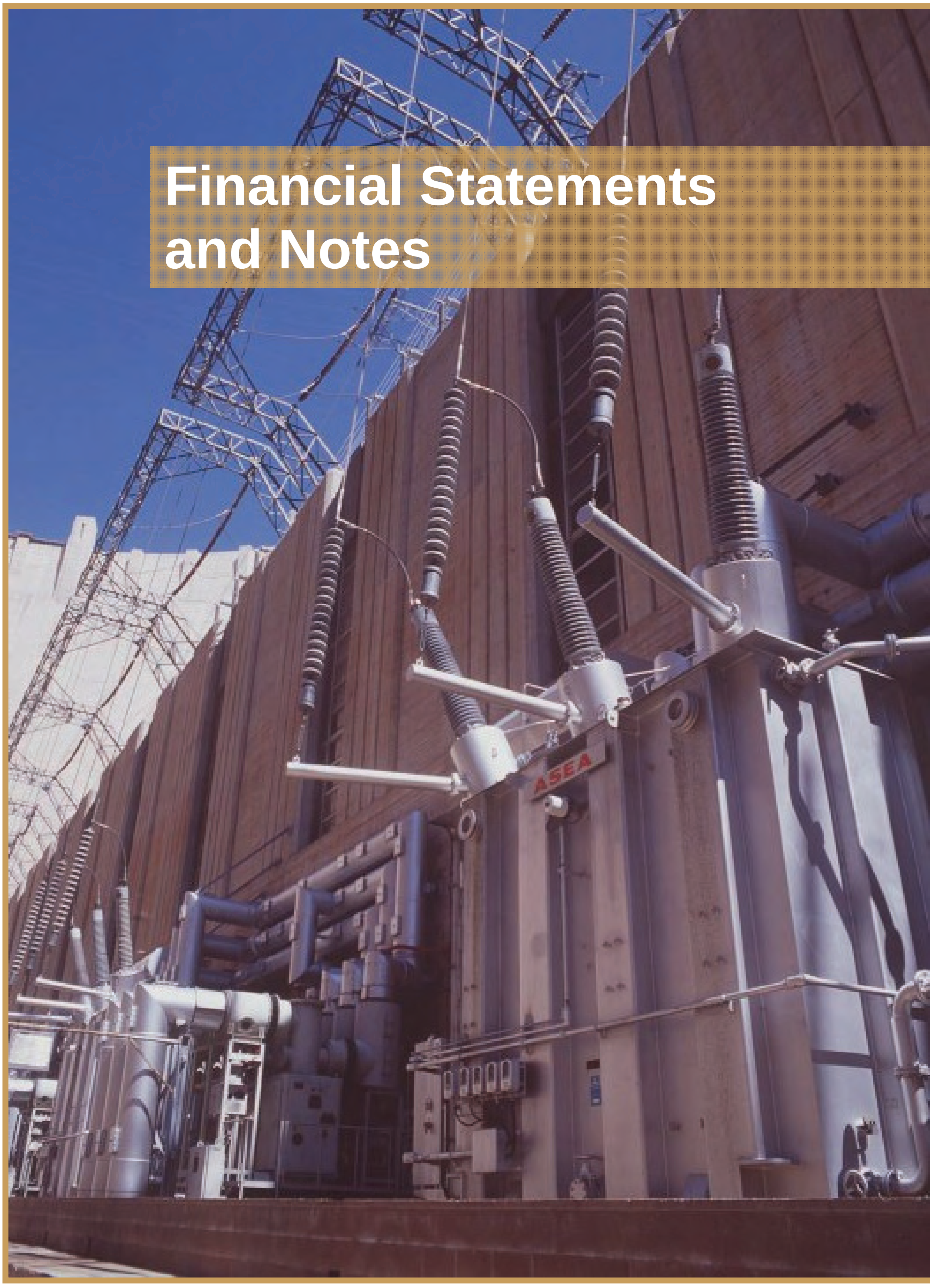

Financial Statements and Notes

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

FEB 18 2009

Memorandum

To: Commissioner, U.S. Bureau of Reclamation

From: Kimberly Elmore Robert Romanyshyn for
Assistant Inspector General for Audits, Inspections and Evaluations

Subject: Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2008 and 2007 (Report No. X-IN-BOR-0015-2008)

INTRODUCTION

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Bureau of Reclamation's (Reclamation) financial statements for fiscal years (FYs) 2008 and 2007. 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 Reclamation's FYs 2008 and 2007 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" as amended.

RESULTS OF INDEPENDENT AUDIT

In its audit report dated January 15, 2009 (Attachment 1), KPMG issued an unqualified opinion on the Reclamation financial statements. However, KPMG identified five significant deficiencies in internal controls over financial reporting, none of which are considered to be material weaknesses. In addition, KPMG identified one of the significant deficiencies as an instance of noncompliance with laws and regulations. KPMG made 13 recommendations that, if implemented, should resolve the findings.

STATUS OF RECOMMENDATIONS

In its December 16, 2008 response (Attachment 2) to the draft report, Reclamation agreed with five of the six findings and disagreed with one finding. As a result, Reclamation agreed with 12 of the 13 recommendations made in the draft report. Based on Reclamation's response, we will refer 9 unimplemented new recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation (see Attachment 3, "Status of Audit Report Recommendations").

Four of the 13 recommendations are repeat recommendations that were made in last year's Report No. X-IN-BOR-0017-2007. All four recommendations were closed after the Assistant Secretary for Policy, Management and Budget received documentation that the recommendations had been implemented. However, the actions taken by Reclamation did not fix the conditions. Therefore, KPMG found the same conditions and made the same recommendations this year. In its response, Reclamation disagreed with one recommendation but concurred with the remaining three recommendations. We will refer the unresolved recommendation to the Assistant Secretary for resolution and the remaining three recommendations for implementation of tracking.

EVALUATION OF KPMG AUDIT PERFORMANCE

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 DO 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 January 15, 2009, and the conclusions expressed in it. We do not express an opinion on Reclamation's financial statements nor 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 the Federal Financial Management Improvement Act of 1996.

REPORT DISTRIBUTION

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 Christopher Stubbs at 202-208-5659.

Attachments (3)

KPMG

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, 2008 and 2007, 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 2008 audit, we also considered Reclamation's internal controls over financial reporting 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, 2008 and 2007 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, in fiscal year 2008, Reclamation changed its method of accounting for and reporting of heritage assets and stewardship land to adopt changes in accounting standards.

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

A. Accounting for Property

B. Review and Approval of Cost Structures

C. General and Application Controls over Financial Management Systems

D. Grant Monitoring

E. Controls over Compliance with the Anti-Deficiency Act

However, none of the significant deficiencies are believed to be material weaknesses.

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*.

F. Compliance with the Code of Federal Regulations and the Single Audit Act Regarding Grant Monitoring

The following sections discuss our opinion on Reclamation's consolidated financial statements; our consideration of Reclamation's internal controls over financial reporting; 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, 2008 and 2007, 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, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(J) to the consolidated financial statements, in fiscal year 2008, Reclamation changed its method of accounting for and reporting of heritage assets and stewardship land to adopt changes in accounting standards.

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. 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 consolidated financial statements will not be prevented or detected by Reclamation's internal control over financial reporting.

In our fiscal year 2008 audit, we consider the deficiencies, described below, to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described below are material weaknesses. Exhibit I presents the status of prior year significant deficiencies.

A. Accounting for Property

Reclamation's general property is made up of an extensive infrastructure of dams, power plants, canals, other water delivery systems, buildings, and equipment. This property accounts for approximately 50% of Reclamation's total assets and over 70% of the Department of Interior's reported general property balance. In addition, Reclamation holds stewardship property that consists of noncollectible and collectible heritage assets, and stewardship land. In conducting our audit, we noted deficiencies in Reclamation's accounting for general property and stewardship property as discussed below.

Inventory of General Property

In 2003, the Department of Interior issued a directive to its bureaus to physically verify all real property by the end of fiscal year 2008. In 2005, Reclamation began its effort to perform its first full review of historical real property balances, with the majority of the inventory occurring in fiscal year 2008. The inventory resulted in the identification of general property that had not been previously recorded and general property that no longer existed or belonged to Reclamation. In order to correct the net overstatement of general property assets, adjustments were recorded in fiscal year 2008 that resulted in a net reduction to general property of $141 million. The adjustments were primarily due to errors made at the time the cost structures were established and a lack of adequate communication between those responsible for the oversight and use of the general property and those responsible for accounting in Reclamation's regional accounting offices.

Additionally, as part of our testing of Reclamation's inventory process, we identified additional errors in the general property accounts, which included duplicate transfers resulting in negative asset balances and an item that could not be located. We also noted, as part of our overall testing of general property, several inconsistencies in the level of accounting detail of the accounting records among the Reclamation regions and an historical lack of certain documentation to support the cost of Reclamation's general property assets.

