency (EPA). The EPA regulations have not yet been finalized. As a license applicant, the Department must also have its Licensing Support Network certification accepted by the NRC six months prior to the license application submittal.
- **Litigation:** Any actions by the Department or other agencies that advance either the repository or transportation, e.g., environmental impact statements are likely to be challenged in the courts.
- **Legislation:** Proposed legislation has been introduced that contains a number of provisions, to facilitate the licensing, construction and operation of a repository at Yucca Mountain. These provisions will permit the Department to accelerate fulfillment of its responsibilities, without diminishing the protection currently afforded workers, members of the public and the environment.

FISCAL YEAR FY 2007 and 2006 FINANCIAL PERFORMANCE

OCRWM is required by the NWPA to recover the full cost of the Program. The Program's total cost was estimated in the OCRWM 2007 Total System Life Cycle Cost report.

Program funding comes from the Nuclear Waste Fund (NWF) and the Defense Nuclear Waste Disposal Appropriation (DNWDA). The NWF consists of fees paid by the owners and generators of SNF from commercial reactors, in accordance with provisions of their contracts with the Department for disposal services. NWF assets in excess of those authorized by Congress to pay program costs are invested in U.S. Treasury securities. The DNWDA was established by the Congress in lieu of direct payment of fees by the Department into the NWF, to pay for the disposal costs of the HLW resulting from atomic energy defense activities and other Department-managed nuclear materials. As of September 30, 2007, cumulative revenue from fees and the DNWDA, totaled approximately \$19.325 billion, and cumulative interest earnings and other revenue totaled approximately \$13.754 billion. Cumulative expenditures from appropriations and amounts authorized by Congress, including direct appropriations to the NRC, the now defunct Office of the Nuclear Waste negotiator, and the Nuclear Waste Technical Review Board, totaled approximately \$10.313 billion.

As of September 30, 2007, the U.S. Treasury securities held by OCRWM had a market value of \$20.642 billion compared to \$19.346 billion at the end of Fiscal Year 2006. Investment income and net gains on the sale of securities totaled \$979.474 million and \$933.320 million for Fiscal Years 2007 and 2006, respectively.

OCRWM's primary financial goal is to ensure that future spending needs can be met. Therefore, OCRWM relies on the asset-liability matching approach to investing used by pension funds and insurance companies. By matching investments to anticipated funding requirements, OCRWM reduces the risk that changes in interest rates will adversely affect the fee adequacy balance, ensures that identified spending projections will be met, and makes investments at the most favorable rates currently available.

The financial performance measure established by OCRWM for FY 2007 and FY 2006 related to the performance of its investments in U.S. Government securities:

- To reallocate existing investments and invest any additional surpluses to match the Program's cumulative profile for FY 2006 and FY 2007 through 2035 and 2036, respectively.

RESULTS: As of September 30, 2007, the NWF held investments with a market value of \$20.642 billion to provide for estimated gross program life-cycle liabilities of \$20.505 billion. Although most of the investments have a duration of 24 years or less, the NWF has placed recent income surpluses in 28-years and 29-years duration securities after the Treasury resumed issuance of 30-year bonds. New investments during FY 2007 were made in securities with the longest available duration and assets are now in place to fund the next 29 years.

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Analysis of systems, controls and legal compliance is performed, reported and audited at the Departmental level. The results of these reviews and assessments are incorporated in the Department's Performance and Accountability Report. A significant issue, Nuclear Waste Disposal, was reported by management in FY 2006 and is described below.

Federal Managers' Financial Integrity Act

The *Federal Managers' Financial Integrity Act (FMFIA)* of 1982 requires that agencies establish internal control and financial systems to provide reasonable assurances that the integrity of Federal programs and operations are protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the Department developed an internal control program which holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of management controls. Annually, senior managers at the Department are responsible for evaluating the adequacy of the internal controls surrounding their activities and determining whether they conform to the principles and standards established by the Office of Management and Budget (OMB) and the Government Accountability Office. The results of these evaluations and other senior management information are used to determine whether there are any internal control problems to be reported as material weaknesses. The Departmental Internal Control and Audit Review Council, the organization responsible for oversight of the Management Control Program, makes the final assessment and decision for the Department.

Significant Issue - Nuclear Waste Disposal

Construction of a repository for the disposal of spent nuclear fuel and high-level radioactive waste, authorized under the NWPA, at Yucca Mountain, Nevada, has been delayed because of external factors and program adjustments. Funding shortfalls and the scientific and technical challenges encountered in this first-of-a-kind endeavor to develop a disposal system that must potentially endure a compliance period of a million years have complicated the steady progress necessary to achieve previously published milestones. Finalizing the EPA radiation protection standards and addressing the licensing requirements of the NRC to submit a license application are the key to achieving the new milestones published in July 2006.

Actions Taken and Remaining

The introduction of the *Nuclear Fuel Management and Disposal Act*, April 2006, seeks to provide stability, clarity and predictability to the Yucca Mountain Project. The proposed legislation addresses many of the uncertainties that are currently beyond the control of the Department and have the potential to significantly delay the opening date for the repository. The most important factor is the enactment of a provision that will facilitate Congressional funding needed to implement the Project.

The program adopted a primarily canister-based approach for handling commercial spent nuclear fuel. The revised approach enabled deployment of necessary surface and sub-surface facilities in a manner that could accommodate future funding and income streams and enhances repository operations and performance.

In January 2006, the Department designated Sandia National Laboratories the lead laboratory to coordinate and organize all scientific work on the Project. Sandia National Laboratories will also review the existing infiltration model and prepare a new model to be used as part of the technical basis for the license application.

