

# RECLAMATION

*Managing Water in the West*

**2007  
Annual Report**



U.S. Department of the Interior  
Bureau of Reclamation

On the cover: The face of Shasta Dam in northern California. Shasta stores 4.5 million acre feet of water and stands a little over 600 feet.

# ***2007 Annual Report***



U.S. Department of the Interior  
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# Letter from the Commissioner



It is my distinct pleasure to present the Bureau of Reclamation's 2007 Annual Report to the Congress and the American people.

In fiscal year 2007, Reclamation continued its role in developing and maintaining one of the most impressive water management infrastructures in the world, which brings water and power to the people of the West and supports the region's robust economy.

Reclamation is the Nation's largest wholesale water supplier. The 348 reservoirs we administer have a total storage capacity of 245 million acre-feet of water. We bring water to more than 31 million people and provide 20 percent of western farmers (140,000) with water to irrigate 10 million acres of farmland that produces 60 percent of the Nation's vegetables and 25 percent of its fruit and nuts.

Reclamation is also the nation's second largest producer of hydroelectric power. Our 58 powerplants provide more than 40 billion kilowatthours of energy each year—equivalent to the energy provided by 80 million barrels of crude oil. These plants serve 6 million homes and generate nearly \$1 billion in power revenues for the U.S. Treasury.

Our core mission, to deliver water and generate power in the 17 Western States, has remained constant for a century. The way we accomplish our mission has evolved considerably. Today, we focus primarily on managing and maintaining our facilities to ensure their continued safe and effective performance.

As part of our efforts to remain ready for western water management challenges, Reclamation completed most of the Managing for Excellence action plan, and we are now embarking on implementation.

Reclamation made substantial progress on many initiatives to help the people of the West meet current and future water needs. U.S. Department of the Interior Secretary Dirk Kempthorne approved \$9.2 million in Water 2025 Challenge Grants to help fund 44 projects in 11 Western States. These funds, together with

non-Federal contributions, represent a combined investment of more than \$32 million in improvements to enable the more efficient use of existing water supplies.

As the fiscal year ended, the Animas-La Plata Project in southwest Colorado was 55 percent complete and is on track to have construction completed within budget by 2012, with project closeout in 2013. We have completed 50 percent of the final design for construction of the Drop 2 Reservoir project. We provided design and field engineering support on the lining of the Coachella Canal and are now providing that support on the All-American Canal lining project.

The Joint Federal Project at Folsom Dam is underway, a collaboration with the U.S. Army Corps of Engineers and State of California to improve flood control and dam safety. We expect execution of implementing agreements and court approvals for the Arizona Water Settlements Act early in fiscal year 2008, resulting in the largest Native American water rights settlement in U.S. history.

We cut the ribbon at the Brackish Groundwater National Desalination Research Facility in Alamogordo, New Mexico. This facility will focus on research to meet water needs more cost effectively for people in rural and remote areas.

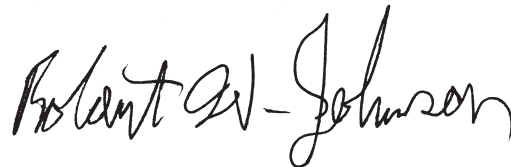
A number of agreements and programs begun this year will meet environmental demands and provide certainty to water users well into the future. These include the signing of the Platte River Recovery Implementation Program Agreement by the Governors of Colorado, Nebraska, and Wyoming and the Secretary of the Interior, ending 12 years of negotiations and providing assurance for water operations in the basin. We achieved a major settlement agreement providing for river restoration on the San Joaquin River, ending nearly 20 years of litigation, and continued progress on the Trinity River restoration. In two river basins facing extremely complex issues, Reclamation made progress in balancing water user and environmental needs through the Klamath Conservation Implementation Program and the Middle Rio Grand Endangered Species Act Collaborative Program.

We finalized the environmental impact statement on new strategies to address potential shortages in the Lower Colorado River Basin. We continue to refine alternatives related to the environmental impact statement for a long-term experimental plan for the future

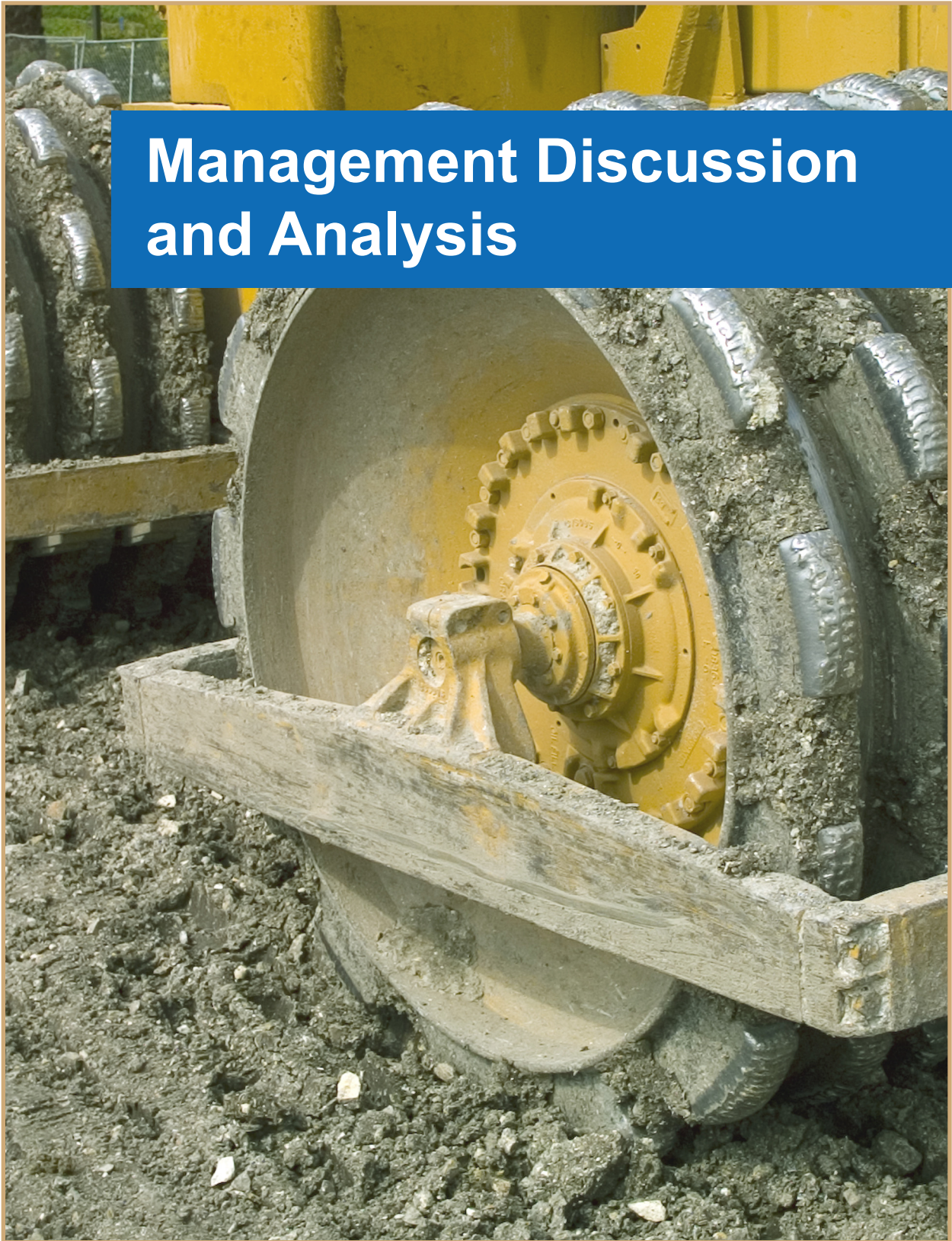
operation of Glen Canyon Dam. Fiscal year 2007 was the first full year of implementation for the Lower Colorado River Multi-Species Conservation Program, whose key accomplishments included the completion of six ponds for fish habitat at the Imperial National Wildlife Refuge and the securing of land and water in the Cibola Valley Conservation Area.

Reclamation collaborated with other action agencies, sovereign parties, and NOAA Fisheries to develop a new proposed action and Biological Opinion for the Federal Columbia River Power System and Reclamation's Upper Snake River Projects.

I have total confidence that the Bureau of Reclamation, in collaboration with partners, will continue to meet water management challenges. Reclamation has always been dedicated to getting the job done, and our commitment remains steadfast to serve our customers and the public.

A handwritten signature in black ink that reads "Robert W. Johnson". The signature is written in a cursive style with a large, prominent "J" at the end.

# Management Discussion and Analysis





# Mission and History

*The mission of the Bureau of Reclamation is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public.*

The fiscal year (FY) 2007 Management Discussion and Analysis is presented in four main categories, starting with Reclamation's Mission and History; then our Goals, Accomplishments, and Future Challenges; FY 2007 Performance Measure Highlights; and, finally, the Financial Analysis.

The Bureau of Reclamation (Reclamation) was created in 1902 to help settle the American West. Then called the "Reclamation Service," Reclamation was authorized by the Congress to assist local communities in building water projects to "reclaim" the arid West.

In the first 60 years, Reclamation became a leader in engineering and constructing water storage and delivery projects. Our projects, including Hoover Dam on the Colorado River and Grand Coulee Dam on the Columbia River, provided irrigation water that allowed farmers to settle the West even during droughts. Our large hydropower facilities supplied power generation that allowed industries and large cities to flourish.

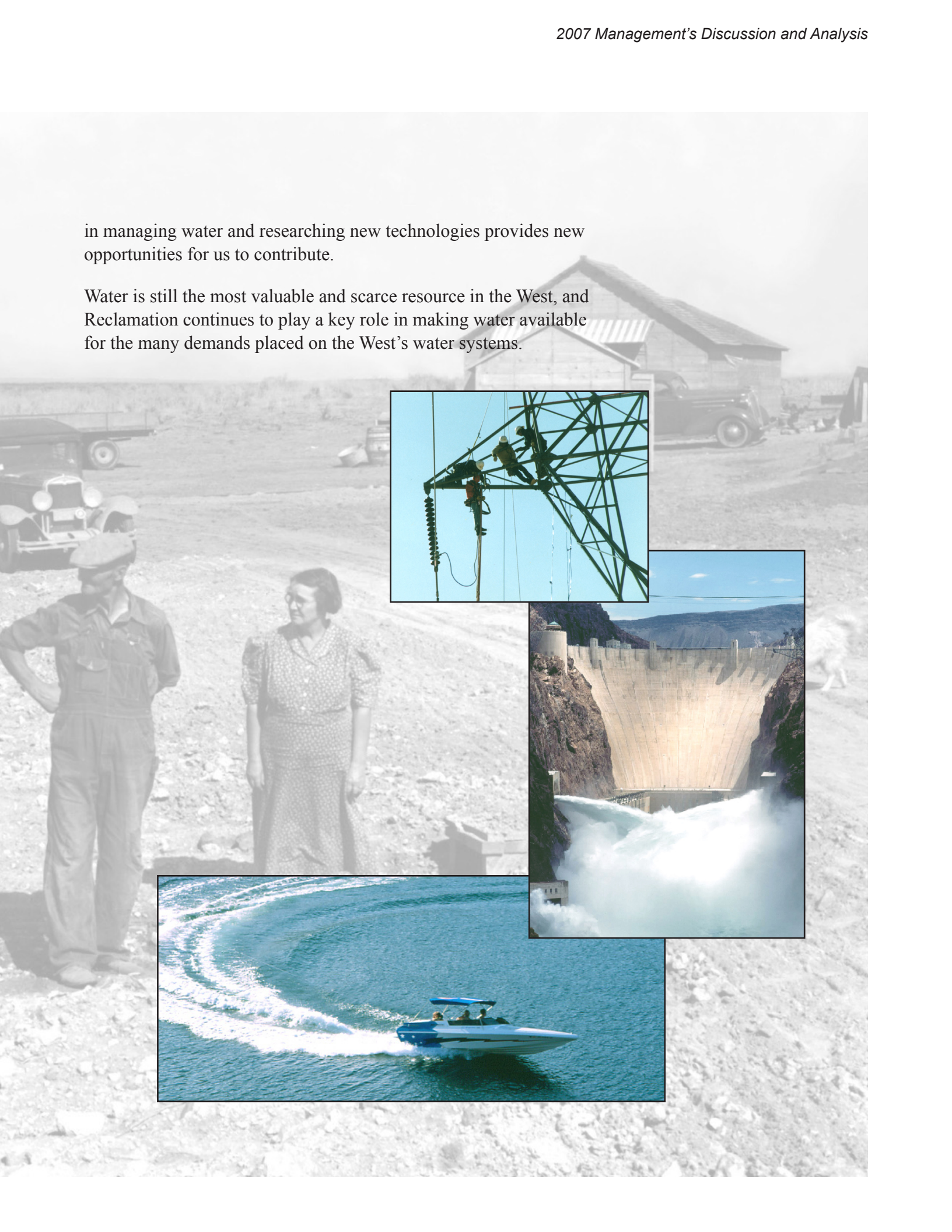
Today, as the largest wholesaler of water in the country, we furnish water to more than 30 million people. Reclamation is also the second largest producer of hydropower in the Nation. Many of our projects have benefited the West for 50 or 60 years—a few for more than 100 years. We have continued to provide water and power during droughts and flood control during times of surplus water. Water from our projects has helped meet the needs of a growing Western population.

Over this same period, our focus has changed to managing existing resources. New construction is not as frequent as in the past. Increased population demands for domestic water, recreational activities, and water to maintain ecosystems have resulted in increasing demands on existing water supplies. Our facilities play a major role in meeting these demands, while our expertise

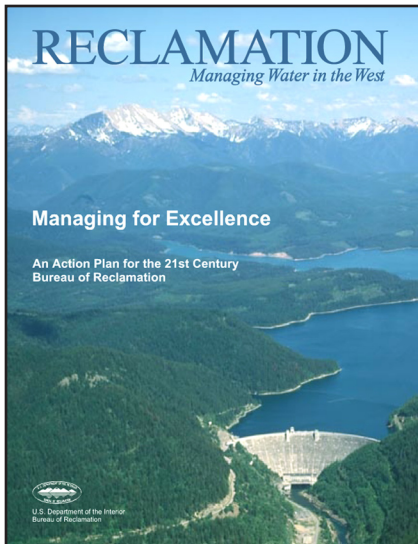


in managing water and researching new technologies provides new opportunities for us to contribute.

Water is still the most valuable and scarce resource in the West, and Reclamation continues to play a key role in making water available for the many demands placed on the West's water systems.



# Goals, Accomplishments, and Future Challenges



Reclamation has outlined four overarching goals that emphasize our mission to deliver water and generate hydropower while addressing other water use requirements and planning for future water needs to avoid crisis and conflict:

- Ensure the reliable delivery of water and generation of hydropower under Reclamation contracts.
- Optimize hydropower generation consistent with project purposes.
- Incorporate other considerations, such as recreation, fish and wildlife, environment, and Native American trust responsibilities, into our water and power operations.
- Identify and plan for future consumptive and nonconsumptive water supply needs by identifying unmet needs in the next 25 years.

To meet these goals and priorities in FY 2007, Reclamation:

- Delivered 30.1 million acre-feet of water (1 acre-foot supplies enough water for a family of four for 1 year).
- Generated approximately 44 million megawatthours (MWh) of hydroelectric energy, enough to meet the annual needs of 9 million people.
- Met Endangered Species Act (ESA) requirements to augment riverflows and restore riparian habitat to benefit the Rio Grande silvery minnow, using the Middle Rio Grande Endangered Species Act Collaborative Program activities.
- Awarded more than \$9.2 million in *Water 2025* Challenge Grants to fund 44 water conservation or development projects in the West.

Reclamation's priorities are to:

- Ensure reliable and efficient delivery of water and hydropower, consistent with other project purposes and with Reclamation's core mission.

- Continue with efforts to ensure long-term security of Reclamation facilities.
- Continue the *Water 2025* efforts in reducing crises and conflict over water by increasing flexibility in water supplies and managing scarce water resources.
- Continue to encourage water conservation and efficient use of water supplies through the Water Conservation Field Services Program.
- Complete Safety of Dams priorities.
- Continue Reclamation's scientific coordination with other agencies and partners.

## Managing for Excellence

Reclamation is preparing for the challenges of the 21st century by thoroughly examining our core capabilities in a number of key areas and our ability to respond in an innovative and timely manner to future needs. The *Managing for Excellence Action Plan*, published in February 2006, outlines a process and timeframe for identifying and addressing the specific actions that can be taken to increase transparency, efficiency, and accountability within Reclamation.

Through *Managing for Excellence*, Reclamation is preparing for the challenges of the 21st century by thoroughly examining our core capabilities in a number of key areas and our ability to respond in an innovative and timely manner to future needs. The three overarching purposes of *Managing for Excellence* are to (1) improve and strengthen working relationships with our water and power users; (2) improve the efficiency with which we perform our work; increase the transparency of our work processes, sources of costs, and decisionmaking processes; and hold ourselves accountable to our customers and the American public; and (3) ensure, now and in the future, that we have an appropriately sized and efficiently organized workforce, composed of the necessary disciplines and skills to sustain the core engineering and technical services required to ensure the delivery of water and power in an environmentally and economically sound manner.

### Managing for Excellence Action Plan

An important catalyst for this evaluation effort was the National Research Council (NRC) report, "Managing Construction and Infrastructure in the 21st Century Bureau of Reclamation," which

examines several facets of our organization, practices, and culture. The NRC report was available to the public in 2005 and published in 2006.

The Managing for Excellence Action Plan incorporated suggestions and recommendations from the NRC and turned them into 41 action items, which were assigned to teams of Reclamation employees and divided among 8 functional areas, each with an executive sponsor. All action items are scheduled to be completed by December 2007. The eight functional areas are: Relationships with Customers and Other Stakeholders, Policies and Organization, Engineering and Design Services, Major Repair Challenges, Project Management, Asset Sustainment, Research and Laboratory Services, and Human Resources/Workforce.

The work of those teams has resulted in the following initiatives for implementation:

- Policies, Directives and Standards on Web site [www.usbr.gov/excellence](http://www.usbr.gov/excellence)
- Design estimates and construction oversight
- Prioritized engineering standards updates
- Loan guarantee framework
- Major repair decision process
- Project management recommendations
- Standardized reports for billing and project repayment status
- Collaborative competencies required for all employees

Reclamation has made a concerted effort to keep the effort transparent to all interested parties through the use of public meetings, and stakeholder and employee outreach through the use of the *Managing for Excellence* Web site and listserv.

While completing action items, Reclamation identified areas for improvement that will further improve transparency, efficiency, and accountability and will be used to improve the way Reclamation functions.

<b>Functional Areas</b>
<u>Relationships with Customers and Other Stakeholders</u> <ul style="list-style-type: none"> <li>• Strengthen stakeholder relationships</li> <li>• Improve communication</li> <li>• Create transparent decisionmaking processes</li> </ul>
<u>Policies and Organization</u> <ul style="list-style-type: none"> <li>• Refine the balance between centralized policy and oversight with current, effective, decentralized operational organization</li> <li>• Implement the most effective, efficient organizational structure</li> </ul>
<u>Engineering and Design Services</u> <ul style="list-style-type: none"> <li>• Define core capabilities to fulfill Reclamation's mission</li> <li>• Foster a Center of Excellence for our engineering and technical capabilities</li> <li>• Provide engineering standards and design services that meet Federal customer needs</li> </ul>
<u>Major Repair Challenges</u> <ul style="list-style-type: none"> <li>• Devise methods to help customers finance their allocated share of major repair projects</li> <li>• Develop processes or measuring tools to determine whether a major repair project is warranted</li> <li>• Use innovation to add value to major repair projects</li> </ul>
<u>Project Management</u> <ul style="list-style-type: none"> <li>• Develop policies and practices to provide an appropriate degree of continuity and project management oversight from project inception through the planning process to construction and into operations</li> </ul>
<u>Asset Sustainment</u> <ul style="list-style-type: none"> <li>• Better understand construction and operation and maintenance (O&amp;M) costs</li> <li>• Increase value of construction and O&amp;M activities</li> <li>• Increase opportunities for: <ul style="list-style-type: none"> <li>○ O&amp;M outsourcing</li> <li>○ O&amp;M transfer</li> <li>○ Title transfer</li> </ul> </li> </ul>
<u>Research and Laboratory Services</u> <ul style="list-style-type: none"> <li>• Increase partnerships and technology transfers in research and development</li> </ul>
<u>Human Resources/Workforce</u> <ul style="list-style-type: none"> <li>• Enhance employee competencies in key skills such as project management, collaboration, decisionmaking, and leadership</li> </ul>

### ***FY 2007 Accomplishments***

Reclamation made great progress in 2007 toward completing the original 41 action items. Twenty-nine action items have now been completed, in addition to the three items completed in FY 2006, and all action items are scheduled to be completed by December 2007. Reclamation anticipates many positive changes as *Managing for Excellence* wraps up and the recommendations of the individual teams are implemented.

Reclamation sought feedback from interests outside Reclamation. In November 2006, Reclamation was a participant at the National Water Resources Association and at the Family Farm Alliance meeting in February 2007. In addition, Reclamation held public meetings, structured so that the public could participate and learn more about specific action items, as well as openly comment on approaches and proposals. Reclamation held its third public meeting in November 2006 in Sacramento, California, followed by meetings in February in Albuquerque, New Mexico; May in Denver, Colorado; and September in Portland, Oregon.

Reclamation is dedicated to ensuring effective communication with our employees, the Congress, customers, and stakeholders about the *Managing for Excellence* effort. Reclamation employees strive to reflect a personal attitude, and a Reclamation culture, that is receptive to questions about our work and costs from our customers and the American taxpayer. Reclamation is using training, informal meetings, conferences, and all-employee memoranda to keep employees and managers apprised of news and events. In addition, a Web site is available for the general public to view information and provide comments at [www.usbr.gov/excellence](http://www.usbr.gov/excellence). The Efficiency, Transparency, and Accountability (ETA) Web site is another way for the public and Reclamation staff to receive current information on Reclamation's efforts to implement the recommendations of the *Managing for Excellence* initiative, as well as other activities related to ETA at Reclamation. This Web site can be found at [www.usbr.gov/eta](http://www.usbr.gov/eta) and will be used along with other media avenues, such as the newsletter, press releases, reports, and email to keep stakeholders and employees updated with the latest ETA information.

## Delivering Water

One of Reclamation's primary missions is delivering and storing water throughout the 17 Western States. In an average year, Reclamation projects deliver approximately 30.8 million acre-feet of water. Reclamation uses funding to implement projects that stretch existing water resources and partners with State, local, and other entities to expand existing water supplies. Ongoing droughts and burgeoning Western populations continue to make this job ever more challenging. We continuously evaluate our management strategies and incorporate new technologies to develop new water supplies and use water more efficiently.



### Operating, Maintaining, and Upgrading Facilities to Store and Deliver Water

Reclamation built facilities throughout the 20<sup>th</sup> century, and the older systems and facilities were constructed before current design and construction practices, which present special challenges. As Reclamation's infrastructure ages, costs for operation, maintenance, and rehabilitation continue to increase. We operate, maintain, and rehabilitate our facilities to minimize these costs and service disruptions. Reclamation is continuing to explore upgrading facilities to extend their useful life and help address these issues.

The piping on the East Fork Irrigation District in Oregon is typical of work with many *Water 2025* challenge grants, which assist districts in piping their systems to improve efficiency.

### Water 2025 Challenge Grant Program: Preventing Crises and Conflict in the West

Water is the lifeblood and the foundation of the American West's economy. It is also the scarcest resource in some of the fastest growing areas of the country. *Water 2025* focuses attention on the realities of major conflicts among competing uses of water,



*If we are wise, future generations will benefit. If we are unwise, future generations will suffer. It is incumbent upon us to be wise. (Department of the Interior Secretary Dirk Kempthorne, Colorado River Water Users Association 61<sup>st</sup> Annual Conference, December 15, 2006)*

including the explosive population growth in Western urban areas, the emerging need for water for environmental and recreational uses, and the national importance of the domestic production of food and fiber from Western farms and ranches.

In some areas of the West, existing water supplies are, or will be, inadequate to meet competing demands for water even under normal water supply conditions. The *Water 2025* Challenge Grant Program recognizes that States, tribes, and local governments should have a leading role in meeting these challenges and that the U.S. Department of the Interior (Interior) should focus its attention and resources on areas where scarce Federal dollars can provide the greatest benefits to the West and the rest of the Nation.

The *Water 2025* Challenge Grant Program provides a basis for public discussion of the realities that face the West so that decisions can be made at the appropriate level in advance of water supply crises. It also sets forth a framework to identify the problems, solutions, and a plan of action as Interior works with States, tribes, local governments, and the private sector to meet water supply challenges.

The Challenge Grant Program is an important aspect of *Water 2025*. Challenge Grant funding is provided on a minimum 50-percent, non-Federal, cost-share basis to irrigation and water districts, Western States, and other entities with water delivery authority. These entities use the funding to implement projects that stretch existing water resources. Challenge Grant projects focus on modernizing aging water delivery infrastructure, improving water use efficiency and conservation, and marketing water. Projects are selected through a competitive process that emphasizes projects that will achieve demonstrated results within 24 months from the date of award.

Since its inception in 2004, the *Water 2025* Challenge Grant Program has funded 122 projects that represent approximately \$96 million in water system and water management improvement across the West, including non-Federal cost-share contributions of approximately \$70.4 million and a Federal investment of approximately \$25.6 million.

#### ***FY 2007 Highlights of Water 2025 Challenge Grants***

Reclamation evaluated the remaining proposals from the 2006 Challenge Grant process. In July 2007, 44 projects, totaling



\$9.2 million in *Water 2025* Challenge Grants for projects across the West, were selected for funding. Including the matching contributions of non-Federal partners, the selected projects represent a combined investment of more than \$32 million in water management improvements.

The projects are projected to result in 5.2 miles of canals lined, 48 miles of canal piped, 22 projects that include water marketing, and 26 projects to install water measurement, Supervisory Control and Data Acquisition systems, or automatic water delivery systems.

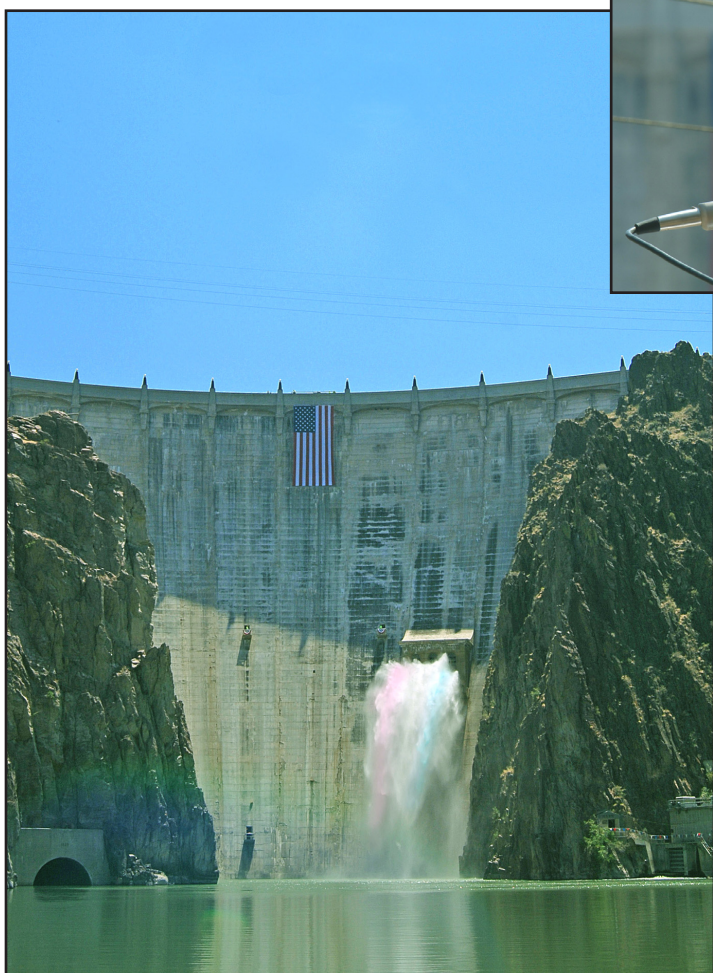
#### ***FY 2007 Highlights for Other Water 2025 Activities***

Funding from the *Water 2025* Challenge Grant Program was used to support the final construction and commissioning of the National Research Center for Groundwater Desalination located in Tularosa, New Mexico. The facility will be used to advance research on desalination, which is a viable alternative for many communities to diversify their water supply.

Reclamation also released the first ever Funding Opportunity Announcement for System Optimization Reviews. System Optimization Reviews are a subset of the *Water 2025* Program to examine ways to improve delivery efficiency or improve operations of water systems from a regional or water basin perspective. The requirements to receive funding are similar to the *Water 2025* Challenge Grant Program. The application must include an irrigation and/or water district, tribal water authority, or State

**Truckee Carson Irrigation District, Nevada. Gilpin Spill gate controls before automation (left).**

**Truckee Carson Irrigation District, Nevada. Newly installed gate motors and gear boxes for the Gilpin Spill radial gates (right).**



**Commissioner Robert Johnson addressed nearly 400 people who attended the 75th anniversary celebration at the Owyhee Dam, near Nyssa, Oregon.**

**The Owyhee Dam is a feature of Reclamation's multipurpose Owyhee Project, which provides irrigation benefits to more than 118,000 acres in eastern Oregon and western Idaho.**

governmental entity with water management authority, or entities created under State law with water delivery authority within the 17 Western States. Applications must include a minimum 50-percent cost share. The Federal share is capped at \$300,000, and the overall project must be completed within 24 months.

### **Expanding Water Supplies**

*“The Owyhee Dam is a magnificent structure. It stands as a great reminder of the ingenuity of its engineers and builders, but what we really celebrate now is the vision of those who created more than a dam: they made possible the thriving communities that we have here today. Flood control and water supply enabled settlement and the production of a variety of crops, crops that are important to the national economy.”*  
Remarks by Commissioner Johnson

In addition to work done with Water 2025, Reclamation continues efforts in reducing crises and conflict over water by increasing flexibility in water supplies and managing scarce water resources.

Reclamation continues to work closely with irrigation districts to make water available to Nebraska residents and to assist Nebraska in complying with the Republican River Compact of 1942 (Compact). A settlement, approved by the Supreme Court, was negotiated after Kansas filed a lawsuit against Nebraska and Colorado contending that their use of the Republican River exceeded their allocated share under the Compact. Reclamation's assistance also protects the integrity of Reclamation irrigation projects.

A supplemental draft environmental impact statement (EIS) was completed January 31, 2007, for the Red River Valley Water Supply Project in North Dakota by Reclamation and the State of North Dakota. The project would provide a bulk water supply to meet the

long-term water needs of people and industries in the Red River Valley in North Dakota and Minnesota.

On March 23, 2007, Reclamation released a final environmental assessment and finding of no significant impact for a long-term contract to facilitate storage and exchange of water for the city of Aurora, Colorado, in facilities of Reclamation's Fryingpan-Arkansas Project. The city requested the contract to facilitate exchange for its Arkansas River water rights to help it more efficiently manage its water.

Through the Tucson Aqueduct System Reliability Investigation, Reclamation is investigating methods to make Central Arizona Project (CAP) water deliveries in the Tucson area as reliable as water deliveries to Phoenix area users. Through a pilot recharge test begun in November 2004, more than 3,700 acre-feet of CAP water was recharged at the test site at the end of June 2007. If the pilot recharge test is successful, a permanent recharge facility will be built at this site with additional recharge capacity at a second site.

Reclamation is partnering with several State, local, and regional entities in Arizona to improve management of water resources by evaluating existing water supplies, identifying possible future water supplies, and identifying and analyzing other resource issues through the Mogollon Rim Water Resources Management Study and the North Central Arizona Water Supply Study.

Reclamation implemented a demonstration program in 2007 in the Lower Colorado River Basin to create Intentionally Created Surplus (ICS) water. This allows Colorado River water entitlement holders



**Red River, looking south at Grand Forks, with Minnesota on the left and North Dakota on the right.**



**A Record of Decision was signed for the San Luis Drainage Feature Re-Evaluation EIS to improve agricultural drainage.**

In March 2007, Reclamation signed the Record of Decision (ROD) for the San Luis Drainage Feature Re-Evaluation EIS. Implementation of the selected alternative will fulfill the requirements of a District Court order and a Ninth Circuit Court of Appeals ruling that determines Reclamation's statutory duty to provide drainage service to the Central Valley Project San Luis Unit in California. A total of 194,000 acres of land will be retired from irrigated agriculture in the San Luis Unit, and drainage reduction measures, collector systems, drainage water reuse facilities, treatment systems, evaporation ponds, and mitigation measures will be developed.

to undertake extraordinary conservation activities to reduce their approved annual consumptive use of river water and store it in Lake Mead. Reclamation entered into agreements with the Metropolitan Water District of Southern California, the State of California, and the Imperial Irrigation District to create ICS water in 2007.

The Washington Department of Ecology was directed by the Washington Legislature to aggressively pursue development of water supplies to meet future needs of communities and rural economies along the mainstem of the Columbia River while improving instream conditions for fish. Reclamation is partnering with the State of Washington on several water supply studies in support of these goals.

During 2007, work continued on seven water reclamation projects in southern California. In addition, feasibility studies continued on water reuse projects in north Las Vegas, Nevada; Phoenix and Tucson, Arizona; and in southern California. In FY 2007, Reclamation's water reuse projects in southern California generated more than 122,000 acre-feet (approximately 40 billion gallons) of reclaimed water for use.

## Using Alternative Sources of Usable Water: Desalination

Desalting sea water and inland brackish waters offers new drought-proof water supplies that can help Reclamation manage water more effectively. Desalination projects and research helped Native Americans, rural areas, and municipal and industrial water use. Reclamation's investments in desalination come through various budget line items and programs: the Desalination and Water Purification Research and Development Program, the Science and Technology Program, the Water Reuse Program – Title XVI, *Water 2025*, and the Yuma Desalting Plant – Title I provide funding for these projects.

### *FY 2007 Accomplishments*

Reclamation's Research and Development (R&D) Office funded 112 Science and Technology Program R&D proposals. The National Academy of Sciences study on Advancing Desalination Research, cosponsored by the R&D Office and the Environmental Protection Agency, is scheduled to be completed by the end of FY 2007. Construction was completed and operations testing of the Brackish Groundwater National Desalination Research Facility at Tularosa, New Mexico, began in FY 2007. The R&D Office also began implementing the new Science and Technology Program Steering Committee Charter revised under Reclamation's *Managing for Excellence* initiative.

In March 2007, the Yuma Desalting Plant (YDP) finished a test run to produce drinkable water. During a 90-day demonstration run, the plant functioned at 10-percent capacity to test its operational capabilities and study its effects on wetlands in Mexico. The YDP desalted about 4,200 acre-feet (more than 1.3 billion gallons)

**Tularosa Brackish Groundwater  
National Desalination Research**



of highly saline irrigation return flow water, which was discharged into the Colorado River and delivered to Mexico under its 1944 Colorado River Water Treaty entitlement.

In June 2007, the Final Phase II Report for the Central Arizona Salinity Study (CASS) was distributed, recommending additional research on a regional strategy to manage brine concentrate, methods of restricting salinity disposal into the sewer system, and continued funding of the Colorado River Basin Salinity Control Program. CASS is a coalition of water and wastewater agencies from several central Arizona cities evaluating salinity issues to develop a Central Arizona Salinity Master Plan.

### ***Future Goals***

The R&D Office plans to continue implementing the new Science and Technology Steering Team Charter and the Water and Power Solution database in accordance with findings stemming from Reclamation's *Managing for Excellence*.

The R&D Office also plans to continue solution-oriented research and development and plans to emphasize accomplishments in the following areas:

- Forge new and more effective ways of transferring solutions to the water users and water managers.
- Improve institutional approaches to solve water problems.
- Increase scientific coordination and collaboration with other Federal agencies, universities, and other organizations that offer Reclamation complementary scientific and R&D capabilities.
- Collaborate with National Oceanic and Atmospheric Administration (NOAA), U.S. Geological Survey, universities, and Western States to evaluate climate change sciences and the potential effects on Western water resources, and to develop adaptation strategies as necessary to minimize impacts and maximize opportunities.