The Department of Interior's guidance requires that its bureaus maintain basic documentation that supports the cost of each real property asset, the date the asset was placed into service, the asset's useful life, and any subsequent acquisition including depreciation, addition or betterment, disposal, or transfer impacting the recorded value of the item. The appropriate documentation must be in written form for auditing purposes.

Proper Capitalization of Costs

In addition to the general property inventory errors discussed above, Reclamation during the current year also identified and corrected historical general property costs that were improperly capitalized and other general property costs that were improperly expensed. Specifically, one of Reclamation's regions identified approximately $8.6 million in prior year net costs and contributions for recreation facilities that should have been capitalized. Another region identified approximately $44.0 million in prior year investigational costs that were capitalized but should have been expensed.

Further, the $44.0 million adjustment was not communicated to Reclamation's Denver Office, which is responsible for the preparation of Reclamation's consolidated financial statements. Instead, the Denver Office found the adjustment as part of its year-end closing procedures. The lack of an adequate process to report and consult on significant adjustments with those responsible for financial reporting increases the risk of errors in the consolidated financial statements.

Similar to the general property inventory adjustments, the above adjustments were primarily due to errors made at the time the cost structures were selected and a lack of adequate communication between those responsible for the oversight and use of the general property and those responsible for accounting in Reclamation's regional accounting offices.

Stewardship Property

In fiscal year 2008, Reclamation adopted the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land.* Reclamation did not consistently establish controls over the implementation of

SFFAS No. 29. Specifically, Reclamation did not have adequate supporting documentation for some of its reported heritage asset and stewardship land units. Further, Reclamation did not consistently consider the criteria in SFFAS No. 29 when determining its beginning unit balances of heritage assets. We noted changes in the beginning unit balances established after September 30, 2007 resulting in a total increase of 60 units.

Recommendations

In addition to improving the policies and procedures over the implementation of cost structures as addressed in significant deficiency B below, we recommend Reclamation implement the following to help ensure property is appropriately accounted for:

1. Implement formal, standardized policies, and procedures for tracking, inventorying, and reconciling every five years the physical assets owned by Reclamation to the amounts reported as general property as required by Department of Interior real property guidance. The implementation of periodic five-year inventories should include provisions for conducting the inventory ratably over the five-year period as opposed to every fifth year.

2. Implement appropriate internal controls to ensure that the disposals, transfers, acquisitions, and donations of general property are communicated to each respective regional accounting office timely to ensure that the financial records reflect the assets currently owned by Reclamation.

3. Improve policies and procedures to ensure costs are appropriately classified between expense and general property.

4. Implement policies and procedures regarding appropriate documentation to be maintained to support general property balances to ensure compliance with Department of Interior real property guidance.

5. Improve policies and procedures to ensure that significant accounting adjustments are communicated in a timely manner to those responsible for financial reporting.

6. Ensure the policies and procedures discussed in items #1 to #5 above are consistently implemented across Reclamation regions.

7. Develop and implement internal controls, such as requiring additional reviews and evaluations of accounting standard implementations, to ensure consistent implementation of new 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.

B. Review and Approval of Cost Structures

Reclamation creates and assigns cost structures to transactions that establish the accounting for those transactions. If the cost structures are not appropriately established, then costs may be assigned to incorrect projects or may be inappropriately classified between property and expense as discussed above under the Accounting for Property significant deficiency. During our test work over the approval of new or modified cost structures, we identified instances in which the cost structure form was either not completed or not properly approved.

Recommendation

We recommend Reclamation continue to refine its policies and 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 disagreed with our recommendation. Management contends that it has sufficient policies and procedures in place to ensure that the creation or modification of cost structures is appropriate and accurate. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

Auditors' Response to Management's Response

In the prior year, management agreed with the recommendation to refine its 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. During the current year, management issued accounting procedures that require cost structures for monitoring of costs at an appropriate level. Therefore, cost structure forms should be completed for all new cost structures. Further, the accounting procedures require approval of the cost structure form by at least the finance officer and budget officer.

C. General and Application Controls over Financial Management Systems

In certain instances, 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 information systems, as discussed below.

1. *Access Controls*

Reclamation has certain information systems that did not have the appropriate password parameters. Specifically, these systems had passwords that never expired or servers that were configured without passwords.

Reclamation has either not enabled the audit log function or does not have a process to review the logs for several of its information technology applications. This increases the risk that unauthorized changes to applications could go undetected.

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 were not sufficient to identify conditions where one user inappropriately circumvented standard procurement policies.

Reclamation's procedures are not sufficient to effectively remove terminated employee accounts from the procurement system in a timely manner. This increases the risk of unauthorized access to the system.

2. *Configuration Management*

Reclamation has certain information systems that are no longer supported by the vendors with security updates or patches. Further, additional systems, which are supported by the vendors, did not have the latest backup software security patches installed.

Recommendation

We recommend that Reclamation continue to improve the security and controls over certain information systems. These improvements should address the areas discussed above, as well as other areas that might impact the information technology 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 that controls could be improved in several areas but that it may not be cost effective to improve certain controls over legacy systems or where compensating controls minimize the overall risk. 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 (Code of Federal Regulations) 12, by requiring the submission of financial status and performance reports. Our test work of 59 active grants revealed that 29 grantees either did not submit the required financial or performance reports or did not submit them in a timely manner. Further, in these instances, there was no evidence of follow-up with the grantee by Reclamation.

This is a repeat finding from the prior year. During the current year, Reclamation began to develop and implement revised policies and procedures to monitor the status of required reports from grantees. However, full bureau-wide implementation is not planned until December 2008.

Recommendation

We recommend that Reclamation implement adequate policies and procedures to ensure proper monitoring of grants, including controls to ensure that all financial and performance 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 recommendation. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

E. Controls over Compliance with the Anti-Deficiency Act

The Anti-Deficiency Act prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation or apportionment. During 2008, Reclamation's Working Capital Fund (WCF) appeared to be over obligated by approximately $470,000. Reclamation originally believed the over obligated amounts resulted in a potential violation of the Anti-Deficiency Act. However, upon further investigation that spanned a two-month period, Reclamation determined it had been incorrectly recording the annual leave accrual as a funded activity for budgetary accounting purposes. This resulted in approximately $5 million of incorrect obligations against current budgetary resources. Reclamation corrected the error and changed its accounting posting model for annual leave in the WCF.

While Reclamation has internal controls over the detection of potential Anti-Deficiency Act violations, which it utilized in identifying the above potential violation, Reclamation does not have adequate preventive controls, such as system controls, to ensure that over obligations do not occur.

Recommendations

We recommend Reclamation:

1. Improve its review procedures to ensure that its budgetary accounting policies are appropriate.
2. Implement systems-based preventive controls into its budgetary accounting processes to ensure that over obligating of funds cannot occur.

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.

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 is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

F. Compliance with the Code of Federal Regulations and the Single Audit Act Regarding Grant Monitoring

43 CFR 12 requires grantees to submit annual performance reports and periodic financial reports. Reclamation's grant agreements require that they monitor the grants in accordance with the requirements of 43 CFR 12 and follow up with those grant recipients who have not timely submitted the required reports. Further, the Single Audit Act requires Federal agencies to monitor nonfederal entity use of federal awards. As a part of our audit, we tested 59 outstanding grants and found that 29 grantees either did not submit the required financial or performance reports or did not submit them in a timely manner. This condition is also discussed in significant deficiency D above.

Recommendation

We recommend that Reclamation implement adequate policies and procedures to ensure proper monitoring of grants, including controls to ensure that all financial and performance 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 recommendation. We did not audit Reclamation's response, and accordingly, we express no opinion on it.

The results of our tests of FFMIA disclosed no instances in which Reclamation's financial management systems did not substantially comply with (1) federal financial management systems requirements, (2) applicable Federal accounting standards, or (3) the United States Government Standard General Ledger at the transactional level.

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

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws, regulations, contracts, and grant agreements applicable to Reclamation.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal years 2008 and 2007 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; and
- Evaluating the overall consolidated financial statement presentation.

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

In planning and performing our fiscal year 2008 audit, we considered Reclamation's internal control over financial reporting by obtaining an understanding of Reclamation's internal control over financial reporting, 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 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 part of obtaining reasonable assurance about whether Reclamation's fiscal year 2008 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.

* * * * * * * *

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

January 15, 2009

Exhibit I

U.S. BUREAU OF RECLAMATION

Status of Prior Year Significant Deficiencies

September 30, 2008

Ref	Condition	Status
A	Revenue Recognition	The condition has been corrected.
B	Cost Structures	The condition has not been corrected. See fiscal year 2008 significant deficiency B.
C	General and Application Controls over Financial Management Systems	The condition has not been corrected. See fiscal year 2008 significant deficiency C.
D	Grant Monitoring	The condition has not been corrected. See fiscal year 2008 significant deficiency D.