The Program is implementing management controls in accordance with DOE O 413.3A, *Program and Project Management for the Acquisition of Capital Assets*, and performance metrics required under the Department's performance and accountability report system and OMB reporting requirements to ensure it achieves its revised milestones. Additionally, the Program is proceeding to certify its earned value management system, which will be in place prior to critical decision-2, Approve Performance Baseline.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the accompanying balance sheets of the Office of Civilian Radioactive Waste Management (OCRWM) as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2007 audit, we also considered the OCRWM's internal controls over financial reporting and tested the OCRWM's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the OCRWM's financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our report emphasizes that the OCRWM is involved as a defendant in several matters of litigation relating to its inability to accept waste by January 31, 1998, the date specified in the Nuclear Waste Policy Act of 1982, as amended.

Our report also emphasizes that: (1) the OCRWM changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007; and (2) the OCRWM changed its method of accounting for its contractors' defined benefit and other postretirement plans in fiscal year 2007.

Our consideration of internal controls over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined in this report.

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

The following sections discuss our opinion on the OCRWM's financial statements; our consideration of the OCRWM's internal controls over financial reporting; our



tests of the OCRWM's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the OCRWM as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCRWM as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the financial statements, the OCRWM is involved as a defendant in several matters of litigation relating to its inability to accept waste by the January 31, 1998 date specified in the Nuclear Waste Policy Act of 1982, as amended.

As discussed in Note 12 to the financial statements, the OCRWM changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

As discussed in Note 2 to the financial statements, the OCRWM changed its method of accounting for its contractors' defined benefit and other postretirement plans in fiscal year 2007 to adopt the provisions of Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

The information in the Overview and Required Supplementary Stewardship Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Supplementary Information – Schedules I and II for the years ended September 30, 2007, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of OCRWM as of and for the years ended September 30, 1983 through September 30, 2005 (none of



which are presented herein), and we expressed unqualified opinions on those financial statements. The supplementary information included in Schedules I and II related to OCRWM's financial statements as of and for the years ended September 30, 1983 through September 30, 2005 was subjected to auditing procedures applied in the audits of those financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements from which it has been derived.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the OCRWM's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the OCRWM's financial statements that is more than inconsequential will not be prevented or detected by the OCRWM's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the OCRWM's internal control.

In our fiscal year 2007 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. Exhibit I presents the status of the prior year material weakness.

We noted certain additional matters that we have reported to the management of the OCRWM in a separate letter.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests of FFMIA disclosed no instances in which the OCRWM's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

* * * * *



RESPONSIBILITIES

Management's Responsibilities.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Overview (including the performance measures), and the Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, and contracts applicable to the OCRWM, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities.

Our responsibility is to express an opinion on the fiscal year 2007 and 2006 financial statements of the OCRWM based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCRWM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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



In planning and performing our fiscal year 2007 audit, we considered the OCRWM's internal control over financial reporting by obtaining an understanding of the OCRWM's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the OCRWM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OCRWM's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the OCRWM's fiscal year 2007 financial statements are free of material misstatement, we performed tests of the OCRWM's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the OCRWM financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the OCRWM. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether the OCRWM's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

RESTRICTED USE

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

KPMG LLP

December 14, 2007

Independent Auditors' Report
Exhibit I – Status of Prior Year Material Weakness

Material Weakness from FY 2006 (with parenthetical disclosure of year first reported)	
Financial Management and Reporting Controls – Considered a Material Weakness (2005)	Closed

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Balance Sheets

As of September 30, 2007 and 2006
(Dollars in thousands)

	2007	2006
ASSETS		
Intragovernmental		
Fund Balance with Treasury ^(Note 3)	\$ 49,249	\$ 66,359
Investments, Net ^(Note 4)	19,463,781	17,952,783
Accounts Receivable:		
Utilities ^(Note 5)	13,038	11,782
Accrued Investment Interest ^(Note 4)	48,124	48,952
Other Accounts Receivable	145	137
Other Intragovernmental Assets	284	147
Total Intragovernmental Assets	<u>19,574,621</u>	<u>18,080,160</u>
Accounts Receivable:		
Utilities ^(Note 5)	3,307,911	3,153,382
Other Accounts Receivable	4	21
General Property, Plant, and Equipment, Net ^(Note 6)	8,985	10,581
Other Assets	1,177	995
Total Assets	<u>\$ 22,892,698</u>	<u>\$ 21,245,139</u>
LIABILITIES		
Intragovernmental:		
Accounts Payable ^(Note 8)	\$ 3,749	\$ 9,563
Deferred Revenue ^(Notes 7 and 10)	534,412	293,896
Other Liabilities	440	354
Total Intragovernmental Liabilities	538,601	303,813
Accounts Payable	40,764	37,762
Deferred Revenue ^(Note 10)	22,245,318	20,821,447
Pension and Other Actuarial Liabilities	13,327	11,529
Other Liabilities	15,261	19,538
Commitments and Contingencies ^(Note 9)	10,966,014	6,717,598
Total Liabilities ^(Note 8)	<u>33,819,285</u>	<u>27,911,687</u>
NET POSITION		
Unexpended Appropriations - Other Funds	39,427	51,050
Cumulative Results of Operations - Other Funds	<u>(10,966,014)</u>	<u>(6,717,598)</u>
Total Net Position	<u>(10,926,587)</u>	<u>(6,666,548)</u>
Total Liabilities and Net Position	<u>\$ 22,892,698</u>	<u>\$ 21,245,139</u>

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT
Statements of Net Costs

For the Years Ended September 30, 2007 and 2006
(Dollars in thousands)