### **Science and Technology: Controlling Invasive Species**

Reclamation maintains an active research program to develop innovative ways to manage our water delivery program and address



**A quagga mussel, an invasive species, is found in Parker Dam at the 9-foot depth.**



increased water demands in the West. Invasive species are a major challenge to our ability to provide efficient water delivery because they clog rivers and canals and damage facilities. We are currently focusing a large portion of our research efforts on controlling invasive species.

In January 2007, quagga mussels were discovered for the first time west of the Mississippi River in Lake Mead on the lower Colorado River, as well as at several other locations along the lower Colorado River. In mid-August, the quagga mussel was also found at Lake Powell. Reclamation immediately began investigations into the mussel's potential impact on hydropower and other facilities along the river. Additional analysis processes are underway to develop



a means of determining the presence and relative abundance of the mussel in a particular body of water. As FY 2007 ended, Reclamation and other entities were developing programs to address and manage this new threat to Western water supplies and infrastructure.

### **Drought Response**

Reclamation addresses drought conditions by storing water for times of shortage and contingency planning with States and water users. During the recent prolonged drought, our reservoirs performed well, meeting water requirements in most areas of the West despite precipitation shortages.

Reclamation actively engages in drought planning, working with States, water users, and other entities to prepare in advance so that when drought occurs, we have agreement on steps to manage it.

Part of this advance planning involves interagency efforts such as the Drought Action Teams developed in collaboration with the U.S. Department of Agriculture. Grants are made available under the *Water 2025* Program and under our Water Conservation Field Services Program to help water users make more efficient use of water, particularly during times of drought.

Through the regular appropriations process, Public Law 110-28, U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act 2007, signed on May 25, 2007, contained \$18 million for drought relief assistance. The law's language reads in part ". . . drought assistance may be provided under the Reclamation States Drought Emergency Act or other applicable Reclamation authorities to assist drought plagued areas of the west." Final allocations have been made, with \$6 million going to Garrison Project authorities for needed construction work resulting from drought conditions, but of a permanent nature. The remaining \$12 million is available for Reclamation's response to emergencies through its authority under Title I of the Reclamation States Emergency Drought Relief Act of 1991, as amended. Potential projects are being evaluated and prioritized for consideration for funding.

Work initiated in FY 2006 for the drilling of municipal wells and the design/monitoring/testing activities associated with wells, as well as for temporary supplies of water purchased in New Mexico to

provide flows for endangered fish in the Pecos River and the Rio Grande, will essentially be complete in FY 2007. Over \$9.3 million in emergency drought relief was made available to four communities and one Indian tribe.

## Resource Management

At the direction of the Secretary of the Interior, Reclamation began to develop lower Colorado River basin shortage guidelines and coordinated management strategies for Lake Powell and Lake Mead under low-reservoir conditions in FY 2005. In FY 2006, Reclamation prepared a draft alternatives report and a draft EIS to address the proposed guidelines and strategies. The draft was available in February 2007, and the final EIS will be completed in December 2007. An EIS is a detailed public document required by the National Environmental Policy Act (NEPA) for proposed major Federal actions having a significant effect upon the human environment. It focuses on a description of the affected environment and a detailed analysis of the environmental consequences of the proposed action and its alternatives.

Reclamation is preparing a long-term experimental plan environmental impact statement (LTEP EIS) for future operation of Glen Canyon Dam and other associated management activities. A Record of Decision is scheduled for December 2008. A Record of Decision is a written document which states the decision made and describes the environmental factors considered, the preferred plan, and the alternatives considered in an EIS. After receiving public input, Reclamation released the LTEP EIS Scoping Report in March 2007 and continues to work with cooperating agencies on the development and refinement of alternatives to be evaluated as part of the EIS process. The proposed plan would increase scientific understanding of the downstream ecosystem through implementation of a structured, long-term program of experimentation in the Colorado River below Glen Canyon

**Aerial view of Yellowtail Dam on the Bighorn River.**



Dam. Areas to be evaluated include dam operations, potential modifications to Glen Canyon Dam intake structures for releasing warmer water to benefit endangered fish, and other potential management actions, such as removal of non-native fish species.

In June, Reclamation announced its preferred alternative for the *Colorado River Interim Guidelines for Lower Basin Shortages and Coordinated Operations of Lake Powell and Lake Mead*. The final EIS for the guidelines was published in October 2007, and the Secretary of the Interior is expected to sign a Record of Decision implementing the guidelines in December 2007.

In early 2007, Reclamation's Montana Area Office formed the Bighorn River System Long Term Issues Group to identify, explore, and recommend alternative courses of action to the Federal and State agencies responsible for managing Bighorn River and Bighorn Reservoir (impounded by Yellowtail Dam) as part of long-term management strategies. The group is focusing on such issues as sedimentation, forecasting, modeling, flood-pool elevation, water rights, and fish habitat and reproduction.

### **Generating Hydropower**

One of Reclamation's top priorities is reliably and efficiently generating hydropower. Reclamation's hydropower facilities serve as some of the West's most important electrical resources, with 58 hydropower plants with a capacity of 14,800 megawatts (MW). Our powerplants provide flexible and reliable hydropower throughout the Western United States, while also providing the backup blackstart capacity for the West's largest nuclear generating units.

Each year, Reclamation's powerplants generate approximately 44 million MWh of hydropower, enough to meet the annual needs of about 9 million people. Revenue from power sales has aided in the repayment of the West's water and power infrastructure. Western Area Power Administration (Western) and Bonneville Power Administration (BPA) market the surplus power generated at Reclamation facilities.

For the last 2 years, Reclamation has had a partnership agreement with the U.S. Army Corps of Engineers (USACE) to promote a long-term working relationship and collaborate on efforts to manage water and related land resources. In particular, the agreement

encourages the two agencies to share needed technical expertise, improve resource management, and leverage each agency's limited resources to improve public services and make more efficient use of limited public funds.

### **Operating, Maintaining, and Upgrading Facilities to Generate Power**

Although hydropower facilities have high initial investment costs, these facilities can have life expectancies approaching 100 years with proper maintenance practices and replacement of generating components. Reclamation works diligently to reduce the cost of generating hydropower, while ensuring the long-term viability of our facilities. In FY 2007, Reclamation continued responsible maintenance practices, including:

- Conducting standardized facility reviews (power reviews of O&M) to identify and implement timely maintenance, replacements, upgrades, necessary modification, and modernizations.

**The effects of the prolonged drought are visible at Glen Canyon Dam.**



- Using a condition rating system to identify areas of greatest concern for maintaining reliability, including penstocks, transformers, turbines, and generators.
- Obtaining baseline data on facility condition for all Reclamation powerplants.
- Developing a risk assessment tool, which will prioritize limited maintenance and replacement dollars to maximize benefits and minimize risk.

### **Evaluating Drought Impacts on Hydropower Generation**

The ongoing drought in the Western United States had a significant impact on Reclamation's hydropower production and raised some of the Federal power rates. For example, the Glen Canyon Powerplant can provide electric power for about 1.8 million people across the Upper and Lower Colorado River marketing areas (Arizona, Utah, Colorado, Wyoming, New Mexico, and Nevada). In addition, it accounts for approximately 70 percent of the power generation for the total Colorado River Storage Project. Nevertheless, drought conditions, combined with other operating restrictions, have significantly reduced Glen Canyon's contribution to the Western power grid.

The effects of multiple years of drought and low inflow remain visible at Lake Powell. Lake Powell storage is currently 53 percent of capacity, and the water surface elevation will likely decrease between now and March 2008. The low water level at Lake Powell continues to reduce Glen Canyon Powerplant's generation capacity by approximately 25 percent, from an average generation capacity of 1,312 MW to about 990 MW. Last year, Western increased its composite firm power rate from 20.28 mills per kilowatthour (kWh) to 25.28 mills per kWh to accommodate increased purchase power expenses necessary to meet firm power contracts.

### ***FY 2007 Highlights***

Reclamation leads the hydropower industry in low costs and high reliability. Reclamation strives to keep generators at their peak by rehabilitating or replacing older models. In fact, we have had an active rehabilitation program since 1978. We continue to improve operating equipment; for example, installing more efficient turbine

runners at Grand Coulee Dam (FY 2000 through FY 2012), Flaming Gorge Dam (FY 2005 through FY 2007), and Glen Canyon Dam (FY 2004 through FY 2014). Reclamation keeps costs in check by maintaining reliable facilities and efficiently using financial resources to extend the life of our facilities.

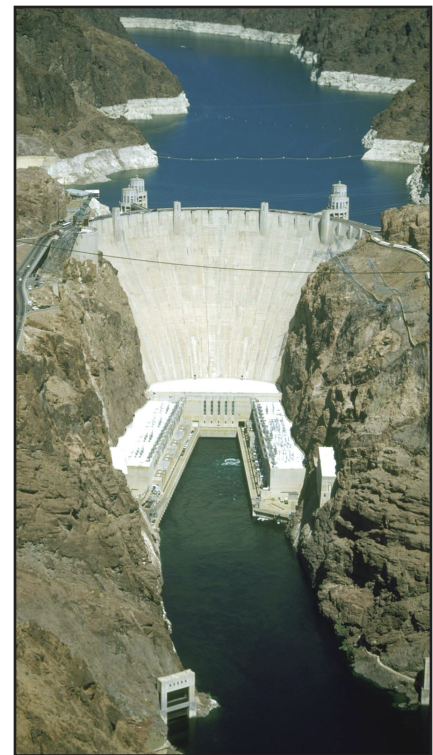
Reclamation's Power Resources Office coordinated the efforts of nine Federal agencies to complete a report for Section 1834 of the Energy Policy Act of 2005. This report examined the opportunities for additional hydropower development across the U.S. Departments of Army, Energy, and Interior.

The Power Resources Office is also leading Reclamation's effort to comply with new mandatory reliability standards resulting from the Energy Policy Act of 2005. These 83 standards were determined to be mandatory and enforceable by the Federal Energy Regulatory Commission (FERC). Failure to comply with these standards carries the potential for significant monetary fines.

Reclamation's power program scored a 92 percent on the Office of Management and Budget's Program Assessment Rating Tool (PART) review and was rated "effective." PART is a standardized and systematic process for rating program performance that will then be used to help make budget decisions. PART can also help establish performance criteria for good government management and will be used in annual performance plans and reports required by the Government Performance and Results Act (GPRA). Producing significant achievements in FY 2007, Reclamation's programs:

- Implemented hydropower asset management planning risk-based condition assessment tool (developed with the largest hydropower producers in North America and BPA).
- Completed FY 2006 Comprehensive Facility Reviews (CFR) on all scheduled power facilities (Power Resources Office published all Reclamation CFR reports for 2006 by December 2006).
- Through the Federal Columbia River Power System Capital Workgroup, initiated several capital improvements, including replacing transformers, excitation systems, and protective relays at Grand Coulee Dam; circuit breakers at Hungry Horse Dam; and excitation systems at Roza and Chandler Dams. By the end of FY 2007, 10 generating

**Lake Mead, the reservoir impounded by Hoover Dam, with the effects of the drought visible on reservoir water levels.**



units at Grand Coulee Dam were upgraded as part of a \$125 million program to replace existing turbine runners on 18 hydropower generators.

- The cast-steel wicket gates of several of the generators at Hoover Dam are being replaced with stainless steel wicket gates that provide additional megawatt capacity for each overhauled unit that otherwise would have been lost as an impact of the recent drought.

### ***Future Challenges and Goals***

While our forced outage rate is lower than the current industry average, our hydropower program continues to improve performance and optimize generation, consistent with project purposes. Reclamation conducts frequent assessments of O&M effectiveness at all of our powerplants and major pumping plants by tracking recommendations to correct deficiencies.

New, industry-wide, mandatory reliability standards will challenge Reclamation to undergo regular compliance activities. In addition, Reclamation will be subject to audits by the FERC-appointed electric reliability organization. Reclamation has developed a Reliability Compliance Workgroup, staffed by members of the Power Resources Office and members from each regional office, to ensure we maintain proper reliability documentation.

### **Providing Other Programs and Benefits**

In addition to water delivery and power generation, Reclamation is also responsible for maintaining and safeguarding its facilities, as well as other projects authorized by the Congress, which provide benefits for recreation, fish and wildlife, and the environment.

### **Safety, Security, and Law Enforcement Programs**

Reclamation's Security and Law Enforcement Programs provide integrated protection of Reclamation's facilities, critical information, and, more importantly, the employees, contractors, visitors, and public located at or near Reclamation facilities. The program reduces security-related risks through a combination of preparedness, prevention, protection, and response.

***FY 2007 Highlights***

In FY 2007, Reclamation implemented security improvements at several critical infrastructure facilities. We implemented designs and installations of integrated security upgrades at four National Critical Infrastructure dams: Folsom, Shasta, Hoover, and Glen Canyon, and at several other mission-critical facilities. Security enhancements included barriers, video surveillance, intrusion detection, access control, communication systems, and guard forces.

Reclamation completed development of a long-term Security Risk Assessment Program and implemented a 2-year pilot of the new program. The program will consist of recurring Comprehensive Security Reviews and Periodic Security Reviews at Reclamation's most critical facilities.

Reclamation worked with other Federal agencies and laboratories to enhance understanding of the effects of terrorist activities on dams and related resources. Reclamation worked closely with the U.S. Department of Homeland Security and other dam-sector agencies to develop sector-specific plans for national infrastructure protection, research and development, and information sharing. We also shared best practices for critical infrastructure and key asset protection and vulnerability assessment methodologies.

Reclamation implemented Homeland Security Presidential Directive 12, which established a Government-wide policy for a common identification standard for Federal employees and contractors, and worked closely with other Interior bureaus to develop the policies and procedures for issuance and management of Personal Identity Verification cards. We also issued new directives and standards on police officer and security guard uniforms and updated the directives and standards for identifying and safeguarding for "official use only" information.

Reclamation collected, recorded, and investigated information on security and law enforcement-related incidents, including suspicious activities. This information is directly shared with dam and power transmission members and with appropriate intelligence agencies. Reclamation special agents and intelligence analysts also completed threat assessments and produced intelligence products to protect Reclamation and associated water and power transmission infrastructure.



A National Academy of Sciences committee conducted an assessment of Reclamation's Security Program to determine Reclamation's level of preparedness to deter, respond to, and recover from threats to its physical infrastructure and to the people who use and manage it. An assessment report will be available in FY 2008.

### ***Future Challenges and Goals***

In FY 2007, Reclamation increased reimbursement for security costs for guards and patrols, which are considered project O&M costs, from \$10.0 million in FY 2006 to \$14.5 million in continuation of the transition to full reimbursement of those costs in FY 2008. Reclamation will continue to work closely with our managing partners, the U.S. Department of Homeland Security, other dam-sector agencies, national laboratories, the Federal Bureau of Investigation, and other Federal, State, and local agencies in implementing effective security measures and securing the key resources and critical infrastructure for which Reclamation is responsible.

### **Safety and Occupational Health Program**

Reclamation's Safety and Occupational Health Program is the organizational framework that uses a variety of tools to provide a safe working environment and facilitate a safety culture. The overarching goal of the safety and health program is to prevent accidents to people, operations, property, and the environment by using a model of management commitment and employee involvement; hazard analysis and system and management controls; and continuous improvement. In recent years, Reclamation has demonstrated a downward trend in the lost time injury rates, below the Federal Government and Interior averages.

### **Dam Safety**

Dam safety activities are directly related to Reclamation's priority to ensure reliable and efficient delivery of water and hydropower. The objectives of our Dam Safety Program are to ensure that Reclamation facilities do not cause unreasonable risks to people, property, or the environment and to take appropriate action to reduce and manage risks in an efficient and cost-effective manner. Reclamation is responsible for 479 dams and dikes that form a significant part of the water resources infrastructure for the 17 Western States. As these structures age, concern increases about



**Issuing the ROD on dam safety, security, and flood damage reduction actions at Folsom Dam and Reservoir was a key step toward solving dam safety problems.**

their continued satisfactory performance. The 375 structures that could cause loss of human life or other significant losses through failure or misoperation are included in the Dam Safety Program.

### ***FY 2007 Highlights***

A few highlights of Reclamation's Dam Safety Program accomplishments are listed below.

Two RODs were signed and executed in May 2007 for dam safety, security, and flood damage reduction actions at Folsom Dam and Reservoir northeast of Sacramento, California. Both RODs are based on the Folsom Dam Safety and Flood Damage Reduction Final EIS released on March 30, 2007. In addition to the RODs, Reclamation's final Dam Safety Modification Report and USACE's final Post Authorization Change Report were completed and signed. These are key steps toward solving dam safety problems at Folsom Dam in addition to providing 200-year flood control protection for the Sacramento area and downstream flood plains.

This year, 44 CFRs were completed; risk reduction (prioritizing structural and nonstructural measures for reducing dam safety risks) activities at Gibson Dam in Montana, Lauro Dam in California, Norton Dam in Kansas, and Keechelus Dam in Washington were completed; ongoing risk reduction actions at Deer Creek Dam in Utah, Deer Flat Dam in Idaho, and Stony Gorge Dam in California continued; and risk reduction actions at Folsom Dam in California and Scofield Dam in Utah began.



**An aerial view of Watkins Dam.**

A 2004 inspection of the Deer Flat Dams in Nampa, Idaho, revealed cracks in an outlet conduit, which allowed seepage and sediment to enter. Reclamation studies determined that it would be necessary to completely remove and replace the outlet works to correct the problem. In FY 2007, a design for the fix was completed and the modification report and environmental assessment were transmitted to Office of Management and Budget (OMB). Pending the Congressional approval, construction will begin with a target for completion in spring 2009.

Reclamation completed a modification report to perform Safety of Dams modifications on Scofield Dam spillway. Dam safety investigations identified design deficiencies that could cause a failure in the more than 60-year-old structure, located 22 miles northwest of Price, Utah. The modification report was submitted to the Congress in May 2007, and the contract for work was awarded in June 2007.

Seepage was discovered at A.V. Watkins Dam, located north of Ogden, Utah, in mid-November 2006. Immediate emergency remedial actions were taken to avert an uncontrolled release of the reservoir and potential failure of the dam. The Commissioner authorized construction of an upstream berm and replacement of the toe drain in March 2007, and construction was completed in April 2007. Under the Safety of Dams process, a corrective action study and modification report are scheduled for completion in December 2007.

Progress continues on Safety of Dams modifications at Deer Creek Dam, located in Provo Canyon, near Provo, Utah. The second half of Phase I work being done under contract by the Utah Department of Transportation, as part of its highway improvement project, will be complete in December 2007. Phase II of the three-phase project to modify the dam and spillway structure to withstand a large seismic event began in January 2007, when the contract was awarded, and was completed October 12, 2007. The Phase III construction contract was awarded August 28, 2007. All modifications are scheduled to be completed by November 2009.

### ***Future Challenges and Goals***

Reclamation has many multiyear contracts in place for the Dam Safety Program. The dam safety construction contracts are a major part of our continuing efforts to ensure that our structures do not present a safety risk to the public.

The Safety of Dams corrective action at Folsom Dam in California is, and will continue to be, the Dam Safety Program's highest priority because of the large population at risk downstream from the dam. Reclamation will continue to work with the USACE to find a joint resolution to complex and significant dam safety and flood control issues.

Reclamation continues to improve its emergency management capability by planning and conducting exercises in conjunction with Emergency Action Plans, Continuity of Operation Plans, Occupant Emergency Plans, the Emergency Notification System, and the Emergency Operations Center.

### **Construction**

Most of Reclamation's construction supports the Dam Safety Program or is performed as part of specific projects the Congress authorized. Portions of this and other authorized projects have been contracted to Indian tribes pursuant to the Indian Self-Determination and Education Assistance Act, Public Law 93-638. (See also Dam Safety.)

**An aerial view of Ridges Basin Dam construction.**



### *Animas-La Plata Project*

In FY 2007, Reclamation's major construction efforts were on the Animas-La Plata Project in southwestern Colorado/northern New Mexico. Since 2002, construction contracts totaling approximately \$234 million have been awarded for the Animas-La Plata Project. Reclamation is constructing this water delivery project under the Colorado Ute Indian Water Rights Settlement Act of 1988, as amended in 2000. The project will provide water for the Ute Mountain Ute and Southern Ute Indian Tribes and the Navajo Nation, as well as benefit four other entities: the Animas-La Plata Water Conservancy District, Colorado; the State of Colorado; the San Juan Water Commission, New Mexico; and the La Plata Water Conservancy District, New Mexico.

Reclamation construction on Ridges Basin Dam and Durango Pumping Plant, two key components of the Animas-La Plata Project, continued in FY 2007. Reclamation also awarded the contract for construction of the Ridges Basin Inlet Conduit to Weeminuche Construction Authority, a wholly owned subsidiary of the Ute

Mountain Ute Tribe. This contract provides for the construction of the pipeline that will convey the water from the Durango Pumping Plant to Lake Nighthorse. The dam will create Lake Nighthorse, which will provide the Four Corners area (meeting point of Utah, Colorado, New Mexico, and Arizona) with 120,000 acre-feet of long-term water storage. When the entire project is completed, municipal and industrial users within Colorado and New Mexico will also use this water.

At the end of FY 2007, Reclamation had completed more than 55 percent of the entire Animas-La Plata Project and had:

- Placed embankment materials for Ridges Basin Dam and built the dam to a height of more than 250 feet from the foundation to the top.
- Worked on the outlet tunnel through the left abutment of the dam. The installation of the electrical and mechanical equipment within the outlet works has started.
- Completed placing concrete for the Durango Pumping Plant. The installation of the electrical and mechanical equipment within the pumping plant has started.
- Installed over 1 mile of 72-inch-diameter steel pipeline for the Ridges Basin Inlet Conduit.

The schedule for the Animas-La Plata Project is driven by the availability of funds. The project is currently scheduled to be completed in 2012, including filling of the reservoir. The estimated total cost is \$500 million, plus indexing for inflation.

In addition to construction on the Animas-La Plata Project, a construction contract was awarded in March 2007 by the Northern Colorado Water Conservancy District to build a new backup outlet at Carter Lake to accommodate lower, year-round releases for increased municipal and industrial needs. Carter Lake, the southern terminal storage facility for the Colorado-Big Thompson Project, is operated and maintained by the district under contract with Reclamation. Construction of the new outlet is expected to be complete in July 2008.

## **Information Technology Security Program**

One of Reclamation's priorities is ensuring long-term security of Reclamation's facilities, and Reclamation maintains a highly integrated, reliable, and appropriately protected electronic information infrastructure through its Information Technology (IT) Security Program.

This program helps to ensure that critical engineering, water management, financial, personnel, and other mission-related information and cyber resources are accessible to those who need them, while remaining secure from unauthorized individuals and those with criminal intent. Reclamation's IT Security Program is governed by the Federal Information Security Management Act (FISMA), actively complies with Federal IT standards and guidance, and is aligned with Interior's IT security efforts.

### ***FY 2007 Highlights***

Reclamation's IT Security Program continues to make strong contributions towards improving Interior's FISMA scorecard performance, particularly in the areas of protection of critical cyber infrastructure, certification and accreditation of systems, and role-based security training and awareness.

The program, in partnership with Reclamation's Safety, Security and Law Enforcement Office, continues to develop key requirements for position designations, information protection, and incident reporting. Among other partnership successes, this has resulted in the effective and proper screening of personnel responsible for Reclamation's IT systems and IT security.

Reclamation successfully adopted several recently established National Institute of Standards and Technology (NIST) benchmarks for IT security planning, security testing, and security certification. This effort required the adjustment of specific components of Reclamation's certification and accreditation procedures to better align with NIST's standard and results in more thorough security evaluations. Reclamation also completed annual management level IT security reviews (internal control reviews) of its program and of 32 cyber systems. In addition, Reclamation successfully completed a program-level review led by Interior. These reviews found no significant weaknesses in our management-level

IT security controls, but Reclamation will implement a number of smaller improvements identified during the reviews and subsequent collaborative discussions.

To support the continued operations of its IT systems, Reclamation followed an aggressive IT system certification and accreditation schedule for FY 2007. A total of 22 systems were security tested and accredited in FY 2007. One of the most significant accomplishments was the certification and accreditation of the Reclamation Mission Support System, which encompasses over one-third of all of Reclamation's IT assets.

Reclamation established and successfully used an internal IT security assessment process to identify and remedy system and programmatic weaknesses throughout its IT security program and a selected subset of Reclamation IT systems. Initial assessments have been very well received and have proven effective in identifying areas in which security improvements can be made. Through the incorporation of assessment results, Reclamation continues to actively maintain and improve its existing and foundational program components, including those for risk identification, management, and mitigation; contingency planning; incident reporting and response capabilities; procurement practices; and a proactive IT security training effort.

### ***Future Challenges and Goals***

Reclamation continues to proactively support, refine, fund, and implement common, Interior-wide IT solutions and to develop effective strategies for implementing mandated IT requirements that do not always align with Reclamation's mission goals and objectives. Areas of particular emphasis include implementation of recent personal identification information protection requirements via encryption and business process improvement strategies, proactive execution of new strategies to counter both external and insider threats to IT systems and resources, and continuous enhancement of existing IT security practices and procedures.

The program's greatest challenge is balancing the technology needs of its organizational components with legislative mandates and the need to address a continuously changing IT resource threat environment. The program's goals include the continuous improvement of IT security through improved focus on implementing cost-effective solutions that support and enhance



Reclamation's infrastructure, communications, information management, operational capabilities, and mission accomplishment.

### **Flood Damage Reduction**

Yakima River basin in eastern Washington had two very high fall and winter natural flow events in FY 2007 that were controlled by the storage reservoirs. Storing the water runoff for these two peaks prevented local flood damages that would likely have exceeded \$40 million.

Several Great Plains Region water storage facilities experienced flood events in FY 2007. In Montana, Lake Sherburne received localized heavy rainfall and the Bighorn River Basin received sustained rainfall. In North Dakota, Jamestown Reservoir stored water in the flood storage pool for most of the early summer. In Nebraska and Kansas, facilities in the Republican River Basin received substantial rainfall. Two reservoirs in the area stored water in the flood pool for extended periods.

All seven of Reclamation's reservoirs in the State of Oklahoma, plus Cheney Reservoir in south-central Kansas, began storing water in the flood storage pools as early as June 2007 to minimize damage downstream from flooding. Two of these projects, McGee Creek and Mountain Park, were operated in the lower levels of the surcharge pool in the first part of July. There were also surcharge releases from the Nueces River Project in south Texas in July.

### **Serving Native American Communities**

The mission of Reclamation's Native American Affairs Program (NAAP) is to help make the benefits of Reclamation programs available to Indian tribes and to assist in fulfilling Interior's Indian trust responsibilities, one of Reclamation's priorities. The Native American and International Affairs Office provides central coordination and policy leadership for all Native American Affairs issues throughout Reclamation.

The NAAP provides technical and financial assistance to Indian tribes, institutions of higher education, national Indian organizations, and tribal organizations to increase opportunities for Indian tribes to develop, manage, and protect their water-related resources. Program activities include support for Indian self-determination and tribal self-governance (Title I and Title IV

of Public Law 93-638, Indian Self-Determination and Education Assistance Act) and protection of Indian sacred sites on Federal lands. Program activities also provide policy and technical support for Indian water right settlements, making Reclamation resources available to Indian Country to assist tribal governments to protect, manage, and develop water and related resources; and execution of a technical assistance program to tribes. In addition, the NAAP provides training to Reclamation employees and members of federally recognized tribes in water resources related areas.

### ***FY 2007 Highlights***

For FY 2007, the NAAP provided approximately \$6.3 million to enable Reclamation to assist in Indian Country with outreach and technical assistance. Reclamation continued to support the Secretary of the Interior's Indian Water Rights Settlement Office activities, providing approximately \$1.0 million for 17 Indian water rights negotiation teams and 9 water rights settlement implementation teams. The NAAP technical assistance activities entailed a wide array of projects, more than 100 in all, involving over 50 tribes; activities included water needs assessments and improved water management, water quality activities, and water measurement studies. Tribes performed some of this work under Public Law 93-638. There remain a significant number of unmet water-related technical assistance needs that have been identified by Tribes.

The Navajo Nation requested emergency drought assistance from Reclamation, and a project was completed at the Toadlena Fish Hatchery. The project consisted of drilling a 452-foot-deep well and constructing a storage tank at the Toadlena Fish Hatchery, located on the Navajo Nation Reservation. The well produces 8 to 20 gallons per minute of nonpotable water, which is then pumped to the water storage tank, which has a capacity of 16,000 gallons. This allows a gravity flow system to deliver water to the hatchery.

Reclamation is working with the Goshute Tribe to make the most efficient use of the limited water supply available on the Goshute Reservation, located in the western desert of Utah. Reclamation, in conjunction with Natural Resources Conservation Service and Utah State University, have assisted the tribe in designing and installing a low-flow sprinkler irrigation system, upgrading and improving small canals and ditches, and creating small storage facilities.



**This 452-foot-deep well produces 8 to 20 gallons per minute of nonpotable water for Toadlena Fish Hatchery.**



**The Pueblo of San Felipe repaired and rehabilitated windmills, using NAAP funding.**

The Southern Arizona Water Rights Settlement Act of 1982, which secures the water rights of the Tohono O'odham Nation, requires the city of Tucson to make 28,200 acre-feet per year of treated effluent available to the Secretary of the Interior to assist in implementing provisions of the act. Reclamation is storing effluent, a significant renewable regional resource, and accruing ground water credits at two managed recharge facilities.

The Southern Arizona Water Rights Settlement Act of 1982 also directed Reclamation to deliver 27,000 acre-feet of agricultural water annually to the San Xavier District of the Tohono O'odham Nation. Construction on the San Xavier Farm Rehabilitation, south of Tucson, was completed in March 2007, providing an underground water delivery system to 900 acres of farmland, flood control features, roads, land leveling, and turnouts on the piping system for future development.

Reclamation implemented all its obligations under the Nez Perce Water Rights Settlement (Snake River Water Rights Act of 2004). Specifically, in FY 2006, Reclamation secured 60,000 acre-feet of natural flows in a 30-year lease with the Idaho Water Resources Board to protect ESA-listed salmon and steelhead in the lower Snake and Columbia Rivers. In FY 2007, Reclamation paid two Idaho counties \$2 million, as specified in the settlement and the approving Federal legislation. Reclamation's remaining obligation under the settlement is the yearly obligation to provide up to 478,000 acre-feet for flow augmentation from the upper Snake River.

### ***Future Challenges and Goals***

Indian tribes continue to experience a tremendous need for adequate water supply infrastructure to ensure the health and safety of reservation populations and to provide a base for economic development. While Reclamation cannot solve the problem of inadequate tribal water supply infrastructure alone, we will continue to assist federally recognized tribes located within the 17 Western States.

In FY 2007, the Pueblo of San Felipe (pueblos are traditional communities of Native Americans) received funding from the NAAP for agricultural water resource related infrastructure improvements. The Pueblo repaired and rehabilitated its windmills, which had fallen into disrepair, using NAAP funding. If future funding is available for technical assistance projects, the Pueblo of

San Felipe plans to install a Langemann gate on the Pueblo ditch waterway, clean out a drainage ditch, terrace and laser level lands, and install irrigation pipe systems.

## Recreation

As the population of the Western United States continues to accelerate, so does the demand for the use of Reclamation's water projects for recreation. As a result, recreation and tourism continue to be primary factors in helping both local and regional economies sustain themselves. Therefore, the availability of public land and water for recreation purposes is a critical economic factor.

Reclamation water projects provide for a diversity of recreation opportunities that range from high use urban reservoirs to primitive wilderness settings. Most of Reclamation's reservoirs are managed by other Federal agencies and 67 local and State partners. Including Reclamation managed sites, there are over 300 developed recreation sites located on Reclamation water projects. These sites include over 350 campgrounds, 1,000 boat ramps, and many other attractions. In addition to water-related activities, Reclamation's managing partner hosts the world's most attended golf tournament on project land associated with the Central Arizona Canal in Phoenix, Arizona.

**This Flaming Gorge boat ramp is one of 1,000 boat ramps located at Reclamation water projects (above).**

**More than 300 developed recreational sites are located on Reclamation water projects (right).**





**Using Title 28 partnership funds, more than 12 sites in the Pacific Northwest have been improved to make them more accessible for the visiting public.**



Reclamation and our Federal and non-Federal partners also rely on over 200 concessionaires to provide services; in particular, marinas and adjacent land-based recreation.

### ***FY 2007 Highlights***

Reclamation continues to assess the needs of our non-Federal partners in order to ensure the long-term success of these relationships. In FY 2007, Reclamation, in cooperation with Utah State Parks, developed a Business Plan Guidebook. This

guidebook provides detailed instructions for local parks and recreation managers to assess their business practices with the purpose of helping them reach the goal of greater self-reliance.

Reclamation issued a new prospectus at Lake Berryessa in California that allows entrepreneurs

to bid on as many as seven concession contracts. This prospectus was the result of a comprehensive, 6-year planning process that assessed the future public recreation needs of Lake Berryessa and the millions of potential visitors from the San Francisco Bay area.

At Hoover Dam, Reclamation has nearly completed updating all of the visitor center's interpretative facilities. These new interpretative displays are being viewed by nearly 1.5 million people each year. Just below Hoover Dam, Reclamation also completed a new road and accessible walkway for people who launch canoes and rafts for travel down the Colorado River.

In support of Reclamation's ongoing effort to ensure facilities are accessible and that they comply with the Architectural Barriers Act of 1968, Section 504 of the Rehabilitation Act of 1973, and the 1990 Americans with Disabilities Act, the Great Plains Region leveraged \$3.4 million with partner-matching agreements for an estimated \$6.8 million impact towards program accomplishment in FY 2007.

Funds were used for recreation facility improvements in all nine Great Plains Region States.

Reclamation's Dakotas Area Office and Wyoming's State Parks and Historic Sites worked together to plan and develop a new campground at Keyhole Reservoir to accommodate increased interest and use of the reservoir and adjacent lands. Construction of new campground amenities, which meet current and projected recreation trends, are jointly funded through the Title 28 program of Public Law 102-575. The two-phase construction effort began in FY 2006, and completion is expected in FY 2008.

### ***Future Challenges***

In order to ensure that Reclamation and our partners keep current with the latest trends, planning, and business practices, Reclamation has developed a training catalog. The catalog lists training opportunities that are available for staff from both Reclamation and our partners. The focus of the training is concessions management, water recreation opportunity spectrum, estimating demand, and interpretation.

### **C.A.S.T. for Kids**

Catch A Special Thrill (C.A.S.T.) is a nonprofit foundation officially established in 1993 in support of an extraordinary outdoor event that teams the sponsors with area youth for a day of fishing. In FY 2007, approximately 1,000 children participated in the 22 C.A.S.T. fishing events that Reclamation sponsored throughout the 5 Reclamation regions.

### **Fish and Wildlife**

Reclamation has responsibilities for fish and wildlife resources at its projects, based upon individual project authorizations and the mandates of other Federal statutes, such as the ESA. While delivering water and generating power is our primary mission, we also work to minimize impacts on fish and wildlife in cooperation with the U.S. Fish and Wildlife Service (Service), National Oceanic and Atmospheric Administration – National Marine Fisheries Service (NOAA-Fisheries), State fish and wildlife agencies, and others. Habitat provided or supported by Reclamation's projects can make a significant contribution to fish and wildlife resources.



**In FY 2007, 22 Reclamation sponsored C.A.S.T. fishing events were held throughout the five Reclamation regions.**



**The Platte River in Nebraska near Grand Island.**

***FY 2007 Highlights***

In October 2006, the Platte River Recovery Implementation Program Agreement was signed by the governors of Wyoming, Colorado, and Nebraska, as well as the Secretary of the Interior, allowing for program implementation to commence January 1,

2007. The program includes measures to help recover four endangered or threatened species, and thereby enable existing and new water projects in the basin to continue operations in compliance with ESA.



**Millionth minnow released into the Rio Grande by Congresswoman Heather Wilson, Senator Pete Domenici, and Congressman Tom Udall.**

The Upper Colorado River Recovery Implementation Program identified restoration of fish passage to allow upstream migration of fish as an important component in the recovery of four listed fish species. The Price-Stubb Diversion Dam, located on the Colorado River near Palisade, Colorado, is the last remaining obstacle to restoring fish passage from Lake Powell to the Colorado River headwaters. All required permits, easements, and contracts were obtained in early

2007 after nearly 15 years of work, and a construction contract was awarded in March 2007 with a scheduled completion date of May 2008.