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

TAKE PRIDE IN AMERICA

IN REPLY REFER TO:
84-27430
ADM-1.00

MEMORANDUM

To: Assistant Inspector General for Audits, Inspections and Evaluations, Office of Inspector General
Attn: Kimberly Elmore

Through: Kameran L. Onley *Kameran L. Onley* DEC 16 2008
Acting Assistant Secretary – Water and Science

From: Robert W. Johnson *Robert W. Johnson* DEC 11 2008
Commissioner

Subject: The Bureau of Reclamation's Response to the Draft *Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2008 and 2007* (Assignment No. X-IN-BOR-0015-2008)

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 2008 and 2007.* 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, Division Chief, Business Analysis Division, at 303-445-3423.

Attachment

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

Attachment

Bureau of Reclamation Response
Draft Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2008 and 2007
Assignment No. X-IN-BOR-0015-2008

December 2008

A. Accounting for Property

Recommendation A.1

Implement formal, standardized policies and procedures for tracking, inventorying, and reconciling every five years the physical assets owned by Reclamation to the amounts reported as general property as required by the Department of Interior real property guidance. The implementation of periodic five year inventories should include provisions for conducting the inventory ratably over the five-year period as opposed to every fifth year.

> Response: Concur. Reclamation will document its existing procedures for tracking, inventorying, and verifying the physical assets owned by Reclamation to the amounts reported as general property, plant, and equipment as required by Department of the Interior's Real Property and Financial Management Policy. Further, Reclamation will implement internal controls to ensure that the facility inventory is performed systematically on a 5-year cyclical basis.
>
> The responsible officials are the five Regional Directors and the Director, Policy and Program Services. The target date for issuing Reclamation's inventory procedures is June 30, 2009.

Recommendation A.2

Implement appropriate internal controls to ensure that the disposals, transfers, acquisitions, and donations of general property are communicated to each respective regional accounting office timely to ensure that the financial records reflect the assets currently owned by Reclamation.

> Response: Complied. Reclamation issued real property disposal guidance on June 27, 2008 (Attachment 1). This guidance addresses disposals, transfers, acquisitions, and donations. The exceptions that were identified during the fiscal year 2008 audit were associated with disposals and transfers that resulted from the plant verification process. These disposals and transfers occurred in prior years, before the guidance was issued.
>
> Also, Reclamation has sufficient controls to ensure that acquisitions of general property are communicated to each respective regional finance office in a timely manner. For example, regional realty offices communicate new land acquisitions to regional finance offices. Since most of Reclamation's plant facilities are constructed, regional finance

offices are involved in tracking these costs through the Construction-in-Progress and Plant-in-Service accounts.

Recommendation A.3

Improve policies and procedures to ensure costs are appropriately classified between expense and general property.

Response: Complied. Reclamation issued Reclamation Accounting Procedure (RAP) Memorandum No. 08-01, *Cost Structures*, on June 30, 2008, which provides guidance and procedures for establishing and documenting cost structures. This guidance helps ensure that costs are properly capitalized or expensed.

Recommendation A.4

Implement policies and procedures regarding appropriate documentation to be maintained to support general property balances to ensure compliance with Department of Interior real property guidance.

Response: Concur. Reclamation currently has policies and procedures that ensure that appropriate documentation is maintained for general property. The instances of insufficient documentation were associated with the plant verification review, which involved general property transactions that occurred in previous years, sometimes decades earlier. Reclamation will perform oversight to ensure documentation requirements comply with existing policies and procedures.

The responsible officials are the five Regional Directors; Director, Policy and Program Services; and the Director, Management Services Office. The target date for performing oversight to ensure that appropriate documentation is maintained to support general property balances is June 30, 2009.

Recommendation A.5

Improve policies and procedures to ensure that significant accounting adjustments are communicated in a timely manner to those responsible for financial reporting.

Response: Concur. Reclamation issued RAP Memorandum No. 06-02, *Identification and Recognition of Prior Period Adjustments*, which provided guidance for identifying and reporting prior period adjustments. Reclamation will reiterate the importance of communicating these adjustments for accurate financial reporting in a timely manner.

The responsible officials are the five Regional Directors and the Director, Management Services Office. The target date for improving policies and procedures to ensure that significant accounting adjustments are communicated to those responsible for financial reporting in a timely manner is June 30, 2009.

Recommendation A.6

Ensure the policies and procedures discussed in items #1 to #5 above are consistently implemented across Reclamation regions.

> Response: Concur. To the extent possible, Reclamation will perform oversight to ensure that Recommendations 1, 4, and 5 are consistently implemented across Reclamation regions. As noted above, Reclamation has complied with Recommendations 2 and 3.
>
> The responsible official is the Deputy Commissioner for Policy, Administration and Budget and the Deputy Commissioner for Operations. The target date for implementing these recommendations is June 30, 2009.

Recommendation A.7

Develop and implement internal controls, such as requiring additional reviews and evaluations of accounting standard implementations, to ensure consistent implementation of new accounting standards.

> Response: Concur. Reclamation will develop and implement additional internal controls for its key control processes such as implementation of accounting standards.
>
> The responsible official is the Director, Management Services Office. The target implementation date for developing and implementing additional internal controls for its key control processes is June 30, 2009.

B. Review and Approval of Cost Structures

Recommendation B

We recommend Reclamation continue to refine its policies and 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: Non-concur. Reclamation has sufficient policies and procedures to ensure that creation or modification of cost structures are appropriate and accurate. It is not necessary to review and approve new cost authorities that are established for such transactions as plant transfers, accumulated depreciation, and closing entries. Moreover, it is not necessary for every office to review and approve a new cost authority if it does not impact that office, e.g., budget or rate-setting functions.

C. General and Application Controls over Financial Management Systems

Recommendation C

We recommend that Reclamation continue to improve the security and controls over certain information systems. These improvements should address the areas discussed above, as well as other areas that might impact the information technology environment, to ensure adequate security and protection of Reclamation's information systems.

Response: Partially Concur. Reclamation will continue to look for ways to implement cost-effective, compensating controls to strengthen access and segregation of duty controls within its procurement system or as part of the procurement process. Where appropriate, Reclamation will enable audit-logging capabilities for systems, and action will be taken to ensure that procedures are implemented for reviewing audit logs, as required. Oversight procedures also will be refined to ensure that security patches are installed for selected systems, as required. Reclamation acknowledges that some controls over certain information systems may need to be improved. Technical improvements, however, were not always feasible because the costs associated with making changes or modifications to legacy systems simply outweighed the risks. The Department also placed a moratorium on initiating, developing, or deploying new technologies that support legacy or existing financial and business systems at the bureau-level. Reclamation further believes that it implemented compensating controls to address control issues and risks related to the procurement system, as reported in 2007.

The responsible officials are the Chief Information Officer and the Director, Management Services Office. The target date for completing and implementing the refined audit logging and review procedures as well as security patch procedures is March 30, 2009.

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 and performance reports are received and reviewed in a timely manner.

Response: Concur. Reclamation revised Directive and Standard (D&S) ACM 01-01, *Requirements for Award and Administration of Financial Assistance Agreements Grants and Cooperative Agreements* in March 2008 and is in the process of implementing the revised requirements for grants monitoring. In addition to this corrective action, a database to assist grants management staff in monitoring grants, including financial status and performance progress report submissions, is under development.

The responsible officials are the five Regional Directors and the 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, 2009.

E. Controls over Compliance with the Anti-Deficiency Act

Recommendation E.1

Improve its review procedures to ensure that its budgetary accounting policies are appropriate.

Response: Concur. Reclamation will review and evaluate its procedures for ensuring that its budgetary accounting policies are appropriate, and will revise these procedures, as necessary.

The responsible officials are the Director, Program and Budget and the Director, Management Services Office. The target date for reviewing and evaluating procedures for ensuring that budgetary accounting policies are appropriate, and revising these procedures, as necessary, is June 30, 2009.

Recommendation E.2

Implement systems-based preventive controls into its budgetary accounting processes to ensure that over-obligating of funds cannot occur.

Response: Concur. Reclamation will review and evaluate its controls over budgetary accounting processes to ensure that over-obligation of funds cannot occur, and if necessary, will implement additional controls.

The responsible officials are the Director, Program and Budget and the Director, Management Services Office. The target date for reviewing and evaluating its controls over budgetary accounting processes to ensure that over-obligation of funds cannot occur, and if necessary, implementing additional controls, is June 30, 2009.

F. Compliance with the Code of Federal Regulations and the Single Audit Act Regarding Grant Monitoring

Recommendation F

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

Response: Concur. Reclamation revised D&S ACM 01-01, *Requirements for Award and Administration of Financial Assistance Agreements Grants and Cooperative Agreements* in March 2008 and is in the process of implementing the revised requirements for grants monitoring. In addition to this corrective action, a database to assist grants management staff in monitoring grants, including financial status and performance progress report submissions, is under development.

The responsible officials are the five Regional Directors and the 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, 2009.