	2007	2006
First Repository Costs	\$ 376,916	\$ 311,830
All Other Program Costs:		
Program Support	122,442	121,007
Transfers of Appropriations ^(Note 7)	49,418	49,229
Waste Acceptance, Storage and Transportation	32,610	34,061
Imputed and Other Costs	1,814	1,909
Total All Other Program Costs	206,284	206,206
Total First Repository and Other Program Costs	583,200	518,036
Less Earned Revenues ^(Note 10)	(583,194)	(516,127)
Net First Repository Costs	6	1,909
Estimated liability for waste acceptance obligations	4,351,162	1,602,091
Net cost of operations	\$ 4,351,168	\$ 1,604,000

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT

Statements of Changes in Net Position

For the Years Ended September 30, 2007 and 2006

(Dollars in thousands)

	2007	2006
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$ (6,717,598)	\$ (5,222,852)
Change in Accounting Principle ^(Note 2)	(1,808)	-
Beginning Balance, as Adjusted	<u>(6,719,406)</u>	<u>(5,222,852)</u>
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others	104,560	109,254
Total Other Financing Sources	<u>104,560</u>	<u>109,254</u>
Net Cost of Operations	<u>(4,351,168)</u>	<u>(1,604,000)</u>
Net Change	<u>(4,248,416)</u>	<u>(1,494,746)</u>
Ending Balance - Cumulative Results of Operations	<u>\$ (10,966,014)</u>	<u>\$ (6,717,598)</u>
UNEXPENDED APPROPRIATIONS:		
Beginning Balance	\$ 51,050	\$ 14,094
Budgetary Financing Sources Related to Appropriations:		
Appropriations Received ^(Note 2)	346,500	350,000
Other Adjustments	-	(3,500)
Appropriations Used	<u>(358,123)</u>	<u>(309,544)</u>
Total Budgetary Financing Sources Related to Appropriations	<u>(11,623)</u>	<u>36,956</u>
Ending Balance Unexpended Appropriations	<u>39,427</u>	<u>51,050</u>
Total Net Position	<u>\$ (10,926,587)</u>	<u>\$ (6,666,548)</u>

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT

Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006

(Dollars in thousands)

	2007	2006
BUDGETARY RESOURCES		
Unobligated balance, Brought Forward, October 1	\$ 12,742	\$ 24,266
Recoveries of Prior Year Unpaid Obligations	2	-
Budget Authority:		
Appropriations	445,706	450,000
Spending Authority from Offsetting Collections:		
Earned:		
Collected	-	1,326
Subtotal	445,706	451,326
Temporarily not Available Pursuant to Public Law	-	(1,000)
Permanently Not Available	-	(3,500)
Total Budgetary Resources	<u>\$ 458,450</u>	<u>\$ 471,092</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 346,628	\$ 346,164
Exempt from Apportionment	108,785	112,186
Total Obligations Incurred	455,413	458,350
Unobligated Balance:		
Apportioned	224	347
Exempt from Apportionment	2,813	12,395
Total Status of Budgetary Resources	<u>\$ 458,450</u>	<u>\$ 471,092</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 236,697	\$ 279,309
Total Unpaid Obligated Balance, Net, October 1	236,697	279,309
Obligations Incurred	455,413	458,350
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(2)	-
Less: Gross Outlays	(537,787)	(500,962)
Obligated Balance, Unpaid Obligations, Net, End of Period:	<u>\$ 154,321</u>	<u>\$ 236,697</u>
NET OUTLAYS		
Gross Outlays	\$ 537,787	\$ 500,962
Less: Offsetting collections	-	(1,326)
Less: Distributed Offsetting Receipts	(1,550,857)	(1,293,194)
Net Outlays	<u>\$ (1,013,070)</u>	<u>\$ (793,558)</u>

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2007 and 2006

(Dollars in thousands unless otherwise noted)

(1) Legislative Background

The Nuclear Waste Policy Act of 1982 (NWPA) was signed into law on January 7, 1983. The NWPA establishes a framework for the financing, siting, licensing, operating and decommissioning of one or more mined geologic repositories for the Nation's spent nuclear fuel (SNF) and high-level radioactive waste (HLW) which is to be carried out by the Department of Energy's (Department) Office of Civilian Radioactive Waste Management (OCRWM). In addition, the NWPA contains other provisions including:

- Assigning responsibility for the full payment of disposal costs to the owners and generators of SNF and HLW and creating a special Nuclear Waste Fund (NWF) within the Department of Treasury of the United States for the collection of fees related to such costs;
- Providing for contracts between the Department and the owners and generators of SNF and HLW pursuant to which the Department is to take title to the SNF or HLW as expeditiously as possible, following commencement of repository operations and, in return for payment of fees established by the NWPA, to begin disposal of the SNF or HLW not later than January 31, 1998; and
- Requiring evaluation of the use of civilian disposal capacity for the disposal of HLW resulting from atomic energy defense activities (defense waste). In April 1985, the President notified the Department of his determination that a separate defense waste repository was not necessary and directed the Department to proceed with arrangements for disposal of such waste. Fees, equivalent to those paid by commercial owners, must be paid for this service by the Federal Government to the NWF account.

On December 22, 1987, the President signed into law the Budget Reconciliation Act, Subtitle A of Title V, of which contained amendments to the NWPA. The legislation directed the Department to characterize only the Yucca Mountain site in Nevada as a candidate site for the first repository. The legislation also provided for the termination of site-specific activities at all candidate sites other than the Yucca Mountain site, within 90 days of enactment, and for phasing out, not later than six months after enactment, all research programs in existence that were designed to evaluate the suitability of crystalline rock as a potential repository host medium. In the event that the Yucca Mountain site proves unsuitable for use as a repository, the legislation requires the Department to terminate site-specific activities and report to Congress.