Middle Rio Grande Endangered Species Act Collaborative Program activities assisted Reclamation in meeting ESA requirements for the

project. Riverflows were augmented, riverine and riparian habitat was restored to benefit Rio Grande silvery minnow and southwestern willow flycatcher, and the millionth captive-bred Rio Grande silvery minnow was released.

Reclamation plays a lead role in the Trinity River Restoration Program, established in 1984, to restore and maintain the fish and wildlife stocks of the Trinity River Basin to levels that existed before construction of the Trinity and Lewiston Dams in 1963. Work continues on channel rehabilitation and restoration of higher flows as part of the December 2000 ROD designed to restore salmon and steelhead fisheries impacted by four decades of water diversions for water supply and power generation needs in California's Central Valley. A major construction contract was awarded for three channel rehabilitation sites that were constructed during summer 2007. Planning, design, and environmental compliance actions are underway for the next 16 sites.

The National Academy of Sciences was asked to review the Hardy and Addley 2006 report titled "Evaluation of Instream Flow Needs in the Lower Klamath River, Phase II" and the Bureau of Reclamation's 2005 Natural Flow Study. The purpose of

**Construction of a pumping plant and subsequent removal of a major portion of Savage Rapids Dam will resolve fish passage and protective issues at the dam (top).**

**Trinity River Bridge construction, part of the Trinity River Restoration Program.**

**Lower Yellowstone Diversion Dam 100 years ago, shortly after completion.**

**Current view of Lower Yellowstone Diversion Dam (bottom).**





these reviews was to verify that the methods and approach used are appropriate for the Klamath River Basin. The review is currently in its final stage, and the report was released in October 2007.

Reclamation's Great Plains Region signed a memorandum of understanding (MOU) in 2005 with USACE, the Montana Department of Natural Resources and Conservation, and The Nature Conservancy to protect and enhance endangered pallid sturgeon populations in the Lower Yellowstone River at Intake Diversion Dam near Glendive, Montana. Under the MOU, these entities are working together to evaluate, design, and build modifications at the 100-year-old dam to allow pallid sturgeon to pass upstream and to reduce fish entrainment into the main canal.

In FY 2007, implementation of the Lower Colorado River Multi-Species Conservation Program (MSCP) continued. The program is a coordinated, comprehensive, long-term, multi-agency effort to work towards the conservation and recovery of endangered and threatened species and to protect and maintain wildlife habitat on the Lower Colorado River. Habitat was enhanced to benefit the southwestern willow flycatcher and the yellow-billed cuckoo, and larvae of two endangered fish were captured to maintain brood stock.

As part of the Lower Colorado River MSCP, Reclamation's Yuma Area Office initiated the Imperial Ponds Project, which was designed to expand, enhance, and improve habitat conditions for endangered fish. These endangered fish are in several ponds originally created by Reclamation, the Imperial National Wildlife Refuge, and Ducks Unlimited to benefit migratory waterfowl traveling along the lower Colorado River. The improved and enlarged native fish habitats were completed in FY 2007; fields and soil improvements will be finished in FY 2008 in preparation for establishing native habitat.

A Stipulation of Settlement on an 18-year lawsuit to provide sufficient fish habitat in the San Joaquin River below the Central Valley Project's Friant Dam near Fresno, California, was reached in September 2006 by Interior and Department of Commerce, the Natural Resources Defense Council, and the Friant Water Users Authority. Settlement goals include restoration and maintenance of self-sustaining, naturally reproducing fish populations in the mainstem of the San Joaquin River and the reduction of adverse water supply impacts from settlement-directed flows.

Two NOAA-Fisheries biological opinions were remanded to NOAA by a U.S. District Court judge for correction of deficiencies. The first deals with operation of the Federal Columbia River Power System, in which the judge directed NOAA-Fisheries to work with the sovereign parties (four Federal agencies, including Reclamation; seven tribes; and four States) to develop a new biological opinion. NOAA expects to have a new draft biological opinion by late October 2007 as part of a broader overall salmon recovery effort. The second remanded biological opinion deals with the O&M of 12 Federal Upper Snake River projects. The remands are being coordinated by the agencies to provide a comprehensive analysis as expected by the court.

In addition to these accomplishments, Reclamation will conduct the following activities to improve conditions for endangered fish and wildlife:

- In California, the Mid-Pacific Region is implementing the Central Valley Project Improvement Act's required actions

**Restored habitat below Friant Dam.**



by making all reasonable efforts to double the natural production of anadromous fish. In addition, Reclamation is supplying water to Federal and State wildlife refuges and other migratory waterfowl habitats in the Central Valley and mitigating impacts of the Central Valley Project for other fish and wildlife.

- The Pacific Northwest Region continues to augment flows in the Snake River and Columbia River to improve habitat conditions for salmon and steelhead species listed under the ESA. Flows are augmented through a combination of water releases from Reclamation reservoirs and water acquisitions from willing sellers.
- The Lower Colorado Region is seeking partnerships and cooperation between Federal and State agencies to help educate the public about invasive species in Lake Mead and the lower Colorado River. A new project this year is a relocation study of desert tortoise in the River Mountains of Nevada near Lake Mead.
- In the Upper Colorado Region, Reclamation participates in the June Sucker Recovery Implementation Program, a multi-agency effort to recover the endangered June Sucker, found only in Utah Lake and its tributaries. Efforts included continuing research on the potential for non-native fish removal in Utah Lake, developing and implementing beneficial flows in the Provo River, and planning and research on activities that would improve recruitment.
- In the Great Plains Region, the Montana Area Office is working with Federal, State, and local partners in a 5-year effort to determine biological and hydrologic requirements of endangered pallid sturgeon in the Missouri River upstream of Fort Peck Reservoir. The study is being conducted to collect information considered necessary for ESA Section 7 consultation on the continued operation of Reclamation projects in the upper basin.

### ***Future Challenges and Goals***

Recent court decisions in the Pacific Northwest and Mid-Pacific Regions regarding adequacy of biological opinions issued by the Service and NOAA-Fisheries continue to create challenges

for compliance with the ESA. Our goal is to comply with the requirements of Section 7 of the ESA while seeking to protect local economies and preserve natural resources and ecosystems through the effective use of water.

## Management Accountability

### Managing to Perform Our Mission More Effectively

At Reclamation, management accountability is an ongoing commitment to improve business processes and customer satisfaction. Reclamation is dedicated to achieving management excellence through increased accountability and is improving program management, performance reporting, and financial accountability through increased leadership, expanded technical expertise, efficient operations, and improved customer service.

For FY 2007, all senior executive service (SES) member performance agreements are tied to Interior's strategic goals, Reclamation's Government Performance and Results Act (GPRA) goals, the President's Management Agenda (PMA), and building collaboration and partnerships. SES members are evaluated on accomplishing specific performance targets to clearly measure their contribution to organizational goals and mission accomplishment.

### Getting to Green: President's Management Agenda Scorecards

The Office of Management and Budget established an Executive Branch Management Scorecard, updated annually, to monitor Interior's status and progress in attaining PMA goals. The objective of the scorecard is to strengthen agency accountability. Interior adapted this concept and developed their "Getting to Green" scorecard to monitor the PMA progress of each bureau and office. Reclamation continued to work toward supporting PMA and mission goals, including improving internal control processes by implementing revised OMB Circular A-123, *Management's*



**NOAA Fisheries recently listed the Southern Distinct Population Segment (the Sacramento River and Delta in California) as threatened.**

*Responsibility for Internal Control.* Reclamation ratings for the key areas are presented in the following table.

<b>Reclamation's Getting to Green Scorecard Ratings, as of September 1, 2006</b>	
Strategic Management of Human Capital	Green
Expanding E-Government	Green
Competitive Sourcing	Yellow
Budget and Performance Integration	Yellow
Improving Financial Performance	Green
Real Property	Green
Transportation Management	Yellow
Energy Management	Yellow
Environmental Stewardship	Yellow

<b>Reclamation's Getting to Green Scorecard Ratings, as of September 1, 2007</b>	
Strategic Management of Human Capital	Green
Expanding E-Government	Green
Competitive Sourcing	Yellow
Budget and Performance Integration	Yellow
Improving Financial Performance	Yellow
Real Property	Yellow
Transportation Management	Yellow
Energy Management	Red
Environmental Stewardship	Red

In general, if a rating drops, specific recommendations for improvement are identified by Interior in order to assist Reclamation in making progress. A number of factors may influence the ratings for both progress and status and may be taken into account in the overall assessment.

### ***Strategic Management of Human Capital***

As a world leader in developing and managing water resources, Reclamation requires a world-class workforce. Reclamation's highly competent and skilled staff of about 6,000 employees operate and maintain our vast water and power infrastructure, manage and

support our technical programs, and address financial, acquisition, IT, and business management challenges. Under the *Managing for Excellence* initiative, Reclamation is evaluating functional areas related to managing issues and challenges, existing infrastructure, and future construction. The outcome of these team initiatives and subsequent decisions by Reclamation management will be the focal point of our future workforce and succession planning efforts.

One of the *Managing for Excellence* teams developed a workforce/succession plan and an action plan for meeting the challenges Reclamation will face in the future. Reclamation will face many of the same challenges encountered in the past in managing our workforce and market competition, including:

- Retirement rates are increasing.
- Qualified engineers and scientists are difficult to attract.
- Candidates are less willing to relocate.
- A diverse labor force is difficult to recruit and retain.

Another team identified positions in which collaborative competencies are needed; however, in discussions with supervisors and managers, it became evident that every Reclamation position required some level of collaboration. Therefore, collaboration has been deemed a universal competency, and these competencies were grouped into three levels based on the complexity and difficulty of the duties. Every position description has been amended to reflect the level of collaboration assigned.

Other initiatives to meet with workforce and succession challenges include a Reclamation-wide Outreach and Recruitment Team; Targeted Recruitment Plans for mission-critical occupations, as well as for people with disabilities; the Student Educational Employment Program; and the Federal Career Intern Program. Reclamation currently employs 168 students and 97 Federal career interns.

### ***Expanding E-Government to Facilitate Access to Information and Services***

Federal agencies are enhancing the delivery of IT services, modernizing IT and communications capabilities, and improving IT security, data safeguards, and capital planning results through the adoption and expansion of the electronic government (E-Government) principles and best practices under the PMA.

Interior's E-Government "Getting to Green" scorecard rating incorporates these goals and objectives for FY 2007, and Reclamation received "green" ratings from Interior for its E-Government programs and activities based on the progress made to date. Reclamation actively participated in several Government- and enterprise-wide initiatives to simplify, standardize, and improve infrastructure and communications capabilities, such as Enterprise Services Network, Enterprise Messaging System, and Active Directory. These initiatives are designed to improve system interoperation, knowledge sharing, and other operational efficiencies upon completion. Reclamation plans to build on these systems and create opportunities to operate efficiently through technology enhancements and streamlined business practices.

In FY 2007, Reclamation continued work on the first of several modernization blueprints related to the Water Resources Management Framework. These efforts will leverage existing IT capabilities to their maximum potential and develop and deploy more efficient and customer-centered IT capabilities and services. Reclamation received high marks for leading in the water resources management area, with opportunities for collaboration and information sharing across Government. Other bureaus and offices within Interior, as well as non-Interior agencies and organizations, are expected to participate in and contribute to the water resources management initiative over the next few years.

Further, Reclamation received "green" scores from Interior for adopting and applying best practices in the areas of IT investment management and IT security. Reclamation continues to build upon these successes and is leading the way in complying with IT investment management practices and standards that the Government Accountability Office (GAO) prescribes. More importantly, Reclamation continues to manage IT investments effectively and has consistently kept cost variances for major IT investments below 10 percent—resulting in high marks from OMB. Reclamation's IT Security Program also expects to continue receiving high marks from Interior for complying with IT security guidance, investing in network and auditing security technologies, developing new techniques to monitor security activities, and supporting training programs to enhance skills of IT security personnel and general users.

### ***Using Competitive Sourcing to Obtain the Best Value***

Competitive sourcing is a tool for use in ensuring that citizens receive the best value from the Government. It involves conducting public-private competitions that compare the performance of a Government organization with that of a private sector or other non-Federal organization. Conducting a public-private competition is a highly structured process to ensure that both the private and public sectors compete on a level playing field.

Competitive reviews provide a disciplined, periodic way to review and compare our current operations with alternatives: Are we the best we can be? Might a restructuring generate a more efficient organization? Might contracting with a provider free up resources that can be reallocated to other priorities? The ultimate goals are to streamline existing Government organizations for most efficient performance, reduce fiscal obligations if a contractor can perform tasks more cost effectively, and enhance productivity through the development of measurable job standards. Reclamation issued a formal notice on May 1, 2007, announcing a streamlined (65 or fewer full-time equivalents) competition for all operations at the Treasure Lake Job Corp Civilian Conservation Centers. The competition was completed September 2007. The streamlined study is being conducted by the Competitive Sourcing Program Office, under the Denver Acquisition and Assistance Management Division.

### ***Integrating Budget and Performance***

Reclamation continues to build on its efforts to enhance budget and performance integration in line with Interior's initiative. In FY 2007, Reclamation completed a review and revision of its "costing" capability to extend it to the measure level based on Interior's *GPRA Strategic Plan FY 2007-2012*. As part of the effort, Reclamation is able to associate program and project costs to its measures.

This milestone was accomplished through a chartered team comprised of a cross section of managers and program staff from throughout Reclamation. The team provided recommendations for the alignment of performance measures and activity-based costing measures, as well as the refinement of existing metrics. As a result, Reclamation is now able to provide cost information for key performance measures within its budget documents that can



be associated with its projects and programs. This includes the incorporation of cost per unit data from which regional comparisons can be made and trend analysis performed.

In Interior's FY 2007 Performance and Accountability Report, Reclamation identifies its "facility reliability" measure as a representative strategic plan measure. The purpose of identifying such an indicator is to provide focus on a measure to which a significant portion of costs may be aligned and that represents key portions of Reclamation's core mission operations and progress. Full cost data have been aligned to the representative strategic plan measure and will be analyzed over time to better understand the correlation between costs and performance.

In addition to its progress in providing cost data, Reclamation continues to participate actively in the quarterly review process with Interior, wherein its budget and performance integration progress is discussed. During the quarterly review, Reclamation's senior leadership provides up-to-date forecasts on the likelihood of meeting its published annual performance targets. The annual funding level against each end outcome goal is also discussed during this time, as well as potential fund transfers that are anticipated in order to meet established targets. Reclamation's budget submissions increasingly show correlations between funding and performance for selected measures, as well as related discussions for specific programs. Reclamation uses information compiled during our baseline analysis of several new measures to further develop and support our budget request. In addition to our budget documents, Reclamation publishes performance targets and goals in our operating plan.

### ***Improved Financial Management***

Reclamation will maintain a close working relationship with Interior to improve financial processes and reporting. To achieve the President's and Interior's objectives for increased accountability, Reclamation will further refine existing internal control policies and procedures to meet the requirements of OMB Circular A-123, *Management's Responsibility for Internal Control*. Reclamation will also work to improve the process for issuing financial policies and procedures to help ensure consistency throughout Reclamation.

Reclamation has received an unqualified opinion on all financial statements since 1994, which demonstrates its strong commitment to accurate and timely reporting. Reclamation will provide timely and useful information for management, the Administration, and the Congress to forge effective decisionmaking and provide reliable and accurate information for its partners and the public, as necessary to maintain effective relationships.

Reclamation did not meet Interior's requirements to demonstrate that Reclamation uses financial information to drive results in key areas. In FY 2008, Reclamation will develop a "green plan" to demonstrate that it uses financial information to drive key results.

### ***Real Property Asset Management***

Reclamation has made significant progress in implementation of its Asset Inventory and Financial Records Verification and Validation Project. The project is designed to collect asset information from various sources into one inventory database that will be tied to Reclamation's Property, Plant and Equipment (PP&E) accounts. Reclamation identifies assets that have an original PP&E acquisition cost of approximately \$21 billion. The vast majority of these assets are capital-intensive water and power generating facilities. At the conclusion of the Asset Inventory and Financial Records Verification and Validation Project, presently scheduled for April 2008, there will be a complete, auditable, high-level asset inventory tied directly to Reclamation's financial statements.

Reclamation has made significant progress in meeting requirements of Reclamation's Real Property Scorecard. Reclamation inventory data for reserved and some transferred works, in accordance with Federal Real Property Council reporting requirements, was uploaded into the Federal Real Property Profile (FRPP) at the end of calendar year 2006 (24 data elements per asset). This included Utilization, Mission Dependency, Annual Operation and Maintenance Costs, and Condition Index for reserved and reported transferred works assets (performance measures). Reclamation developed and is executing an Outreach Plan to gather information on the remaining projects from operators of Reclamation assets (transferred works) for inclusion in the FRPP database by the end of calendar year 2007.

In November 2006, Reclamation developed and adopted an Asset Management Plan, a comprehensive documentation of Reclamation's extensive asset management policies, practices, and

processes. Site-specific Asset Business Plans were initiated in late 2006 and are being revised to reflect new reporting requirements by Interior and the use of performance assessment tools in the field. In addition, a 14-point Asset Management Strategy was developed and presented to OMB.

Additional work will be performed in the near future to document energy, transportation, space management, and disposal of assets using various performance assessment tools within Reclamation and Interior.

### ***Transportation Management***

To meet the objectives of the Transportation Management Initiative and to efficiently support Reclamation's mission, Reclamation strives towards right sizing its fleet. Reclamation is looking at opportunities to share vehicles with other Interior bureaus, as well as other Government agencies.

Reclamation has established a set of procedures and guidelines for acquisition of Interior-owned and General Services Administration leased vehicles. All motor vehicles that are purchased or leased must achieve maximum fuel efficiency and be limited in body size, engine size, and optional equipment necessary to meet Reclamation's mission requirements. Reclamation promotes the use of alternative fuel vehicles where practicable. Reclamation requires justification for any vehicle replacement or acquisition of any additional vehicles.

Reclamation created a Fleet Management Investment Review Board (FMIRB) that will develop performance indicators, set utilization standards, develop business practices, standardize data collection, and benchmark areas needing improvement. The FMIRB will review Reclamation's existing fleet portfolio and approve all requests for replacement and additional vehicles required for Reclamation's mission.

### ***Managing Energy***

Reclamation continues to comply with Executive Order (EO) 13123, Greening the Government through Efficient Energy Management, and the Energy Policy Act of 2005 (EPA05). Reclamation has

established an agency energy team consisting of one person from each regional office.

The EPCRA goal for energy reduction is 2 percent a year from FY 2006 through FY 2015. Reclamation will continue looking for ways to reduce energy use, through water conservation,

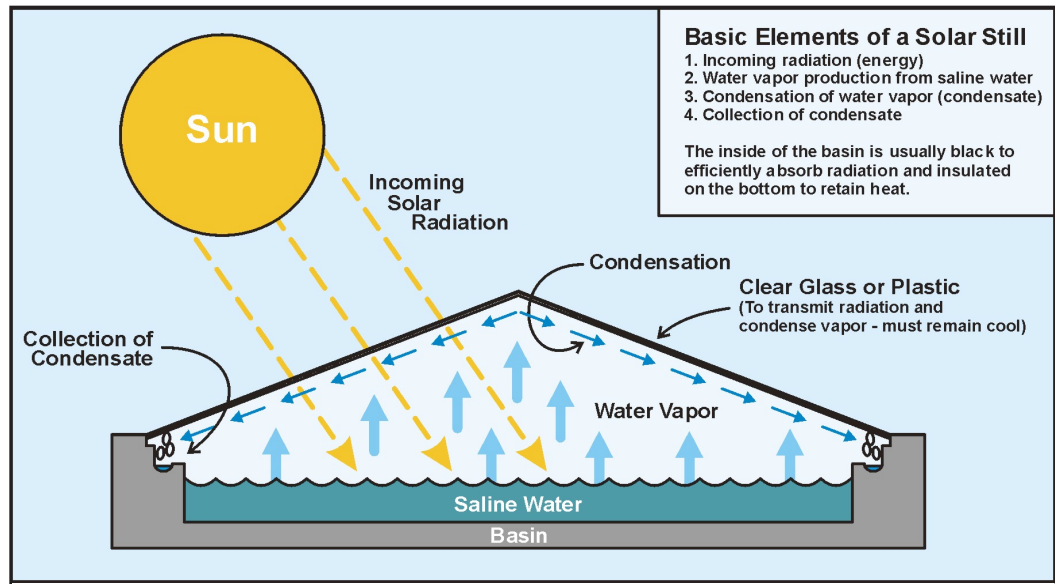
and use more cost-effective renewable energy technologies, which include solar, wind, geothermal, and biomass energy systems. Reclamation will conduct energy audits for all Reclamation-owned buildings. Once all audits have been completed, Reclamation will revisit its older audits to see if new technology could further reduce energy use for these sites.

Reclamation did not meet Interior's use of renewable energy requirements. However, the new Energy Policy Act of 2005 allows agencies to claim new hydroelectric power. Working with the Department of Energy, Reclamation has established that new hydropower is any power source created in 1999 and thereafter. This includes any upgrades in power, such as when turbines are upgraded. Reclamation has upgraded 11 turbines for an increase of 184.8 megawatts of output, which should enable Reclamation to achieve at least a yellow rating under this requirement.

### ***Environmental Stewardship***

Reclamation will build on achievements in environmental stewardship and further support the PMA initiative by improving and establishing strategies, policies, and processes which result in "Getting to Green" on the scorecard. Reclamation will:

- Fully implement Environmental Management Systems (EMS) at all appropriate Reclamation organizations.



**Solar still, a part of renewable energy technologies.**

- Build upon Reclamation's Green Purchasing Plan to implement a comprehensive plan that complies with statutory and Executive order requirements for green purchasing.
- Implement the elements of Interior's Sustainable Buildings MOU to design, locate, construct, maintain, and operate facilities in an energy efficient and sustainable manner that strives to achieve a balance that will realize high standards of living, wider sharing of life's amenities, and maximum attainable reuse and recycling of depletable resources in an economically viable manner, consistent with Interior's and Reclamation's missions.
- Implement the elements of the Departmental Electronic Stewardship MOU to improve the quality, performance, and environmental management of Federal electronic assets throughout their life cycle.
- Reclamation will continue to work with Interior toward improving environmental stewardship for all Federal lands, facilities, and operations within Reclamation's control and ensure the development and implementation of guidance for better, more environmentally friendly purchasing and greener sustainable buildings through EMS implementation.

OMB does not credit agencies for EMS implementation in process, only for EMS that are fully implemented. Although EO 13423 changes the reporting level, EMS must still address facility level implementation. By not meeting the Yellow criteria of "less than or equal to 15 percent of all facilities on Reclamation lands with a score of Red," Reclamation scored Red on the EMS rating for this quarter. Even with the EO 13423 changes, meeting the Yellow criteria will take an estimated 2-4 years to accomplish. The long timeframe is due to the lead time needed for development and implementation of EMS at the facility level, and the verification process through the Conformance Audit Program (ENV 05-02) in surname.

### **Using the Program Assessment Rating Tool**

The Office of Management and Budget's PART is a systematic process to develop program performance ratings and use that information to make budget decisions. PART is comprised of

assessment criteria on program performance and management. Each year, programs comprising approximately 20 percent of an agency's budget must be reviewed, using PART, with the goal of reviewing all programs within 5 years. Programs receive a score of up to 100.

### ***Determining the Rating***

The answers to specific questions in the PART translate into section scores, which are weighted to generate the following overall score: program purpose/design – 20 percent; planning – 10 percent; management – 20 percent; and results accountability – 50 percent. PART scores are translated into qualitative ratings based on the ranges below. Because overall scores could suggest a false degree of precision, only the overall ratings are made available to the public.

<b>Rating</b>	<b>Range</b>
Effective	85-100
Moderately effective	70-84
Adequate	50-69
Ineffective	0-49

Regardless of the overall score, a rating of Results Not Demonstrated is given when programs do not have acceptable long-term and annual performance measures. A program also receives a rating of Results Not Demonstrated when it lacks baselines and performance data which communicate current and past achievements.

In FY 2007, the Environmental Mitigation Program underwent a complete PART assessment. The Project Planning and Construction Program, originally evaluated in FY 2004, had only specific elements evaluated or re-PARTed.

### ***Environmental Mitigation Program – Adequate***

Reclamation's environmental mitigation program addresses various environmental mitigation requirements stemming from legal mandates and agency commitments. The program is intended to offset adverse effects on environmental conditions that result from Reclamation's water management activities. The program includes

activities established by the NEPA process, accepted by Reclamation under the Fish and Wildlife Coordination Act (FWCA), mandated by the ESA, and conditioned by the Clean Water Act permits.

Annual and long-term performance measures have been developed for the program, as well as recommendations for improving program management and performance.

***Project Planning and Construction – Moderately Effective***

The Water Management/Supply–Construction Program plans and builds water supply storage facilities and conveyance systems. These projects provide service for agricultural and municipal and industrial uses in those project areas where a Federal role has been defined through planning studies, Interior and OMB reviews, and the Congressional and Administration action. The program addresses a need for continued reliable water supplies in the Western United States to support existing economies, sustain production of agriculture, provide water for municipal and industrial purposes, and, where consistent with other project purposes, reduce flood damage.

Annual and long-term performance measures have been developed for the program, as well as recommendations for improving program management and performance.

# FY 2007 Performance Measure Highlights

The GPRA of 1993 requires that Federal bureaus establish performance goals, set annual accomplishment targets, and report annual accomplishments. Reclamation's facility reliability measure—*Water Infrastructure is in fair to good condition as measured by the Facilities Reliability Rating (FRR)*—assesses the integrity of all high and significant hazard storage dams and reserved works associated water facilities. It gauges the soundness of structures that support Reclamation's core mission of delivering water and generating power. These structures enable Reclamation to achieve its goal: to deliver water, consistent with applicable State and Federal law, in an environmentally responsible and cost-efficient manner.

The FRR is a score derived from a set of weighted criteria that cover maintenance, operations, and management factors. The criteria in the FRR systems provide a good representation of the overall condition of facilities based resources typically expended to meet this reliability objective.

Reclamation has achieved its accomplishment target for water infrastructure and related facilities since 2004, the year of its inception. The target for FY 2007 is 91 percent; the accomplishment is 99 percent.

<b>Goal: Facilities Reliability</b>	<b>Annual Target</b>	<b>Annual Accomplishment</b>
Percent of dams and associated facilities with a good to fair reliability rating	91%	99%

Reclamation's staff works to maintain and extend the useful life of its facilities. Approximately 50 percent of Reclamation's dams were built between 1900 and 1950, and approximately 90 percent of the dams were built before current state-of-the-art design and construction practices.



The following measures are related to Reclamation's end outcome water goal.

### Deliver Water

The *Deliver Water* performance goal measures the amount of water releases or diversions from Reclamation owned and operated facilities. Water uses include agriculture, municipal and industrial, fish and wildlife, and other contracted and authorized purposes. This goal does not include water delivered from district operated works or facilities where Reclamation does not have substantial operational control. In FY 2007, Reclamation delivered more than 30.1 million acre-feet of water to meet contract obligations and other water resource needs.

Goal: Deliver Water	Annual Target	Annual Accomplishment
Acre-feet of water delivered in million acre-feet	28	30.1

### Control Colorado River Salt

The *Control Colorado River Salt* performance goal measures the tons of salt controlled or prevented from loading into the Colorado River each year. The Colorado River Salinity Control Program's goals are to maintain salinity by adhering to the water quality standards set for the Colorado River Basin and to reduce the economic damages of more than \$300 million that occur each year in the Lower Basin. This year, additional salinity control measures funding by Reclamation will prevent about 21,000 tons of salt from entering the Colorado River. Reducing the amount of water applied to saline soils is the single most cost-effective salinity control measure. Reclamation has been able to reduce Colorado River salt removal project costs from an average of \$70 per ton removed in the 1980s to an average of \$30 per ton today.

Goal: Control Colorado River Salt	Annual Target	Annual Accomplishment
Tons of salt loading eliminated	21,000	21,000

## Increase Water Availability

The *Increase Water Availability* performance goal measures the amount of water made available by Reclamation-funded projects with cost share. Reclamation increased the amount of water available for use by 37,047 acre-feet through completing major phases of rural water distribution projects, water reuse and recycling, and aquifer ground water investigations. Projects were funded through grants, reimbursable agreements, direct pay contracts, and other financial arrangements.

This goal does not measure the actual acre-feet of water delivered by the project each year. Instead, it measures the potential acre-feet of water that could be delivered by the project based on estimated averages found in modeling and project construction agreements.

<b>Goal: Increase Water Availability</b>	<b>Annual Target</b>	<b>Actual Accomplishment</b>
Increase in acre-feet of water availability	24,839	37,047

Reclamation's performance information is incorporated into Interior's FY 2007-2012 GPRA Strategic Plan and related documents.

## **Fiscal Year 2007 Annual Assurance Statement on Internal Control**

The Bureau of Reclamation (Reclamation) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Reclamation has conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's (OMB) Circular A-123, Management's Responsibility for Internal Control, dated December 21, 2004. The objectives of this assessment were to ensure that:

- Programs achieved their intended results;
- Resources were used consistently with agency mission;
- Resources were protected from waste, fraud, and mismanagement;
- Laws and regulations were followed; and
- Reliable and timely information was maintained, reported, and used for decision-making.

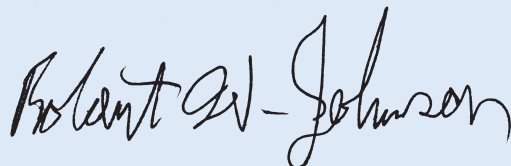
In performing this assessment, Reclamation relied on the knowledge and experience management has gained from the daily operation of its programs and systems of accounting and administrative controls, and information obtained from sources such as internal control assessments, Office of Inspector General (OIG) and Government Accountability Office (GAO) audits, program evaluations and studies, audits of financial statements, and performance plans and reports.

Based on the results of the FY 2007 evaluation, Reclamation can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, to include FMFIA, as of September 30, 2007, were operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, Reclamation conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123, and the Chief Financial Officer Council's Implementation Guide dated July 31, 2005, as implemented by the Department. The assessment focused on the specific financial reports and the related financial statement line items identified by the Department as material to the consolidated Department of the Interior financial reports. Based on the results of this assessment, Reclamation can provide reasonable assurance that its internal control over the specific financial reports and related line items identified by the Department as material to the consolidated Department of the Interior financial reports were suitably designed and operating effectively as of June 30, 2007, and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, subsequent testing through September 30, 2007, did not identify any reportable changes in key financial reporting internal controls.

I also conclude that Reclamation's information technology systems generally comply with the requirements of the Federal Information Security Management Act (FISMA), and Appendix III of OMB Circular A-130, Management of Federal Information Resources.

Further, I conclude that Reclamation substantially complies with the three components of the Federal Financial Management Improvement Act (FFMIA): Financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.



# Financial Analysis

This section provides additional information about the Financial Statements and Notes, including how we have improved financial accountability.

## Financial Statements

Reclamation's management is responsible for ensuring the integrity and objectivity of financial information in our financial statements. The financial statements and supplemental schedules in this year's annual report reflect the financial position and results of our operations and comply with the Chief Financial Officers Act of 1990, Government Management Reform Act of 1994 and 31 U.S.C. 3515(b). While the statements have been prepared from Reclamation's books and records in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the OMB-prescribed formats, the statements requirements are for a component of the United States Government (OMB Circular A-136, p. 118, section 11.1J). Reclamation uses these statements not only for financial reports but also to monitor and control budgetary resources.

The integrity of these statements is supported by our audit results, which an independent, certified public accounting firm conducted under contract with the Interior's Office of the Inspector General (OIG). Reclamation achieved an unqualified audit opinion again this year. Unqualified means financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. To ensure that future financial statements continue to achieve unqualified audit opinions, we use internal control efforts, which comply with Federal Financial Management Improvement Act requirements. We continually improve these efforts. Moreover, we have the discipline and staffing required to produce these audited financial statements, demonstrating that management is dedicated to improving financial management and complying with applicable laws and regulations. These financial statements allow the Congress, external partners,

and the general public to monitor how Reclamation uses the resources the Congress and our partners provide.

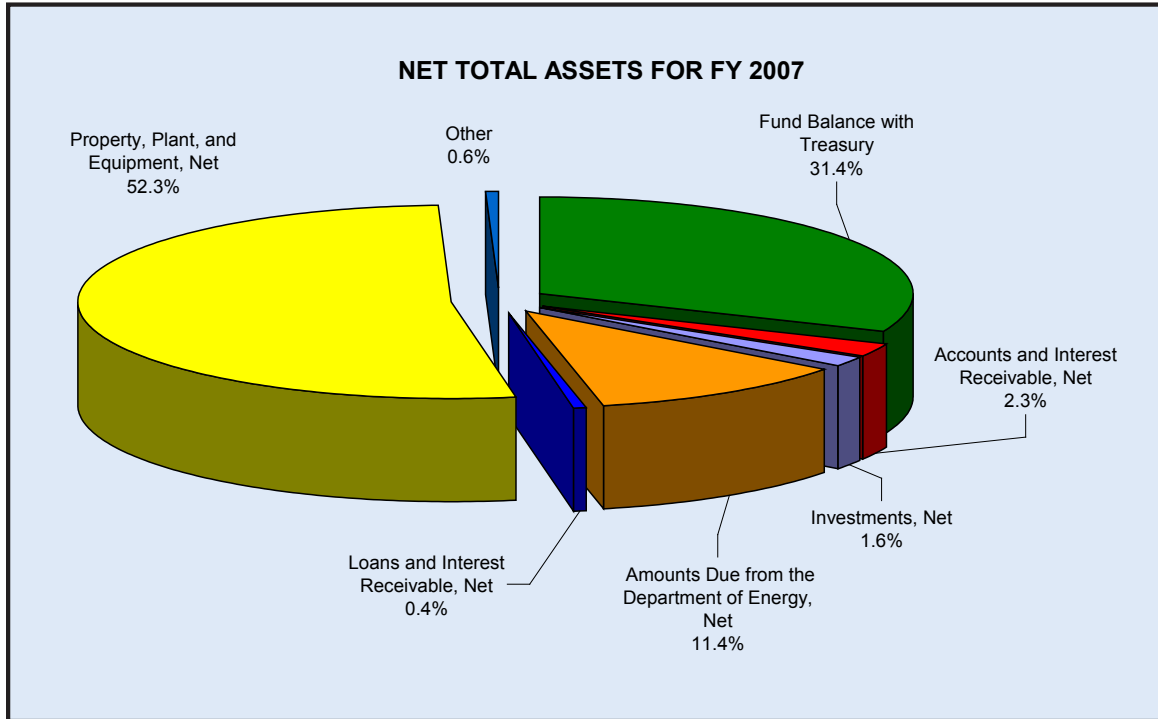
### Consolidated Balance Sheet

**Net Position:** The Consolidated Balance Sheet displays Assets, Liabilities, and Net Position. Our Net Position increased by \$925 million in FY2007. This increase is \$257 million less than the Net Position increase in FY 2006. The FY 2006 change was greater due to the adoption of a change in accounting principle in FY 2007. Prior to FY 2007, proprietary activity and balances were included in the child agency's financial statements. Effective FY 2007, the child agency no longer reports the proprietary activity of the child allocation accounts; all proprietary activity and balances are now reported by the parent agency.

**Total Assets FY 2007:** Total Asset value is \$25 billion, an increase of \$812 million over the FY 2006 Total Asset value. The table below shows the change by asset type.

Net Change in Assets (In Thousands)			
Type of Asset	FY 2007	FY 2006	Net Change
Fund Balance with Treasury	7,813,695	7,030,401	783,294
Accounts and Interest Receivable, Net	565,401	693,325	(127,924)
Investments, Net	401,459	322,045	79,414
Amounts Due from the Department of Energy, Net	2,827,301	2,631,887	195,414
Loans and Interest Receivable, Net	102,929	157,286	(54,357)
Property, Plant, and Equipment, Net	13,012,013	13,071,874	(59,861)
Other	138,464	142,359	(3,895)
<b>Total</b>	<b>24,861,262</b>	<b>24,049,177</b>	<b>812,085</b>

**Fund Balance with Treasury:** The Fund Balance with Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. The Reclamation Fund (\$6.7 billion) Fund Balance and other unavailable (restricted) receipt fund balances are included in this asset category. The Congress allocates most of our annual appropriations out of the Reclamation Fund, and many of the revenues received from our beneficiaries are returned to the Reclamation Fund. In contrast to most other Federal public works programs, beneficiaries, including irrigation districts, municipalities, and power customers repay most of Reclamation's project costs.