ATTACHMENT 3

STATUS OF AUDIT REPORT RECOMMENDATIONS

Recommendation	Status	Action Required
B.	Repeated; unresolved.	Repeat recommendation previously referred as Recommendation B.2 in Report No. X-IN-BOR-0017-2007 and closed. We will refer this repeat recommendation to the Assistant Secretary, Policy, Management and Budget for resolution.
A.1., A.2., A.3., A.4., A.5., A.6., A.7, E.1., E.2.	Resolved; not implemented.	Recommendations will be referred to the Assistant Secretary, Policy, Management and Budget for tracking of implementation.
C., D., F	Repeated, resolved; not implemented.	Repeat recommendations that were previously referred as Recommendations C, D and E in Report No. X-IN-BOR-0017-2007 and closed. We will refer these repeat recommendations to the Assistant Secretary for Policy, Management, and Budget for tracking of implementation.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Balance Sheet
As of September 30, 2008, and 2007

(In Thousands)	2008	2007
ASSETS (Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 9,389,053	$ 7,813,695
Accounts Receivable	511,138	531,324
Investments, Net (Note 4)	450,369	401,459
Amounts Due from the U.S. Department of Energy, Net (Note 5)	3,063,916	2,827,301
Other:		
Advances and Prepayments	955	1,598
Total Intragovernmental Assets	13,415,431	11,575,377
Accounts and Interest Receivable, Net (Note 6)	40,208	34,077
Loans and Interest Receivable, Net (Note 7)	93,295	102,929
General Property, Plant, and Equipment, Net (Note 8)	12,969,921	13,012,013
Other:		
Advances and Prepayments	36,632	28,548
Power Rights, Net	97,503	108,318
Total Other Assets	134,135	136,866
Stewardship Assets (Note 9)		
Total Assets	$ 26,652,990	$ 24,861,262
LIABILITIES (Note 10)		
Intragovernmental Liabilities:		
Accounts Payable	$ 17,473	$ 16,571
Debt (Note 11)	51,628	73,259
Other:		
Accrued Employee Benefits	23,515	21,114
Advances, Deferred Revenue, and Deposit Funds	5,366	7,299
Judgment Fund Liability	47,990	47,950
Liability for Capital Transfers to the General Fund of the Treasury (Note 12)	1,784,273	1,778,687
Other Liabilities	9,099	13,124
Total Other Liabilities	1,870,243	1,868,174
Total Intragovernmental Liabilities	1,939,344	1,958,004
Accounts Payable	170,297	179,484
Federal Employee Benefits, Actuarial	87,223	85,990
Environmental and Disposal Liabilities (Note 13)	53,565	51,597
Other:		
Accrued Payroll and Benefits	50,912	46,483
Advances, Deferred Revenue, and Deposit Funds	623,277	475,105
Contingent Liabilities (Note 13)	962	962
Grants Payable	19,456	26,991
Other Liabilities	2,820	4,523
Total Other Liabilities	697,427	554,064
Commitments and Contingencies (Note 13)		
Total Liabilities	2,947,856	2,829,139
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 18)	246,887	236,373
Unexpended Appropriations - Other Funds	62,934	65,518
Cumulative Results of Operations - Earmarked Funds (Note 18)	23,323,415	21,684,429
Cumulative Results of Operations - Other Funds	71,898	45,803
Total Net Position	23,705,134	22,032,123
Total Liabilities and Net Position	$ 26,652,990	$ 24,861,262

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, 2008, and 2007

(In Thousands)	2008	2007
RESOURCE USE		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	$ 1,257,053	$ 1,091,347
Earned Revenues	(643,101)	(590,579)
Net Cost	613,952	500,768
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	258,060	241,710
Earned Revenues	(201,341)	(213,510)
Net Cost	56,719	28,200
RESOURCE PROTECTION		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Costs	59,646	65,522
Earned Revenues	(52,629)	(46,980)
Net Cost	7,017	18,542
RECREATION		
Provide Quality and Fair Value in Recreation:		
Costs	37,266	35,577
Earned Revenues	(24,618)	(23,896)
Net Cost	12,648	11,681
CENTRALIZED PROGRAM SUPPORT AND OTHER		
Working Capital Fund, Policy and Administration, and Other:		
Costs	171,126	158,218
Earned Revenues	(134,864)	(91,412)
Net Cost	36,262	66,806
TOTAL		
Costs	1,783,151	1,592,374
Earned Revenues	(1,056,553)	(966,377)
Net Cost of Operations (Notes 15 and 17)	$ 726,598	$ 625,997

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2008, and 2007

	2008			2007		
(In Thousands)	**Earmarked** (Note 18)	**All Other**	**Total**	**Earmarked** (Note 18)	**All Other**	**Total**
UNEXPENDED APPROPRIATIONS						
Beginning Balance	$ 236,373	$ 65,518	$ 301,891	$ 249,501	$ 96,590	$ 346,091
Adjustments						
Changes in Accounting Principles (Note 1.O)	-	-	-	-	(28,946)	(28,946)
Beginning Balance, as adjusted	236,373	65,518	301,891	249,501	67,644	317,145
Budgetary Financing Sources						
Appropriations Received, General Funds	183,763	59,355	243,118	206,557	41,373	247,930
Appropriations Transferred In/(Out)	-	-	-	-	-	-
Appropriations - Used	(173,249)	(61,939)	(235,188)	(219,685)	(43,499)	(263,184)
Net Change in Unexpended Appropriations	10,514	(2,584)	7,930	(13,128)	(2,126)	(15,254)
Ending Balance - Unexpended Appropriations	246,887	62,934	309,821	236,373	65,518	301,891
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	21,684,429	45,803	21,730,232	20,550,111	210,811	20,760,922
Adjustments						
Changes in Accounting Principles (Note 1.O)	-	-	-	(21)	(169,738)	(169,759)
Correction of Error	-	-	-	-	-	-
Beginning Balance, as adjusted	21,684,429	45,803	21,730,232	20,550,090	41,073	20,591,163
Budgetary Financing Sources						
Appropriations - Used	173,249	61,939	235,188	219,685	43,499	263,184
Royalties Retained	1,940,820	-	1,940,820	1,326,070	-	1,326,070
Non-Exchange Revenue	(23)	5	(18)	9,602	5	9,607
Transfers In/(Out) without Reimbursement	186,957	(1,188)	185,769	54,170	(1,464)	52,706
Other Budgetary Financing Sources	(12,535)	1,113	(11,422)	(11,489)	-	(11,489)
Other Adjustments	-	-	-	-	-	-
Other Financing Sources						
Donations of Property	3,393	-	3,393	68	-	68
Transfers In/(Out) Without Reimbursement	(47,457)	8,102	(39,355)	(1,098)	11,733	10,635
Imputed Financing from Costs Absorbed by Others	118,619	49	118,668	114,267	18	114,285
Other Non-Budgetary Financing Sources	-	(41,364)	(41,364)	-	-	-
Total Financing Sources	2,363,023	28,656	2,391,679	1,711,275	53,791	1,765,066
Net Cost of Operations	(724,037)	(2,561)	(726,598)	(576,936)	(49,061)	(625,997)
Net Change in Cumulative Results of Operations	1,638,986	26,095	1,665,081	1,134,339	4,730	1,139,069
Ending Balance - Cumulative Results of Operations	23,323,415	71,898	23,395,313	21,684,429	45,803	21,730,232
Total Net Position	$ 23,570,302	$ 134,832	$ 23,705,134	$ 21,920,802	$ 111,321	$ 22,032,123