(2) Significant Accounting Policies

Basis of Presentation – These financial statements have been prepared to report the financial position and results of operations of OCRWM and include all activity related to OCRWM, including the Nuclear Waste Fund Appropriation and the Defense Nuclear Waste Disposal Appropriation, used for the disposal of SNF and HLW. The financial statements have been prepared from the books and records of the Department for OCRWM in accordance with accounting principles generally accepted in the United States of America as applicable to Federal entities.

Basis of Accounting – OCRWM's financial statements are prepared using the accrual method of accounting. 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. OCRWM also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT

Notes to Financial Statements
September 30, 2007 and 2006

(Dollars in thousands unless otherwise noted)

(2) Significant Accounting Policies (continued)

Revenue Recognition – Fees, related accrued interest, and investment income are recognized as exchange (earned) revenue to the extent of expenses incurred, subject to Congressional authorization as discussed below. Fees billed, related accrued interest, and investment income in excess of current expenses are deferred.

The NWPA requires the civilian owners and generators of nuclear waste to pay their share of the full cost of the Civilian Radioactive Waste Management Program (Program) and, to that end, establishes a fee for electricity generated and sold by civilian nuclear power reactors which the Department must collect and annually assess to determine its adequacy. A one-time fee (see Note 5) was recorded by OCRWM as of April 7, 1983, related to the disposal of SNF generated prior to that date. Fees recognized by OCRWM are based upon kWh of electricity generated and sold by civilian nuclear reactors on and after April 7, 1983.

Fees associated with the disposal of the Department's SNF and HLW are also recognized as the related costs are incurred and allocated. To estimate the share of the total Program costs that should be allocated to the Department, the methodology announced by the Department in the Federal Register in August 1987 was used. OCRWM management periodically updates the *Analysis of the Total System Life Cycle Cost of the Civilian Radioactive Waste Management Program* (TSLCC), which establishes the amounts to allocate.

Appropriations – Expenditure authority for OCRWM is provided by two separate appropriations as follows:

- For fiscal years 2007 and 2006, Congress appropriated \$346,500 and \$350,000, respectively, from the Defense Nuclear Waste Disposal Appropriation to be used for nuclear waste disposal activities. Pursuant to the Consolidated Appropriations Acts for fiscal year 2006, \$3,500 was rescinded.
- For fiscal years 2007 and 2006, Congress authorized \$99,206 and \$150,000, respectively, to be used for nuclear waste disposal activities and remain available until expended. This expenditure authority enables OCRWM to finance activities using the NWF special accounts. Pursuant to the Consolidated Appropriations Act for fiscal year 2006, \$1,000 was rescinded. Of the \$150,000 authorized for fiscal year 2006, \$100,000 was to be derived from the NWF with the remaining \$50,000 funded directly to the Department from Treasury's general fund for use in developing a spent nuclear fuel recycling plan.

Fee payments and investment income are deposited into the NWF account and are made available to the Department through the annual expenditure authority provided by Congress. Investments are made in U.S. Treasury securities from funds in excess of current needs. If, at any time, monies available in the NWF are insufficient to discharge responsibilities under the NWPA, borrowings may be made from the U.S. Treasury. The NWPA limits the OCRWM from incurring expenditures, entering into contracts, and obligating amounts to be expended except as provided in advance by appropriation acts. Appropriated dedicated receipts such as these are excluded from appropriations received on the *Statements of Changes in Net Position*.

Imputed Financing Sources – In certain instances, operating costs of OCRWM are paid out of funds appropriated to other federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management (OPM). When costs directly attributable to OCRWM's operations are paid by other agencies, OCRWM recognizes these amounts on the *Statements of Net Costs*. In addition, these amounts are recognized as imputed financing sources in the *Statements of Changes in Net Position*.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements
September 30, 2007 and 2006

(Dollars in thousands unless otherwise noted)

(2) Significant Accounting Policies (continued)

Earmarked Funds – In fiscal year 2006, OCRWM implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 27, Identifying and Reporting Earmarked Funds, which requires separate identification of earmarked funds on the Balance Sheets, Statements of Changes in Net Position, and other selected footnotes.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues (see Note 11). In certain instances, operating costs of OCRWM are paid out of funds appropriated to other federal agencies.

Investments – Investments are in U.S. Treasury securities and are stated at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

General Property, Plant, and Equipment – Purchases of general property, plant, and equipment (PP&E) exceeding \$50 are capitalized if they have a useful life greater than two years. PP&E is depreciated on a straight-line basis over the estimated useful lives of the assets. Useful lives range from 5 to 30 years. Maintenance costs are borne by OCRWM for equipment either on loan from or shared with other programs.

Accounts Receivable – Payment of accounts receivable will not be complete until OCRWM starts accepting waste. Interest is accrued quarterly on the outstanding amount receivable including accrued interest. The interest rate used is the 13-week U.S. Treasury bill rate. An allowance for doubtful accounts related to one-time spent fuel fees has not been recorded as of September 30, 2007 or 2006, as OCRWM is not obligated to accept waste without payment of fees.

Accrued Investment Interest Receivable – Investment interest is accrued on the outstanding investment balance using the applicable interest rate for the investments.

Liabilities – Liabilities represent the amount of monies or other resources that are likely to be paid by OCRWM as the result of a transaction or event that has already occurred. However, no liability can be paid by OCRWM absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified in these notes as liabilities not covered by budgetary resources and there is no certainty that the appropriation will be enacted. Also, liabilities other than contracts can be abrogated by the Government acting in its sovereign capacity.

Accrued Annual Leave – Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates and unused annual leave balances. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Tax Status – OCRWM, as a part of the Department of Energy, which is a Federal agency, is not subject to federal, state, or local income taxes.