**Changes in Balances:** The change in Fund Balance with Treasury is primarily the result of increased royalties received and deposited into the Reclamation Fund in FY 2007.

The increase of \$195 million to the Receivable Due from the Department of Energy is attributed to an increase in the Western Area Power Administration payable due to Reclamation. The cause of the increase is their commitment of appropriated funds, from the Reclamation Fund, for the construction of capital assets that are not repaid in the current year.

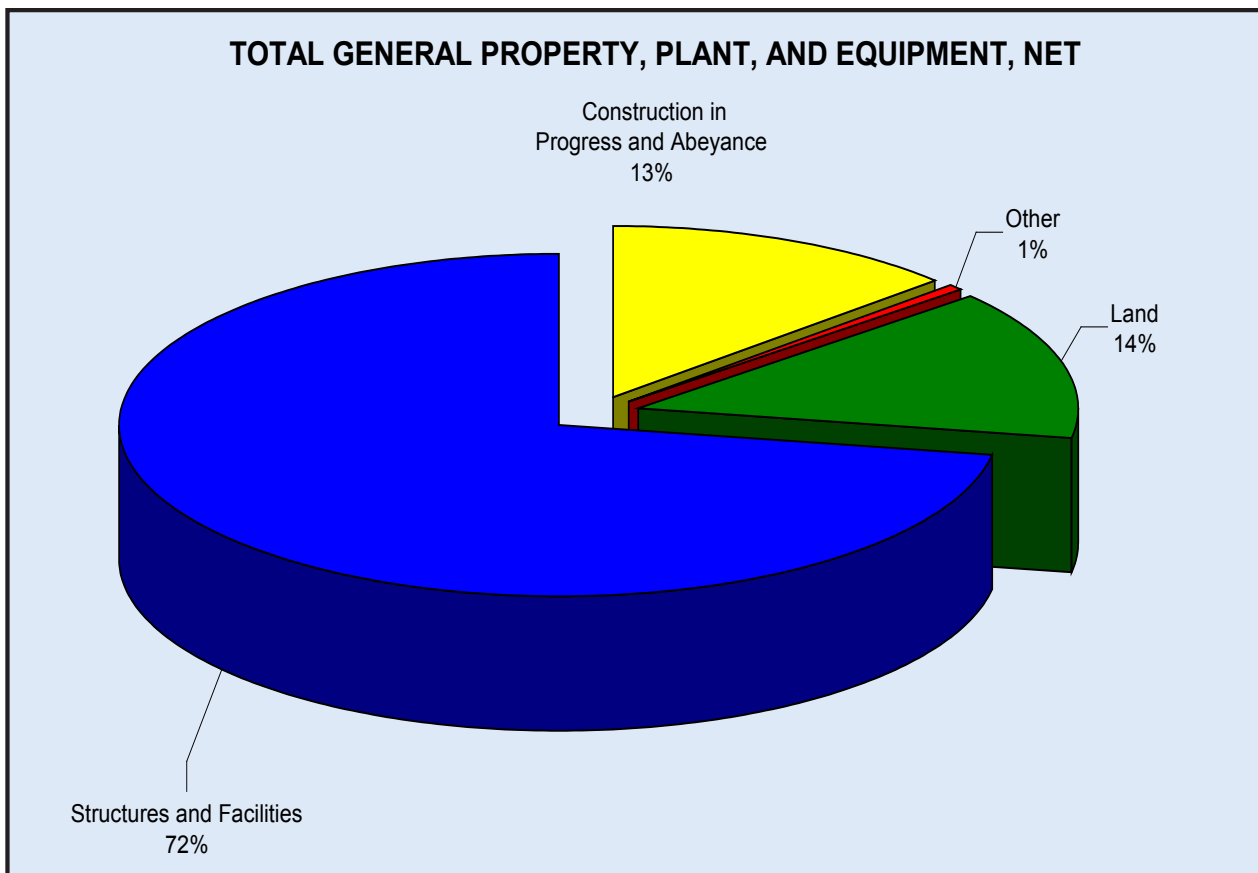
The Accounts Receivable balance decreased in FY 2007 due to a reduction of coal lease accrual bonuses by Minerals Management Service, thus reducing the undistributed amount of royalties due to Reclamation.

The change in Investments is due to the corpus growth of the Lower Colorado River Basin Fund and San Gabriel Restoration Fund. The Investments consist of nonmarketable, market-based securities issued by the Federal Investment Branch of the Bureau of Public Debt. These securities are not traded on any security exchange, but mirror the prices of marketable securities with similar terms. Interest on Investments is accrued as it is earned.

In FY 2007, OMB released a new Credit Subsidy Calculator, which uses the balances approach for the subsidy calculation. The resulting re-estimate, combined with principal balance payoffs, decreased the Loan and Interest Receivable balance.

**General Property, Plant, and Equipment:** Reclamation's PP&E consists of an extensive infrastructure of dams, powerplants, pumping stations, canals, and other water delivery systems used in Reclamation's day-to-day operations. These assets are reported as General PP&E in accordance with Federal GAAP. Our major PP&E asset categories are: Structures and Facilities, Land, Construction in Progress and Abeyance, and Other (i.e., equipment, vehicles, buildings, and internal use software).

Reclamation's PP&E \$13 billion balance accounts for approximately 73 percent of Interior's PP&E total reported in its annual report.



**Total Liabilities:** FY 2007 total liabilities are \$2.8 billion, a \$113 million decrease from FY 2006. As Reclamation is a bureau of the executive branch of the United States Government, Reclamation is a sovereign entity. Federal agencies, by law, cannot make any payments unless the Congress has appropriated funds. Accordingly, unfunded liabilities reported in the statements cannot be liquidated until the Congress enacts an appropriation, and ongoing operations are subject to appropriate appropriations. Reclamation's funded liabilities are paid out of funds currently available to Reclamation. Unfunded liabilities consist primarily of environmental and legal liabilities to be paid out of funds made available to Reclamation in future years. Funded and unfunded liabilities are discussed in Notes to the Financial Statements.

The Accounts Payable decrease from FY 2006 was partially due to the activity from Hurricane Katrina subsiding.

The decrease in Advances, Deferred Revenue, and Deposit Funds is a result of decreased advances from customers to construct irrigation facilities.

The Resources Payable to Treasury decrease is due to the FY 2007 net upward Credit Reform loan subsidy re-estimate that resulted in the reversal of the downward re-estimate accrued for in FY 2006.

The decrease in debt results from scheduled repayments and one prepayment of loan balances.

The Environmental and Disposal Liabilities increased due to changes in cost estimates and the addition of a new site.

<b>Net Change in Liabilities (In Thousands)</b>			
<b>Type of Liability</b>	<b>FY 2007</b>	<b>FY 2006</b>	<b>Net Change</b>
Accounts Payable	223,046	242,877	(19,831)
Debt	73,259	95,141	(21,882)
Accrued Employee Benefits and Payroll	67,597	69,130	(1,533)
Advances, Deferred Revenue, and Deposit Funds	482,404	502,335	(19,931)
Judgment Fund Liability to Treasury	47,950	47,950	-
Resources Payable to Treasury	1,791,694	1,844,710	(53,016)
Federal Employee Benefits, Actuarial	85,990	88,353	(2,363)
Environmental and Disposal Liabilities	51,597	46,871	4,726
Contingent Liabilities	962	962	-
Other	4,640	3,835	805
<b>Total</b>	<b>2,829,139</b>	<b>2,942,164</b>	<b>(113,025)</b>



## **Consolidated Statement of Net Costs**

**Net Cost of Operations:** Reporting segments in the Consolidated Statements of Net Cost align to Interior's Strategic Plan Mission Goals/End Outcome Goals. Reclamation reports expenses and revenues in three of the four Interior mission goals: Resource Use, Resource Protection, and Recreation; Reclamation does not report on the fourth goal, which is Serving Communities.

In FY 2007, Reclamation reported \$1.3 billion of Cost and \$804 million of Earned Revenues under the Resource Use mission goal. Our key mission activities are reported under this mission goal. This goal includes the costs for providing water and hydropower to our customers. It also includes hydropower and water sales revenue, which recover the Government's costs to produce and deliver water and hydropower to our customers.

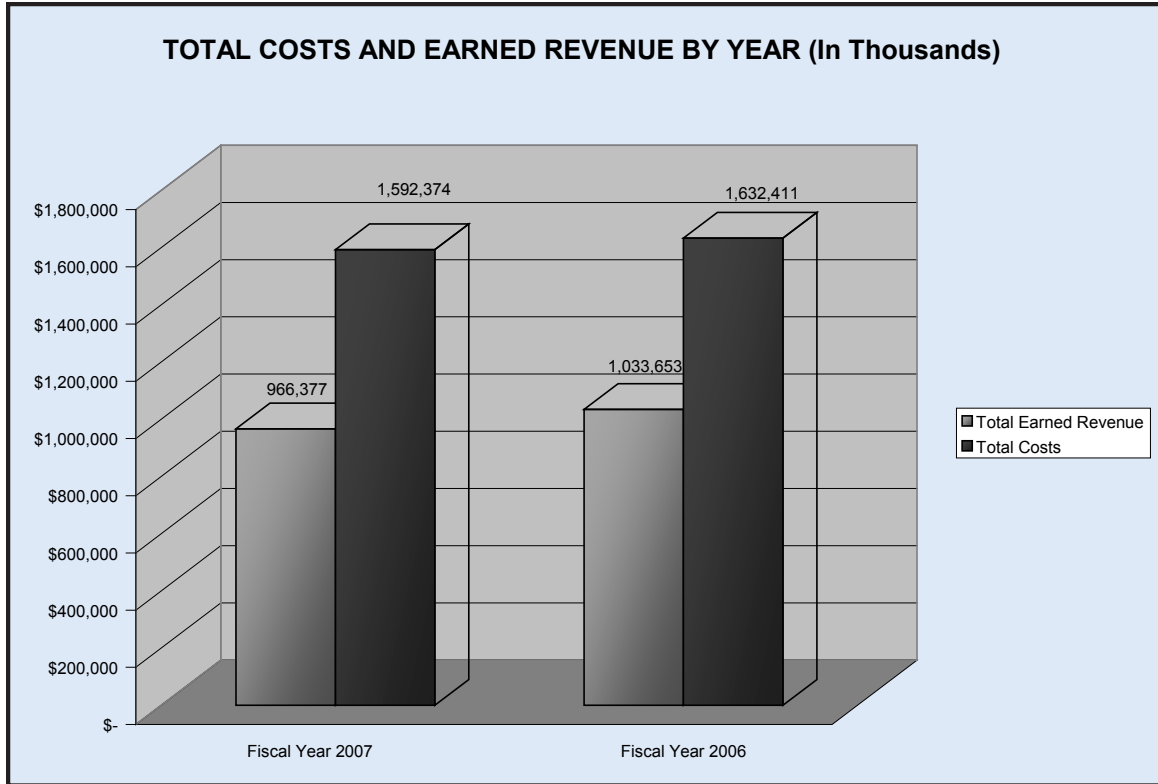
Centralized Program Support and Other's cost and revenues reflect administrative costs, working capital, and other incurred costs and revenues earned to support Reclamation's mission goals.

The Consolidated Statement of Net Cost displays the Net Cost of Operations, which is the difference between revenues and expenses. Reclamation's total FY 2007 Net Cost of Operations was \$626 million, an increase of \$27 million from the FY 2006 Net Cost of Operations. This change is primarily due to an increase in unfunded expenses related to Credit Reform Loans.

A more detailed report, the Consolidating Statement of Net Cost, is in the Notes to the Financial Statements.

**Revenues and Costs:** Reclamation's Earned Revenues from providing goods or services are reported in the Consolidated Statement of Net Cost.

Total FY 2007 Earned Revenue was \$966 million, which is \$67 million or 7 percent less than was reported in FY 2006. Costs were \$1.6 billion in FY 2007 and FY 2006.



## Combined Statement of Budgetary Resources

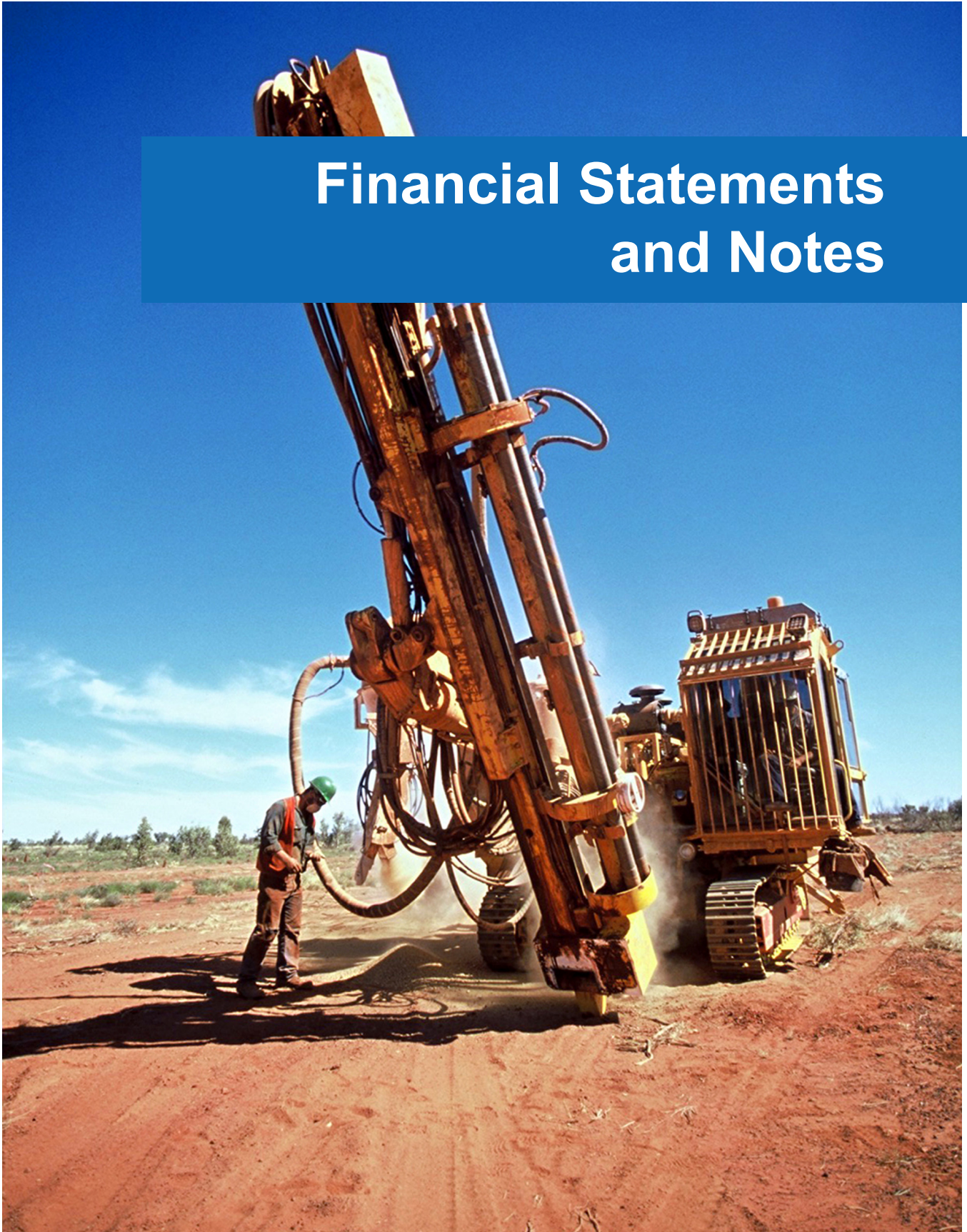
**Budgetary Resources:** The Combined Statement of Budgetary Resources and related disclosures provide information about budgetary resources and their end of the year status. Reclamation's Total Budgetary Resources were \$2.7 billion in FY 2007 and FY 2006. Reclamation's major budget accounts are broken down into five categories. Our funding is derived predominantly from three of the five categories: Total Budgetary Authority, Unobligated Balances (i.e., prior year carryforward balances), and Offsetting Collections. Refer to the Combined Statement of Budgetary Resources and the detailed budgetary information in the Supplemental Section for more information.

## Improper Payments

Interior has been conducting annual risk assessments of programs exceeding \$100 million in annual outlays. These risk assessments have shown that Interior is at low risk for improper payments. Therefore, Interior's annual risk assessment requirement has been converted to a 3-year risk assessment. The next risk assessment will be for FY 2009 and every 3 years following. Reclamation will complete a risk assessment in FY 2009 for this program as prescribed by Interior.



# Financial Statements and Notes





## United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, DC 20240

Memorandum

JAN 16 2008

To: Commissioner, U.S. Bureau of Reclamation

From: Kimberly Elmore *Kimberly Elmore*  
Acting Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2007 and 2006 (Report No. X-IN-BOR-0017-2007)

### ***INTRODUCTION***

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This memorandum transmits the KPMG LLP (KPMG) auditors' report of the U.S. Bureau of Reclamation (Reclamation) financial statements for fiscal years (FYs) 2007 and 2006. The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Inspector General or an independent auditor, as determined by the Inspector General, to audit the Department of the Interior (DOI) financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), KPMG, an independent public accounting firm, performed an audit of the Reclamation FY2007 and FY2006 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

### ***RESULTS OF INDEPENDENT AUDIT***

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In its audit report dated December 6, 2007 (Attachment 1), KPMG issued an unqualified opinion on the Reclamation financial statements. However, KPMG identified four significant deficiencies in internal controls over financial reporting, of which one was considered to be a material weakness. In addition, KPMG identified two instances of noncompliance with laws and regulations, including one instance of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). KPMG made eight recommendations that, if implemented, should resolve the finding.

### ***STATUS OF RECOMMENDATIONS***

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In its December 12, 2007 response (Attachment 2) to the draft report, Reclamation agreed with five of the six findings. Reclamation also stated that it was in the process of

implementing seven of the eight recommendations and disagreed with one recommendation. We will refer the unresolved recommendation to the Assistant Secretary for Policy, Management and Budget for resolution and the remaining seven recommendations for tracking of implementation (see Attachment 3, "Status of Audit Report Recommendations").

## ***EVALUATION OF KPMG AUDIT PERFORMANCE***

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To ensure the quality of the audit work performed, the OIG:

- reviewed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit at key points;
- coordinated periodic meetings with Reclamation management to discuss audit progress, findings, and recommendations;
- reviewed and accepted KPMG's audit report; and
- performed other procedures we deemed necessary.

KPMG is responsible for the attached auditors' report dated December 6, 2007, and the conclusions expressed in it. We do not express an opinion on Reclamation financial statements or on KPMG's conclusions regarding 1) effectiveness of internal controls, 2) compliance with laws and regulations, or 3) substantial compliance of Reclamation financial management systems with FFMIA.

## ***REPORT DISTRIBUTION***

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The legislation, as amended, creating the OIG requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, we will include the information in the attachment in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

We appreciate the cooperation and assistance of Reclamation personnel during the audit. If you have any questions regarding the report, please contact Jeff Carlson at 202-208-5724.

### Attachments

cc: Assistant Secretary, Water and Science  
Audit Liaison Officer, Water and Science  
Chief Financial Officer, Bureau of Reclamation  
Audit Liaison Officer, Bureau of Reclamation  
Audit Liaison Officer, Office of Financial Management



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

### Independent Auditors' Report

Commissioner, U.S. Bureau of Reclamation and  
Inspector General, U.S. Department of the Interior:

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

#### SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that Reclamation's consolidated 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.

As discussed in our opinion, in fiscal year 2007, Reclamation changed its method of reporting the reconciliation of budgetary resources obligated to net cost of operations and its method of accounting and reporting allocation transfers to adopt changes in accounting standards and new Office of Management and Budget (OMB) requirements.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

#### **Significant Deficiency Considered to be a Material Weakness**

A. Revenue Recognition

#### **Other Significant Deficiencies**

- B. Cost Structures
- C. General and Application Controls over Financial Management Systems
- D. Grant Monitoring

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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

- E. Compliance with Grant Agreements
- F. Federal Financial Management Improvement Act of 1996

The following sections discuss our opinion on Reclamation's consolidated financial statements; our consideration of Reclamation's internal controls over financial reporting and performance measures; our tests of Reclamation's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

### **OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS**

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Bureau of Reclamation 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 15 to the consolidated financial statements, Reclamation changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007. Also, as discussed in Notes 1 and 15 to the consolidated financial statements, Reclamation changed its method of accounting for and reporting allocation transfers in fiscal year 2007.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. 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.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of the 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 Reclamation'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 Reclamation's consolidated financial statements that is more than inconsequential will not be prevented or detected by Reclamation'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 Reclamation's internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described below, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described below, we believe that significant deficiency A is a material weakness. Exhibit I presents the status of prior year reportable conditions.

**A. Revenue Recognition**

In fiscal year 2006, as part of the Reclamation Hydropower Generation Function audit, we issued a material weakness to Reclamation regarding their lack of knowledge and understanding of the process used to prepare the Reclamation Hydropower Generation Function financial statements. As a result, during 2007 Reclamation and Western Area Power Administration (Western) intensified their partnership meetings and furthered their discussion over the unique situations related to the Reclamation Hydropower Generation Function financial statements. These discussions resulted in Reclamation identifying a situation in the Mid Pacific Region where revenue had been recorded twice for the same activity, as discussed further below.

Office of Management and Budget (OMB) Circular A-123, Management's *Responsibility for Internal Control*, requires that management develop and maintain effective internal control. In addition, Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*, requires that revenue be recognized at the time that the entity provides goods or services to the public or to another Federal entity. As discussed below, Reclamation has not recorded certain revenue properly in accordance with this standard.

In fiscal year 1999, Reclamation began receiving advance funding for operation and maintenance (O&M) and capital costs for the Central Valley Project power facilities from its customers. From 1999 to 2006 Reclamation received approximately \$102,651,000 in advance funding from its customers. As the money advanced was expended, Reclamation reduced the advance and recorded the corresponding reimbursable revenue, totaling approximately \$49,331,000. In addition to recording reimbursable revenue related to the consumption of the advance, Reclamation also recorded revenue for the reimbursement of O&M costs from Western as revenue. The amount of reimbursement requested by Reclamation from Western was not reduced by the reimbursable revenue recorded when the advance was reduced; thus overstating revenue in total from fiscal year 1999 to 2006 and fiscal year 2007 beginning net position by approximately \$49,331,000.

As a result of the error discussed above, Reclamation evaluated its other regions for their accounting treatment relating to advances. Although different from the error previously discussed, Reclamation identified a situation where advances were being accounted for under a cash basis of accounting rather than an accrual basis. Each year, Reclamation's Great Plains Region executes a contract revision between itself, Western and its customers to fund projects during the year. When the funds are received monthly, rather than deferring the revenue until the costs for which the advance is received are incurred, the Great Plains Region was recording the entire amount received as revenue. The impact of this incorrect accounting was that during fiscal year 2007 Reclamation recorded approximately \$4,948,000 in revenue for which the corresponding costs had not been incurred.

### **Recommendations**

We recommend that Reclamation:

1. Implement recently developed policies and procedures to ensure that customer advances and revenue transfers from Western are accounted for properly and do not result in the double recording of revenue.
2. Implement appropriate internal controls to ensure that reimbursable agreements are evaluated on a routine basis to ensure costs incurred under each agreement are reconciled to revenue earned in the period and the change in the related advance account.

### **Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

## **B. Cost Structures**

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that the acquisition cost of general property, plant, and equipment be recognized as an asset. In addition, SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, requires that cost accounting information should provide program managers, Congress, and executives with information that will assist them in making decisions. Reclamation establishes and assigns cost structures to transactions that establish the accounting for those transactions. During our test work, we identified one expense transaction totaling \$275,464 that should have been capitalized. In response to the discovery of this error, Reclamation reviewed all costs charged to the cost structure and determined that \$10.7 million of costs since 2004 were expensed rather than capitalized.

Office of Management and Budget (OMB) Circular A-123 (revised December 21, 2004), *Management's Responsibility for Internal Control*, Section 3A, Developing Internal Control, requires that management develop and maintain effective internal control. In addition to the exception noted above, during our test work over the approval of new or modified cost structures, we identified one instance in which the cost structure form was not properly

approved; two instances in which the cost structure form was not approved prior to the cost structure being effective in the accounting system; and two instances in which there was no cost structure form completed for the modification of the cost structure.

**Recommendations**

We recommend that Reclamation:

1. Ensure that cost structures are appropriately assigned to individual transactions.
2. Refine existing procedures to ensure that an adequate review and approval occurs prior to the creation or modification of a cost structure in the accounting system.

**Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Reclamation's response, and accordingly we express no opinion on it.

**C. General and Application Controls over Financial Management Systems**

Reclamation does not have adequate information technology controls to protect its financial information systems as required by OMB Circular No. A-130, *Management of Federal Information Resources*. These conditions could affect Reclamation's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. Reclamation needs to continue improving the security and general controls over its procurement system, as discussed below.

*1. Entitywide Security Program and Planning*

Reclamation has not adequately documented the implementation of management controls as required including performing a risk assessment, developing a contingency plan, and developing a system security plan. In addition, the database used for Reclamation's procurement system is an earlier version than authorized and no waiver has been obtained to use the earlier version.

*2. Access Controls*

Policies and procedures for establishing segregation of duties has not been documented or implemented effectively such that Reclamation's procurement system is not configured to prohibit an individual from performing incompatible duties. Although Reclamation has certain manual controls in place, such as segregation of duties between the payment function and the procurement function, the manual controls in place are not sufficient to identify conditions where one user inappropriately circumvented standard procurement policies.

In addition, Reclamation has not enabled the audit log function in the procurement system; therefore, Reclamation is unable to verify that changes to critical information are correct.

*3. Service Continuity*

Reclamation has not developed a Plan of Action and Milestones report or a Corrective Action Plan to track the progress made towards mitigating the identified system control weaknesses.

**Recommendation**

We recommend that Reclamation develop and implement a formal action plan to improve the security and general controls over its procurement system. This plan should address each of the areas discussed above, as well as other areas that might impact the information technology control environment, to ensure adequate security and protection of Reclamation's information systems.

**Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

**D. Grant Monitoring**

Reclamation is not properly monitoring grants in accordance with the requirements of 43 CFR 12, by requiring the submission of financial status and performance reports. Our test work of 32 outstanding grants revealed that Reclamation did not obtain financial status reports for 10 recipients, program performance reports for 8 recipients, or annual reports for 3 recipients whose grant period had expired.

**Recommendation**

We recommend that Reclamation implement adequate policies and procedures to ensure proper monitoring of grants, including controls to ensure that all financial reports are received and reviewed in a timely manner.

**Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

**INTERNAL CONTROL OVER PERFORMANCE MEASURES**

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

**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 *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed one instance of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

**E. Compliance with Grant Agreements**

Reclamation's grant agreements require that they monitor the grants in accordance with the requirements of 43 CFR 12. Of the 32 outstanding grants tested Reclamation did not obtain financial status reports from 10 of the recipients; program performance reports for 8 recipients; or annual reports for 3 of the recipients whose grant period had expired. The grant agreements state that BOR may take action against the grant recipient if the recipient has not timely and properly submitted the required reports. This condition is also discussed in significant deficiency D above.

**Recommendation**

We recommend that Reclamation implement adequate policies and procedures to ensure compliance with its grant agreements.

**Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed that the finding represents noncompliance with grant agreements. Management indicated that they believe that the requirement of submitting reports is the responsibility of the grant recipient rather than Reclamation. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

**Auditors' Response to Management's Response**

Reclamation's grant agreements require that Reclamation obtain all reports from its grant recipients that are required to be submitted by 43 CFR 12 and follow up with those grant recipients who have not timely submitted the required reports. Since Reclamation did not obtain the required reports from the grant recipients, Reclamation is not in compliance with their grant agreements.

The results of our tests of FFMIA disclosed one instance, described below, where Reclamation's financial management systems did not substantially comply with applicable federal accounting standards. The results of our tests of FFMIA disclosed no instances in which Reclamation's financial management systems did not substantially comply with federal financial management systems requirements or the United States Government Standard General Ledger at the transactional level.

**F. Federal Financial Management Improvement Act of 1996**

From fiscal year 1999 until 2006 Reclamation did not record revenue in accordance with SFFAS No. 7, as Reclamation recorded revenue as it expended advance funds from its customers for the reimbursement of O&M costs and also recorded revenue from Western O&M reimbursements for the same project. As a result, Reclamation overstated revenue for each of those years and overstated its beginning net position balance in fiscal year 2007 by approximately \$49,331,000. This error was corrected in fiscal year 2007. This condition is discussed further in significant deficiency A above.

**Recommendation**

We recommend that Reclamation implement adequate policies and procedures to record revenue in accordance with Federal accounting standards.

### Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to management of Reclamation in a separate letter dated December 6, 2007.

\* \* \* \* \*

### RESPONSIBILITIES

**Management's Responsibilities.** The United States Code Title 31 Sections 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To assist the U.S. Department of the Interior meet these reporting requirements, Reclamation prepares and submits financial statements.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information
- Establishing and maintaining effective internal control
- Complying with laws, regulations, contracts, and grant agreements applicable to Reclamation, 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 consolidated financial statements of Reclamation based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Reclamation'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 consolidated financial statements
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall consolidated financial statement presentation.

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

In planning and performing our fiscal year 2007 audit, we considered Reclamation's internal control over financial reporting by obtaining an understanding of Reclamation'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 consolidated 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 Reclamation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Reclamation's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, 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 report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. 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 Reclamation's fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including 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, contracts, and grant agreements applicable to Reclamation. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether financial management systems for executive departments and agencies subject to the *Chief Financial Office Act of 1990* 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. Although Reclamation is not required to report on FFMIA, Reclamation has elected to report on FFMIA. Therefore, we performed tests of compliance with FFMIA Section 803(a) requirements.

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This report is intended solely for the information and use of Reclamation's and the U.S. Department of the Interior's management, the U.S. Department of the Interior'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 6, 2007



**U.S. BUREAU OF RECLAMATION**

Status of Prior Year Findings

September 30, 2007

<b>Ref</b>	<b>Condition</b>	<b>Status</b>
<b>A</b>	Controls over Design, Documentation, and Operating Effectiveness of Internal Controls	This condition has been partially corrected. See fiscal year 2007 significant deficiency B.
<b>B</b>	Reporting the Condition of Heritage Assets	This condition has been corrected.
<b>C</b>	Federal Financial Management Improvement Act of 1996	The condition from the prior year has been corrected.

ATTACHMENT 2



United States Department of the Interior  
BUREAU OF RECLAMATION  
Washington, D.C. 20240



IN REPLY REFER TO:

84-27430  
ADM-1.00

MEMORANDUM

To: Acting Assistant Inspector General for Audits,  
Office of Inspector General  
Attn: Kimberly Elmore

Through: Kameran L. Onley  
Assistant Deputy Secretary

*Kimberly Elmore (acting for) 12/12/07*

From: Robert W. Johnson  
Commissioner

*Robert W. Johnson*

Subject: The Bureau of Reclamation's Response to the Draft *Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2007 and 2006* (Assignment No. X-IN-BOR-0017-2007)

We appreciate the opportunity to review and comment on the draft audit report titled *Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2007 and 2006*. Attached for your consideration is Reclamation's response to the recommendations as stated in the subject report.

If you have any questions or require additional information, please contact Ed Abreo, Manager, Business Analysis Division, at 303-445-3423.

Attachment

cc: Mr. Jeff Norris  
KPMG LLP  
2001 M Street, NW  
Washington, D.C. 20036

Associate Director - Financial Policy and Operations  
Attn: Alexandra Lampros  
(w/copy of incoming and att to each)



Bureau of Reclamation  
KPMG, LLP Draft Audit Report  
Response to Draft Audit Report Recommendations  
December 2007

**A. Revenue Recognition**

**Recommendation A.1**

Implement recently developed policies and procedures to ensure that customer advances and revenue transfers from Western are accounted for properly and do not result in the double recording of revenue.

**Response:**

Concur. Reclamation will implement procedures to ensure that customer advances and revenue transfers from Western are accounted for properly and do not result in the double recording of revenue. Reclamation Accounting Policy (RAP) No. 02-03, *Accounting for Reclamation Costs Funded in Advance by Other Entities (Exchange Revenue)*, addresses the proper accounting treatment of advances and revenue recognition.

As a point of clarification, Western is primarily responsible for the Non-expenditure Transfer (NAT) process, i.e., they prepare and calculate the NAT amounts. Reclamation was not solely responsible, as implied in the Notice of Finding and Recommendation, for ensuring the accuracy of the NAT amounts.

The responsible officials are the Deputy Commissioner, Operations, Deputy Commissioner, Policy, Administration and Budget, and Director, Management Services Office. The target date for implementing procedures for customer advances is June 30, 2008.

**Recommendation A.2**

Implement appropriate internal controls to ensure that reimbursable agreements are evaluated on a routine basis to ensure costs incurred under each agreement are reconciled to revenue earned in the period and the change in related advance account.

**Response:**

Concur. Reclamation will implement appropriate internal controls to ensure the proper treatment of advances received under reimbursable agreements. As discussed above, RAP 02-03 addresses the proper accounting treatment of advances and revenue recognition. This RAP requires Regional Finance Officers to implement procedures and controls to ensure the proper treatment of advances, including revenue recognition.

The responsible officials are the Deputy Commissioner, Operations, Deputy Commissioner, Policy, Administration and Budget, and Director, Management Services Office. The target date for implementing appropriate internal controls to ensure the proper treatment of advances received under reimbursable agreements is June 30, 2008.

**B. Cost Structures**

Recommendation B.1:

Ensure that cost structures are appropriately assigned to individual transactions.

Response:

Concur. Reclamation will develop and implement additional procedures for ensuring that cost structures are appropriately assigned to individual transactions.

The responsible officials are the Deputy Commissioner, Operations, Deputy Commissioner, Policy, Administration and Budget, and Director, Management Services Office. The target date for developing and implementing additional procedures for ensuring that cost structures are appropriately assigned to individual transactions is June 30, 2008.

Recommendation B.2:

Refine existing procedures to ensure that an adequate review and approval occurs prior to the creation or modification of a cost structure in the accounting system.

Response:

Concur. Reclamation will refine existing procedures to ensure that an adequate review and approval occurs prior to the creation or modification of a cost structure in the accounting system.

The responsible officials are the Deputy Commissioner, Operations, Deputy Commissioner, Policy, Administration and Budget, and Director, Management Services Office. The target date for refining existing procedures to ensure that an adequate review and approval occurs prior to the creation or modification of a cost structure in the accounting system is June 30, 2008.

**C. General and Application Controls over Financial Management Systems**

Recommendation C

We recommend that Reclamation develop and implement a formal action plan to improve the security and general controls over its procurement system. This plan should address each of the areas discussed above, as well as other areas that might impact the information technology control environment, to ensure adequate security and protection of Reclamation's information systems.

Response:

Concur. Reclamation will develop and implement a formal action plan to improve controls over the procurement sub-system. The plan will address the access control and audit logging issues discussed in the draft audit report. As part of the planning process, Reclamation will determine if a risk assessment, contingency plan, and system security plan are needed for sub-systems or components operating within the Reclamation. These documents, however, are normally completed for the entire system, including sub-systems or components, and by the organization that owns the system, the National Business Center (NBC). Reclamation will work with the NBC to clarify security document requirements for the procurement sub-system and to complete

required documents and waiver forms, as needed. Departmental guidance also requires the NBC to provide a Plan of Action and Milestone report for the procurement system, including remediation tasks associated with sub-systems. To ensure coordination, Reclamation tracks identified or known financial management control weaknesses and remediation tasks for sub-systems in its program-level Plan of Action and Milestone report. This report will continue to be used to track the target milestones for the procurement sub-system, along with any remediation tasks resulting from the action plan.

While Reclamation concurs with the audit recommendation, it disagrees with some statements in Section (C) of the report. Broad statements, contained within Section (C) that indicate controls are lacking over multiple financial management systems or that entity-wide security programs and plans are inadequate, are misleading. These statements need to be removed because control weaknesses are limited to the procurement sub-system. Compensating controls also are in place to mitigate risks associated with the control weaknesses, and no instances of unauthorized or inappropriate procurement transactions were identified - though transaction testing was completed during the audit.