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, 2008, and 2007

	Total Budgetary Accounts		Non-budgetary Credit Reform Financing Account	
(In Thousands)	**2008**	**2007**	**2008**	**2007**
BUDGETARY RESOURCES				
Unobligated Balance, Beginning of Fiscal Year	$ 729,456	$ 652,779	$ 10,238	$ 9
Recoveries of Prior Year Unpaid Obligations	67,366	55,221	-	634
Budget Authority:				
Appropriations	1,176,080	1,135,770	1,113	-
Borrowing Authority	-	-	1,126	1,032
Spending Authority from Offsetting Collections:				
Earned:				
Collected	906,252	812,756	25,623	43,280
Change in Receivables from Federal Sources	12,432	6,555	-	-
Change in Unfilled Customer Orders:				
Advance Received	182,699	27,464	-	-
Without Advance from Federal Sources	(2,471)	27,051	-	-
Subtotal	2,274,992	2,009,596	27,862	44,312
Nonexpenditure Transfers, Net	175,285	4,550	-	-
Permanently Not Available	(12,913)	(9,573)	(22,649)	(22,913)
Total Budgetary Resources	$ 3,234,186	$ 2,712,573	$ 15,451	$ 22,042
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred (Notes 16 and 17):				
Direct	$ 1,156,925	$ 1,095,333	$ 14,338	$ 11,804
Reimbursable	929,337	887,784	-	-
Total Obligations Incurred	2,086,262	1,983,117	14,338	11,804
Unobligated Balance Available:				
Apportioned	1,107,402	669,219	1,113	10,238
Exempt from Apportionment	40,515	60,237	-	-
Total Unobligated Balance Available	1,147,917	729,456	1,113	10,238
Unobligated Balance Not Available	7	-	-	-
Total Status of Budgetary Resources	$ 3,234,186	$ 2,712,573	$ 15,451	$ 22,042
OBLIGATED BALANCE				
Obligated Balance, Net, Beginning of Fiscal Year:				
Unpaid Obligations	$ 976,306	$ 964,352	$ -	$ 3,934
Less: Uncollected Receivables and Orders from Federal Sources	(95,625)	(62,019)	-	-
Total Unpaid Obligated Balances, Net, Beginning of Fiscal Year	880,681	902,333	-	3,934
Obligations Incurred	2,086,262	1,983,117	14,338	11,804
Less: Gross Outlays	(2,049,744)	(1,915,942)	(14,338)	(15,104)
Less: Recoveries of Prior Year Unpaid Obligations	(67,366)	(55,221)	-	(634)
Change in Uncollected Receivables and Orders from Federal Sources	(9,961)	(33,606)	-	-
Total Unpaid Obligated Balance, Net, End of Fiscal Year	$ 839,872	$ 880,681	$ -	$ -
OBLIGATED BALANCE, NET, END OF FISCAL YEAR - BY COMPONENT				
Obligated Balance, Net, End of Fiscal Year:				
Unpaid Obligations	$ 945,458	$ 976,306	$ -	$ -
Less: Uncollected Receivables and Orders from Federal Sources	(105,586)	(95,625)	-	-
Total Unpaid Obligated Balance, Net, End of Fiscal Year	$ 839,872	$ 880,681	$ -	$ -
NET OUTLAYS				
Gross Outlays	$ 2,049,744	$ 1,915,942	$ 14,338	$ 15,104
Less: Offsetting Collections	(1,088,951)	(840,220)	(25,623)	(43,280)
Less: Distributed Offsetting Receipts	(2,407,617)	(1,973,833)	-	-
Net Outlays (Receipts)	$ (1,446,824)	$ (898,111)	$ (11,285)	$ (28,176)

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, 2008, and 2007

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.

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 3, 2008. 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 generally accepted accounting principles 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 Federal Government (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 18 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. Reclamation holds short-term securities for which interest on investments is accrued as it is earned. These investments are 1-day certificates; and, as such, par value equals market value. No applicable premium or discount is associated with these investments.

E. Accounts Receivable

Accounts receivable consist of net amounts owed to Reclamation by other Federal agencies (intragovernmental) and the public. Accounts receivable are 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. Intragovernmental Loans and Interest Receivable

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. The Reclamation Fund was established by the Reclamation Act of 1902 and is an unavailable special receipt fund. 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 transmitting and marketing 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 additional costs associated with the 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 (Liability for Capital Transfers to the General Fund of the 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 (see Note 1.L).

Credit Reform Loans

These loans were made after FY 1991, when the Credit Reform Act of 1990 (Credit Reform) (P.L. 101-508) 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.

During FY 2008, Reclamation completed an inventory of its PP&E. The inventory resulted in certain adjustments to amounts that were improperly capitalized in prior years. Reclamation corrected these prior year errors in FY 2008 by recording a net reduction to general PP&E of $140 million; a $100 million increase to current year expenses in the Statement of Net Cost and a $40 million net decrease to current year financing sources in the Statement of Changes in Net Position. Reclamation does not believe the correction of these prior year errors through the current year activity is material to either the current year or prior year financial statements.

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 13 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 Note 9.

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, 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 discussed further in the "Required Supplemental Stewardship Information" section.

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 Note 9.

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 $41 million and $84 million as of September 30, 2008, and 2007, 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 also is 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 either have been placed in abeyance or intended benefits never have 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 are 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, more likely than not, the project will be completed and 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

Effective October 1, 2007, Reclamation adopted the additional provisions of *Statement of Federal Financial Accounting Standards* (SFFAS) No. 29, “Heritage Assets and Stewardship Land,” that Interior had not adopted in prior years. Under such provisions, Reclamation presented heritage assets and stewardship land unit disclosures in the notes to the financial statements rather than as required supplementary information. In accordance with such provisions, Reclamation did not present comparative 2007 heritage asset and stewardship land disclosures.

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 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 policies and directives clarify roles and responsibilities related to cultural resources and provide direction for consistent implementation of Reclamation's cultural resources program throughout Reclamation. In addition, Reclamation 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. Based upon review of SFFAS No. 29, it was determined that Reclamation's withdrawn lands associated with its projects represent Reclamation's reportable stewardship lands.

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. 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. 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).

The Reclamation policies and directives related to stewardship land set forth the basic standards and give references to the location of applicable procedures for making new land withdrawals, reviewing existing withdrawals, and revoking withdrawals. Other directives establish the requirements and responsibilities for identifying and reporting potential hazardous substance release sites on Reclamation land and prescribe 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 directive prescribes general disposal requirements (among other requirements, which include 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. Liability for Capital Transfers to the General Fund of the Treasury

Reclamation receives appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Reclamation also previously received appropriations to provide Pre-Credit reform loans. 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. See Note 12 for further information on the Liability for Capital Transfers to the General Fund of the Treasury.

M. Personnel Compensation and Benefits

Annual and Sick Leave Program

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave since, from a budgetary standpoint, this annual leave will be paid from future appropriations when the leave is used by employees rather than from amounts that were appropriated to Reclamation as of the date of the financial statements. The amount accrued is based upon current pay rates of the employees. Sick leave and other types of leave are expensed when used; and no liability is recognized for these amounts, as employees do not vest in these benefits.

Retirement and Other Benefits

Reclamation employees participate in one of two contributory pension plans: (1) the Civil Service Retirement System (CSRS) or (2) the Federal Employees Retirement System (FERS). 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 2008 and 2007 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."

Federal Employees Group Life Insurance Program (FEGLI).

Most Reclamation employees are entitled to participate in the FEGLI Program. Participating employees can obtain "basic life" term life insurance, with the employee paying two-thirds of the cost and Reclamation paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the Government's service cost for the post-retirement portion of the basic life coverage. Because Reclamation's contributions to the basic life coverage are allocated fully by OPM to the preretirement portion of coverage, Reclamation has recognized the entire service cost of the postretirement portion of basic life coverage as an imputed cost and imputed financing source.

N. 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 are generally 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, 2008, and 2007, amounts not yet earned under unmatured repayment contracts were $2.7 and $2.8 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.

O. 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 Department of Labor (Job Corps), Department of Transportation (Federal Highway Administration), and Department of 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 beginning 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 17 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 reporting these allocation transfers.

In FY 2007, the cumulative effect of this change in accounting principle resulted in a decrease of $202 million to assets and $3 million to liabilities on the Consolidated Balance Sheet. This resulted in a net decrease to the 2007 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.

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.

Note 2. Asset Analysis

Assets of Reclamation include entity, unrestricted and 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, 2008, and 2007, are summarized in the following tables.

Asset Analysis
As of September 30, 2008
(In Thousands)

	Entity			
	Unrestricted	Restricted	Non-Entity	Total
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 1,565,435	$ 7,823,618	$ -	**$ 9,389,053**
Accounts Receivable	2,066	500,102	8,970	**511,138**
Investments, Net	450,369	-	-	**450,369**
Amounts Due from the U.S. Department of Energy, Net	-	3,063,916	-	**3,063,916**
Other:				
Advances and Prepayments	955	-	-	**955**
Total Intragovernmental Assets	2,018,825	11,387,636	8,970	**13,415,431**
Accounts and Interest Receivable, Net	35,984	4,079	145	**40,208**
Loans and Interest Receivable, Net	93,295	-	-	**93,295**
General Property, Plant, and Equipment, Net	12,969,921	-	-	**12,969,921**
Other:				
Advances and Prepayments	36,632	-	-	**36,632**
Power Rights, Net	97,503	-	-	**97,503**
Total Other Assets	134,135	-	-	**134,135**
Total Assets	$ 15,252,160	$ 11,391,715	$ 9,115	**$26,652,990**

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

	Entity			
	Unrestricted	Restricted	Non-Entity	Total
ASSETS				
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**
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**
Total Assets	$ 14,934,002	$ 9,927,113	$ 147	**$24,861,262**

Note 3. Fund Balance with Treasury

Reclamation’s Fund Balance with Treasury and the Status of Fund Balance with Treasury as of September 30, 2008, and 2007, are shown in the following table.