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OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

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(2) Significant Accounting Policies (continued)

First Repository Costs – For the years ended September 30, 2007 and 2006, first repository costs consist primarily of Yucca Mountain costs. The general goals are that of licensing and construction of a permanent repository for nuclear waste at Yucca Mountain and to begin acceptance of waste at the facility.

Retirement Plans – Federal Employees – There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, OCRWM also contributes the employer's matching share for Social Security. OCRWM does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM and the FERS. OCRWM does report, as an imputed financing source and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by OPM.

Contractor Employees – OCRWM's integrated contractors maintain defined benefit pension plans under which they promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. OCRWM's cost under the contract includes reimbursement of annual employer contributions to the pension plans.

Each year an amount is calculated for employers to contribute to the pension plan to ensure the plan assets are sufficient to provide for the full accrued benefits of contractor employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. OCRWM is also the predominant fund for one integrated contractor and reports the net liabilities and pension expense of that contractor's pension plans as if it were the plan sponsor.

In FY 2007, the Department implemented the requirements of Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 amends the accounting requirements of SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requiring the recognition of a plan's "funded status" as a liability or asset rather than using delayed recognition requirements of SFAS No. 87 and SFAS No. 106. A \$1.8 million beginning balance adjustment to the FY 2007 cumulative results of operations was recorded for the cumulative effect of this change in accounting principle.

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(3) Fund Balance with Treasury

A summary of the status of fund balances with the U.S. Treasury for appropriated and special funds as of September 30, 2007 and 2006, are as follows:

As of September 30, 2007	Appropriated Funds	Special Funds	Total
Unobligated budgetary resources			
Available	\$ 222	\$ 2,813	\$ 3,035
Obligated balance not yet disbursed			
Undelivered orders	39,206	59,861	99,067
Accounts payable and deposit fund liabilities	6,977	48,276	55,253
Budgetary resources invested in Treasury securities	-	(108,106)	(108,106)
Total FY 2007 Fund balance with Treasury	\$ 46,405	\$ 2,844	\$ 49,249

As of September 30, 2006	Appropriated Funds	Special Funds	Total
Unobligated budgetary resources			
Available	\$ 347	\$ 12,395	\$ 12,742
Obligated balance not yet disbursed			
Undelivered orders	50,703	127,687	178,390
Accounts payable and deposit fund liabilities	6,245	52,062	58,307
Budgetary resources invested in Treasury securities	-	(183,080)	(183,080)
Total FY 2006 Fund balance with Treasury	\$ 57,295	\$ 9,064	\$ 66,359

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Notes to Financial Statements
September 30, 2007 and 2006

(Dollars in thousands unless otherwise noted)

(4) Investments, Net

For the years ended September 2007 and 2006, the NWF received proceeds of \$41,491 and \$149,715 respectively, from the sale of securities. For the years ended September 2007 and 2006 realized gains on the sale of securities were \$557 and \$1,865, respectively.

Accrued interest receivable on investments, as of September 30, 2007 and 2006, totaled \$48,124 and \$48,952, respectively.

Investments in U.S. Treasury securities held as of September 30 of each year consisted of the following:

	2007	2006
Face Value	\$ 39,434,765	\$ 36,482,066
Unamortized discount, net	(19,970,984)	(18,529,283)
Investments, net	\$ 19,463,781	\$ 17,952,783
Unrealized market gains, net	1,178,672	1,393,390
Investments at fair value	\$ 20,642,453	\$ 19,346,173

(5) Receivables Due from Utilities

Owners and generators of civilian SNF and HLW have entered into contracts with the Department for disposal services and for payment of fees to the NWF.

The NWPA specifies two types of fees to be paid to the NWF for disposal services: (a) a one-time charge per kilogram of heavy metal in solidified SNF or HLW existing prior to April 7, 1983; and (b) a one mil per kWh fee on all net electricity generated and sold by civilian nuclear power reactors on and after April 7, 1983. The Secretary of Energy shall annually review the adequacy of the fees established. In the event the Secretary of Energy determines either insufficient or excess revenue is being collected, the Secretary of Energy shall propose an adjustment to the fee to ensure full cost recovery. The kWh fees are due when billed. The contracts between the Department and the owners and generators of the waste provide three options for payment of the one-time spent fuel fee, one of which must have been selected by June 30, 1985, or within two years of contract execution. The options were:

1. Payment of the amount due, plus interest earned from April 7, 1983, in 40 quarterly installments with the final payment due on or before the first scheduled delivery of SNF to the Department;
2. Payment of the amount due, plus interest from April 7, 1983, in a single payment anytime prior to the first delivery of SNF to the Department; or
3. Payment of the amount due any time prior to June 30, 1985, or two years after contract execution, in the form of a single payment, with no interest due.

Under options (1) and (2), interest accrues from April 7, 1983, to date of first payment at the 13-week U.S. Treasury bill rate compounded quarterly. Under option (1), beginning with the first payment, interest is calculated at the 10-year Treasury note rate in effect at the time. Two utilities selected option (1); neither has begun making payments.

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(5) Receivables Due from Utilities (continued)

In fiscal years 2007 and 2006, there were no payments or adjustments of one-time spent fuel fees by owners and generators of civilian SNF and HLW.