The responsible officials are the Deputy Commissioner, Policy, Administration and Budget, Chief Information Officer, and Director, Management Services Office. The target date for completing the formal action plan is March 30, 2008. Any remediation tasks resulting from the action plan will be tracked in a Plan of Action and Milestone report.

#### **D. Grant Monitoring**

##### Recommendation D

We recommend that Reclamation implement adequate policies and procedures to ensure proper monitoring of grants, including controls to ensure that all financial reports are received and reviewed in a timely manner.

##### Response:

Concur. Reclamation will develop and institute procedures, policies, and/or internal controls sufficient to ensure proper monitoring of assistance agreements. The responsible officials are the Deputy Commissioner, Operations, Deputy Commissioner, Policy, Administration and Budget, and Director, Management Services Office. The target date for developing and instituting procedures, policies, and/or internal controls for the monitoring of assistance agreements is June 30, 2008.

#### **E. Compliance with Grant Agreements**

##### Recommendation E

We recommend that Reclamation implement adequate policies and procedures to ensure compliance with its grant agreements.

##### Response:

Non-concur. Although Reclamation agrees that more effective internal controls need to be established in order to effectively monitor grant agreements, Reclamation disagrees with the

auditors' citation of 43 CFR 12 and the terms and conditions of the grant agreement as reason for Reclamation non-compliance. Reclamation does not concur with the auditor's characterization of this finding as non-compliance with laws and regulations because 43 CFR 12 .80 (a) or .951 (a) as applicable assign recipients of Federal awards with the responsibility for monitoring. Specifically:

For State and local government entities, 43 CFR 12.80 (a) states, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

For institutions of higher education, hospitals, and other non-profit entities, 12 CFR 12.951 (a) states, "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

The non-submission of reports, which is the substance of the audit finding, is the responsibility of the recipient. 43 CFR 12 .80 -.81 or .951 -.952, as applicable requires recipients of Federal grants to submit financial status and program performance reports according to the frequency prescribed by the agency within the award. Non-compliance with the reporting requirements demonstrates non-compliance by the recipient, not, non-compliance by Reclamation. Further, the terms and conditions of the grant agreements set forth requirements applicable to the recipient only, not as the audit finding suggests, additional requirements imposed upon Reclamation.

#### **F. Federal Financial Management Improvement Act of 1996**

##### Recommendation F

We recommend that Reclamation implement adequate policies and procedures to record revenue in accordance with Federal accounting standards.

##### Response:

Concur. Reclamation will fully implement procedures to record revenue in accordance with Federal accounting standards. As discussed under Recommendation A.1, RAP No. 02-03, *Accounting for Reclamation Costs Funded in Advance by Other Entities (Exchange Revenue)*, addresses the proper accounting treatment of advances and revenue recognition.

The responsible officials are the Deputy Commissioner, Operations, Deputy Commissioner, Policy, Administration and Budget, and Director, Management Services Office. The target date for implementing procedures for customer advances is June 30, 2008.

## ATTACHMENT 3

## STATUS OF AUDIT REPORT RECOMMENDATIONS

<b><u>Recommendation</u></b>	<b><u>Status</u></b>	<b><u>Action Required</u></b>
E.	Unresolved	Recommendation will be referred to the Assistant Secretary, Policy, Management and Budget for resolution.
A.1., A.2., B.1., B.2., C., D., and F.	Resolved; not implemented	Recommendations will be referred to the Assistant Secretary, Policy, Management and Budget for tracking of implementation.



**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidated Balance Sheet  
As of September 30, 2007, and 2006  
(In Thousands)**

	2007	2006
<b>ASSETS (Note 2)</b>		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	\$ 7,813,695	\$ 7,030,401
Accounts Receivable	531,324	663,573
Investments, Net (Note 4)	401,459	322,045
Amounts Due from the U.S. Department of Energy, Net (Note 5)	2,827,301	2,631,887
Other:		
Advances and Prepayments	1,598	1,007
Total Intragovernmental Assets	<u>11,575,377</u>	<u>10,648,913</u>
Cash	-	117
Accounts and Interest Receivable, Net (Note 6)	34,077	29,752
Loans and Interest Receivable, Net (Note 7)	102,929	157,286
General Property, Plant, and Equipment, Net (Note 8)	13,012,013	13,071,874
Other:		
Advances and Prepayments	28,548	19,202
Power Rights, Net	108,318	122,033
Total Other Assets	<u>136,866</u>	<u>141,235</u>
Stewardship Assets (Note 1.J)		
<b>Total Assets</b>	<u>\$ 24,861,262</u>	<u>\$ 24,049,177</u>
<b>LIABILITIES (Note 9)</b>		
Intragovernmental Liabilities:		
Accounts Payable	\$ 16,571	\$ 29,142
Debt (Note 10)	73,259	95,141
Other :		
Accrued Employee Benefits	21,114	22,033
Advances, Deferred Revenue, and Deposit Funds	7,299	5,285
Judgment Fund Liability	47,950	47,950
Resources Payable to Treasury	1,791,694	1,844,710
Other Liabilities	117	73
Total Other Liabilities	<u>1,868,174</u>	<u>1,920,051</u>
Total Intragovernmental Liabilities	<u>1,958,004</u>	<u>2,044,334</u>
Accounts Payable	206,475	213,735
Federal Employee Benefits, Actuarial	85,990	88,353
Environmental and Disposal Liabilities (Note 11)	51,597	46,871
Other:		
Accrued Payroll and Benefits	46,483	47,097
Advances, Deferred Revenue, and Deposit Funds	475,105	497,050
Contingent Liabilities (Note 11)	962	962
Other Liabilities	4,523	3,762
Total Other Liabilities	<u>527,073</u>	<u>548,871</u>
Commitments and Contingencies (Notes 11 and 12)		
<b>Total Liabilities</b>	<u>2,829,139</u>	<u>2,942,164</u>
<b>NET POSITION</b>		
Unexpended Appropriations - Earmarked Funds (Note 16)	236,373	249,501
Unexpended Appropriations - Other Funds	65,518	96,590
Cumulative Results of Operations - Earmarked Funds (Note 16)	21,684,429	20,550,111
Cumulative Results of Operations - Other Funds	45,803	210,811
<b>Total Net Position</b>	<u>22,032,123</u>	<u>21,107,013</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 24,861,262</u>	<u>\$ 24,049,177</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidated Statement of Net Cost  
For the Years Ended September 30, 2007, and 2006  
(In Thousands)**

	<b>2007</b>	<b>2006</b>
<b>RESOURCE USE</b>		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	\$ 1,091,347	\$ 1,089,295
Earned Revenues	(590,579)	(585,466)
Net Cost	<u>500,768</u>	<u>503,829</u>
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	241,710	242,354
Earned Revenues	(213,510)	(279,442)
Net Cost	<u>28,200</u>	<u>(37,088)</u>
<b>RESOURCE PROTECTION</b>		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Costs	65,522	66,949
Earned Revenues	(46,980)	(27,279)
Net Cost	<u>18,542</u>	<u>39,670</u>
<b>RECREATION</b>		
Provide Quality and Fair Value in Recreation:		
Costs	35,577	33,065
Earned Revenues	(23,896)	(27,808)
Net Cost	<u>11,681</u>	<u>5,257</u>
<b>CENTRALIZED PROGRAM SUPPORT AND OTHER</b>		
Working Capital Fund, Policy and Administration, and Other:		
Costs	158,218	200,748
Earned Revenues	(91,412)	(113,658)
Net Cost	<u>66,806</u>	<u>87,090</u>
<b>TOTAL</b>		
Costs	1,592,374	1,632,411
Earned Revenues	(966,377)	(1,033,653)
<b>Net Cost of Operations (Notes 13 and 15)</b>	<u>\$ 625,997</u>	<u>\$ 598,758</u>

The accompanying notes are an integral part of these statements.

2007 Financial Statements and Notes

U.S. Department of the Interior  
 Bureau of Reclamation  
 Consolidated Statement of Changes in Net Position  
 For the Years Ended September 30, 2007, and 2006  
 (In Thousands)

	2007			2006		
	Earmarked (Note 16)	All Other	Total	Earmarked (Note 16)	All Other	Total
<b>UNEXPENDED APPROPRIATIONS</b>						
<b>Beginning Balance</b>	\$ 249,501	\$ 96,590	\$ 346,091	\$ 286,742	\$ 63,777	\$ 350,519
Adjustments:						
Change in Accounting Principle (Note 1.Q)	-	(28,946)	(28,946)	-	-	-
Beginning Balance, As Adjusted	249,501	67,644	317,145	286,742	63,777	350,519
<b>Budgetary Financing Sources:</b>						
Appropriations Received, General Funds	206,557	41,373	247,930	198,030	39,058	237,088
Appropriations Transferred In/(Out)	-	-	-	(6,980)	48,342	41,362
Appropriations Used	(219,685)	(43,499)	(263,184)	(226,473)	(54,217)	(280,690)
Other Adjustments	-	-	-	(1,818)	(370)	(2,188)
<b>Total Budgetary Financing Sources</b>	<b>(13,128)</b>	<b>(2,126)</b>	<b>(15,254)</b>	<b>(37,241)</b>	<b>32,813</b>	<b>(4,428)</b>
<b>Ending Balance - Unexpended Appropriations</b>	<b>236,373</b>	<b>65,518</b>	<b>301,891</b>	<b>249,501</b>	<b>96,590</b>	<b>346,091</b>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>						
<b>Beginning Balance</b>	20,550,111	210,811	20,760,922	19,350,254	224,253	19,574,507
Adjustments:						
Change in Accounting Principle (Note 1.Q)	(21)	(169,738)	(169,759)	-	-	-
Beginning Balance, As Adjusted	20,550,090	41,073	20,591,163	19,350,254	224,253	19,574,507
<b>Budgetary Financing Sources:</b>						
Appropriations Used	219,685	43,499	263,184	226,473	54,217	280,690
Royalties Retained	1,326,070	-	1,326,070	1,487,423	-	1,487,423
Non-exchange Revenue	9,602	5	9,607	4	-	4
Transfers In/(Out) Without Reimbursement	54,170	(1,464)	52,706	50,816	(54,356)	(3,540)
Other Budgetary Financing Sources	(11,489)	-	(11,489)	-	-	-
<b>Other Financing Sources:</b>						
Donations of Property	68	-	68	505	-	505
Transfers In/(Out) Without Reimbursement	(1,098)	11,733	10,635	(100,742)	13,257	(87,485)
Imputed Financing from Costs Absorbed by Others	114,267	18	114,285	107,556	20	107,576
<b>Total Financing Sources</b>	<b>1,711,275</b>	<b>53,791</b>	<b>1,765,066</b>	<b>1,772,035</b>	<b>13,138</b>	<b>1,785,173</b>
<b>Net Cost of Operations</b>	<b>(576,936)</b>	<b>(49,061)</b>	<b>(625,997)</b>	<b>(572,178)</b>	<b>(26,580)</b>	<b>(598,758)</b>
<b>Net Change in Cumulative Results of Operations</b>	<b>1,134,339</b>	<b>4,730</b>	<b>1,139,069</b>	<b>1,199,857</b>	<b>(13,442)</b>	<b>1,186,415</b>
<b>Ending Balance - Cumulative Results of Operations</b>	<b>21,684,429</b>	<b>45,803</b>	<b>21,730,232</b>	<b>20,550,111</b>	<b>210,811</b>	<b>20,760,922</b>
<b>Total Net Position</b>	<b>\$ 21,920,802</b>	<b>\$ 111,321</b>	<b>\$ 22,032,123</b>	<b>\$ 20,799,612</b>	<b>\$ 307,401</b>	<b>\$ 21,107,013</b>

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior**  
**Bureau of Reclamation**  
**Combined Statement of Budgetary Resources**  
**For the Years Ended September 30, 2007, and 2006**  
**(In Thousands)**

	<b>Total Budgetary Accounts</b>		<b>Non-budgetary Credit Reform Financing Account</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>BUDGETARY RESOURCES</b>				
Unobligated Balance, Beginning of Fiscal Year	\$ 652,779	\$ 666,008	\$ 9	\$ -
Recoveries of Prior Year Unpaid Obligations	55,221	39,171	634	8
Budget Authority:				
Appropriations	1,135,770	1,154,951	-	-
Borrowing Authority	-	-	1,032	1,584
Spending Authority from Offsetting Collections:				
Earned:				
Collected	812,756	865,383	43,280	7,708
Change in Receivables from Federal Sources	6,555	(4,692)	-	-
Change in Unfilled Customer Orders:				
Advance Received	27,464	2,746	-	-
Without Advance from Federal Sources	27,051	(6,761)	-	-
Subtotal	2,009,596	2,011,627	44,312	9,292
Nonexpenditure Transfers, Net	4,550	(7,480)	-	-
Temporarily Not Available Pursuant to Public Law	-	(7,679)	-	-
Permanently Not Available	(9,573)	(16,766)	(22,913)	(3,255)
<b>Total Budgetary Resources</b>	<b>\$ 2,712,573</b>	<b>\$ 2,684,881</b>	<b>\$ 22,042</b>	<b>\$ 6,045</b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
Obligations Incurred (Notes 14 and 15):				
Direct	\$ 1,095,333	\$ 1,164,041	\$ 11,804	\$ 6,036
Reimbursable	887,784	868,061	-	-
Total Obligations Incurred	1,983,117	2,032,102	11,804	6,036
Unobligated Balance Available:				
Apportioned	669,219	599,265	10,238	9
Exempt from Apportionment	60,237	53,514	-	-
Total Unobligated Balance Available	729,456	652,779	10,238	9
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,712,573</b>	<b>\$ 2,684,881</b>	<b>\$ 22,042</b>	<b>\$ 6,045</b>
<b>OBLIGATED BALANCE</b>				
Obligated Balance, Net, Beginning of Fiscal Year:				
Unpaid Obligations	\$ 964,352	\$ 780,773	\$ 3,934	\$ 3,942
Less: Uncollected Receivables and Orders from Federal Sources	(62,019)	(73,472)	-	-
Total Unpaid Obligated Balances, Net, Beginning of Fiscal Year	902,333	707,301	3,934	3,942
Obligations Incurred	1,983,117	2,032,102	11,804	6,036
Less: Gross Outlays	(1,915,942)	(1,809,352)	(15,104)	(6,036)
Less: Recoveries of Prior Year Unpaid Obligations	(55,221)	(39,171)	(634)	(8)
Change in Uncollected Receivables and Orders from Federal Sources	(33,606)	11,453	-	-
<b>Total Unpaid Obligated Balance, Net, End of Fiscal Year</b>	<b>\$ 880,681</b>	<b>\$ 902,333</b>	<b>\$ -</b>	<b>\$ 3,934</b>
<b>OBLIGATED BALANCE, NET, END OF FISCAL YEAR - BY COMPONENT</b>				
Obligated Balance, Net, End of Fiscal Year:				
Unpaid Obligations	\$ 976,306	\$ 964,352	\$ -	\$ 3,934
Less: Uncollected Receivables and Orders from Federal Sources	(95,625)	(62,019)	-	-
<b>Total Unpaid Obligated Balance, Net, End of Fiscal Year</b>	<b>\$ 880,681</b>	<b>\$ 902,333</b>	<b>\$ -</b>	<b>\$ 3,934</b>
<b>NET OUTLAYS</b>				
Gross Outlays	\$ 1,915,942	\$ 1,809,352	\$ 15,104	\$ 6,036
Less: Offsetting Collections	(840,220)	(868,129)	(43,280)	(7,708)
Less: Distributed Offsetting Receipts	(1,973,833)	(2,257,865)	-	-
<b>Net Outlays (Receipts)</b>	<b>\$ (898,111)</b>	<b>\$ (1,316,642)</b>	<b>\$ (28,176)</b>	<b>\$ (1,672)</b>

The accompanying notes are an integral part of these statements.

# U.S. Department of the Interior Bureau of Reclamation Notes to the Financial Statements for the Years Ended September 30, 2007, and 2006

## **Note 1. Summary of Significant Accounting Policies**

### **A. Reporting Entity**

The Bureau of Reclamation (Reclamation) was created June 17, 1902, by the Reclamation Act (32 Statute [Stat.] 388), to reclaim the arid and semiarid lands in the Western United States and to provide economic stability in the newly annexed portion of the United States. Reclamation's core mission is the delivery of water and power to customers, while incorporating other demands for water resources, water conservation, new technology, interagency collaboration and coordination, and improvements in management accountability. Reclamation is one of nine reporting bureaus within the U.S. Department of the Interior (Interior), a component of the Federal Government (Government).

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

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of Reclamation as required of Interior by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements have been prepared from Reclamation's books and records in accordance with the Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements*, dated June 29, 2007. Furthermore, the financial statements have been prepared in accordance with Interior's and Reclamation's accounting policies that are summarized herein.

Reclamation's accounting records are kept, and these financial statements have been prepared, in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Federal Accounting Standards

Advisory Board (FASAB), recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal Government. The accounts are maintained in accordance with the U.S. Department of Treasury's (Treasury) United States Standard General Ledger. Reclamation's fiscal year (FY) covers the period which begins on October 1 and ends on September 30 of the following year.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Transactions are recorded on an accrual accounting basis. 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. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to the legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with the legal constraints and controls over the use of Federal funds.

The financial statements should be read with the realization that they are for a component of the Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so. Intragovernmental assets and liabilities arise from transactions with other Federal agencies.

The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are presented on a consolidated basis. Accordingly, all intrabureau transactions and balances have been eliminated. These transactions primarily pertain to intrabureau use of Reclamation's Working Capital Fund, which provides support services and equipment for Reclamation programs and activities, as well as for other Federal agencies. The Statement of Budgetary Resources is presented on a combined basis; therefore, intrabureau transactions and balances have not been eliminated from this statement.

### **C. Fund Balance with Treasury**

All Reclamation receipts and disbursements are processed by Treasury. The balance in Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. Also included in this

balance are the Reclamation Fund and other unavailable (restricted) receipt funds. See Note 16 for further information on the Reclamation Fund.

#### **D. Investments**

Investments consist of non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. These securities are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. It is expected that investments will be held to maturity; therefore, they are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method of amortization for short-term securities (i.e., bills) and the interest method for longer-term securities (i.e., notes). Interest on investments is accrued as it is earned.

#### **E. Accounts Receivable**

Accounts receivable consists of net amounts owed to Reclamation by other Federal agencies (intragovernmental) and the public. Accounts receivable is stated net of an allowance for uncollectible accounts. The allowance is determined by reviewing accounts receivable aging reports to identify receivables that are considered uncollectible based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

Intragovernmental accounts receivable consist primarily of accrued minerals lease revenue (royalties) which has not yet been transferred to Reclamation by the Minerals Management Service. All accounts receivable due from other Federal entities are unbilled and considered current and fully collectible.

#### **F. Amounts Due from the U.S. Department of Energy**

##### ***Amounts Due from the U.S. Department of Energy – Western Area Power Administration***

Congressional appropriation and other legislative acts have authorized funds to be appropriated from the Reclamation Fund to the Western Area Power Administration (Western), a component entity of the U.S. Department of Energy (DOE) responsible for the transmission and marketing of hydropower generated at Reclamation's facilities. Western's appropriations from the Reclamation Fund are used for capital investment and operation and

maintenance (O&M) activities related to these functions. Western recovers these capital investments, associated interest, and O&M costs through user fees collected from the sale of power and, subsequently, deposits these amounts into the Reclamation Fund. Reclamation records an intragovernmental receivable when appropriations are made to Western from the Reclamation Fund. The receivable is decreased when power transmission receipts are returned.

***Amounts Due from the U.S. Department of Energy –  
Bonneville Power Administration***

The Bonneville Power Administration (BPA), a component of DOE, is responsible for the transmission and marketing of hydropower generated at Reclamation's facilities in the Pacific Northwest Region. Unlike Western, BPA does not receive appropriations from the Reclamation Fund but has legislatively assumed the repayment obligation for the appropriations used to construct Reclamation's hydropower generation facilities. This legislation, part of the BPA Appropriations Refinancing Act (16 United States Code 8381), requires BPA to recover Reclamation's appropriations related to hydropower generation facilities, plus interest, and to deposit these recoveries into the Reclamation Fund. This intragovernmental receivable is increased when BPA assumes the repayment obligation for power generation assets of the Pacific Northwest Region and decreased when deposits are made to the Reclamation Fund.

**G. Loans Receivable**

Reclamation operates loan programs that provide Federal assistance to non-Federal organizations for constructing or improving water resource projects in the West. Reclamation's loan programs are authorized under the Small Reclamation Projects Act of 1956 (Public Law [P.L.] 84-984), the Distribution System Loans Act (P.L. 84-130), the Rural Development Policy Act of 1980 (P.L. 96-355) as amended by P.L. 97-273, and the Rehabilitation and Betterment Act (P.L. 81-335). Loan interest rates vary, depending on the applicable legislation; and, in some cases, there is no interest accrued on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status. The loan programs are classified into two major categories, Pre-Credit Reform Loans and Credit Reform Loans.

***Pre-Credit Reform Loans***

These loans were made prior to FY 1992, and the balances shown represent amounts due to Reclamation, net of an allowance for



estimated uncollectible loan balances. The allowance is determined by management for loan balances where collectibility is considered to be uncertain based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

These loans are accounted for in a direct loan liquidating account as established by Treasury. The net loan receivable balance has a corresponding intragovernmental liability (Resources Payable to Treasury), as collections on these loan receivable balances will be transferred annually to Treasury's General Fund in accordance with the requirements of the Credit Reform Act of 1990 (Credit Reform) (P.L. 101-508) (see Note 1.L).

### ***Credit Reform Loans***

These loans were made after FY 1991, when Credit Reform required extensive changes in accounting for loans to the public. Prior to Credit Reform, funding for loans was provided by congressional appropriation from the general or special funds. Under Credit Reform, loans contain two components, the first of which is borrowed from Treasury. These Treasury borrowings, which will be repaid from loan repayments, are authorized by Credit Reform.

The second component represents the subsidized portion of the loan and is funded by a congressional appropriation. This component represents the estimated cost to the Government resulting primarily from the difference between the loan interest rate and the Treasury interest rate, estimated defaults, and fees associated with making a loan.

## **H. General Property, Plant, and Equipment**

General property, plant, and equipment (PP&E) consists of that property which is used in Reclamation's operations. General PP&E includes the following categories: structures and facilities, land, construction in progress, equipment, vehicles and aircraft, buildings, and internal use software. Real property is not subject to a capitalization threshold, while equipment (including vehicles and aircraft) has a \$15,000 threshold per item. Internal use software is subject to a \$100,000 capitalization threshold. All costs under the applicable threshold are expensed as incurred.

Structures and facilities, comprised primarily of Reclamation's investment in its multipurpose water facilities, are recorded at acquisition cost, net of accumulated depreciation. Costs include

direct labor and materials, payments to contractors, and indirect charges for engineering, supervision, and overhead.

In general, structures and facilities are depreciated based on the composite service life of each project, using the straight-line method of depreciation. The composite service life is based on the weighted-average estimated useful life of a project's components. Project composite service lives range from 10 to 100 years. Structures and facilities that are included on the *National Register of Historic Places* are considered multiuse heritage assets. Reclamation's multiuse heritage assets are included in the PP&E balances and are further discussed in the "Supplemental Section" under "Federal Stewardship Assets."

Reclamation periodically transfers title of certain single-purpose projects and facilities to non-Federal entities. Before a project can be transferred, Reclamation policy requires that it must meet the following criteria: protect the Treasury's and taxpayers' financial interests, comply with applicable Federal laws, protect interstate compacts and interests, meet Native American trust responsibilities, and protect public aspects of the project. Proposed transfers require congressional authorization. The applicable net loss or net gain on disposition of assets is recorded when the transfer is completed. Title transfers are further discussed in the "Supplemental Section" under "Federal Stewardship Assets."

The land balance is comprised of the acquisition cost of land and permanent land and water rights, as well as the costs of relocating the property of other parties and clearing the land in preparation for its intended use. Lands which were withdrawn from the public domain do not have an acquisition cost and, accordingly, are not represented in this category. Such lands are accounted for as stewardship land, discussed in the "Supplemental Section" under "Federal Stewardship Assets."

Construction in progress is used to accumulate the cost of construction or major renovation of fixed assets during the construction period. Project costs are transferred from construction in progress to structures and facilities when a project or feature of a project is deemed to be substantially complete, is providing benefits and services for the intended purpose, and is generating project

purpose revenue, where applicable. Until these three criteria are met, accumulated costs are retained in construction in progress.

Investigations and development costs represent expended funds for such activities as general engineering studies and surveys that are directly related to project construction. Reclamation capitalizes investigation and development costs that are incurred after the decision is made to pursue construction or after construction authorization. These capitalized costs of \$84 million and \$82 million as of September 30, 2007, and 2006, respectively, are included in construction in progress. Reclamation's accounting treatment for investigation and development costs not related to project construction, incurred prior to the decision to pursue construction, or incurred before construction authorization, results in these costs being expensed as incurred.

Construction costs for structures and facilities which contain a power and/or municipal and industrial (M&I) water use component also include capitalized interest during construction (IDC). IDC is the assessment of interest using a percentage rate stated in the statutory regulation which authorized the construction project for the Government borrowings to fund the project. These IDC costs are reflected in construction in progress and as imputed financing from costs absorbed by others.

Once the project is completed and operational, the construction costs are transferred to structures and facilities, and interest on investment (IOI) is computed and assessed. IOI applies to the unamortized balance (reimbursable plant costs less repayments realized) of costs allocated to power, M&I water, and other interest-bearing reimbursable functions. The appropriate percentage rate for IOI is also stated in the statutory regulation which authorized the construction project. These IOI costs are reflected as expenses and as imputed financing from costs absorbed by others.

In past years, Reclamation began the planning of, and construction on, various features included in 12 projects located in Arizona, California, Colorado, North and South Dakota, and Washington for which activities have either been placed in abeyance or intended benefits have never been provided. These capitalized costs are included in Construction in Abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of

these assets is determined, maintenance costs have been, and will continue to be, budgeted and expended to minimize the erosive effects of weather and time and to keep the assets ready for potential completion. The calculation and recording of IDC is suspended after an asset is transferred to abeyance. If the asset is later transferred back to Construction in Progress-General, IDC will be retroactively computed.

Equipment is recorded at acquisition cost less depreciation which accumulates over its estimated useful life using the straight-line method. The estimated useful lives for calculating depreciation on equipment range from 2 to 50 years. When equipment is transferred within Reclamation from one project to another, the transfer is made at the net book value of the property.

Buildings consist of houses, garages, and shops owned by Reclamation and used in power, irrigation, M&I, or multipurpose operations that are not included in structures and facilities of a specific project. Buildings are valued at acquisition cost and are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives for calculating depreciation on buildings range from 10 to 75 years.

Capitalized software includes commercial off-the-shelf (COTS) purchases, contractor-developed software, and internally developed software. For COTS software, the capitalized costs include the amount paid to the vendor for the software; and for contractor-developed software, it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage.

These capitalized costs are limited to those incurred after:

- (1) management authorizes and commits to a computer software project and believes that it is more likely than not that the project will be completed and that the software will be used to perform the intended function with an estimated life of 2 years or more; and
  - (2) the completion of conceptual formulation, design, and testing of possible software project alternatives (the preliminary design stage).
- Amortization of software is calculated using the straight-line method, based upon an estimated useful life of 5 years.

## **I. Power Rights**

Net power rights represent the original cost less the accumulated amortization of the right or privilege to use the facilities of others or

the right to future power generation or power revenues when such rights are not subject to early liquidation. Amortization is calculated by using the straight-line method over the contract life of the agreement. These power rights expire in the year 2017.

## **J. Stewardship Assets**

### ***Heritage Assets***

Reclamation's mission is to "manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public." Managing and protecting heritage assets are secondary to this mission. A number of Reclamation's non-collectible heritage assets are, in fact, part of Reclamation's infrastructure of dams, powerplants, and irrigation works, and receive high priority with regard to protection and maintenance. Other types of non-collectible heritage assets, in particular archaeological sites, are not related to Reclamation's primary mission, and their management and protection are dictated by Federal cultural resource laws, regulations, and reporting requirements.

The vast majority of Reclamation's collectible heritage assets (i.e., museum property) are archaeological items, and their protection also falls outside Reclamation's primary mission. Reclamation endeavors to manage these assets to the standards set in the *Departmental Manual 411, Policy and Responsibilities for Managing Museum Property* (411 DM), and other Federal authorities. Reclamation reports museum property information to Interior through the Government Performance and Results Act (GPRA), Activity Based Costing, the *Federal Archaeology Program Report to Congress*, and the *Museum Property Summary Report*.

Reclamation's *Cultural Resources Management Policy* (LND PO1) affirms Reclamation's commitment to administering its collectible and non-collectible heritage assets in a spirit of stewardship and in compliance with Federal cultural resources laws and regulations. Tied to the policy statement are a number of *Directives and Standards* (D&S) that describe requirements of the cultural resources management program, clarify Reclamation's roles and responsibilities related to cultural resources, and provide direction for consistent implementation of Reclamation's cultural resources program throughout Reclamation. These D&S include *Cultural Resources Management* (LND 02-01), *Inadvertent Discovery of*

*Human Remains on Reclamation Lands* (LND 07-01), and *Inadvertent Discovery of Native American Graves Protection and Repatriation Act (NAGPRA) Cultural Items on Tribal Lands* (LND 10-01).

A separate Museum Property Management Policy, and accompanying D&S, are currently undergoing final approval. These documents provide detailed instructions on managing collectible heritage assets and were developed specifically to address recent changes in Federal requirements not included in existing Reclamation Policy and D&S. Reclamation also maintains a Museum Management Plan (Plan) that is the basic planning and management tool used to track Reclamation's museum property. The Plan identifies actions required to document, preserve, protect, and maintain museum property to established standards. It also describes problems, prioritizes corrective actions, identifies responsible personnel, and estimates budgets for Reclamation's Museum Property Program activities.

### ***Stewardship Land***

There are two types of lands obtained by Reclamation for project and related resource purposes: (1) those that were purchased at a cost to Reclamation projects and beneficiaries, and (2) those that were withdrawn from the public domain at no cost to the projects or beneficiaries (in most cases, these lands were previously under the jurisdiction of the Bureau of Land Management or the U.S. Forest Service). At Reclamation, these two types of lands are referred to as "acquired lands" and "withdrawn lands," respectively.

Both types of land directly support Reclamation's authorized project and related resource purposes of providing water for the primary project purposes of agricultural, municipal, and industrial uses; maintaining flood control; and generating power. In accordance with the *Statement of Federal Financial Accounting Standards* (SFFAS) No. 29, "Heritage Assets and Stewardship Land," adopted in FY 2006, it has been determined that Reclamation's withdrawn lands associated with its projects represent Reclamation's reportable stewardship lands. Reclamation reports its stewardship lands in terms of project units as opposed to total acres. This unit of measure corresponds to how Reclamation accounts for both its project lands and acquired inventories and withdrawn stewardship lands.

Reclamation safeguards its stewardship land to protect them against waste, loss, and misuse. Reclamation certifies that the condition of nearly all of this land meets Interior's criteria of "acceptable condition." This means that the land is managed and protected in a manner sufficient to support the mission of the agency consistent with the statutory purposes for which the land was withdrawn for project purposes. There are methods, procedures, and internal controls utilized by Reclamation to assess the condition of its stewardship land and to take action should the condition deteriorate.

Land is defined as the solid part of the surface of the earth and excludes natural resources (that is, depletable resources and renewable resources) related to the land. Based on this definition, stewardship land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose(s). Reclamation has three environmental disposal liability sites on its stewardship land located within three projects' boundaries.

The Reclamation D&S, entitled *Land Withdrawals, Withdrawal Reviews, and Withdrawal Revocations* (LND 03-01), sets forth the basic standards and gives references to the location of applicable procedures for making new land withdrawals, reviewing existing withdrawals, and revoking withdrawals. This D&S references procedures and processes for these three land management functions using the Federal Land Policy and Management Act and associated regulations found at 43 Code of Federal Regulations Part 2300. Because of the depth of applicable information required by Reclamation staff to successfully implement the D&S LND 03-01, the *Reclamation Land Withdrawal Handbook* was developed to provide detailed information and guidelines that complement the D&S.

In the third quarter FY 2007, Reclamation issued the D&S *Identification and Reporting of Potential Hazardous Substances on Reclamation Acquired or Withdrawn Lands* (LND 12-01), which establishes the requirements and responsibilities for identifying and reporting potential hazardous substance release sites on Reclamation land. In addition, the D&S on *Land Disposal* (LND 08-02) prescribes the procedures, methods, and criteria for disposing of Reclamation lands (excluding title transfer of project facilities under specific authorizing legislation) when Reclamation needs to dispose of or relinquish lands or land interests no longer needed for project purposes. With regard to withdrawn (stewardship) lands, this D&S prescribes general

disposal requirements (which include, among other requirements, environmental, cultural resources, and hazardous materials compliance reviews), as well as details about various specific statutes which authorize the sale of withdrawn lands.

## **K. Liabilities**

Liabilities represent the amount of monies or other resources that are likely to be paid by Reclamation as the result of a transaction or event that has already occurred. However, no liability can be paid by Reclamation unless budgetary resources are made available through an appropriation or other funding source. The accompanying financial statements also include liabilities for which an appropriation has not been enacted and, thus, are presented as liabilities not covered by budgetary resources.

Reclamation has accrued environmental and disposal liabilities where losses are determined to be probable and the amounts can be estimated. In accordance with Federal accounting guidance, the liability for future cleanup of environmental hazards is probable when the Government is legally responsible by having created the hazard or is otherwise related to it in such a way that it is legally liable to clean up the contamination. When the Government is not legally liable, but chooses to accept financial responsibility, the event is considered to be “Government-acknowledged.”

Government-acknowledged events are those of financial consequence to the Government because it chooses to respond to the event. When the Government accepts financial responsibility for cleanup, has an appropriation, and has begun incurring cleanup costs, any unpaid amounts for work performed are included in accounts payable. Changes in cleanup cost estimates are developed in accordance with Interior policy, which addresses systematic processes for cost estimating and will place added emphasis on development and retention of progress made in, and revision of, the cleanup plans, assuming current technology, laws, and regulations.

Contingent liabilities are evaluated on a quarterly basis, and a liability is recorded in the accounting records when an event leading to the probable payment of a liability has occurred, and a reasonable estimate of the potential liability is available. Contingent liabilities involving legal claims and assertions may be paid by Treasury’s Judgment Fund. Treasury provides agencies with information regarding the month and amount of payments actually made, at which time Reclamation recognizes an imputed financing source



and cost. Dependent upon the nature of the claims, certain payments made by Treasury's Judgment Fund may be subject to repayment by Reclamation. In these instances, a liability is recognized rather than an imputed financing source.

### **L. Resources Payable to Treasury**

Reclamation receives appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Many of the projects have reimbursable components, for which Reclamation is required to recover the capital investment and O&M costs through user fees, namely the sale of water and power. These recoveries are deposited in Treasury's General Fund.

Reclamation records an intragovernmental liability for appropriations determined to be recoverable from project beneficiaries and decreases the liability when payments are received from these beneficiaries and, subsequently, transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2007 and 2006 ranged from 2.63 to 9.84 and 2.63 to 8.47, respectively. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Repayment to Treasury's General Fund is dependent upon actual water and power delivered to customers; as such, there is no structured repayment schedule. Actual repayments to Treasury's General Fund in FY 2007 and 2006 were \$4 million and \$10 million, respectively.

Historically, Reclamation received appropriations for the disbursement of loans prior to the enactment of Credit Reform (see Note 1.G). This legislation requires collections of balances for loans obligated prior to FY 1992 be transferred to Treasury's General Fund on an annual basis. Reclamation has recorded an intragovernmental liability for the net pre-Credit Reform loans receivable balance and total current year collections in the direct loan liquidating account. This liability is reduced when the collections for a given fiscal year are transferred to Treasury's General Fund. Repayments of pre-Credit Reform loan appropriations and interest to Treasury's General Fund in FY 2007 and 2006 were \$5 million and \$4 million, respectively.