Fund Balance with Treasury
As of September 30, 2008, and 2007
(In Thousands)

	2008	2007
Fund Balance with Treasury by Fund Type		
General Funds	$ 1,160,695	$ 835,435
Special Funds	7,933,301	6,687,941
Revolving Funds	230,756	197,345
Trust Funds	35,470	60,198
Other Fund Types	28,831	32,776
Total Fund Balance with Treasury by Fund Type	**$ 9,389,053**	**$ 7,813,695**
Status of Fund Balance with Treasury		
Unobligated:		
Available	$ 698,664	$ 338,325
Unavailable	7	-
Obligated Balance Not Yet Disbursed	839,872	880,681
Subtotal	1,538,543	1,219,006
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	7,823,618	6,573,036
Deposit and Clearing Accounts	26,892	21,653
Subtotal	7,850,510	6,594,689
Total Status of Fund Balance with Treasury	**$ 9,389,053**	**$ 7,813,695**

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 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 that reduce Fund Balance with Treasury but do not reduce budgetary resources.

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 18 for a further discussion of earmarked funds). The investment balance as of September 30, 2008, and 2007, consists of non-marketable market-based securities purchased through the Federal Investment Branch of the Bureau of Public Debt, as well as accrued interest earned. These investments are 1-day certificates; and, as such, par value equals market value. No applicable premium or discount is associated with these investments. Reclamation's investments as of September 30, 2008, and 2007, are summarized in the following table.

Investments, Net
As of September 30, 2008, and 2007
(In Thousands)

	2008	2007
Cost	$ 450,369	$ 401,370
Accrued Interest	-	89
Investments, Net	**$ 450,369**	**$ 401,459**

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 Governmentwide 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. Intragovernmental Loans and Interest Receivable, Net

Intragovernmental loans and interest receivable is comprised of amounts due from the U.S. Departrment of Energy. The following table shows the amounts due as of September 30, 2008, and 2007.

Amounts Due from the U.S. Department of Energy, Net
As of September 30, 2008, and 2007
(In Thousands)

	2008	2007
Principal	$ 6,810,664	$ 6,599,293
Interest	2,350,871	2,192,969
Cumulative Repayments	(6,075,917)	(5,943,259)
Allowance for Non-Reimbursable Costs	(21,702)	(21,702)
Total Amounts Due from the U.S. Department of Energy, Net	**$ 3,063,916**	**$ 2,827,301**

Interest rates vary by project and pertinent legislation and ranged from 4.9 to 7.4 percent and 4.9 to 7.6 percent for the years ended September 30, 2008, and 2007, 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, 2008, and 2007.

Accounts and Interest Receivable, Net, Due from the Public
As of September 30, 2008, and 2007
(In Thousands)

	2008	2007
Current	$ 5,146	$ 7,729
1-180 Days Past Due	2,025	1,248
181-365 Days Past Due	220	497
1 to 2 Years Past Due	413	61
Over 2 Years Past Due	7,082	7,918
Total Billed Accounts and Interest Receivable	14,886	17,453
Unbilled Accounts and Interest Receivable	34,718	27,276
Total Accounts and Interest Receivable	49,604	44,729
Allowance for Doubtful Accounts	(9,396)	(10,652)
Total Accounts and Interest Receivable - Net of Allowance	**$ 40,208**	**$ 34,077**

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, 2008, and 2007.

Loans and Interest Receivable, Net
As of September 30, 2008
(In Thousands)

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Loans and Interest Receivable, Net
Direct Loans Obligated Prior to FY 1992:					
Small Reclamation Projects Act	$ 28,337	$ -	$ (7,255)	$ -	**$ 21,082**
Distribution System Loans Act	3,087	-	-	-	**3,087**
Rural Development Policy Act	17,593	73	-	-	**17,666**
Rehabilitation and Betterment Act	4	-	-	-	**4**
Drought Relief	125	-	-	-	**125**
Total Direct Loans Obligated Prior to FY 1992	49,146	73	(7,255)	-	**41,964**
Direct Loans Obligated After FY 1991:					
Small Reclamation Projects Act	77,351	-	-	(26,020)	**51,331**
Total Direct Loans	$ 126,497	$ 73	$ (7,255)	$ (26,020)	**$ 93,295**

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

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Loans and Interest Receivable, Net
Direct Loans Obligated Prior to FY 1992:					
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**
Total Direct Loans Obligated Prior to FY 1992	54,481	75	(7,255)	-	**47,301**
Direct Loans Obligated After FY 1991:					
Small Reclamation Projects Act	94,139	-	-	(38,511)	**55,628**
Total Direct Loans	$ 148,620	$ 75	$ (7,255)	$ (38,511)	**$ 102,929**

Reclamation had five total loans obligated after FY 1991 outstanding as of September 30, 2008, and 2007, subject to the provisions of the Credit Reform Act of 1990. There were no loan disbursements during FY 2008, and FY 2007 had loan disbursements of $9.2 million. Administrative expenses for the years ended September 30, 2008, and 2007, were $56 thousand and $76 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, the Ft. McDowell Yavapi Nation repayment obligation was cancelled in accordance with the Fort McDowell Indian Community Water Rights Settlement Revision Act of 2006 (P.L. 109-373). In FY 2008, appropriations for this cancellation were received, and the associated loan receivable was written off.

The subsidy re-estimate appropriation received in FY 2008 resulted in a net increase to the subsidy cost allowance of $2.3 million for the year ended September 30, 2008, due to minor changes in the calculation. The annual subsidy re-estimate resulted in a net decrease of $1.4 million. 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.

In FY 2008 and 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 2008 and 2007, 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, 2008, and 2007, 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, 2008, and 2007
(In Thousands)

	2008	2007
Beginning Balance of the Subsidy Cost Allowance	$ 38,511	$ 7,509
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years		
Other Subsidy Costs	(1)	(713)
Adjustments:		
Loan Modifications	1,113	4,404
Loan Written Off	(12,984)	-
Subsidy Allowance Amortization	(1,568)	3,981
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	25,071	15,181
Add or (Subtract) Subsidy Re-estimates by Component:		
Technical/Default Re-estimate	949	23,330
Ending Balance of the Subsidy Cost Allowance	**$ 26,020**	**$ 38,511**

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

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2008, and 2007, are shown in the following tables.

General Property, Plant, and Equipment, Net
As of September 30, 2008
(In Thousands)

Categories	**Acquisition Cost**	**Accumulated Depreciation**	**Net Book Value**
Structures and Facilities	$ 17,475,773	$ (8,207,538)	**$ 9,268,235**
Land	1,848,844	-	**1,848,844**
Construction in Progress:			
Construction in Progress - General	1,164,130	-	**1,164,130**
Construction in Abeyance	574,005	-	**574,005**
Equipment, Vehicles, and Aircraft	108,487	(58,187)	**50,300**
Buildings	71,239	(17,874)	**53,365**
Internal Use Software:			
In Use	30,368	(26,819)	**3,549**
In Development	7,493	-	**7,493**
Total General PP&E	$ 21,280,339	$ (8,310,418)	**$ 12,969,921**

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**
Total General PP&E	$ 21,191,814	$ (8,179,801)	**$ 13,012,013**

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 the first costs are incurred under a construction contract, including contracts for purchase of rights-of-way. The interest rates applied during FY 2008 and 2007 ranged from 3.22 percent to 8.54 percent and 3.22 percent to 8.70 percent, respectively. For the years ended September 30, 2008, and 2007, $11 million and $9 million of IDC costs were capitalized each year.

The investment in projects held in abeyance as of September 30, 2008, and 2007 ranged from $59 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 completing 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. Stewardship Assets

Reclamation holds stewardship PP&E consisting of non-collectible and collectible heritage assets, and stewardship land.

Non-collectible heritage assets are properties that have been presidentially, congressionally, or departmentally designated as National Historic Landmarks (NHL) and National Natural Landmarks (NNL). The types of assets reported under NHL include buildings, structures, districts, and archaeological sites. Of the eight reported, three are owned in whole by Reclamation (Folsom Powerhouse, Guernsey Lake Park, and Hoover Dam). The NNLs are comprised of Drumheller Channels, Washington; Grand Coulee, Washington; and Russell Lakes, Colorado. No non-collectible heritage assets have been acquired through donation or devise in FY 2008. Reclamation's non-collectible heritage assets as of September 30, 2008, are shown in the following table.

Non-Collectible Heritage Assets
As of September 30, 2008

Category by Type	Beginning Balance	Additions	Withdrawals	Ending Balance
National Historical Landmarks	8	0	0	**8**
National Natural Landmarks	3	0	0	**3**
Total	11	0	0	**11**

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. These assets are reported either as held at Interior bureau facilities or held at non-Interior bureau facilities. The number of facilities is also the basis for the collection count per guidance. Reclamation's collectible heritage assets as of September 30, 2008, are shown in the following table.

Collectible Heritage Assets
As of September 30, 2008

Interior Museum Collections	Beginning Balance	Additions	Withdrawals	Ending Balance
Held at Interior Bureau Facilities	16	0	0	**16**
Held at Non-Interior Bureau Facilities	71	1	2	**70**
Total	87	1	2	**86**

Reclamation is reporting those stewardship lands included within the boundaries of Federal Reclamation water and related projects in terms of the number of 'projects.' Additions and deletions in this category are rare since it involves congressional authorization for new projects or title transfer of existing projects to non-Federal entities. There were three withdrawals: the Savory-Pothook project, the Salinity Control project, and the Smith Fork project. Reclamation's stewardship lands as of September 30, 2008, are shown in the following table.