Accounts receivables from public and intragovernmental utilities at September 30 of each year were as follows:

	<u>2007</u>	<u>2006</u>
Accounts receivable - utilities		
Accounts receivable - intragovernmental utilities		
Kilowatt hour fees	\$ 13,038	\$ 11,782
Accounts receivable - public utilities		
Kilowatt hour fees	\$ 171,388	\$ 169,301
One-time spent nuclear fuel fees:		
Option (1)	\$ 143,531	\$ 143,531
Option (2)	736,958	736,958
Total one-time spent nuclear fuel fees	<u>\$ 880,489</u>	<u>\$ 880,489</u>
Accrued interest on one-time spent nuclear fuel fees:		
Option (1)	\$ 368,046	\$ 343,322
Option (2)	1,887,988	1,760,270
Total accrued interest on one-time spent nuclear fuel fees	<u>\$ 2,256,034</u>	<u>\$ 2,103,592</u>
Total accounts receivable - public utilities	<u>\$ 3,307,911</u>	<u>\$ 3,153,382</u>
Total accounts receivable - utilities	<u><u>\$ 3,320,949</u></u>	<u><u>\$ 3,165,164</u></u>

(6) General Property, Plant, and Equipment, Net

General property, plant, and equipment and related accumulated depreciation consisted of the following at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
General property, plant, and equipment	\$ 47,672	\$ 48,913
Less accumulated depreciation	<u>(38,687)</u>	<u>(38,332)</u>
General property, plant, and equipment	<u><u>\$ 8,985</u></u>	<u><u>\$ 10,581</u></u>

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Notes to Financial Statements
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(7) Transactions with the Department and Other Federal Government Agencies

The NWPAs established OCRWM within the Department to carry out the provisions of the NWPAs and created the Nuclear Waste Fund in the U.S. Treasury. The investment and borrowing powers of the NWF are limited to transactions with the U.S. Treasury. In discharging its obligations under the NWPAs, the Department contracts for services with numerous contractors including other Federal Government agencies. Further, significant administrative services are provided by the Department.

As of September 30, 2007 and 2006, OCRWM owed other Federal Government agencies \$3,749 and \$9,563, respectively, for services and costs provided to OCRWM. For the years ended September 30, 2007 and 2006, OCRWM incurred costs of \$30,033 and \$34,986, respectively, for services and costs provided by other Federal Government agencies. In addition to these incurred costs, OCRWM made the following Congressional authorized transfers from the NWF to the following entities:

	2007	2006
Nuclear Regulatory Commission	\$ 45,826	\$ 46,082
Nuclear Waste Technical Review Board	3,592	3,147
Total transfers to Other Federal Government Agencies	\$ 49,418	\$ 49,229

OCRWM has entered into Memoranda of Agreement (MOA) with the Department's Office of Environmental Management and the Department's Office of Naval Nuclear Propulsion. The MOA established the terms and conditions for acceptance of Department-owned SNF and HLW (Defense Waste) for disposal. Those estimated liabilities are included in the TSLCC that is used to calculate the estimate of the Department's share of total current and future Program costs for Defense Waste. During FY 2006 assumption changes were made to the calculation and as a result the Department's liability to OCRWM was eliminated as of September 30, 2006.

The Department's Defense Waste total cost share as of September 30, 2007 is estimated to be \$2,741,013, including interest amounting to \$638,232 based on the methodology published in the Federal Register in August 1987. As of September 30, 2007 and 2006, \$534,412 and \$293,896, respectively, was included in intragovernmental deferred revenue representing the Department's Defense expenditures in excess of the Department's cost share to-date.

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(8) Liabilities Not Covered by Budgetary Resources

A summary of liabilities not covered by budgetary resources as of September 30, 2007 and 2006, is as follows:

	2007	2006
Liabilities not covered by budgetary resources:		
Intragovernmental		
Deferred revenue ^(Note 10)	\$ 534,412	\$ 293,896
Non-Intragovernmental		
Deferred revenue ^(Note 10)	22,245,318	20,821,447
Pension and actuarial liabilities	13,327	11,529
Other liabilities	3,122	9,890
Estimated liability for waste acceptance obligation ^(Note 9)	10,966,014	6,717,598
Total liabilities not covered by budgetary resources	\$ 33,762,193	\$ 27,854,360
Liabilities covered by budgetary resources:		
Intragovernmental		
Accounts payable	\$ 3,749	\$ 9,563
Other liabilities	440	354
Non-Intragovernmental		
Accounts payable	40,764	37,762
Other liabilities	12,139	9,648
Total liabilities covered by budgetary resources	\$ 57,092	\$ 57,327
Total Liabilities	\$ 33,819,285	\$ 27,911,687

(9) Commitments and Contingencies

In accordance with the Nuclear Waste Policy Act of 1982 (NWPA), the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the Nuclear Waste Fund, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, the Department has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

To date, seven suits have been settled involving utilities that collectively produce about 25 percent of the nuclear-generated electricity in the United States. Under the terms of the settlements, the Judgment Fund, U.S.C. 1304, paid \$256 million through September 30, 2007 to the settling utilities for delay damages they have incurred through September 30, 2006. In addition, two cases have been resolved by final judgments: a judgment of \$35 million that was not appealed and paid by the Judgment Fund in FY06; and a final judgment awarding no damages affirmed by the appellate court. Through September 30, 2007, the Judgment Fund had made total payments of \$291 million for Spent Nuclear Fuel cases.

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(9) Commitments and Contingencies (continued)

Fifty-six cases remain pending in the Court of Federal Claims or in the Court of Appeals for the Federal Circuit. Liability is probable in these cases, and in many of these cases orders have already been entered establishing the Government's liability and the only outstanding issue to be litigated is ascertaining the amount of damages to be awarded. The industry is reported to estimate that damages for all utilities with which the Department has contracts ultimately will be at least \$50 billion. The Department believes that the industry's estimate is highly inflated and that the disposition of the eighteen cases that have been either settled or subject to a judgment in the trial court suggests that the Government's ultimate liability is likely to be significantly less than that estimate.

The Department previously reported several developments that made it difficult to reasonably predict the amount of the Government's likely liability. The courts have since resolved that jurisdiction for these cases is appropriate in the Court of Federal Claims, but have not resolved whether the Government can assert the unavoidable delays defense, under which, if applicable, the Government would not be liable for any damages.