## **M. Accrued Leave**

Annual leave is accrued as it is earned by employees and included as part of accrued payroll and benefits. Sick leave is not a vested entitlement and is, therefore, expensed as used, with no liability recognized for unused amounts.

## **N. Retirement and Other Benefits**

Reclamation employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Reclamation and its employees contribute to these systems. Both are contributory pension plans. Although Reclamation funds a portion of pension benefits under CSRS and FERS relating to its employees and makes the necessary payroll withholdings from them, it does not report assets associated with these benefit plans. Such amounts are maintained and reported by the Office of Personnel Management (OPM). In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Reclamation recorded the FY 2007 and 2006 estimated cost of pension and other retirement benefits and the associated imputed financing sources which are paid by OPM on its behalf. Reclamation funds are not used to pay the cost of these benefits but are a Reclamation operating expense that is reflected as part of the cost of doing business. The estimated cost of pension and other retirement benefits computation rates are provided by OPM actuaries to the employer agencies.

The Department of Labor (DOL) administers the Workers' Compensation Program on behalf of the Government, and all payments to Workers' Compensation Program beneficiaries are made by DOL. Reclamation has two types of liabilities related to workers' compensation. First, Reclamation records a liability to DOL for the amount of actual payments made by DOL but not yet reimbursed by Reclamation. Reclamation reimburses DOL for these payments as funds are appropriated for this purpose. There is generally a 2- to 3-year time period between payment by DOL and receipt of appropriations by Reclamation. Second, Reclamation records an actuarial liability for the estimated amount of future payments for workers' compensation benefits. This actuarial liability represents the present value of the total expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines this component on an annual basis using historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. Posting of

this unfunded liability is in accordance with SFFAS No. 4, “Managerial Cost Accounting: Concepts and Standards for the Federal Government.”

## **O. Revenues and Financing Sources**

### ***Exchange Revenues***

Exchange revenues earned by Reclamation are classified in accordance with their appropriate responsibility segments and are presented on the Consolidated Statement of Net Cost to match these revenues with their associated costs. Primary examples of exchange revenues are those received from water and power sales, as well as revenue from services provided on a reimbursable basis to governmental and public entities. Exchange revenues are recognized at the time goods or services are provided.

### ***Revenue from Recovery of Reimbursable Capital Costs***

To repay a portion of the Federal investment allocated to the construction of reimbursable irrigation and M&I water facilities, Reclamation enters into long-term repayment contracts and water service contracts with non-Federal (public) water users who receive benefits from these facilities in exchange for annual payments. Also, power marketing agencies enter into agreements with power users, on Reclamation’s behalf, to recover capital investment costs allocated to power. Costs associated with multipurpose plants are allocated to the various purposes (principally, power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control) through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as fish and wildlife enhancement, recreation, and flood control can be non-reimbursable. The typical repayment contract term is up to 40 years but may extend to 50 years or more if authorized by the Congress.

Unmatured repayment contracts are recognized on the Consolidated Balance Sheet when the annual repayment amount is earned, at which time current accounts receivable and current period exchange revenue are recorded. As of September 30, 2007, and 2006, amounts not yet earned under unmatured repayment contracts were \$2.8 billion and \$2.4 billion, respectively.

Under water service contracts and power sales, reimbursable capital costs are recovered through water and power ratesetting processes. Such rates include capital cost factors, among other components, for

recovering the reimbursable capital cost over the applicable future payment period. For sales of water and power, a receivable and corresponding exchange revenue is recognized when the water or power has been delivered and billed to the customer.

### ***Non-exchange Revenues and Other Financing Sources***

Non-exchange revenues are presented as financing sources on the Consolidated Statement of Changes in Net Position. Non-exchange revenues are inflows of resources, both monetary and non-monetary, that the Government demands by its sovereign power or receives by donation or transfer.

Royalties and other revenue transfers are considered financing sources to Reclamation and are presented on the Consolidated Statement of Changes in Net Position. These financing sources are accretions to the Reclamation Fund, received due to legislative requirement and for which no matching costs were incurred by Reclamation.

Appropriations used is the current reporting period reduction of unexpended appropriations (component of net position), which is recognized as a financing source when goods and services are received and budgetary expenditures are recorded. Appropriations used consist of activities which are funded by Treasury's General Fund and exclude those funded by other sources such as the Reclamation Fund, revolving, or special receipt funds.

Imputed financing sources are a type of non-exchange revenue recognized when operating costs of Reclamation are incurred by funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by OPM, and certain legal judgments against Reclamation are paid from Treasury's Judgment Fund.

When costs that are identifiable to Reclamation and directly attributable to Reclamation's operations are paid by other agencies, Reclamation recognizes these amounts as operating costs of Reclamation. Generally, Reclamation is not obligated to repay these costs. The total imputed cost, included in the Consolidated Statement of Net Cost, will not equal the total imputed financing source as shown on the Consolidated Statement of Changes in Net Position due to the capitalization of IDC.

## **P. Use of Estimates**

The preparation of financial statements requires management of Reclamation to make a number of estimates and assumptions relating to the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of general PP&E, accrual of accounts payable, valuation allowances for receivables, environmental and legal liabilities, obligations related to contracts in progress, and obligations related to employee benefits. Actual results could differ from those estimates.

## **Q. Change in Accounting Principle - Allocation Transfers**

An allocation transfer is the amount of budget authority transferred, under specific legislative authority, from one Federal agency, bureau, or account (parent) that is set aside in a transfer appropriation account (child) to carry out the purposes of the parent account. The budgetary activity and balances related to these allocation transfer accounts are not included in the child agency's Combined Statement of Budgetary Resources, but are reported by the parent agency. Reclamation is not a parent for any allocation transfers. Reclamation does have child transfer appropriation accounts with DOL (Job Corps), Department of Transportation (Federal Highway Administration), and Interior (Bureau of Land Management, Office of the Secretary, and Bureau of Indian Affairs).

Prior to FY 2007, the proprietary activity and balances were included in the child agency's Consolidated Balance Sheet, the Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. OMB Circular A-136, *Financial Reporting Requirements* changed the reporting of the proprietary activity of the child accounts. Effective FY 2007, the child agency no longer reports the proprietary activity of the child allocation accounts; all proprietary activity and balances are now reported by the parent agency. This change led to an adjustment to beginning equity balances for FY 2007 as shown on the Consolidated Statement of Changes in Net Position. See Note 15 for additional information on the reconciliation of budgetary activity (obligations incurred) to proprietary activity (net

cost) and the related reconciliation amount necessary due to the change in accounting principle for the reporting of these allocation transfers.

In FY 2007, the cumulative effect of this change in accounting principle results in a decrease of \$202 million to assets and \$3 million to liabilities on the Consolidated Balance Sheet. This results in a net decrease to the beginning balance of unexpended appropriations of \$29 million and cumulative results of operations of \$170 million on the Consolidated Statement of Changes in Net Position.

## **Note 2. Asset Analysis**

Assets of Reclamation include entity, restricted (component of entity assets), and non-entity assets. Entity assets are those available for Reclamation to use in its operations. Restricted assets consist of the Reclamation Fund and other unavailable receipt accounts. Restricted assets cannot be used until appropriated by the Congress. Non-entity assets are not available to finance Reclamation's operations. These items consist of various receivables due from the public that, when collected, are deposited into Treasury's General Fund. Reclamation's assets as of September 30, 2007, and 2006 are summarized in the following tables.

**Asset Analysis**  
**As of September 30, 2007**  
(In Thousands)

	Entity		Non-Entity	Total
	Unrestricted	Restricted		
<b>ASSETS</b>				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,240,659	\$ 6,573,036	\$ -	\$ 7,813,695
Accounts Receivable	8,962	522,362	-	531,324
Investments, Net	401,459	-	-	401,459
Amounts Due from the U.S. Department of Energy, Net	-	2,827,301	-	2,827,301
Other:				
Advances and Prepayments	1,598	-	-	1,598
Total Intragovernmental Assets	1,652,678	9,922,699	-	11,575,377
Cash	-	-	-	-
Accounts and Interest Receivable, Net	29,516	4,414	147	34,077
Loans and Interest Receivable, Net	102,929	-	-	102,929
General Property, Plant, and Equipment, Net	13,012,013	-	-	13,012,013
Other:				
Advances and Prepayments	28,548	-	-	28,548
Power Rights, Net	108,318	-	-	108,318
Total Other Assets	136,866	-	-	136,866
<b>Total Assets</b>	<b>\$ 14,934,002</b>	<b>\$ 9,927,113</b>	<b>\$ 147</b>	<b>\$ 24,861,262</b>

**Asset Analysis**  
**As of September 30, 2006**  
(In Thousands)

	Entity		Non-Entity	Total
	Unrestricted	Restricted		
<b>ASSETS</b>				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,309,182	\$ 5,721,219	\$ -	\$ 7,030,401
Accounts Receivable	4,879	658,694	-	663,573
Investments, Net	322,045	-	-	322,045
Amounts Due from the U.S. Department of Energy, Net	-	2,631,887	-	2,631,887
Other:				
Advances and Prepayments	1,007	-	-	1,007
Total Intragovernmental Assets	1,637,113	9,011,800	-	10,648,913
Cash	117	-	-	117
Accounts and Interest Receivable, Net	25,563	4,115	74	29,752
Loans and Interest Receivable, Net	157,286	-	-	157,286
General Property, Plant, and Equipment, Net	13,071,874	-	-	13,071,874
Other:				
Advances and Prepayments	19,202	-	-	19,202
Power Rights, Net	122,033	-	-	122,033
Total Other Assets	141,235	-	-	141,235
<b>Total Assets</b>	<b>\$ 15,033,188</b>	<b>\$ 9,015,915</b>	<b>\$ 74</b>	<b>\$ 24,049,177</b>

### Note 3. Fund Balance with Treasury

Reclamation's Fund Balance with Treasury and the Status of Fund Balance with Treasury as of September 30, 2007, and 2006, are shown in the following table.

**Fund Balance with Treasury  
As of September 30, 2007, and 2006  
(In Thousands)**

	2007	2006
<b>Fund Balance with Treasury by Fund Type</b>		
General Funds	\$ 835,435	\$ 824,678
Special Funds	6,687,941	5,829,949
Revolving Funds	197,345	242,230
Trust Funds	60,198	81,601
Other Fund Types	32,776	51,943
Total Fund Balance with Treasury by Fund Type	<b>\$ 7,813,695</b>	<b>\$ 7,030,401</b>
<b>Status of Fund Balance with Treasury</b>		
Unobligated:		
Available	\$ 338,325	\$ 352,129
Unavailable	-	271
Obligated Balance Not Yet Disbursed	880,681	915,814
Subtotal	1,219,006	1,268,214
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	6,573,036	5,721,219
Deposit and Clearing Accounts	21,653	40,968
Subtotal	6,594,689	5,762,187
Total Status of Fund Balance with Treasury	<b>\$ 7,813,695</b>	<b>\$ 7,030,401</b>

Reclamation's fund types and purposes are described below:

**General Funds.** These funds consist of expenditure accounts used to record financial transactions arising from congressional appropriations.

**Special Funds.** These funds are credited with receipts from special sources that can be earmarked by law for a specific purpose.

**Revolving Funds.** These funds account for cash flows to and from the Government resulting from operations of public enterprise and working capital funds. The revolving funds are restricted to the purposes set forth in the legislation that established the funds.



**Trust Funds.** These funds are used for the acceptance and administration of funds contributed from public and private sources and programs and in cooperation with other Federal and State agencies or private donors and other activities.

**Other Fund Types.** These fund types include credit reform program and financing accounts, miscellaneous receipt accounts, and deposit and clearing accounts. Deposit and clearing accounts are maintained to account for receipts and disbursements awaiting proper classification.

The unobligated balances reported for the Status of Fund Balance with Treasury do not agree with the unobligated balances reported on the Combined Statement of Budgetary Resources due to the investment balances which reduce Fund Balance with Treasury but do not reduce budgetary resources. Additionally for FY 2006, obligated and unobligated balances reported for the Status of Fund Balance with Treasury do not agree with the obligated and unobligated balances reported on the Combined Statement of Budgetary Resources because the Fund Balance with Treasury amounts for FY 2006 include allocation transfer accounts, for which budgetary resources are not recorded. The reporting requirements for these allocation transfer accounts changed effective FY 2007. For additional information on this change in accounting principle, refer to Note 1.Q.

#### **Note 4. Investments, Net**

Reclamation has investment authority authorized in the Lower Colorado River Basin Development Fund and the San Gabriel Basin Restoration Fund, both of which are classified as earmarked funds (see Note 16 for a further discussion of earmarked funds). The investment balance as of September 30, 2007, and 2006 consists of the cost of non-marketable market-based securities purchased through the Federal Investment Branch of the Bureau of Public Debt, as well as accrued interest earned. The market value of these securities is equal to the cost plus accrued interest earned. There is currently no applicable premium or discount associated with these investments. Reclamation's investments as of September 30, 2007, and 2006 are summarized in the following table.

**Investments, Net**  
**As of September 30, 2007, and 2006**  
(In Thousands)

	<b>2007</b>	<b>2006</b>
Cost	\$ 401,370	\$ 322,000
Accrued Interest	89	45
<b>Investments, Net</b>	<b>\$ 401,459</b>	<b>\$ 322,045</b>

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

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

**Note 5. Amounts Due from the U.S. Department of Energy, Net**

The following table shows the amounts due from the U.S. Department of Energy as of September 30, 2007, and 2006.

**Amounts Due from the U.S. Department of Energy, Net**  
**As of September 30, 2007, and 2006**  
(In Thousands)

	<b>2007</b>	<b>2006</b>
Principal	\$ 6,599,293	\$ 6,378,188
Interest	2,192,969	2,053,503
Cumulative Repayments	(5,943,259)	(5,778,102)
Allowance for Non-Reimbursable Costs	(21,702)	(21,702)
<b>Total Amounts Due from the U.S. Department of Energy, Net</b>	<b>\$ 2,827,301</b>	<b>\$ 2,631,887</b>

Interest rates vary by project and pertinent legislation and ranged from 4.9 to 7.6 percent and 2.5 to 12.4 percent for the years ended September 30, 2007 and 2006, respectively. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

### Note 6. Accounts and Interest Receivable, Net

The following table shows the status of accounts receivable due from the public as of September 30, 2007, and 2006.

**Accounts and Interest Receivable, Net, Due from the Public  
As of September 30, 2007, and 2006  
(In Thousands)**

	2007	2006
Current	\$ 7,729	\$ 7,583
1-180 Days Past Due	1,248	1,994
181-365 Days Past Due	497	88
1 to 2 Years Past Due	61	575
Over 2 Years Past Due	7,918	7,499
Total Billed Accounts and Interest Receivable	17,453	17,739
Unbilled Accounts and Interest Receivable	27,276	23,049
Total Accounts and Interest Receivable	44,729	40,788
Allowance for Doubtful Accounts	(10,652)	(11,036)
<b>Total Accounts and Interest Receivable - Net of Allowance</b>	<b>\$ 34,077</b>	<b>\$ 29,752</b>

### Note 7. Loans and Interest Receivable, Net

The following tables show the status of the non-Federal loans receivable and associated interest receivable as of September 30, 2007, and 2006.

**Loans and Interest Receivable, Net  
As of September 30, 2007  
(In Thousands)**

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Loans and Interest Receivable, Net
<b>Direct Loan Programs</b>					
<b>Direct Loans Obligated Prior to FY 1992:</b>					
Small Reclamation Projects Act	\$ 32,991	\$ -	\$ (7,255)	\$ -	\$ 25,736
Distribution System Loans Act	3,308	-	-	-	3,308
Rural Development Policy Act	17,991	75	-	-	18,066
Rehabilitation and Betterment Act	4	-	-	-	4
Drought Relief	187	-	-	-	187
<b>Total Direct Loans Obligated Prior to FY 1992</b>	<b>54,481</b>	<b>75</b>	<b>(7,255)</b>	<b>-</b>	<b>47,301</b>
<b>Direct Loans Obligated After FY 1991:</b>					
Small Reclamation Projects Act	94,139	-	-	(38,511)	55,628
<b>Total Direct Loans</b>	<b>\$ 148,620</b>	<b>\$ 75</b>	<b>\$ (7,255)</b>	<b>\$ (38,511)</b>	<b>\$ 102,929</b>

**Loans and Interest Receivable, Net**  
**As of September 30, 2006**  
(In Thousands)

	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Loans and Interest Receivable, Net
<b>Direct Loan Programs</b>					
<b>Direct Loans Obligated Prior to FY 1992:</b>					
Small Reclamation Projects Act	\$ 35,510	\$ -	\$ (7,255)	\$ -	\$ 28,255
Distribution System Loans Act	3,526	-	-	-	3,526
Rural Development Policy Act	18,370	77	-	-	18,447
Rehabilitation and Betterment Act	4	-	-	-	4
Drought Relief	234	-	-	-	234
<b>Total Direct Loans Obligated Prior to FY 1992</b>	<b>57,644</b>	<b>77</b>	<b>(7,255)</b>	<b>-</b>	<b>50,466</b>
<b>Direct Loans Obligated After FY 1991:</b>					
Small Reclamation Projects Act	114,329	-	-	(7,509)	106,820
<b>Total Direct Loans</b>	<b>\$ 171,973</b>	<b>\$ 77</b>	<b>\$ (7,255)</b>	<b>\$ (7,509)</b>	<b>\$ 157,286</b>

Reclamation had seven total loans obligated after FY 1991 outstanding as of September 30, 2006, subject to the provisions of the Credit Reform Act of 1990. In FY 2007, the Fort McDowell Indian Community Water Rights Settlement Revision Act of 2006 (P.L. 109-373) was enacted. The law provides for cancellation of the repayment obligation of the Fort McDowell Yavapai Nation to repay an outstanding Credit Reform loan of \$13 million, for which a \$200 thousand subsidy allowance had previously been recorded. This has resulted in a modification and technical re-estimate totaling \$12.8 million to the subsidy cost allowance in FY 2007 that will allow for additional appropriations enabling Reclamation to cancel the loan receivable balance. The modification appropriation received for this purpose in FY 2007 was \$4.4 million and is included in the subsidy allowance. The remaining \$8.4 million has been included in the annual technical re-estimate and recorded as an increase to the subsidy cost allowance pending appropriation and apportionment from OMB. This loan is included in the gross loans receivable balance and offset in the allowance for subsidy until the remaining subsidy appropriation is received, which is expected to occur in FY 2008. After the cancellation of the Fort McDowell Yavapai Nation repayment obligation and the complete loan repayment of one outstanding loan, Reclamation had five Credit Reform loans outstanding as of September 30, 2007. Loan disbursements during FY 2007 and 2006 were \$9.2 million and \$8 thousand, respectively. Administrative expenses for the years ended September 30, 2007, and 2006, were \$76 thousand and \$54 thousand, respectively.

Re-estimates of the subsidy cost allowance are performed annually. Technical re-estimates adjust the allowance for differences between the projected cash flows that were expected versus actual cash

flows. Interest re-estimates adjust the subsidy allowance to provide for the prevailing interest rate at the time the loans were disbursed versus the interest rates assumed in the budget preparation process. In FY 2007, OMB issued a new credit subsidy calculator that considers borrower performance in conjunction with historical loan financing account re-estimates, cash, and borrowing balances to arrive at the total technical re-estimate. This change in methodology, combined with the FY 2007 Ft. McDowell loan forgiveness, resulted in a net upward re-estimate, with a corresponding net increase to the subsidy cost allowance of \$23.3 million for the year ended September 30, 2007. A net decrease of \$13.6 million was recorded for the year ended September 30, 2006. In FY 2007, there were no other changes in economic conditions, other risk factors, legislation, credit policies, and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy re-estimates. For FY 2007 and 2006, there were no additional loan appropriations; therefore, there is no budget subsidy rate.

Reconciliation of the subsidy cost allowance as of and for the years ended September 30, 2007, and 2006 is shown in the following table.

**Schedule for Reconciling Subsidy Cost Allowance Balances  
(Post-1991 Direct Loans)  
As of and for the Years Ended September 30, 2007, and 2006  
(In Thousands)**

	<b>2007</b>	<b>2006</b>
Beginning Balance of the Subsidy Cost Allowance	\$ 7,509	\$ 25,011
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years		
Other Subsidy Costs	(713)	-
Adjustments:		
Loan Modifications	4,404	-
Subsidy Allowance Amortization	3,981	(3,943)
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	15,181	21,068
Add or (Subtract) Subsidy Re-estimates by Component:		
Technical/Default Re-estimate	23,330	(4,570)
Interest Rate Re-estimate	-	(8,989)
Ending Balance of the Subsidy Cost Allowance	<u>\$ 38,511</u>	<u>\$ 7,509</u>

## Note 8. General Property, Plant, and Equipment, Net

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2007, and 2006 are shown in the following tables.

### General Property, Plant, and Equipment, Net As of September 30, 2007 (In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
Structures and Facilities	\$ 17,461,763	\$ (8,080,856)	\$ 9,380,907
Land	1,848,165	-	1,848,165
Construction in Progress:			
Construction in Progress - General	1,112,487	-	1,112,487
Construction in Abeyance	570,813	-	570,813
Equipment, Vehicles, and Aircraft	106,923	(58,746)	48,177
Buildings	57,896	(14,742)	43,154
Internal Use Software:			
In Use	29,864	(25,457)	4,407
In Development	3,903	-	3,903
<b>Total General PP&amp;E</b>	<b>\$ 21,191,814</b>	<b>\$ (8,179,801)</b>	<b>\$ 13,012,013</b>

### General Property, Plant, and Equipment, Net As of September 30, 2006 (In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
Structures and Facilities	\$ 17,464,432	\$ (7,982,373)	\$ 9,482,059
Land	1,854,949	-	1,854,949
Construction in Progress:			
Construction in Progress - General	1,059,101	-	1,059,101
Construction in Abeyance	568,624	-	568,624
Equipment, Vehicles, and Aircraft	105,878	(54,853)	51,025
Buildings	77,085	(27,987)	49,098
Internal Use Software:			
In Use	29,885	(23,983)	5,902
In Development	1,116	-	1,116
<b>Total General PP&amp;E</b>	<b>\$ 21,161,070</b>	<b>\$ (8,089,196)</b>	<b>\$ 13,071,874</b>

IDC is included in construction in progress. The authority for charging IDC is in the authorizing legislation for a particular project or administrative policy established pursuant to the law. Generally, the costs allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law. The interest rates used in computing IDC are specified in the authorizing legislation; or if rates are not specified, the rates are established by Reclamation laws or administrative policy and are based on the fiscal year in which construction began. The interest rates applied during FY 2007 and 2006 ranged from 3.22 percent to 8.70 percent. For the years ended September 30, 2007, and 2006, \$9 million of IDC costs were capitalized each year.

The investment in projects held in abeyance as of September 30, 2007, and 2006 ranged from \$59.1 thousand to \$287 million per project, respectively. The investment covers a period from 1965 to the present. Continued planning or construction on these assets has been held in abeyance for various reasons, including such concerns as the execution of cost-share agreements with non-Federal entities and environmental, economic, and international treaty issues. The Congress and local interests continue to pursue acceptable alternatives for the completion of those projects in which there has been a substantial investment. As it is uncertain when construction will resume or benefits will be provided by these assets, classification into construction in abeyance provides the most meaningful and accurate status of their disposition. The Congress has not yet deauthorized any of these assets, nor should it be inferred from this classification that the future viability of them is necessarily in doubt.

## **Note 9. Liabilities**

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which congressional action is needed before budgetary resources can be provided. These liabilities as of September 30, 2007, and 2006 are combined and presented together in the Consolidated Balance Sheet and are detailed in the following tables.

**Liabilities**  
**As of September 30, 2007**  
**(In Thousands)**

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
	Current	Non-Current	Current	Non-Current	
<b>Intragovernmental Liabilities:</b>					
Accounts Payable	\$ 16,571	\$ -	\$ -	\$ -	\$ 16,571
Debt	-	73,259	-	-	73,259
Other:					
Accrued Employee Benefits	9,449	-	4,044	7,621	21,114
Advances, Deferred Revenue, and Deposit Funds	7,290	-	9	-	7,299
Judgment Fund Liability	-	-	-	47,950	47,950
Resources Payable to Treasury	-	-	44,792	1,746,902	1,791,694
Other Liabilities	-	-	-	117	117
Total Other Liabilities	16,739	-	48,845	1,802,590	1,868,174
<b>Total Intragovernmental Liabilities</b>	<b>33,310</b>	<b>73,259</b>	<b>48,845</b>	<b>1,802,590</b>	<b>1,958,004</b>
<b>Public Liabilities:</b>					
Accounts Payable	133,590	72,885	-	-	206,475
Federal Employee Benefits, Actuarial	-	-	-	85,990	85,990
Environmental and Disposal Liabilities	-	-	-	51,597	51,597
Other:					
Accrued Payroll and Benefits	18,831	-	-	27,652	46,483
Advances, Deferred Revenue, and Deposit Funds	166,404	-	28,826	279,875	475,105
Contingent Liabilities	-	-	-	962	962
Other Liabilities	4,440	-	-	83	4,523
Total Other Liabilities	189,675	-	28,826	308,572	527,073
<b>Total Public Liabilities</b>	<b>323,265</b>	<b>72,885</b>	<b>28,826</b>	<b>446,159</b>	<b>871,135</b>
<b>Total Liabilities</b>	<b>\$ 356,575</b>	<b>\$ 146,144</b>	<b>\$ 77,671</b>	<b>\$ 2,248,749</b>	<b>\$ 2,829,139</b>



**Liabilities**  
**As of September 30, 2006**  
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
	Current	Non-Current	Current	Non-Current	
<b>Intragovernmental Liabilities:</b>					
Accounts Payable	\$ 29,142	\$ -	\$ -	\$ -	\$ 29,142
Debt	-	95,141	-	-	95,141
Other:					
Accrued Employee Benefits	8,793	-	4,742	8,498	22,033
Advances, Deferred Revenue, and Deposit Funds	5,285	-	-	-	5,285
Judgment Fund Liability	-	-	-	47,950	47,950
Resources Payable to Treasury	-	-	46,118	1,798,592	1,844,710
Other Liabilities	-	-	-	73	73
Total Other Liabilities	14,078	-	50,860	1,855,113	1,920,051
<b>Total Intragovernmental Liabilities</b>	<b>43,220</b>	<b>95,141</b>	<b>50,860</b>	<b>1,855,113</b>	<b>2,044,334</b>
<b>Public Liabilities:</b>					
Accounts Payable	138,706	75,029	-	-	213,735
Federal Employee Benefits, Actuarial	-	-	-	88,353	88,353
Environmental and Disposal Liabilities	-	-	-	46,871	46,871
Other:					
Accrued Payroll and Benefits	19,717	-	-	27,380	47,097
Advances, Deferred Revenue, and Deposit Funds	156,043	-	47,205	293,802	497,050
Contingent Liabilities	-	-	-	962	962
Other Liabilities	3,671	-	-	91	3,762
Total Other Liabilities	179,431	-	47,205	322,235	548,871
<b>Total Public Liabilities</b>	<b>318,137</b>	<b>75,029</b>	<b>47,205</b>	<b>457,459</b>	<b>897,830</b>
<b>Total Liabilities</b>	<b>\$ 361,357</b>	<b>\$ 170,170</b>	<b>\$ 98,065</b>	<b>\$ 2,312,572</b>	<b>\$ 2,942,164</b>

**Note 10. Debt**

Reclamation makes loans which are subject to the provisions of Credit Reform. Under Credit Reform, loans consist of two components—the part borrowed from Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans as of September 30, 2007, range from 2012 to 2047. The interest rate used to calculate interest owed to Treasury as of September 30, 2007, and 2006 ranged from 3.63 to 7.59 percent and 4.67 to 7.59 percent, respectively. As annual installments are received from loan recipients, any funds in excess of interest are applied against the outstanding principal owed to Treasury. The liabilities shown in the following table represent the outstanding

amounts borrowed from Treasury to fund Credit Reform loans as of and for the years ended September 30, 2007, and 2006.

### Debt

#### As of and for the Years Ended September 30, 2007, and 2006 (In Thousands)

Intragovernmental Debt:		
Credit Reform Borrowings	2007	2006
Beginning Balance	\$ 95,141	\$ 96,811
New Borrowing	1,031	1,584
Repayments	(22,913)	(3,254)
Ending Balance	<u>\$ 73,259</u>	<u>\$ 95,141</u>

### Note 11. Contingent Liabilities and Environmental and Disposal Liabilities

Reclamation is currently involved in various environmental cleanup actions and legal proceedings. Disclosure and recognition of these contingent liabilities have been made in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government." The liabilities are accrued when probable and reasonably estimable. Additionally, liabilities are disclosed in the estimated range of loss when the conditions for liability recognition are not met and the likelihood of loss is more than remote.

The accrued and potential environmental and disposal liabilities and contingent liabilities as of September 30, 2007, and 2006 are summarized in the following tables.

#### Contingent Liabilities and Environmental and Disposal Liabilities As of September 30, 2007 (In Thousands)

	Accrued Liabilities	Total Estimated Range of Loss Including Accrued Amounts	
		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	\$ 962	\$ 962	\$ 1,882
Reasonably Possible		200,100	287,500
Environmental and Disposal Liabilities			
Probable	51,597	51,597	124,531
Reasonably Possible		30	7,607

**Contingent Liabilities and Environmental and Disposal Liabilities**  
**As of September 30, 2006**  
(In Thousands)

	Accrued Liabilities	Total Estimated Range of Loss Including Accrued Amounts	
		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	\$ 962	\$ 962	\$ 1,882
Reasonably Possible		200,100	200,100
Environmental and Disposal Liabilities			
Probable	46,871	46,871	92,725
Reasonably Possible		29	7,390

### **A. Contingent Liabilities – Legal Claims and Assertions**

Reclamation is party to a number of lawsuits and other actions where monetary amounts are sought from Reclamation, including construction cost claims, lawsuits over repayment of certain project costs, and water rights claims.

### **B. Environmental and Disposal Liabilities**

Reclamation has Government-related potential environmental and disposal liabilities associated with hazardous waste removal, containment, or disposal. Reclamation's hazardous wastesites include vehicle maintenance facilities and landfills. These sites have various types of contamination, including soil contamination from waste petroleum, heavy metal, and other regulated toxic waste. Reclamation's cleanup sites fall under the purview of the Resources Conservation and Recovery Act of 1976, the Clean Air Act, the Endangered Species Act, and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, which created the Superfund Program.

The estimated range of loss includes the expected future cleanup costs and, for those sites where the future liability is unknown, the cost of studies necessary to evaluate response requirements. There are no material changes in total estimated cleanup costs that are due to changes in law or technology.

### **Note 12. Operating Leases**

Most of Reclamation's facilities are leased through the General Services Administration (GSA), which charges rent that is intended

to approximate commercial rental rates. For property leased through GSA, Reclamation does not always execute an occupancy agreement; however, a 120- to 180-day notice to vacate is normally required. For the years ended September 30, 2007, and 2006, the amount of lease expense for federally owned and non-federally owned property leased through GSA was \$18.6 million and \$20.1 million, respectively. Although Reclamation anticipates leasing facilities from GSA subsequent to FY 2012, these leases are only disclosed for 5 future years unless such leases are non-cancelable.

In addition to leases with GSA, Reclamation had, for the years ended September 30, 2007, and 2006, operating lease payments to non-Federal entities in the amount of \$3.1 million and \$3.0 million, respectively. These leases were primarily for office space and office equipment. Reclamation has an option to renew many of its operating leases at terms similar to the initial terms.

The following table shows a schedule, by year, of future minimum lease payments as of September 30, 2007. Future operating lease payments are calculated based on the terms of the lease or, if the lease is silent, an inflationary factor of 2.4 percent is applied for FY 2008 and 2.5 percent for FY 2009 and beyond.

**Operating Lease Commitments**  
**As of September 30, 2007**  
(In Thousands)

Fiscal Year	GSA Real Property	Other Real Property	Personal Property	Total
2008	\$ 20,359	\$ 2,205	\$ 740	\$ 23,304
2009	20,868	2,054	349	23,271
2010	21,390	1,690	21	23,101
2011	21,924	1,618	18	23,560
2012	22,473	1,487	18	23,978
Thereafter	-	1,031	-	1,031
Total Future Operating Lease Payments	<u>\$ 107,014</u>	<u>\$ 10,085</u>	<u>\$ 1,146</u>	<u>\$ 118,245</u>

### Note 13. Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost is presented in accordance with the strategic plan in place for that fiscal year, as required under the GPRA. Consolidating Statements of Net Cost, shown by regional organization and reporting segment for the years ended September 30, 2007, and 2006, are presented at the end of Note 16.

## **Note 14. Combined Statement of Budgetary Resources**

The Combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget. The FY 2006 amounts shown equal those presented in the President's Budget. The actual amounts for FY 2007 in the President's Budget have not been published at the time these financial statements were prepared. The President's Budget with the actual FY 2007 amounts is estimated to be released in February 2008 and can be located at the OMB Web site: ([www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)).

Offsetting receipts are collections that are credited to general fund, special fund, or trust fund receipt accounts and offset gross outlays. Unlike offsetting collections, which are credited to expenditure accounts and offset outlays at the account level, offsetting receipts are not authorized to be credited to expenditure accounts and are used to offset outlays at the bureau level. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent.

Reclamation's borrowing authority is provided under the Credit Reform Act of 1990 (refer to Note 7 for additional information on Credit Reform loans). The repayment terms and provisions of these loans are not more than 40 years from the date when the principal benefits of the projects first become available. The collections on these loans in excess of the interest due Treasury are applied to the outstanding principal owed Treasury.

Reclamation has two major budget accounts that are classified as permanent indefinite appropriations, which are available until expended. The Colorado River Dam Fund – Boulder Canyon Project is an available receipt fund into which various operating revenues of the Hoover Dam are covered, mainly from the sale of power generated at the dam. Reclamation Trust Funds include amounts received from public benefactors that are used to finance restoration and other activities. These permanent indefinite appropriation accounts are classified as exempt from apportionment.

Other Reclamation funds, including those not specifically mentioned here, are subject to annual apportionment by OMB and classified as Category B apportionments. Detailed amounts for each

of Reclamation's major budget accounts are included in the Combining Statements of Budgetary Resources located in the "Supplemental Section" of this report. All unobligated balances presented are available until expended.

All appropriation language contains specific and/or general authorizations. These authorizations may be defined as legislative parameters that frame the funding and Federal agency policy for executing programs. These authorizations also direct how Reclamation must treat other assets it may acquire as a result of executing operating programs. Since both specific and general authorizations are integral components of all legislation, Reclamation does not view them as restrictions or legal encumbrances on available funding.

Obligations incurred by budget category for Reclamation's budgetary accounts and non-budgetary Credit Reform financing account are presented in the following tables.

**Obligations Incurred By Budget Category  
For the Year Ended September 30, 2007  
(In Thousands)**

	<b>Apportioned Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Direct	\$ 1,014,289	\$ 92,848	\$ 1,107,137
Reimbursable	887,784	-	887,784
<b>Total Obligations Incurred</b>	<b>\$ 1,902,073</b>	<b>\$ 92,848</b>	<b>\$ 1,994,921</b>

**Obligations Incurred By Budget Category  
For the Year Ended September 30, 2006  
(In Thousands)**

	<b>Apportioned Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Direct	\$ 1,070,785	\$ 99,292	\$ 1,170,077
Reimbursable	868,061	-	868,061
<b>Total Obligations Incurred</b>	<b>\$ 1,938,846</b>	<b>\$ 99,292</b>	<b>\$ 2,038,138</b>

For the years ended September 30, 2007, and 2006, undelivered orders were \$742 million and \$706 million, respectively.

## **Note 15. Reconciliation of Budgetary Resources Obligated to Net Cost of Operations**

Effective FY 2007, the Statement of Financing is presented as a footnote disclosure and is no longer a basic financial statement in accordance with OMB Circular No. A-136. The Statement of Financing is now reported in the notes and referred to as “Reconciliation of Budgetary Resources Obligated to Net Cost of Operations.”

The table on the following page shows the Reconciliation of Budgetary Resources Obligated to Net Cost of Operations for the years ended September 30, 2007, and 2006.