Stewardship Lands
As of September 30, 2008

Primary Land Management Category	Beginning Balance	Additions	Withdrawals	Ending Balance
Reclamation - Federal Water and Related Projects	145	0	3	**142**
Total	145	0	3	**142**

Note 10. 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, 2008, and 2007, are combined and presented together in the Consolidated Balance Sheet and are detailed in the following tables.

Liabilities
As of September 30, 2008
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
	Current	**Non-Current**	**Current**	**Non-Current**	**Total**
Intragovernmental Liabilities:					
Accounts Payable	$ 17,473	$ -	$ -	$ -	**$ 17,473**
Debt	-	51,628	-	-	**51,628**
Other:					
Accrued Employee Benefits	9,743	-	4,767	9,005	**23,515**
Advances, Deferred Revenue, and Deposit Funds	5,356	-	10	-	**5,366**
Judgment Fund Liability	-	-	-	47,990	**47,990**
Liability for Capital Transfers to the General Fund of the Treasury	-	-	44,606	1,739,667	**1,784,273**
Other Liabilities	-	-	9,099	-	**9,099**
Total Other Liabilities	15,099	-	58,482	1,796,662	**1,870,243**
Total Intragovernmental Liabilities	32,572	51,628	58,482	1,796,662	**1,939,344**
Public Liabilities:					
Accounts Payable	99,556	70,741	-	-	**170,297**
Federal Employee Benefits, Actuarial	-	-	-	87,223	**87,223**
Environmental and Disposal Liabilities	-	-	-	53,565	**53,565**
Other:					
Accrued Payroll and Benefits	18,824	-	32,088	-	**50,912**
Advances, Deferred Revenue, and Deposit Funds	326,195	-	32,728	264,354	**623,277**
Contingent Liabilities	-	-	-	962	**962**
Grants Payable	19,456	-	-	-	**19,456**
Other Liabilities	2,729	-	-	91	**2,820**
Total Other Liabilities	367,204	-	64,816	265,407	**697,427**
Total Public Liabilities	466,760	70,741	64,816	406,195	**1,008,512**
Total Liabilities	$ 499,332	$ 122,369	$ 123,298	$ 2,202,857	**$ 2,947,856**

Liabilities
As of September 30, 2007
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
	Current	Non-Current	Current	Non-Current	Total
Intragovernmental Liabilities:					
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**
Liability for Capital Transfers to the General Fund of the Treasury	-	-	44,467	1,734,220	**1,778,687**
Other Liabilities	-	-	13,124	-	**13,124**
Total Other Liabilities	16,739	-	61,644	1,789,791	**1,868,174**
Total Intragovernmental Liabilities	33,310	73,259	61,644	1,789,791	**1,958,004**
Public Liabilities:					
Accounts Payable	106,599	72,885	-	-	**179,484**
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**
Grants Payable	26,991	-	-	-	**26,991**
Other Liabilities	4,440	-	-	83	**4,523**
Total Other Liabilities	216,666	-	56,478	280,920	**554,064**
Total Public Liabilities	323,265	72,885	56,478	418,507	**871,135**
Total Liabilities	$ 356,575	$ 146,144	$ 118,122	$ 2,208,298	**$ 2,829,139**

Note 11. Debt

Reclamation holds loans that 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, 2008, range from 2012 to 2047. The interest rate used to calculate interest owed to Treasury as of September 30, 2008, and 2007, ranged from 5.42 to 7.59 percent and 3.63 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 debt to the Treasury resulting from amounts borrowed to fund Credit Reform loans as of and for the years ended September 30, 2008, and 2007.

Debt
As of and for the Years Ended September 30, 2008, and 2007
(In Thousands)

Intragovernmental Debt: Credit Reform Borrowings		2008		2007
Beginning Balance	$	73,259	$	95,141
New Borrowing		1,018		1,031
Repayments		(22,649)		(22,913)
Ending Balance	**$**	**51,628**	**$**	**73,259**

Note 12. Liability for Capital Transfers to the General Fund of the Treasury

Reclamation's intragovernmental liability to the General Fund consists of two components: (1) recoverable appropriations received and (2) collections for Pre-Credit Reform loans.

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 for both FY 2008 and 2007 ranged from 2.63 and 9.84. 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. This liability may increase or decrease due to actual costs incurred, collections, and repayments. It may also increase or decrease due to the annual preparation of the Statement of Project Construction Costs Reconciliation (SPCCR), which is a review of a project's original estimate of costs compared to actual costs and revenues. Actual repayments to Treasury's General Fund in FY 2008 and 2007 were $6 million and $4 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 2008 and 2007 were $7 million and $5 million, respectively.

The liabilities shown in the following table represent the outstanding amounts payable to Treasury's General Fund as of and for the years ended September 30, 2008, and 2007.

Liability for Capital Transfers to the General Fund of the Treasury
As of September 30, 2008, and 2007
(In Thousands)

	2008	2007
Beginning Balance	$ 1,778,687	$ 1,844,710
Costs Incurred	(19,130)	(79,782)
Collections	37,629	23,251
Repayments to Treasury	(12,913)	(9,492)
Ending Balance	**$ 1,784,273**	**$ 1,778,687**

Note 13. 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, 2008, and 2007, are summarized in the following tables.

Contingent Liabilities and Environmental and Disposal Liabilities
As of September 30, 2008
(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	$ 962
Reasonably Possible		100,000	100,000
Environmental and Disposal Liabilities			
Probable	53,565	53,565	127,025
Reasonably Possible		31	7,907

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

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 14. 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, 2008, and 2007, the lease expense amount for federally and non-federally owned property leased through GSA was $17.5 million and $18.6 million, respectively. The GSA personal property consists of leased vehicles. Although Reclamation anticipates leasing facilities from GSA subsequent to FY 2013, these leases are only disclosed for 5 future years unless such leases are non-cancelable. Any non-cancelable lease amounts are included in the "Thereafter" row for all future out years based on individual agreements.

In addition to leases with GSA, Reclamation had, for the years ended September 30, 2008, and 2007, operating lease payments to non-Federal entities in the amount of $3.0 million and $3.1 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 is a schedule by year of future minimum lease payments as of September 30, 2008. Future operating lease payments are calculated based on the terms of the lease or, if the lease is silent, an inflationary factor of 2.5 percent for FY 2009 and beyond.

Operating Lease Commitments
As of September 30, 2008
(In Thousands)

Fiscal Year	Real Property Federal	Real Property Public	Personal Property Federal	Personal Property Public	Total
2009	$ 17,805	$ 2,249	$ 2,318	$ 499	**$ 22,871**
2010	18,250	1,880	2,376	78	**22,584**
2011	18,707	1,899	2,436	32	**23,074**
2012	19,174	1,758	2,497	15	**23,444**
2013	19,654	1,675	2,559	-	**23,888**
Thereafter	24	11,023	-	-	**11,047**
Total Future Operating Lease Payments	$ 93,614	$ 20,484	$ 12,186	$ 624	**$ 126,908**

Note 15. 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 GPRA. Consolidating Statements of Net Cost, shown by regional organization and reporting segment for the years ended September 30, 2008, and 2007, are presented at the end of Note 18.

Note 16. 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 2007 amounts shown equal those presented in the President's Budget. The actual amounts for FY 2008 in the President's Budget had not been published at the time these financial statements were prepared. The President's Budget with the actual FY 2008 amounts is estimated to be released in February 2009 and can be located at the OMB Web site: (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, 2008
(In Thousands)

	Apportioned Category B	Exempt from Apportionment	Total
Direct	$ 1,092,831	$ 78,432	**$ 1,171,263**
Reimbursable	929,337	-	**929,337**
Total Obligations Incurred	$ 2,022,168	$ 78,432	**$ 2,100,600**

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

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

For the years ended September 30, 2008, and 2007, undelivered orders were $741 million and $742 million, respectively.

Note 17. Reconciliation of Budgetary Resources Obligated to Net Cost of Operations

Effective beginning 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 the “Reconciliation of Budgetary Resources Obligated to Net Cost of Operations.”

The following table shows the Reconciliation of Budgetary Resources Obligated to Net Cost of Operations for the years ended September 30, 2008, and 2007.