Under current law, any damages or settlements in this litigation will be paid out of the Judgment Fund. The Department's contingent liability estimate for SNF litigation as of September 30, 2007 and 2006 of \$10.966 billion and \$6.717 billion, respectively, is reported net of amounts paid by the Judgment Fund.

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(10) Deferred Revenue

As described in Note 2, all fees, both kWh fees and Defense high-level radioactive waste fees, as well as the related interest and investment income, are recognized as revenue to the extent of expenses incurred. Amounts in excess of current expenses are deferred. Deferred revenue at September 30, 2007 and 2006 was as follows:

	2007	2006
Intragovernmental		
Fees billed:		
One-time spent nuclear fuel fees:		
kWh fees	\$ 42,853	43,611
Defense high-level waste fees	112,922	(425,248)
Defense share advance payments	245,201	289,211
Interest:		
Income on investments	978,917	931,455
Defense high-level waste fees	-	(318,922)
Non-intragovernmental		
Fees billed:		
kWh fees	714,688	711,228
Interest:		
One-time spent nuclear fuel fees	152,443	128,192
Other revenue	557	1,865
Total revenues	\$ 2,247,581	\$ 1,361,392
Less earned revenue	(583,194)	(516,127)
Change in deferred revenue	\$ 1,664,387	\$ 845,265
Deferred revenue - beginning balance	21,115,343	20,270,078
Deferred revenue - ending balance	\$ 22,779,730	\$ 21,115,343

Other revenue consists primarily of net gains on the sale of investments.

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(Dollars in thousands unless otherwise noted)

(11) Earmarked Funds

	Earmarked Funds	All Other Funds	2007 Consolidated	Earmarked Funds	All Other Funds	2006 Consolidated
Balance Sheet						
Assets						
Fund Balance with Treasury	\$ 2,844	\$ 46,405	\$ 49,249	\$ 9,064	\$ 57,295	\$ 66,359
Investments, Net	19,463,781	-	19,463,781	17,952,783	-	17,952,783
Accounts Receivable	3,369,222	-	3,369,222	3,214,274	-	3,214,274
General Property, Plant, and Equipment, Net	8,772	213	8,985	10,626	(45)	10,581
Other Assets	1,461	-	1,461	1,142	-	1,142
Total Assets	\$ 22,846,080	\$ 46,618	\$ 22,892,698	\$ 21,187,889	\$ 57,250	\$ 21,245,139
Liabilities and Net Position						
Accounts Payable	\$ 36,936	\$ 7,577	\$ 44,513	\$ 42,623	\$ 4,702	\$ 47,325
Deferred Revenue	22,245,318	534,412	22,779,730	20,821,447	293,896	21,115,343
Pension and Other Actuarial Liabilities	11,450	1,877	13,327	10,031	1,498	11,529
Other Liabilities	15,701	-	15,701	19,892	-	19,892
Commitments and Contingencies	-	10,966,014	10,966,014	-	6,717,598	6,717,598
Unexpended Appropriations	-	39,427	39,427	-	51,050	51,050
Cumulative Results of Operations	-	(10,966,014)	(10,966,014)	-	(6,717,598)	(6,717,598)
Total Liabilities and Net Position	\$ 22,309,405	\$ 583,293	\$ 22,892,698	\$ 20,893,993	\$ 351,146	\$ 21,245,139
Statement of Net Costs						
Total First Repository and Other Program Costs	\$ 224,659	\$ 358,541	\$ 583,200	\$ 207,077	\$ 310,959	\$ 518,036
Less Earmarked Revenues	(224,659)	(358,535)	(583,194)	(207,077)	(309,050)	(516,127)
Net First Repository Costs	\$ -	\$ 6	\$ 6	\$ -	\$ 1,909	\$ 1,909
Estimated liability for waste acceptance obligations	\$ -	\$ 4,351,162	\$ 4,351,162	\$ -	\$ 1,602,091	\$ 1,602,091
Net cost of operations	\$ -	\$ 4,351,168	\$ 4,351,168	\$ -	\$ 1,604,000	\$ 1,604,000
Statement of Changes in Net Position						
Beginning Balance - Cumulative Results of Operations	\$ -	\$ (6,717,598)	\$ (6,717,598)	\$ -	\$ (5,222,852)	\$ (5,222,852)
Change in Accounting Principle	-	(1,808)	(1,808)	-	-	-
Imputed Financing from Costs Absorbed by Others	-	104,560	104,560	-	109,254	109,254
Net Cost of Operations	-	(4,351,168)	(4,351,168)	-	(1,604,000)	(1,604,000)
Ending Balance - Cumulative Results of Operations	\$ -	\$ (10,966,014)	\$ (10,966,014)	\$ -	\$ (6,717,598)	\$ (6,717,598)
Beginning Balance - Unexpended Appropriations						
Beginning Balance - Unexpended Appropriations	\$ -	\$ 51,050	\$ 51,050	\$ -	\$ 14,094	\$ 14,094
Appropriations Received	-	346,500	346,500	-	350,000	350,000
Other Adjustments	-	-	-	-	(3,500)	(3,500)
Appropriations Used	-	(358,122)	(358,122)	-	(309,544)	(309,544)
Ending Balance - Unexpended Appropriations	\$ -	\$ 39,428	\$ 39,428	\$ -	\$ 51,049	\$ 51,050
Total Net Position	\$ -	\$ (10,926,586)	\$ (10,926,586)	\$ -	\$ (6,666,549)	\$ (6,666,548)

(12) Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. In previous years, this reconciliation was accomplished by presenting the Statement of Financing as a Basic Financial Statement. Beginning in fiscal year 2007, OMB Circular No. A-136, "Financial Reporting Requirements," requires that this reconciliation be presented as a note on a comparative basis rather than as a basic statement. Accordingly, OCRWM presents the following fiscal year 2007 reconciliation and comparative fiscal year 2006 reconciliation.