Reclamation receives, as the child agency, allocation transfers from other Interior bureaus, as well as other Federal entities. As discussed in Note 1.Q., there was a change in accounting principle related to the reporting of these allocation transfers effective in FY 2007. The amount shown for FY 2007 as an allocation transfer reconciling item is due to this change in accounting principle. The amount shown for FY 2006 is due to the difference between proprietary and budgetary reporting requirements that were in effect for that year.

The Reconciliation of Budgetary Resources Obligated to the Net Cost of Operations includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in Note 9, Liabilities. Differences are primarily the result of certain Treasury guidance related to changes in various liabilities which are reported on this reconciliation. This guidance is dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in this reconciliation.

U.S. Department of the Interior  
 Bureau of Reclamation  
 Reconciliation of Budgetary Resources Obligated to the Net Cost of Operations  
 For the Years Ended September 30, 2007, and 2006  
 (In Thousands)

	2007	2006
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 1,994,921	\$ 2,038,138
Less: Spending Authority from Offsetting Collections and Recoveries	(972,961)	(903,563)
Obligations Net of Offsetting Collections and Recoveries	1,021,960	1,134,575
Less: Offsetting Receipts	(1,973,833)	(2,257,865)
Net Obligations	(951,873)	(1,123,290)
Other Resources:		
Donations of Property	68	505
Transfers In/(Out) Without Reimbursement	10,635	(87,485)
Imputed Financing from Costs Absorbed by Others	114,285	107,576
Net Other Resources Used to Finance Activities	124,988	20,596
Total Resources Used to Finance Activities	(826,885)	(1,102,694)
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(36,063)	(149,885)
Change in Unfilled Customer Orders	54,515	(4,015)
Resources That Fund Expenses Recognized in Prior Periods	(835)	(17,016)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections That Increase Liabilities for Allowances for Subsidy	47,890	9,775
Offsetting Receipts Not Part of the Net Cost of Operations	1,473,362	1,721,867
Resources That Finance the Acquisition of Assets	(303,803)	(188,555)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(19,609)	101,679
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,215,457	1,473,850
Total Resources Used to Finance the Net Cost of Operations	388,572	371,156
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	271	27
Increase in Environmental and Disposal Liabilities	4,727	11,511
Upward (Downward) Re-estimates of Credit Subsidy Expense	23,009	(3)
(Increase) in Exchange Revenue Receivable from the Public	(44)	(43)
Other	2,664	-
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	30,627	11,492
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	190,779	178,967
Revaluation of Assets	16,206	6,248
Allocation Transfer Reconciling Items	915	28,591
Other	(1,102)	2,304
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	206,798	216,110
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	237,425	227,602
<b>Net Cost of Operations</b>	<b>\$ 625,997</b>	<b>\$ 598,758</b>



## **Note 16. Earmarked Funds**

Reclamation receives revenues and financing sources from earmarked funds. In accordance with SFFAS No. 27, "Identifying and Reporting Earmarked Funds," effective October 1, 2005, these specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and are accounted for separately from the Government's general revenues.

In FY 2007, there has been no change in legislation that significantly changes the purpose of Reclamation's earmarked funds or redirects a material portion of the accumulated balance. Reclamation has established unique cost centers within the accounting system for each of the specified activities under each earmarked fund.

### ***Reclamation Fund***

The Reclamation Fund was established by the Reclamation Act of 1902 (32 Stat. 388). It is a restricted, unavailable receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of capital investment costs, associated interest, and O&M reimbursements from water and power users) and receipts from other Federal agencies (primarily revenues from certain Federal mineral royalties and hydropower transmission) are deposited. No expenditures are made directly from the Reclamation Fund; however, funds are transferred from the Reclamation Fund into Reclamation's appropriated expenditure funds or to other Federal agencies pursuant to congressional appropriation acts to invest and reinvest in the reclamation of arid lands in the Western United States.

### ***Water and Related Resources Fund***

The Water and Related Resources Fund receives the majority of its funding from appropriations derived from the Reclamation Fund. These funds are used for Reclamation's central mission of delivering water and generating hydropower in the Western United States. Costs associated with multipurpose structures and facilities are allocated to the various purposes, principally: power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as fish and wildlife enhancement, recreation, and flood control can be non-reimbursable. Capital investment costs are recovered over a 40-year period but may extend to 50 years or more

if authorized by the Congress. Recovery of these capital investment costs and revenues generated from these activities are returned to the Reclamation Fund.

### ***Lower Colorado River Basin Fund***

The Lower Colorado River Basin Fund receives funding from multiple sources for specific purposes as provided under P.L. 90-537 and amended by P.L. 108-451. In addition to appropriations, funding sources include revenues from the Central Arizona Project, the Boulder Canyon and Parker-Davis Projects, the Western Area Power Administration, the Northwest-Pacific Southwest intertie in the States of Nevada and Arizona, and revenues earned from investing in Treasury securities. Funding sources may be retained and are available without further appropriation. The fund provides for irrigation development and management activities within the Lower Colorado River Basin including operation, maintenance, replacements, and emergency expenditures for facilities of the Colorado River Storage Project and participating projects.

### ***Other Earmarked Funds***

The Reclamation Fund, Water and Related Resources Fund, and the Lower Colorado River Basin Fund comprise over 80 percent of Reclamation's total earmarked net position. Other earmarked funds are presented on an aggregate basis in the following tables and include:

- Upper Colorado River Basin Fund
- Colorado River Dam Fund – Boulder Canyon Project
- San Gabriel Restoration Fund
- Central Valley Project Restoration Fund
- Reclamation Trust Funds
- Klamath – Water and Energy
- North Platte Project – Facility Operations
- North Platte – Farmers Irrigation District – Facility Operations
- Reclamation Recreation, Entrance and Use Fees
- Reclamation Fund General Administration Expenses
- Quarters Operation and Maintenance

Condensed financial information for Reclamation's earmarked funds are presented in the following tables as of and for the years ended September 30, 2007, and 2006.

**Earmarked Funds**

**As of and for the Year Ended September 2007**  
(In Thousands)

	Reclamation Fund	Water and Related Resources	Lower Colorado River Basin Fund	Other Earmarked Funds	Total Earmarked Funds
<b>ASSETS</b>					
Fund Balance with Treasury	\$ 6,567,639	\$ 763,270	\$ 3,305	\$ 332,856	\$ 7,667,070
Investments, Net	-	-	391,391	10,068	401,459
Accounts and Interest Receivable, Net	523,587	22,529	10,551	7,079	563,746
Loans and Interest Receivable, Net	2,827,301	-	-	-	2,827,301
General Property, Plant, and Equipment, Net	-	7,373,681	2,972,426	2,620,010	12,966,117
Other Assets	-	22,238	115,911	45	138,194
<b>TOTAL ASSETS</b>	<b>\$ 9,918,527</b>	<b>\$ 8,181,718</b>	<b>\$ 3,493,584</b>	<b>\$ 2,970,058</b>	<b>\$ 24,563,887</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ 99,039	\$ 16,090	\$ 100,553	\$ 215,682
Resources Payable to Treasury	-	1,731,652	-	-	1,731,652
Other Liabilities	53	310,980	2,455	382,263	695,751
<b>TOTAL LIABILITIES</b>	<b>\$ 53</b>	<b>\$ 2,141,671</b>	<b>\$ 18,545</b>	<b>\$ 482,816</b>	<b>\$ 2,643,085</b>
<b>NET POSITION</b>					
Unexpended Appropriations	-	206,521	11,313	18,539	236,373
Cumulative Results of Operations	9,918,474	5,833,526	3,463,726	2,468,703	21,684,429
<b>TOTAL NET POSITION</b>	<b>9,918,474</b>	<b>6,040,047</b>	<b>3,475,039</b>	<b>2,487,242</b>	<b>21,920,802</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>					
<b>\$ 9,918,527</b>	<b>\$ 8,181,718</b>	<b>\$ 3,493,584</b>	<b>\$ 2,970,058</b>	<b>\$ 24,563,887</b>	
<b>COSTS/REVENUES</b>					
Gross Costs	\$ 1,057	\$ 1,042,110	\$ 176,790	\$ 299,081	\$ 1,519,038
Earned Revenues	(335,383)	(185,605)	(176,927)	(244,187)	(942,102)
<b>NET COST OF OPERATIONS</b>	<b>\$ (334,326)</b>	<b>\$ 856,505</b>	<b>\$ (137)</b>	<b>\$ 54,894</b>	<b>\$ 576,936</b>
<b>NET POSITION</b>					
Net Position, Beginning Balance	\$ 8,993,133	\$ 5,947,568	\$ 3,448,683	\$ 2,410,228	\$ 20,799,612
Change in Accounting Principle (Note 1.Q)	-	-	-	(21)	(21)
Net Position, Beginning Balance as Adjusted	8,993,133	5,947,568	3,448,683	2,410,207	20,799,591
Appropriations Received/Transferred	-	109,091	26,999	70,467	206,557
Royalties Retained	1,326,070	-	-	-	1,326,070
Non-Exchange Revenue and Donations	9,601	68	-	1	9,670
Other Financing Sources:					
Transfers In/(Out) without Reimbursement	(733,279)	733,162	(780)	53,969	53,072
Imputed Financing from Costs Absorbed by Others	112	106,663	-	7,492	114,267
Other	(11,489)	-	-	-	(11,489)
Net Cost of Operations	334,326	(856,505)	137	(54,894)	(576,936)
Change in Net Position	925,341	92,479	26,356	77,035	1,121,211
<b>NET POSITION, ENDING BALANCE</b>	<b>\$ 9,918,474</b>	<b>\$ 6,040,047</b>	<b>\$ 3,475,039</b>	<b>\$ 2,487,242</b>	<b>\$ 21,920,802</b>

**Earmarked Funds**  
**As of and for the Year Ended September 2006**  
(In Thousands)

	Reclamation Fund	Water and Related Resources	Lower Colorado River Basin Fund	Other Earmarked Funds	Total Earmarked Funds
<b>ASSETS</b>					
Fund Balance with Treasury	\$ 5,699,905	\$ 730,745	\$ 38,647	\$ 365,020	\$ 6,834,317
Investments, Net	-	-	305,043	17,002	322,045
Accounts and Interest Receivable, Net	661,373	15,522	8,759	7,148	692,802
Loans and Interest Receivable, Net	2,631,887	-	-	-	2,631,887
General Property, Plant, and Equipment, Net	-	7,329,633	2,988,498	2,541,936	12,860,067
Other Assets	-	21,313	120,377	16	141,706
<b>TOTAL ASSETS</b>	<b>\$ 8,993,165</b>	<b>\$ 8,097,213</b>	<b>\$ 3,461,324</b>	<b>\$ 2,931,122</b>	<b>\$ 23,482,824</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 1	\$ 124,000	\$ 11,119	\$ 103,249	\$ 238,369
Resources Payable to Treasury	-	1,751,384	-	-	1,751,384
Other Liabilities	31	274,261	1,522	417,645	693,459
<b>TOTAL LIABILITIES</b>	<b>32</b>	<b>2,149,645</b>	<b>12,641</b>	<b>520,894</b>	<b>2,683,212</b>
<b>NET POSITION</b>					
Unexpended Appropriations	-	210,820	8,077	30,604	249,501
Cumulative Results of Operations	8,993,133	5,736,748	3,440,606	2,379,624	20,550,111
<b>TOTAL NET POSITION</b>	<b>8,993,133</b>	<b>5,947,568</b>	<b>3,448,683</b>	<b>2,410,228</b>	<b>20,799,612</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>					
<b>\$ 8,993,165</b>	<b>\$ 8,097,213</b>	<b>\$ 3,461,324</b>	<b>\$ 2,931,122</b>	<b>\$ 23,482,824</b>	
<b>COSTS/REVENUES</b>					
Gross Costs	\$ (6,305)	\$ 1,124,451	\$ 163,008	\$ 302,560	\$ 1,583,714
Earned Revenues	(389,861)	(201,700)	(189,237)	(230,738)	(1,011,536)
<b>NET COST OF OPERATIONS</b>	<b>\$ (396,166)</b>	<b>\$ 922,751</b>	<b>\$ (26,229)</b>	<b>\$ 71,822</b>	<b>\$ 572,178</b>
<b>NET POSITION</b>					
Net Position, Beginning Balance	\$ 7,952,123	\$ 5,961,233	\$ 3,402,053	\$ 2,321,587	\$ 19,636,996
Appropriations Received/Transferred	-	92,250	24,808	72,174	189,232
Royalties Retained	1,487,423	-	-	-	1,487,423
Non-Exchange Revenue and Donations	4	9	496	-	509
Other Financing Sources:					
Transfers In/(Out) without Reimbursement	(842,623)	746,123	(4,903)	51,477	(49,926)
Imputed Financing from Costs Absorbed by Others	40	70,704	-	36,812	107,556
Other	-	-	-	-	-
Net Cost of Operations	396,166	(922,751)	26,229	(71,822)	(572,178)
Change in Net Position	1,041,010	(13,665)	46,630	88,641	1,162,616
<b>NET POSITION, ENDING BALANCE</b>	<b>\$ 8,993,133</b>	<b>\$ 5,947,568</b>	<b>\$ 3,448,683</b>	<b>\$ 2,410,228</b>	<b>\$ 20,799,612</b>

**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidating Statement of Net Cost  
For the Year Ended September 30, 2007  
(In Thousands)**

	<b>Pacific Northwest Region</b>	<b>Mid-Pacific Region</b>
<b>RESOURCE USE</b>		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	39,560	106,648
Public Costs	79,113	173,674
Total Costs	<u>118,673</u>	<u>280,322</u>
Intragovernmental Earned Revenues	(77,629)	(1,130)
Public Earned Revenues	(20,113)	(179,502)
Total Earned Revenues	<u>(97,742)</u>	<u>(180,632)</u>
Net Cost	<u>20,931</u>	<u>99,690</u>
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	21,027	13,841
Public Costs	41,052	22,388
Total Costs	<u>62,079</u>	<u>36,229</u>
Intragovernmental Earned Revenues	(29,008)	3,208
Public Earned Revenues	(7,515)	(2,491)
Total Earned Revenues	<u>(36,523)</u>	<u>717</u>
Net Cost	<u>25,556</u>	<u>36,946</u>
<b>RESOURCE PROTECTION</b>		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Intragovernmental Costs	278	98
Public Costs	406	173
Total Costs	<u>684</u>	<u>271</u>
Intragovernmental Earned Revenues	(352)	-
Public Earned Revenues	(91)	(63)
Total Earned Revenues	<u>(443)</u>	<u>(63)</u>
Net Cost	<u>241</u>	<u>208</u>
<b>RECREATION</b>		
Provide Quality and Fair Value in Recreation:		
Intragovernmental Costs	1,853	5,193
Public Costs	4,449	7,862
Total Costs	<u>6,302</u>	<u>13,055</u>
Intragovernmental Earned Revenues	(3,139)	(53)
Public Earned Revenues	(813)	(8,465)
Total Earned Revenues	<u>(3,952)</u>	<u>(8,518)</u>
Net Cost	<u>2,350</u>	<u>4,537</u>
<b>CENTRALIZED PROGRAM SUPPORT AND OTHER</b>		
Working Capital Fund, Policy and Administration, and Other:		
Intragovernmental Costs	18,271	22,440
Public Costs	36,173	48,478
Total Costs	<u>54,444</u>	<u>70,918</u>
Intragovernmental Earned Revenues	(40,982)	(60,228)
Public Earned Revenues	(10,160)	(9,301)
Total Earned Revenues	<u>(51,142)</u>	<u>(69,529)</u>
Net Cost	<u>3,302</u>	<u>1,389</u>
<b>Total Intragovernmental Costs</b>	<u>80,989</u>	<u>148,220</u>
<b>Total Public Costs</b>	<u>161,193</u>	<u>252,575</u>
<b>Total Costs</b>	<u>242,182</u>	<u>400,795</u>
<b>Total Intragovernmental Earned Revenues</b>	<u>(151,110)</u>	<u>(58,203)</u>
<b>Total Public Earned Revenues</b>	<u>(38,692)</u>	<u>(199,822)</u>
<b>Total Earned Revenues</b>	<u>(189,802)</u>	<u>(258,025)</u>
<b>Net Cost of Operations</b>	<u>52,380</u>	<u>142,770</u>

Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
48,278	44,578	50,509	44,975	334,548	(7,992)	326,556
258,549	75,144	136,752	41,559	764,791	-	764,791
306,827	119,722	187,261	86,534	1,099,339	(7,992)	1,091,347
(20,741)	(11,951)	(897)	-	(112,348)	7,992	(104,356)
(179,905)	(54,924)	(51,751)	(28)	(486,223)	-	(486,223)
(200,646)	(66,875)	(52,648)	(28)	(598,571)	7,992	(590,579)
106,181	52,847	134,613	86,506	500,768	-	500,768
22,101	8,786	15,249	1,554	82,558	(1,506)	81,052
50,078	18,321	28,555	264	160,658	-	160,658
72,179	27,107	43,804	1,818	243,216	(1,506)	241,710
(37,075)	(2,325)	(66,794)	-	(131,994)	1,506	(130,488)
(47,148)	(14,922)	(10,945)	(1)	(83,022)	-	(83,022)
(84,223)	(17,247)	(77,739)	(1)	(215,016)	1,506	(213,510)
(12,044)	9,860	(33,935)	1,817	28,200	-	28,200
14,976	7,697	198	1,020	24,267	(1,977)	22,290
13,124	28,637	495	397	43,232	-	43,232
28,100	36,334	693	1,417	67,499	(1,977)	65,522
(3,279)	(2,957)	(3)	-	(6,591)	1,977	(4,614)
(28,436)	(13,591)	(184)	(1)	(42,366)	-	(42,366)
(31,715)	(16,548)	(187)	(1)	(48,957)	1,977	(46,980)
(3,615)	19,786	506	1,416	18,542	-	18,542
2,997	352	1,102	-	11,497	(68)	11,429
9,939	650	1,253	(5)	24,148	-	24,148
12,936	1,002	2,355	(5)	35,645	(68)	35,577
(1,100)	(102)	(5)	-	(4,399)	68	(4,331)
(9,541)	(469)	(277)	-	(19,565)	-	(19,565)
(10,641)	(571)	(282)	-	(23,964)	68	(23,896)
2,295	431	2,073	(5)	11,681	-	11,681
21,297	21,475	14,595	118,577	216,655	(333,845)	(117,190)
39,721	37,662	24,337	89,037	275,408	-	275,408
61,018	59,137	38,932	207,614	492,063	(333,845)	158,218
(44,256)	(41,862)	(35,251)	(156,797)	(379,376)	333,845	(45,531)
(13,455)	(6,860)	(1,176)	(4,929)	(45,881)	-	(45,881)
(57,711)	(48,722)	(36,427)	(161,726)	(425,257)	333,845	(91,412)
3,307	10,415	2,505	45,888	66,806	-	66,806
109,649	82,888	81,653	166,126	669,525	(345,388)	324,137
371,411	160,414	191,392	131,252	1,268,237	-	1,268,237
481,060	243,302	273,045	297,378	1,937,762	(345,388)	1,592,374
(106,451)	(59,197)	(102,950)	(156,797)	(634,708)	345,388	(289,320)
(278,485)	(90,766)	(64,333)	(4,959)	(677,057)	-	(677,057)
(384,936)	(149,963)	(167,283)	(161,756)	(1,311,765)	345,388	(966,377)
96,124	93,339	105,762	135,622	625,997	-	625,997

**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidating Statement of Net Cost  
For the Year Ended September 30, 2006  
(In Thousands)**

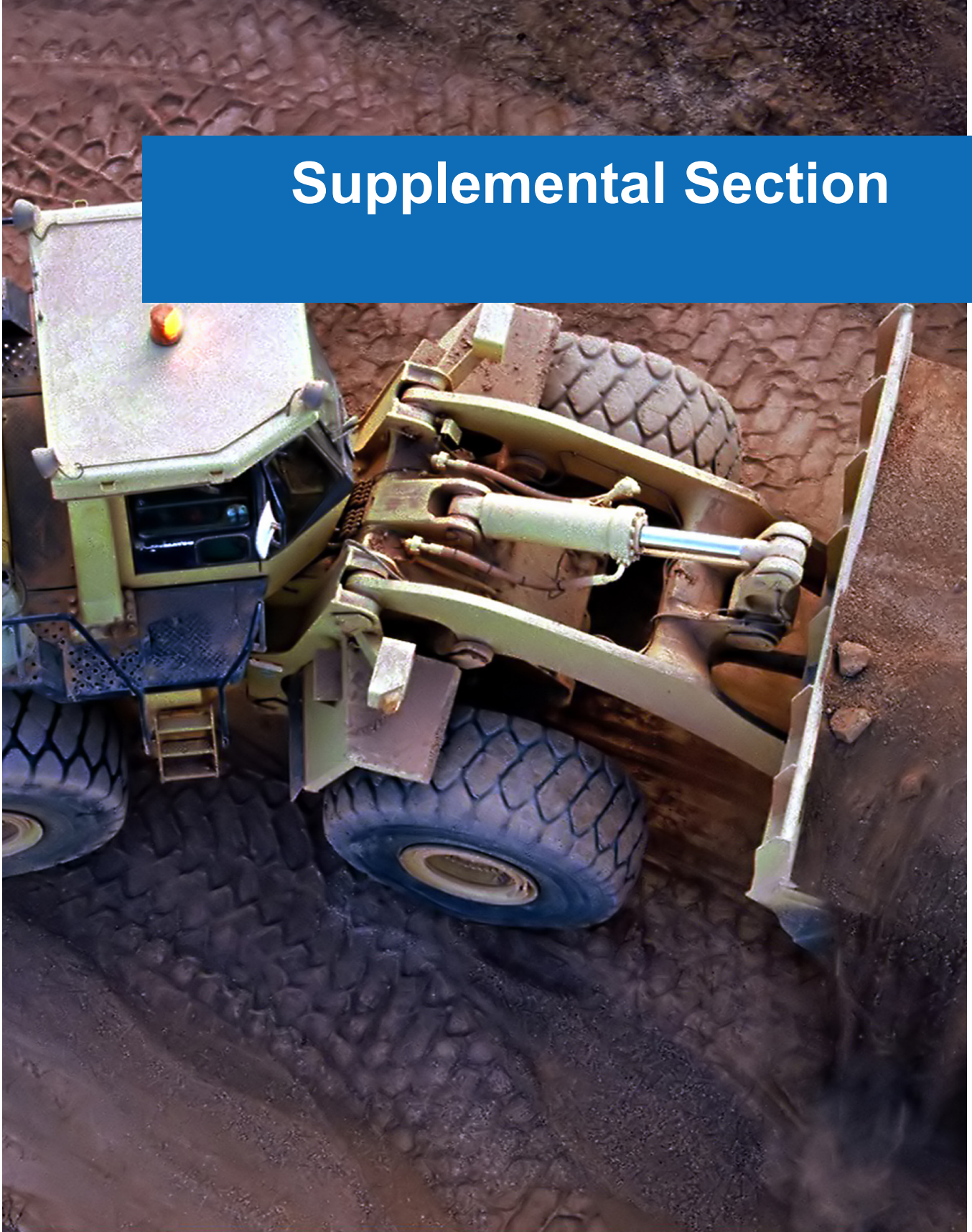
(In Thousands)	Pacific Northwest Region	Mid-Pacific Region
<b>RESOURCE USE</b>		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	35,161	72,074
Public Costs	118,498	171,241
Total Costs	<u>153,659</u>	<u>243,315</u>
Intragovernmental Earned Revenues	(65,732)	(185)
Public Earned Revenues	(17,388)	(188,859)
Total Earned Revenues	<u>(83,120)</u>	<u>(189,044)</u>
Net Cost	<u>70,539</u>	<u>54,271</u>
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	20,034	11,779
Public Costs	40,640	34,084
Total Costs	<u>60,674</u>	<u>45,863</u>
Intragovernmental Earned Revenues	(35,700)	(551)
Public Earned Revenues	(9,444)	(74,734)
Total Earned Revenues	<u>(45,144)</u>	<u>(75,285)</u>
Net Cost	<u>15,530</u>	<u>(29,422)</u>
<b>RESOURCE PROTECTION</b>		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Intragovernmental Costs	204	360
Public Costs	500	302
Total Costs	<u>704</u>	<u>662</u>
Intragovernmental Earned Revenues	(306)	-
Public Earned Revenues	(81)	(83)
Total Earned Revenues	<u>(387)</u>	<u>(83)</u>
Net Cost	<u>317</u>	<u>579</u>
<b>RECREATION</b>		
Provide Quality and Fair Value in Recreation:		
Intragovernmental Costs	1,739	3,477
Public Costs	4,767	9,508
Total Costs	<u>6,506</u>	<u>12,985</u>
Intragovernmental Earned Revenues	(3,635)	(13)
Public Earned Revenues	(962)	(13,732)
Total Earned Revenues	<u>(4,597)</u>	<u>(13,745)</u>
Net Cost	<u>1,909</u>	<u>(760)</u>
<b>CENTRALIZED PROGRAM SUPPORT AND OTHER</b>		
Working Capital Fund, Policy and Administration, and Other:		
Intragovernmental Costs	15,542	19,993
Public Costs	35,340	47,033
Total Costs	<u>50,882</u>	<u>67,026</u>
Intragovernmental Earned Revenues	(38,093)	(56,956)
Public Earned Revenues	(8,551)	(7,611)
Total Earned Revenues	<u>(46,644)</u>	<u>(64,567)</u>
Net Cost	<u>4,238</u>	<u>2,459</u>
<b>Total Intragovernmental Costs</b>	<u>72,680</u>	<u>107,683</u>
<b>Total Public Costs</b>	<u>199,745</u>	<u>262,168</u>
<b>Total Costs</b>	<u>272,425</u>	<u>369,851</u>
<b>Total Intragovernmental Earned Revenues</b>	<u>(143,466)</u>	<u>(57,705)</u>
<b>Total Public Earned Revenues</b>	<u>(36,426)</u>	<u>(285,019)</u>
<b>Total Earned Revenues</b>	<u>(179,892)</u>	<u>(342,724)</u>
<b>Net Cost of Operations</b>	<u>92,533</u>	<u>27,127</u>

Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
31,926	78,121	29,037	50,039	296,358	(7,723)	288,635
214,262	72,836	153,244	70,579	800,660	-	800,660
246,188	150,957	182,281	120,618	1,097,018	(7,723)	1,089,295
(17,882)	(9,835)	(8)	(77)	(93,719)	7,723	(85,996)
(207,750)	(51,066)	(34,341)	(66)	(499,470)	-	(499,470)
(225,632)	(60,901)	(34,349)	(143)	(593,189)	7,723	(585,466)
20,556	90,056	147,932	120,475	503,829	-	503,829
17,916	19,846	12,157	2,085	83,817	(3,102)	80,715
38,517	19,772	28,532	94	161,639	-	161,639
56,433	39,618	40,689	2,179	245,456	(3,102)	242,354
(33,448)	(4,014)	(51,898)	-	(125,611)	3,102	(122,509)
(42,211)	(20,512)	(10,031)	(1)	(156,933)	-	(156,933)
(75,659)	(24,526)	(61,929)	(1)	(282,544)	3,102	(279,442)
(19,226)	15,092	(21,240)	2,178	(37,088)	-	(37,088)
16,319	11,323	149	1,115	29,470	(1,475)	27,995
14,271	23,047	519	315	38,954	-	38,954
30,590	34,370	668	1,430	68,424	(1,475)	66,949
(1,456)	(1,878)	-	-	(3,640)	1,475	(2,165)
(15,036)	(9,757)	(156)	(1)	(25,114)	-	(25,114)
(16,492)	(11,635)	(156)	(1)	(28,754)	1,475	(27,279)
14,098	22,735	512	1,429	39,670	-	39,670
2,413	647	299	9	8,584	(98)	8,486
8,781	862	636	25	24,579	-	24,579
11,194	1,509	935	34	33,163	(98)	33,065
(764)	(125)	-	-	(4,537)	98	(4,439)
(7,893)	(648)	(134)	-	(23,369)	-	(23,369)
(8,657)	(773)	(134)	-	(27,906)	98	(27,808)
2,537	736	801	34	5,257	-	5,257
20,265	18,533	14,663	136,833	225,829	(337,217)	(111,388)
37,874	39,176	24,118	128,595	312,136	-	312,136
58,139	57,709	38,781	265,428	537,965	(337,217)	200,748
(45,590)	(49,770)	(33,476)	(184,197)	(408,082)	337,217	(70,865)
(12,884)	(8,665)	(1,648)	(3,434)	(42,793)	-	(42,793)
(58,474)	(58,435)	(35,124)	(187,631)	(450,875)	337,217	(113,658)
(335)	(726)	3,657	77,797	87,090	-	87,090
88,839	128,470	56,305	190,081	644,058	(349,615)	294,443
313,705	155,693	207,049	199,608	1,337,968	-	1,337,968
402,544	284,163	263,354	389,689	1,982,026	(349,615)	1,632,411
(99,140)	(65,622)	(85,382)	(184,274)	(635,589)	349,615	(285,974)
(285,774)	(90,648)	(46,310)	(3,502)	(747,679)	-	(747,679)
(384,914)	(156,270)	(131,692)	(187,776)	(1,383,268)	349,615	(1,033,653)
17,630	127,893	131,662	201,913	598,758	-	598,758

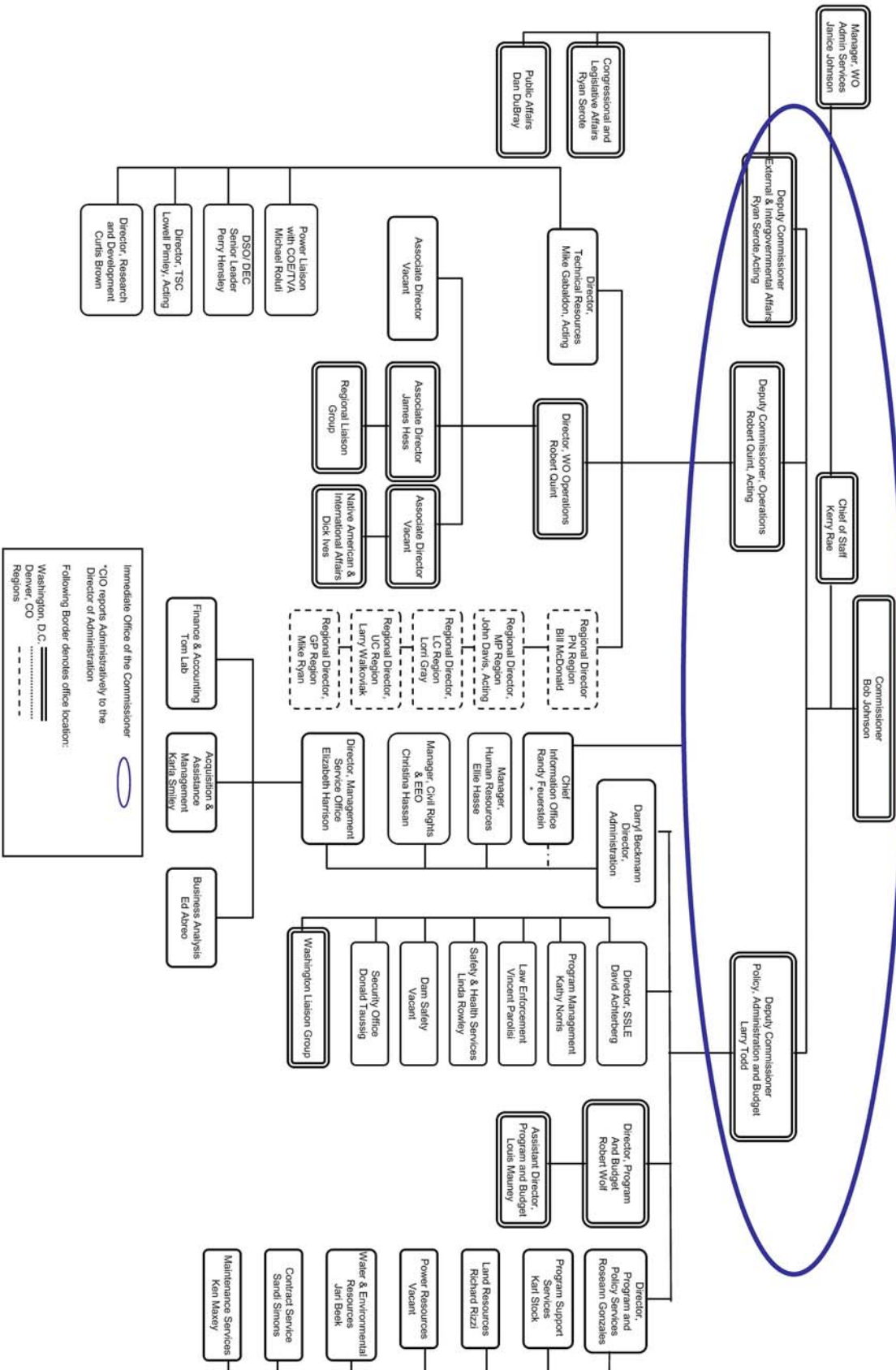




# Supplemental Section



Bureau of Reclamation  
December 5, 2007





**Bureau of Reclamation  
Regional Boundaries and Offices**

# Required Supplementary Information

## Combining Statements of Budgetary Resources

The Combined Statement of Budgetary Resources, which is included as a principal financial statement, presents information about the Bureau of Reclamation's (Reclamation's) total budgetary resources, including carry forward of unused, prior year funding, and spending authority created by reimbursements from other Federal agencies and non-Federal entities. The Combining Statements of Budgetary Resources present this information by major budget account, excluding the Non-budgetary Credit Program Financing Account.

Reclamation's largest budget account is Water and Related Resources, which supports the development and management of water and related resources in the 17 Western States. This account funds the operation and maintenance of Reclamation facilities to deliver water and power, preservation of natural resources, and continued efforts towards water conservation and technology development.

The Working Capital Fund (WCF), the Lower Colorado River Basin Development Fund (LCRBDF), and the Upper Colorado River Basin Fund (UCRBF) are revolving funds that operate on a cost recovery basis. The WCF provides support services and equipment for Reclamation programs and activities, as well as for other Federal entities. The LCRBDF and UCRBF provide for irrigation development and management activities within the Lower and Upper Colorado River Basins, including construction, operation, maintenance, replacements, and emergency expenditures for facilities of the Colorado River Storage Project and participating projects.

The Colorado River Dam Fund is an available receipt fund into which various operating revenues of the Hoover Dam are collected, primarily from the sale of power generated at the dam. These revenues are used to fund the operation and maintenance of the dam.

The Central Valley Project Restoration Fund provides funding for fish and wildlife habitat restoration, improvement, and acquisition activities. Revenues come from project beneficiaries and donations.

Reclamation Trust Funds collect amounts that are earmarked for specific purposes and are expended accordingly, primarily to finance activities such as fish and wildlife habitat restoration and other mitigation efforts.

The Policy and Administration budget account is used to finance all of Reclamation's centralized management functions that are not chargeable directly to a specific project or program. These functions include management of personnel, safety and health, and information resources. Also included are budgetary policy formulation and execution, procurement and general services, and public affairs activities.

The California Bay-Delta Restoration account provides funds that are distributed based on a program recommended by the State of California and Federal Agencies (CALFED) group and approved by the Secretary of the Interior. The CALFED Bay-Delta Program was established in May 1995 to develop a comprehensive, long-term solution to the complex and interrelated problems in California's San Francisco Bay/Sacramento-San Joaquin Delta (Bay-Delta). The Bay-Delta system provides habitat for 120 fish and wildlife species, some listed as threatened or endangered. CALFED is comprised of a consortium of Federal and State agencies. Federal agencies include Reclamation, the U.S. Fish and Wildlife Service, the U.S. Environmental Protection Agency, and the National Marine Fisheries Service, with possible participation by other agencies in the future. State agency involvement includes oversight by the California Resources Agency and the participation of the State Department of Water Resources, the Department of Fish and Game, and the California Environmental Protection Agency.

The Other Budget Accounts balance includes several smaller activities within Reclamation, including the San Gabriel Restoration Fund, loan program, and financing funds.