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Notes to Financial Statements
September 30, 2007 and 2006

(Dollars in thousands unless otherwise noted)

(12) Reconciliation of Net Cost of Operations to Budget (continued)

	2007	2006
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 455,413	\$ 458,350
Less: Spending Authority from Offsetting Collections and Recoveries	(2)	(1,326)
Obligations, Net of Offsetting Collections and Recoveries	<u>455,411</u>	<u>457,024</u>
Offsetting Receipts:		
Fees for Disposal of Spent Nuclear Fuel	(754,197)	(751,537)
Earnings on Investments	(796,660)	(541,656)
Other Offsetting Receipts	-	(1)
Total Offsetting Receipts	<u>(1,550,857)</u>	<u>(1,293,194)</u>
Net Obligations	<u>(1,095,446)</u>	<u>(836,170)</u>
Other Resources:		
Imputed Financing from Costs Absorbed by Others	104,560	109,254
Other:		
Offsetting Receipts, Deferred	2,083,654	1,723,720
Adjustment for Department of Energy Appropriation	(358,123)	(309,544)
Total Other	<u>1,725,531</u>	<u>1,414,176</u>
Net Other Resources Used to Finance Activities	<u>1,830,091</u>	<u>1,523,430</u>
Total Resources Used to Finance Activities	<u>\$ 734,645</u>	<u>\$ 687,260</u>
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	\$ 79,002	\$ 4,266
Resources that Finance the Acquisition of Assets	(769)	(2,935)
Resources that Fund Expenses Recognized in Prior Periods	-	(1,831)
Other Resources and Adjustments	-	20,604
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>78,233</u>	<u>20,104</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 812,878</u>	<u>\$ 707,364</u>
NET COST ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Increases in Unfunded Liability Estimates	\$ 4,244,451	\$ 1,502,423
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	(721,045)	(657,677)
Revaluation of Assets and Liabilities	266	(10)
Other	14,618	51,900
Total Components Not Requiring or Generating Resources	<u>(706,161)</u>	<u>(605,787)</u>
Total Net Cost Items That Do Not Require or Generate Resources in Current Period	<u>3,538,290</u>	<u>896,636</u>
NET COST OF OPERATIONS	<u>\$ 4,351,168</u>	<u>\$ 1,604,000</u>

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Required Supplementary Stewardship Information for Research and Development for Fiscal Year ending
September 30, 2007

(Dollars in thousands unless otherwise noted)

Expenses for research and development programs applicable to the Nuclear Waste to conduct activities on the long-term storage of high-level nuclear waste at a permanent underground repository were as follows:

	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
FY 2007 APPLIED			
Environmental Quality	<u>\$172,815</u>	<u>\$1,563</u>	<u>\$174,378</u>
FY 2006 APPLIED			
Environmental Quality	<u>\$259,325</u>	<u>\$3,031</u>	<u>\$262,356</u>
FY 2005 APPLIED			
Environmental Quality	<u>\$143,966</u>	<u>\$1,905</u>	<u>\$145,871</u>
FY 2004 APPLIED			
Environmental Quality	<u>\$65,312</u>	<u>\$1,772</u>	<u>\$67,084</u>
FY 2003 APPLIED			
Environmental Quality	<u>\$75,782</u>	<u>\$1,049</u>	<u>\$76,831</u>
FY 2002 APPLIED			
Environmental Quality	<u>\$62,523</u>	<u>\$2,577</u>	<u>\$65,100</u>
FY 2001 APPLIED			
Environmental Quality	<u>\$60,393</u>	<u>\$3,107</u>	<u>\$63,500</u>
FY 2001 DEVELOPMENT			
Environmental Quality	<u>\$58,662</u>	<u>\$4,738</u>	<u>\$63,400</u>

**UNITED STATES DEPARTMENT OF ENERGY
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Supplementary Information - Schedule I
Schedule of Cumulative Net First and Second Repository Costs for the
Twenty Five Years Ended September 30, 2007

(Dollars in thousands unless otherwise noted)

First Repository Costs	<u>\$ 7,104,906</u>
All Other Program Costs:	
Program Support	\$ 1,923,833
Transfers of Appropriations	521,286
Waste Acceptance, Storage and Transportation	506,387
Imputed and Other Costs	<u>147,826</u>
Total All Other Program Costs	<u>\$ 3,099,332</u>
Second Repository Costs	<u>\$ 108,896</u>
Total First and Second Repository Costs and Other Program Costs	<u>\$ 10,313,134</u>
Less Earned Revenue	<u>(10,299,278)</u>
Cumulative Net First and Second Repository Costs	<u><u>\$ 13,856</u></u>

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Supplementary Information - Schedule II
Schedule of Cumulative Revenues and Deferred Revenue as of and for the
Twenty Five Years Ended September 30, 2007

(Dollars in thousands unless otherwise noted)

Intragovernmental:	
Fees billed:	
kWh fees	\$ 665,840
One-time spent nuclear fuel fees	174,598
Defense high-level waste fees	2,117,104
Defense share advance payments	534,412
Interest:	
Income on investments	10,125,838
Defense high-level waste fees	638,232
Non-intragovernmental:	
Fees billed:	
kWh fees:	13,658,183
One-time spent nuclear fuel fees	2,174,802
Interest:	
One-time spent nuclear fuel fees	2,285,803
Other revenue	704,196
Total revenues	<u>\$ 33,079,008</u>
Less earned revenue	<u>(10,299,278)</u>
Deferred revenue	<u><u>\$ 22,779,730</u></u>