**U.S. Department of the Interior  
Bureau of Reclamation  
Combining Statement of Budgetary Resources  
For the Year Ended September 30, 2007  
(In Thousands)**

	Water and Related Resources	Working Capital Fund	Lower Colorado River Basin Development Fund
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance, Beginning of Fiscal Year	\$ 185,402	\$ 28,030	\$ 328,903
Recoveries of Prior Year Unpaid Obligations	15,185	3,801	197
Budget Authority:			
Appropriations	901,310	-	-
Spending Authority from Offsetting Collections:			
Earned:			
Collected	198,671	347,752	174,881
Change in Receivables from Federal Sources	6,084	(1,028)	2,001
Change in Unfilled Customer Orders:			
Advance Received	33,442	(69)	1,152
Without Advance from Federal Sources	27,051	-	-
Subtotal	1,166,558	346,655	178,034
Nonexpenditure Transfers, Net	(92,916)	-	26,999
Temporarily Not Available Pursuant to Public Law	-	-	-
Permanently Not Available	-	-	(780)
<b>Total Budgetary Resources</b>	<b>\$ 1,274,229</b>	<b>\$ 378,486</b>	<b>\$ 533,353</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred (Notes 14 and 15):			
Direct	\$ 828,916	\$ -	\$ -
Reimbursable	236,968	357,940	148,597
Total Obligations Incurred	1,065,884	357,940	148,597
Unobligated Balance Available:			
Apportioned	208,297	20,546	384,756
Exempt from Apportionment	48	-	-
Total Unobligated Balance Available	208,345	20,546	384,756
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,274,229</b>	<b>\$ 378,486</b>	<b>\$ 533,353</b>
<b>OBLIGATED BALANCE</b>			
Obligated Balance, Net, Beginning of Fiscal Year:			
Unpaid Obligations	\$ 588,221	\$ 32,232	\$ 23,294
Less: Uncollected Receivables and Orders from Federal Sources	(42,794)	(10,055)	(8,549)
Total Unpaid Obligated Balances, Net, Beginning of Fiscal Year	545,427	22,177	14,745
Obligations Incurred	1,065,884	357,940	148,597
Less: Gross Outlays	(1,003,729)	(356,207)	(151,291)
Less: Recoveries of Prior Year Unpaid Obligations	(15,185)	(3,801)	(197)
Change in Uncollected Receivables and Orders from Federal Sources	(33,135)	1,028	(2,001)
<b>Total Unpaid Obligated Balance, Net, End of Fiscal Year</b>	<b>\$ 559,262</b>	<b>\$ 21,137</b>	<b>\$ 9,853</b>
<b>OBLIGATED BALANCE, NET, END OF FISCAL YEAR - BY COMPONENT</b>			
Obligated Balance, Net, End of Fiscal Year:			
Unpaid Obligations	635,191	30,164	20,403
Less: Uncollected Receivables and Orders from Federal Sources	(75,929)	(9,027)	(10,550)
<b>Total Unpaid Obligated Balance, Net, End of Fiscal Year</b>	<b>\$ 559,262</b>	<b>\$ 21,137</b>	<b>\$ 9,853</b>
<b>NET OUTLAYS</b>			
Gross Outlays	\$ 1,003,729	\$ 356,207	\$ 151,291
Less: Offsetting Collections	(232,113)	(347,683)	(176,033)
Less: Distributed Offsetting Receipts	(434)	-	-
<b>Net Outlays (Receipts)</b>	<b>\$ 771,182</b>	<b>\$ 8,524</b>	<b>\$ (24,742)</b>

Upper Colorado River Basin Development Fund	Colorado River Dam Fund	Central Valley Project Restoration Fund	Reclamation Trust Fund	Policy and Administration	California Bay-Delta Ecosystem Restoration Fund	Other Budgetary Accounts	Total Budgetary Accounts
\$ 23,051	\$ 19,118	\$ 80	\$ 50,802	\$ 2,141	\$ 14,129	\$ 1,123	\$ 652,779
2,923	168	2,029	17,186	887	4,716	8,129	55,221
-	80,939	52,150	1,680	57,575	36,648	5,468	1,135,770
86,842	-	-	-	-	-	4,610	812,756
(502)	-	-	-	-	-	-	6,555
(7,061)	-	-	-	-	-	-	27,464
-	-	-	-	-	-	-	27,051
79,279	80,939	52,150	1,680	57,575	36,648	10,078	2,009,596
70,467	-	-	-	-	-	-	4,550
-	-	-	-	-	-	-	-
(2,364)	(1,647)	-	-	-	-	(4,782)	(9,573)
\$ 173,356	\$ 98,578	\$ 54,259	\$ 69,668	\$ 60,603	\$ 55,493	\$ 14,548	\$ 2,712,573
\$ -	\$ 78,828	\$ 54,087	\$ 13,615	\$ 59,265	\$ 46,965	\$ 13,657	\$ 1,095,333
144,279	-	-	-	-	-	-	887,784
144,279	78,828	54,087	13,615	59,265	46,965	13,657	1,983,117
29,077	15,614	172	-	1,338	8,528	891	669,219
-	4,136	-	56,053	-	-	-	60,237
29,077	19,750	172	56,053	1,338	8,528	891	729,456
\$ 173,356	\$ 98,578	\$ 54,259	\$ 69,668	\$ 60,603	\$ 55,493	\$ 14,548	\$ 2,712,573
\$ 130,945	\$ 6,672	\$ 69,800	\$ 30,799	\$ 8,634	\$ 48,667	\$ 25,088	\$ 964,352
(621)	-	-	-	-	-	-	(62,019)
130,324	6,672	69,800	30,799	8,634	48,667	25,088	902,333
144,279	78,828	54,087	13,615	59,265	46,965	13,657	1,983,117
(148,903)	(72,029)	(55,169)	(23,083)	(57,972)	(27,280)	(20,279)	(1,915,942)
(2,923)	(168)	(2,029)	(17,186)	(887)	(4,716)	(8,129)	(55,221)
502	-	-	-	-	-	-	(33,606)
\$ 123,279	\$ 13,303	\$ 66,689	\$ 4,145	\$ 9,040	\$ 63,636	\$ 10,337	\$ 880,681
123,398	13,303	66,689	4,145	9,040	63,636	10,337	976,306
(119)	-	-	-	-	-	-	(95,625)
\$ 123,279	\$ 13,303	\$ 66,689	\$ 4,145	\$ 9,040	\$ 63,636	\$ 10,337	\$ 880,681
\$ 148,903	\$ 72,029	\$ 55,169	\$ 23,083	\$ 57,972	\$ 27,280	\$ 20,279	\$ 1,915,942
(79,781)	-	-	-	-	-	(4,610)	(840,220)
-	(80,939)	(40,082)	(1,680)	-	-	(1,850,698)	(1,973,833)
\$ 69,122	\$ (8,910)	\$ 15,087	\$ 21,403	\$ 57,972	\$ 27,280	\$ (1,835,029)	\$ (898,111)



**U.S. Department of the Interior**  
**Bureau of Reclamation**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2006**  
(In Thousands)

	Water and Related Resources	Working Capital Fund	Lower Colorado River Basin Development Fund
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance, Beginning of Fiscal Year	\$ 276,153	\$ 27,882	\$ 266,952
Recoveries of Prior Year Unpaid Obligations	27,091	2,609	509
Budget Authority:			
Appropriations	892,556	-	-
Spending Authority from Offsetting Collections:			
Earned:			
Collected	236,740	349,975	190,137
Change in Receivables from Federal Sources	(4,315)	109	(944)
Change in Unfilled Customer Orders:			
Advance Received	12,642	(473)	(493)
Without Advance from Federal Sources	(6,761)	-	-
Subtotal	1,130,862	349,611	188,700
Nonexpenditure Transfers, Net	(103,962)	-	24,808
Temporarily Not Available Pursuant to Public Law	(7,017)	-	-
Permanently Not Available	(1,818)	-	(4,902)
<b>Total Budgetary Resources</b>	<b>\$ 1,321,309</b>	<b>\$ 380,102</b>	<b>\$ 476,067</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred (Note 14):			
Direct	\$ 899,338	\$ -	\$ -
Reimbursable	236,569	352,072	147,164
Total Obligations Incurred	1,135,907	352,072	147,164
Unobligated Balance Available:			
Apportioned	185,354	28,030	328,903
Exempt from Apportionment	48	-	-
Total Unobligated Balance Available	185,402	28,030	328,903
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,321,309</b>	<b>\$ 380,102</b>	<b>\$ 476,067</b>
<b>OBLIGATED BALANCE</b>			
Obligated Balance, Net, Beginning of Fiscal Year:			
Unpaid Obligations	\$ 441,972	\$ 32,038	\$ 28,255
Less: Uncollected Receivables and Orders from Federal Sources	(53,870)	(9,946)	(9,493)
Total Unpaid Obligated Balances, Net, Beginning of Fiscal Year	388,102	22,092	18,762
Obligations Incurred	1,135,907	352,072	147,164
Less: Gross Outlays	(962,567)	(349,269)	(151,616)
Less: Recoveries of Prior Year Unpaid Obligations	(27,091)	(2,609)	(509)
Change in Uncollected Receivables and Orders from Federal Sources	11,076	(109)	944
<b>Total Unpaid Obligated Balance, Net, End of Fiscal Year</b>	<b>\$ 545,427</b>	<b>\$ 22,177</b>	<b>\$ 14,745</b>
<b>OBLIGATED BALANCE, NET, END OF FISCAL YEAR - BY COMPONENT</b>			
Obligated Balance, Net, End of Fiscal Year:			
Unpaid Obligations	588,221	32,232	23,294
Less: Uncollected Receivables and Orders from Federal Sources	(42,794)	(10,055)	(8,549)
<b>Total Unpaid Obligated Balance, Net, End of Fiscal Year</b>	<b>\$ 545,427</b>	<b>\$ 22,177</b>	<b>\$ 14,745</b>
<b>NET OUTLAYS</b>			
Gross Outlays	\$ 962,567	\$ 349,269	\$ 151,616
Less: Offsetting Collections	(249,382)	(349,502)	(189,644)
Less: Distributed Offsetting Receipts	(368)	-	-
<b>Net Outlays (Receipts)</b>	<b>\$ 712,817</b>	<b>\$ (233)</b>	<b>\$ (38,028)</b>

Upper Colorado River Basin Development Fund	Colorado River Dam Fund	Central Valley Project Restoration Fund	Reclamation Trust Fund	Policy and Administration	California Bay-Delta Ecosystem Restoration Fund	Other Budgetary Accounts	Total Budgetary Accounts
\$ 18,267	\$ 15,394	\$ 110	\$ 42,445	\$ 2,052	\$ 15,789	\$ 964	\$ 666,008
2,962	306	3,450	81	878	1,259	26	39,171
-	71,448	52,219	41,124	57,917	37,000	2,687	1,154,951
84,374	-	-	-	-	-	4,157	865,383
458	-	-	-	-	-	-	(4,692)
(8,930)	-	-	-	-	-	-	2,746
-	-	-	-	-	-	-	(6,761)
75,902	71,448	52,219	41,124	57,917	37,000	6,844	2,011,627
62,274	-	-	-	-	(500)	9,900	(7,480)
-	-	(83)	-	(579)	-	-	(7,679)
(4,098)	(1,575)	-	-	-	(370)	(4,003)	(16,766)
<b>\$ 155,307</b>	<b>\$ 85,573</b>	<b>\$ 55,696</b>	<b>\$ 83,650</b>	<b>\$ 60,268</b>	<b>\$ 53,178</b>	<b>\$ 13,731</b>	<b>\$ 2,684,881</b>
\$ -	\$ 66,455	\$ 55,616	\$ 32,848	\$ 58,127	\$ 39,049	\$ 12,608	\$ 1,164,041
132,256	-	-	-	-	-	-	868,061
132,256	66,455	55,616	32,848	58,127	39,049	12,608	2,032,102
23,051	16,626	80	-	2,141	14,129	951	599,265
-	2,492	-	50,802	-	-	172	53,514
23,051	19,118	80	50,802	2,141	14,129	1,123	652,779
<b>\$ 155,307</b>	<b>\$ 85,573</b>	<b>\$ 55,696</b>	<b>\$ 83,650</b>	<b>\$ 60,268</b>	<b>\$ 53,178</b>	<b>\$ 13,731</b>	<b>\$ 2,684,881</b>
\$ 137,229	\$ 5,879	\$ 63,639	\$ 5,929	\$ 9,640	\$ 25,551	\$ 30,641	\$ 780,773
(163)	-	-	-	-	-	-	(73,472)
137,066	5,879	63,639	5,929	9,640	25,551	30,641	707,301
132,256	66,455	55,616	32,848	58,127	39,049	12,608	2,032,102
(135,578)	(65,356)	(46,005)	(7,897)	(58,255)	(14,674)	(18,135)	(1,809,352)
(2,962)	(306)	(3,450)	(81)	(878)	(1,259)	(26)	(39,171)
(458)	-	-	-	-	-	-	11,453
<b>\$ 130,324</b>	<b>\$ 6,672</b>	<b>\$ 69,800</b>	<b>\$ 30,799</b>	<b>\$ 8,634</b>	<b>\$ 48,667</b>	<b>\$ 25,088</b>	<b>\$ 902,333</b>
130,945	6,672	69,800	30,799	8,634	48,667	25,088	964,352
(621)	-	-	-	-	-	-	(62,019)
<b>\$ 130,324</b>	<b>\$ 6,672</b>	<b>\$ 69,800</b>	<b>\$ 30,799</b>	<b>\$ 8,634</b>	<b>\$ 48,667</b>	<b>\$ 25,088</b>	<b>\$ 902,333</b>
\$ 135,578	\$ 65,356	\$ 46,005	\$ 7,897	\$ 58,255	\$ 14,674	\$ 18,135	\$ 1,809,352
(75,444)	-	-	-	-	-	(4,157)	(868,129)
-	(71,448)	(54,872)	(41,124)	-	-	(2,090,053)	(2,257,865)
<b>\$ 60,134</b>	<b>\$ (6,092)</b>	<b>\$ (8,867)</b>	<b>\$ (33,227)</b>	<b>\$ 58,255</b>	<b>\$ 14,674</b>	<b>\$ (2,076,075)</b>	<b>\$ (1,316,642)</b>

## Working Capital Fund

Reclamation operates a Working Capital Fund to efficiently finance support services and equipment for Reclamation programs and other Federal and non-Federal agencies. Balance sheet information on the financial position of the WCF as of September 30, 2007, and September 30, 2006, is presented below.

### Working Capital Fund Balance Sheet As of September 30, 2007, and 2006 (In Thousands)

	2007	2006
<b>ASSETS</b>		
<b>Intragovernmental Assets:</b>		
Fund Balance with Treasury	\$ 41,685	\$ 50,207
Accounts Receivable	9,021	10,050
Loans and Interest Receivable	3,097	2,749
Other:		
Advances and Prepayments	2	8
<b>Total Intragovernmental Assets</b>	<b>53,805</b>	<b>63,014</b>
Accounts and Interest Receivable, Net	390	23
General Property, Plant and Equipment, Net	42,565	40,492
Other:		
Advances and Prepayments	226	226
<b>Total Assets</b>	<b>\$ 96,986</b>	<b>\$ 103,755</b>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities:</b>		
Accounts Payable	\$ 4,415	\$ 6,306
Debt	3,098	2,749
Other:		
Accrued Employee Benefits	4,351	4,432
Advances, Deferred Revenue, and Deposit Funds	1,627	1,663
Total Other Liabilities	5,978	6,095
<b>Total Intragovernmental Liabilities</b>	<b>13,491</b>	<b>15,150</b>
Accounts Payable	5,316	5,182
Other:		
Accrued Payroll and Benefits	15,838	16,170
Advances, Deferred Revenue, and Deposit Funds	208	240
Other	1	145
Total Other Liabilities	16,047	16,555
<b>Total Liabilities</b>	<b>34,854</b>	<b>36,887</b>
<b>NET POSITION</b>		
Cumulative Results of Operations	62,132	66,867
<b>Total Net Position</b>	<b>62,132</b>	<b>66,867</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 96,986</b>	<b>\$ 103,755</b>

Although the WCF is operated as a single entity, it is divided into 23 activities and numerous subactivities to facilitate management of the fund. Among the largest of the activities is the Technical Service Center (TSC), which provides engineering and technical services to WCF customers.

The WCF is an intragovernmental revolving fund and recovers the full cost of doing business. The types of services provided by the WCF fall into three broad categories: (1) Engineering and Technical Services, (2) Administrative Services, and (3) Information Technology (IT) Services. The WCF Statement of Net Cost as of September 30, 2007, and September 30, 2006, is presented below. The presentation by major category of services is intended to provide information on the relative composition of the WCF.

**Supplemental Statement of Net Cost  
Working Capital Fund  
For the Year Ended September 30, 2007  
(In Thousands)**

	<b>Engineering and Technical Services</b>	<b>Administrative Services</b>	<b>Information Technology Services</b>	<b>Total</b>
Costs	\$ 100,997	\$ 230,598	\$ 17,253	\$ 348,848
Earned Revenues	(97,637)	(229,081)	(17,371)	(344,089)
<b>Net Cost</b>	<b>\$ 3,360</b>	<b>\$ 1,517</b>	<b>\$ (118)</b>	<b>\$ 4,759</b>

**Supplemental Statement of Net Cost  
Working Capital Fund  
For the Year Ended September 30, 2006  
(In Thousands)**

	<b>Engineering and Technical Services</b>	<b>Administrative Services</b>	<b>Information Technology Services</b>	<b>Total</b>
Costs	\$ 104,377	\$ 221,325	\$ 16,986	\$ 342,688
Earned Revenues	(106,548)	(225,128)	(17,350)	(349,026)
<b>Net Cost</b>	<b>\$ (2,171)</b>	<b>\$ (3,803)</b>	<b>\$ (364)</b>	<b>\$ (6,338)</b>

The most significant activities in the Engineering and Technical Services category are technical services related to water resources management support provided by the TSC. Also included in this category are vehicles and aircraft used for engineering support.

Administrative services include accounting and finance support, overhead allocation distribution, and leave cost distribution. The Information Technology Services category includes software development and operations and maintenance on Reclamation information technology resources.

## **Deferred Maintenance**

Reclamation owns water and power resource management infrastructures with a combined gross total cost of over \$21 billion as of September 30, 2007. This infrastructure consists of diversion and storage dams; hydroelectric powerplants; water conveyance facilities (canals, pipelines, siphons, tunnels, and pumps); recreational facilities; and associated buildings, bridges, and roads; as well as an inventory of related construction, maintenance, laboratory, and scientific equipment. The operation and maintenance of some of these assets are performed by Reclamation using annual or permanent appropriations or other funding sources available to it. The operation and maintenance of the remaining assets, consisting of approximately one-half of the combined total value of all assets, are performed by Reclamation's water and power customers or by others (collectively, "contractors") at their expense pursuant to contracts with Reclamation.

Reclamation employs a commercial, off-the-shelf maintenance management system on many of its larger, more complex facilities and performs condition assessment (site reviews) and other field inspections to estimate the condition of, and determine the need for any maintenance related to, its assets. Under these various review programs, essentially most of Reclamation's major assets, whether operated and maintained by Reclamation or its contractors, are assessed triennially. The monitoring and tracking of maintenance-related deficiencies and/or recommendations of water and power related infrastructure are generally conducted on an annual basis and are reported in the dam safety or power resources information system.

There are many factors that influence whether maintenance is performed as scheduled or deferred. These factors include, among others, limitations on access to facilities (e.g., due to water levels);

intervening technological innovations or developments; seasonal or climatological considerations; reassessment of priorities; delays in the contract-award process; availability of, or delays related to, the contractor; and changes in funding priorities resulting, in some cases, from emergencies or unforeseen critical maintenance requirements. It is Reclamation's policy to give critical maintenance—that which addresses a threat to life, property, and safety—the highest priority in attention and resources.

The table below identifies Reclamation's estimate of deferred maintenance as of September 30, 2007, on those facilities (reserved works') operated and maintained by it. The reserved works' facilities, currently in operation and maintenance status, include general (non-heritage) and stewardship (heritage assets) that are components of Reclamation projects.<sup>1</sup> Furthermore, the precision attributable to these estimates for the assets involved is based on current, available data.

**FY 2007 Reclamation Deferred Maintenance Estimates  
(In Thousands)**

Type of Deferred Maintenance	Item(s) Covered Note (1)	Condition Category Note (2)	Estimated Range of Deferred Maintenance for 2007						
			General PP&E		Stewardship PP&E		Total		
			Low	High	Low	High	Low	High	
<b>Financial Statement Estimated Deferred Maintenance</b>									
Roads Bridges and Trails	D	G, F	\$ 16	\$ 1,157	\$ -	\$ 38	\$ 16	\$ 1,195	
Irrigation, Dams, and Other Water Structures	D	G, F, P	\$ 144	\$ 31,598	\$ 1,662	\$ 7,287	\$ 1,806	\$ 38,885	
Other Structures (e.g., Recreation Sites, Hatcheries, etc.)	D	G, F	\$ 49	\$ 3,881	\$ -	\$ -	\$ 49	\$ 3,881	
<b>Total</b>			<b>\$ 209</b>	<b>\$ 36,636</b>	<b>\$ 1,662</b>	<b>\$ 7,325</b>	<b>\$ 1,871</b>	<b>\$ 43,961</b>	

Note (1) Category:

D - Compliance and other Deferred Maintenance: A facility deferred maintenance need that will improve public or employee safety, health, or accessibility: compliance with codes, standards, laws, complete unmet programmatic needs and mandated programs; protection of natural or cultural resources to a bureau's ability to carry out its assigned mission.

Note (2) Condition Assessment:

Good - Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life

Fair - Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy

Poor - Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases that includes condemned or failed facilities.

Based on periodic condition assessments, and indicator of condition is the percent of facilities and items of equipment in each of the good, fair, or poor categories.

Reclamation continues to refine its estimates by improving the documentation procedures and systems for tracking condition assessments and for reporting the scheduling and deferral of

<sup>1</sup> The deferred maintenance of heritage assets that are part of active project features is reported under this section, not under the Heritage Assets section of "Stewardship Assets." Heritage assets that may have been a part of an active project, but no longer serve that purpose, are reported under the Heritage Assets section of "Stewardship Assets."

maintenance work. Reclamation uses budget estimates, the Dam Safety/Power Resources Information System, Accessibility and Data Management System, and Maintenance Management System (MAXIMO), as sources for potential deferred maintenance. It is expected that variations in the reporting of deferred maintenance can take place from year to year because of the type and kind of maintenance work that takes place on Reclamation facilities.

## Federal Stewardship Assets

### Stewardship Lands

For the yearend fiscal year (FY) 2007 reporting period, and in accordance with the December 20, 2006, Required Supplementary Information call letter (as amended on June 12, 2007), Reclamation is reporting those Stewardship Lands included within the boundaries of Federal Reclamation water and related projects in terms of the number of ‘projects’ (see the table below). The reader will rarely find “additions” or “withdrawals” as these actions would represent new water projects being authorized and funded by Congress, or projects that have successfully completed the process of title transfer to a non-Federal entity. Both of these actions occur very infrequently as the Congress has not authorized a new water project in many years, and the title transfer process also requires congressional authorization and typically takes years to accomplish. Reclamation is reporting the same number of projects at the end of FY 2007 as it did at the end of FY 2006. There were no additions or withdrawals.

**Stewardship Lands – Yearend FY 2007**

Primary Land Management Category	2007 Beginning Balance (Units)	Additions (Units)	Withdrawals (Units)	2007 Ending Balance	Condition	
					Acceptable	Needs Intervention
Reclamation - Federal Water and Related Projects <sup>1</sup>	145	0	0	145	<sup>2</sup> 145	0
<b>Total</b>	<b>145</b>	<b>0</b>	<b>0</b>	<b>145</b>	<b>145</b>	<b>0</b>

<sup>1</sup> Units represent those projects which contain Stewardship Land. In Reclamation, Stewardship Land is land that was withdrawn from the public domain at no cost to the projects. This criterion is in accordance with *Statement of Federal Financial Accounting Standards (SFFAS) No. 29*.

<sup>2</sup> Reclamation’s Stewardship Land is categorized as being in “acceptable condition” as this land meets the requirements of effectively supporting the Federal Reclamation water and related projects for which the land was withdrawn. There are, however, three hazardous waste sites on three separate water projects that are located on project withdrawn lands (Stewardship Lands) and are identified at Environmental Disposal Liabilities (EDL) sites. These sites are also listed on the U.S. Department of the Interior’s EDL system. These EDL sites are either receiving intervention to prepare or sustain the lands for their intended purpose.

## Non-Collectible Cultural Heritage Assets

In accordance with the Department of the Interior's (Interior's) reporting instructions for non-collectible heritage assets, only properties that have been Presidentially, congressionally, or departmentally designated are being reported. Reclamation is, therefore, reporting on two categories: National Historic Landmarks (NHLs) and National Natural Landmarks (NNLs) (see the table below). The types of non-collectible heritage assets reported under the category of NHLs include buildings, structures, districts, and archaeological sites. The beginning count of NNLs as of October 1, 2006, is three (Drumheller Channels, Washington; Grand Coulee, Washington; and Russell Lakes, Colorado), and no changes have occurred since then. Condition information on the three NNLs was obtained from the National Park Service, which administers the NNL program and is responsible for maintaining NNL Status Reports.

### Non-Collectible Heritage Assets – Yearend FY 2007

Category by Type	2007 Beginning Balance (Units)	Additions (Units)	Withdrawals (Units)	2007 Ending Balance (Units)	Condition		
					Acceptable	Unacceptable	Unknown
National Historic Landmarks	7	0	0	7	7	0	0
National Natural Landmarks	3	0	0	3	3	0	0
<b>Total</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>10</b>	<b>0</b>	<b>0</b>

No non-collectible heritage assets have been acquired through donation or devise during FY 2007.

Deferred maintenance information on non-collectible heritage assets is reported separately in the "Required Supplementary Information" section of the report.

## Collectible Heritage Assets

Collectible heritage assets, also known as museum property, are divided into 10 categories or disciplines: archaeology, art, botany, documents, environmental samples, ethnography, geology, history, paleontology, and zoology. Reclamation gathers information on the size, condition, and location of its museum property collections according to requirements set forth in 36 Code of Federal Regulations (CFR) part 79 and 411 *Departmental Manual (DM)*.



Reclamation’s policy statement and *Directives and Standards* pertaining to museum property management are undergoing final approval. In addition, Reclamation is in the final stages of developing a data management system for museum property.

Reclamation reports on collectible heritage assets that are formally accessioned as museum property, as defined and required by 411 DM 3.4.A. Information on collectible heritage assets is reported in the table on the following page, and includes the count and condition of Reclamation collections held in Interior and non-Interior facilities. Each facility contains one Reclamation collection as defined by Interior; therefore, the number of collections reported is the same as the number of Interior and non-Interior facilities housing Reclamation collections.

The total number of museum property collections increased during this fiscal year. This was the result of the accession of seven Reclamation-owned collections held in both Interior and non-Interior facilities. The withdrawal represented in the table below was the result of a collection being transferred from an Interior facility to a non-Interior facility already reported as holding Reclamation collections. Specific to the fourth quarter, one non-Interior facility was added, and there were no additional withdrawals.

Overall, Reclamation units (i.e., administrative, regional, area, operations, field, power, facilities, or construction offices that manage museum property) are working with their non-Reclamation partners to update curatorial service agreements. For example, units have entered into, or are negotiating, agreements for the following types of activities: evaluating and resolving accession, catalog, and ownership information/issues; performing annual inventories; and repackaging collections.

**Collectible Heritage Assets – Yearend FY 2007**

Interior Museum Collections	Beginning Collections	Additions	Withdrawals <sup>2</sup>	Ending Collections	Condition of Facility Housing Collection <sup>1</sup>			
					Good	Fair	Poor	Unknown <sup>3</sup>
Held at Interior Reclamation Facilities	10	3	1	12	10	0	0	2
Held at Non-Interior Reclamation Facilities	12	4	0	16	15	0	0	1
<b>Total</b>	<b>22</b>	<b>7</b>	<b>1</b>	<b>28</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>3</b>

<sup>1</sup> Condition of museum collections is measured as defined by the standards in 411 DM and accepted industry practices. The condition is rated based on a facility's ability to answer affirmatively on a number of questions about its facility and management practices; greater than 70 percent = good; between 50 and 70 percent = fair; and less than 50 percent = poor condition.

<sup>2</sup> Withdrawal was due to the transfer of a collection from an Interior facility to a non-Interior facility already reported as holding Reclamation collections.

<sup>3</sup> Three facilities have not been assessed due to time constraints and/or funding issues. They are scheduled for assessment within the next 5 years, as prescribed by Reclamation's *Asset Management Plan*.

# Required Supplemental Stewardship Information

## Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. The Federal Accounting Standard Advisory Board requires reporting for two categories of stewardship investments—Research and Development and Investment in Non-Federal Physical Property. Reclamation identified stewardship investments in both categories. Additionally, prior to FY 2007, Reclamation reported Investments in Human Capital; however, due to revisions in Circular A-136 financial reporting requirements, Reclamation no longer reports on investments made in Human Capital. FY 2002 through 2006 Investments in Human Capital are provided below.

## Research and Development

Reclamation invests in applied research programs to aid in the water and energy management challenges facing the arid West. Program focus on the improvement of water management, the development of solutions pertaining to flood hydrology, water quality, irrigation return flows, and the delivery of hydropower to the West. The information obtained through these programs provides water management solutions and techniques that yield future benefits to the Nation. Research and Development activities support Reclamation's end outcome goal to deliver water consistent with applicable State and Federal law, in an environmental responsible and cost-efficient manner.

### FY 2007 Investment in Research and Development (In Millions)

Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Applied Research	\$18.3	\$19.8	\$25.9	\$32.0	\$33.3	\$129.3
<b>Total</b>	<b>\$18.3</b>	<b>\$19.8</b>	<b>\$25.9</b>	<b>\$32.0</b>	<b>\$33.3</b>	<b>\$129.3</b>

## Investment in Non-Federal Physical Property

Investment in Non-Federal Physical Property are expenses incurred by Reclamation for the purchase, construction, or major renovation of physical property owned by or given to State and local government or insular areas. Costs include major additions, alterations, replacements, the purchase of major equipment, and the purchase or improvement of other physical assets owned by non-Federal entities. Grants for maintenance and operations are not considered investment in non-Federal physical property.

The investments listed below provide assistance through a variety of measures, all related to dams and other water structures. For example, Reclamation incurs expenses for specific programs to provide for the construction or improvement of structures and facilities used in State and local irrigation projects and water quality improvement projects. Reclamation-wide programs that improve State and local fish and wildlife habitats through activities such as the construction or betterment of structures or facilities are also included.

### FY 2007 Investment in Non-Federal Physical Property (In Millions)

Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Dams and Other Water Structures	\$124.4	\$106.6	\$138.1	\$196.5	\$140.1	\$705.7
<b>Total</b>	<b>\$124.4</b>	<b>\$106.6</b>	<b>\$138.1</b>	<b>\$196.5</b>	<b>\$140.1</b>	<b>\$705.7</b>

## Investment in Human Capital

### Investment in Human Capital<sup>1</sup> (In Millions)

Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total
Job Corps Program	\$28.6	\$29.9	\$30.0	\$29.8	\$31.6	\$149.9
<b>Total</b>	<b>\$28.6</b>	<b>\$29.9</b>	<b>\$30.0</b>	<b>\$29.8</b>	<b>\$31.6</b>	<b>\$149.9</b>

<sup>1</sup> Reclamation no longer reports on Investments made in Human Capital (Job Corps) due to guidance from Interior detailing the 2007 revisions contained in Office of Management and Budget Circular A-136, *Form and Content of Performance and Accountability Report (PAR)*, revised July 2007. Monies received from the Department of Labor for this program are parent/child (Reclamation is the child), and only the parent reports on the funds.

## Title Transfers to State and Local Governments

Assets constructed with Federal funding meet the criteria for non-Federal physical property at the time of transfer under Reclamation's title transfer program. The following tables present the status of transfer facilities for the period ending September 30, 2007, and completed transfers for the preceding 5 years.

### Transfer of Facilities (In Thousands)

Project Name	Value Including Land Cost
<b>Pending Transfers</b>	
Montecito Water Distribution Systems, California	\$133
Carson Lake and Pasture	64
Gila Project, Welton-Mohawk Division, Arizona	2,319
Provo River Project, Utah	781
Goleta Water Distribution System, California	2,723
Rye Patch Dam and Reservoir, Humboldt Project, Nevada	6,778

Completed Transfer of Facilities to State and Local Government	Year Ending of Transfer	Value Including Land Costs (In Thousands)
Fallon Rail Freight Loading Facility Property, Newlands Project, Nevada	2007	\$ 5
Gila Project, Welton-Mohawk Division, Arizona (Partial)		777
Northern Colorado Water Conservancy District, Colorado		1,122
Carpinteria Water Distribution System	2006	35
<i>No Completed Transfers for 2005 as of September 30, 2005</i>		
Harquahala Valley Irrigation District, Central Arizona Project, Arizona	2004	29,348
Minidoka and Teton Basin Projects, Idaho		235
Sugar Pine Dam and Reservoir, Central Valley Project, California		31,520
Sly Park Dam and Research, Central Valley Project, California		1,911
Middle Loup Division, Pick-Sloan Missouri Basin Project, Nebraska	2003	7,457
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado		287

## Internal Reviews and Audit Follow-up

Reclamation's Internal Reviews and Internal Control Program (ICP) are designed to reinforce the principals of transparency and management accountability and to provide a general framework for high quality management of Government programs and operations. Reclamation's ICP emphasizes an ongoing commitment to integrity and ethical values that addresses customer service and stakeholder demands for Government programs and operations that work better, cost less, and produce quality performance results.

During FY 2006, Reclamation implemented revised Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*. To promote financial accountability, Reclamation continued to place increased emphasis on the improving policies and practices relating to accounting, financial reporting, and program management.

During FY 2007, Reclamation continued to build on our efforts to improve the efficiency, effectiveness, and business practices of our programs and operations by conducting Internal Control Review (ICRs) and Alternative Internal Control Reviews (AICRs). In April 2007, Reclamation's Commissioner issued guidance emphasizing the importance of the ICP for improving the efficiency and effectiveness of program operations, protecting Reclamation resources, and complying with laws and regulations. In FY 2007, Reclamation conducted 105 AICRs and 63 ICRs. These reviews support the Commissioner's Annual Assurance Statement to the Secretary of the Interior. These reviews also identified a number of opportunities for Reclamation to improve the efficiency and effectiveness of our operations. For example:

- Reclamation's Value Engineering studies continue to provide creative problem solving processes resulting in significant annual project cost savings. During FY 2006, the Value Engineering study program identified cost saving totaling \$8 million and cost avoidance totaling \$35 million. Since 1995, Value Engineering studies have saved Reclamation over \$100 million, returning \$44 for every study dollar spent.
- A recent AICR conducted by the Lower Colorado (LC) Region disclosed that the region can increase interest revenues earned on investments annually by about \$3 million. During FY 2007, the LC Region made

cumulative investments totaling \$7.7 billion. On any given day, the LC Region had approximately \$400 million invested. Because investments are performed daily and mature the next business day, the funds invested for one day are reinvested again at maturity. The \$7.7-billion cumulative investment of these funds generated interest on investments totaling \$16.8 million. The LC Region has established and implemented a Corrective Action Plan (CAP) to ensure funds were invested daily to maximize return on investment for the Government.

- Reclamation’s Dam Safety Program is another example of “Best Practices.” Over the years, the Dam Safety Program has identified many critical safety issues that have since been corrected. Correcting these internal control weaknesses through action plans helped Reclamation to ensure the safety of dams.

Regarding audits conducted by the Office of Inspector General (OIG) and Government Accountability Office (GAO) at Reclamation in FY 2007, the OIG issued ten audits, and the GAO issued four audits that were either Reclamation-specific audits or Interior/Government-wide audits which included Reclamation issues. Interior’s FY 2007 Audit Follow-up Government Performance Results Act (GPR) Performance Goal was to implement 85 percent of the OIG/GAO recommendations in Interior’s Audit Follow-up GPR performance goal. Reclamation exceeded the Interior’s goal by implementing 94 percent of the recommendations scheduled for implementation by Reclamation in FY 2007. The following table is a summary of the status of audit recommendations.

	<b>FY 2007</b>	<b>Recommendations Implemented/Closed/ Compiled in FY 2007</b>	<b>Outstanding Recommendations<sup>1</sup></b>
OIG	17	16	2
GAO	0	0	1

<sup>1</sup> These outstanding recommendations may be from a prior year audit.