Reconciliation of Budgetary Resources Obligated to the Net Cost of Operations
For the Years Ended September 30, 2008, and 2007
(In Thousands)

	2008	2007
RESOURCES USED TO FINANCE ACTIVITIES		
Current-Year Gross Obligations	$ 2,100,600	$ 1,994,921
Budgetary Resources from Offsetting Collections:		
Spending Authority from Offsetting Collections:		
Earned:		
Collected	(931,875)	(856,036)
Change in Receivable from Federal Sources	(12,432)	(6,555)
Change in Unfilled Customer Orders	(180,228)	(54,515)
Recoveries of Prior Year Unpaid Obligations	(67,366)	(55,855)
Offsetting Receipts	(2,407,617)	(1,973,833)
Other Financing Resources:		
Transfers-In/(Out) Without Reimbursement	(39,355)	10,635
Donations (Forfeitures) of Property and Services	3,393	68
Imputed Financing Sources	118,668	114,285
Other	(41,364)	-
Total Resources Used to Finance Activity	(1,457,576)	(826,885)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Budgetary Obligations and Resources Not in the Net Cost of Operations:		
Change in Unfilled Customer Orders	180,228	54,515
Change in Undelivered Orders	1,187	(36,063)
Current-Year Capitalized Purchases	(149,644)	(294,588)
Change in Expended Authority in Loan Funds	(14,338)	(9,215)
Change in Budgetary Collections in Loan Funds	32,148	47,890
Other Resources/Adjustments That Do Not Affect Net Cost of Operations	89,106	8,070
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT GENERATE OR USE RESOURCES IN THE REPORTING PERIOD		
Revenues Without Current-Year Budgetary Effect:		
Change in Receivables Not in the Budget	1,889,252	1,454,687
Other Financing Sources Not in the Budget	(118,668)	(114,285)
Costs Without Current-Year Budgetary Effect:		
Depreciation and Amortization	175,183	190,779
Disposition of Assets	10,155	16,248
Future Funded Expenses	(14,666)	26,198
Imputed Costs	107,454	104,846
Bad Debt Expense	(1,324)	(1,102)
Other Expenses Not Requiring Budgetary Resources	(1,899)	3,987
Allocation Transfers Reconciling Items - Child	-	915
Net Cost of Operations	$ 726,598	$ 625,997

Reclamation receives, as the child agency, allocation transfers from other Interior bureaus as well as other Federal entities. As discussed in Note 1.O., 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 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 10, “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.

Note 18. 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 2008, 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 classified as earmarked receipts transferred in 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 are typically 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 is 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 is presented in the following tables as of and for the years ended September 30, 2008, and 2007.

Earmarked Funds
As of and for the Year Ended September 30, 2008
(In Thousands)

	Reclamation Fund	Water and Related Resources	Lower Colorado River Basin Fund	Other Earmarked Funds	Total Earmarked Funds
ASSETS					
Fund Balance with Treasury	$ 7,816,347	$ 1,091,175	$ 13,485	$ 317,479	$ 9,238,486
Investments, Net	-	-	445,710	4,659	450,369
Accounts and Interest Receivable, Net	500,983	28,299	12,928	7,807	550,017
Loans and Interest Receivable, Net	3,063,916	-	-	-	3,063,916
General Property, Plant, and Equipment, Net	-	7,344,209	2,961,751	2,607,734	12,913,694
Other Assets	-	38,602	102,545	971	142,118
TOTAL ASSETS	$ 11,381,246	$ 8,502,285	$ 3,536,419	$ 2,938,650	$ 26,358,600
LIABILITIES					
Accounts Payable	$ -	$ 86,621	$ 14,266	$ 83,807	$ 184,694
Liability for Capital Transfers to the General Fund of the Treasury	-	1,742,575	-	-	1,742,575
Other Liabilities	37	509,667	4,697	346,628	861,029
TOTAL LIABILITIES	$ 37	$ 2,338,863	$ 18,963	$ 430,435	$ 2,788,298
NET POSITION					
Unexpended Appropriations	-	201,965	11,757	33,165	246,887
Cumulative Results of Operations	11,381,209	5,961,457	3,505,699	2,475,050	23,323,415
TOTAL NET POSITION	11,381,209	6,163,422	3,517,456	2,508,215	23,570,302
TOTAL LIABILITIES AND NET POSITION	$ 11,381,246	$ 8,502,285	$ 3,536,419	$ 2,938,650	$ 26,358,600
COSTS/REVENUES					
Gross Costs	$ (1,244)	$ 1,234,418	$ 181,892	$ 343,540	$ 1,758,606
Earned Revenues	(349,937)	(255,475)	(195,277)	(233,880)	(1,034,569)
NET COST OF OPERATIONS	$ (351,181)	$ 978,943	$ (13,385)	$ 109,660	$ 724,037
NET POSITION					
Net Position, Beginning Balance	$ 9,918,474	$ 6,040,047	$ 3,475,039	$ 2,487,242	$ 21,920,802
Appropriations Received/Transferred	-	94,009	26,893	62,861	183,763
Royalties Retained	1,940,820	-	-	-	1,940,820
Non-Exchange Revenue and Donations	(22)	826	2,566	-	3,370
Other Financing Sources:					
Transfers In/(Out) Without Reimbursement	(816,844)	907,414	(427)	49,357	139,500
Imputed Financing from Costs Absorbed by Others	135	100,069	-	18,415	118,619
Other	(12,535)	-	-	-	(12,535)
Net Cost of Operations	351,181	(978,943)	13,385	(109,660)	(724,037)
Change in Net Position	1,462,735	123,375	42,417	20,973	1,649,500
NET POSITION, ENDING BALANCE	$ 11,381,209	$ 6,163,422	$ 3,517,456	$ 2,508,215	$ 23,570,302

Earmarked Funds
As of and for the Year Ended September 30, 2007
(In Thousands)

	Reclamation Fund	Water and Related Resources	Lower Colorado River Basin Fund	Other Earmarked Funds	Total Earmarked Funds
ASSETS					
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
TOTAL ASSETS	$ 9,918,527	$ 8,181,718	$ 3,493,584	$ 2,970,058	$ 24,563,887
LIABILITIES					
Accounts Payable	$ -	$ 75,501	$ 16,062	$ 97,639	$ 189,202
Liability for Capital Transfers to the General Fund of the Treasury	-	1,731,652	-	-	1,731,652
Other Liabilities	53	334,518	2,483	385,177	722,231
TOTAL LIABILITIES	53	2,141,671	18,545	482,816	2,643,085
NET POSITION					
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
TOTAL NET POSITION	9,918,474	6,040,047	3,475,039	2,487,242	21,920,802
TOTAL LIABILITIES AND NET POSITION	$ 9,918,527	$ 8,181,718	$ 3,493,584	$ 2,970,058	$ 24,563,887
COSTS/REVENUES					
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)
NET COST OF OPERATIONS	$ (334,326)	$ 856,505	$ (137)	$ 54,894	$ 576,936
NET POSITION					
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.O)	-	-	-	(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
NET POSITION, ENDING BALANCE	$ 9,918,474	$ 6,040,047	$ 3,475,039	$ 2,487,242	$ 21,920,802

U.S. Department of the Interior
Bureau of Reclamation
Consolidating Statement of Net Cost
For the Year Ended September 30, 2008
(In Thousands)

	Pacific Northwest Region	Mid-Pacific Region
RESOURCE USE		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	42,817	145,122
Public Costs	91,315	180,535
Total Costs	134,132	325,657
Intragovernmental Earned Revenues	(84,168)	(3,677)
Public Earned Revenues	(22,512)	(134,885)
Total Earned Revenues	(106,680)	(138,562)
Net Cost	27,452	187,095
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	25,331	19,056
Public Costs	45,338	23,383
Total Costs	70,669	42,439
Intragovernmental Earned Revenues	(35,076)	(462)
Public Earned Revenues	(8,412)	(32,676)
Total Earned Revenues	(43,488)	(33,138)
Net Cost	27,181	9,301
RESOURCE PROTECTION		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Intragovernmental Costs	268	199
Public Costs	1,981	221
Total Costs	2,249	420
Intragovernmental Earned Revenues	(382)	(1)
Public Earned Revenues	(102)	(47)
Total Earned Revenues	(484)	(48)
Net Cost	1,765	372
RECREATION		
Provide Quality and Fair Value in Recreation:		
Intragovernmental Costs	1,949	6,945
Public Costs	4,598	7,854
Total Costs	6,547	14,799
Intragovernmental Earned Revenues	(3,403)	(173)
Public Earned Revenues	(910)	(6,361)
Total Earned Revenues	(4,313)	(6,534)
Net Cost	2,234	8,265
CENTRALIZED PROGRAM SUPPORT AND OTHER		
Working Capital Fund, Policy and Administration, and Other:		
Intragovernmental Costs	15,827	24,010
Public Costs	40,634	56,394
Total Costs	56,461	80,404
Intragovernmental Earned Revenues	(44,241)	(63,658)
Public Earned Revenues	(10,629)	(14,222)
Total Earned Revenues	(54,870)	(77,880)
Net Cost	1,591	2,524
Total Intragovernmental Costs	86,192	195,332
Total Public Costs	183,866	268,387
Total Costs	270,058	463,719
Total Intragovernmental Earned Revenues	(167,270)	(67,971)
Total Public Earned Revenues	(42,565)	(188,191)
Total Earned Revenues	(209,835)	(256,162)
Net Cost of Operations (Notes 15 and 17)	60,223	207,557

Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
49,382	55,960	50,287	43,061	386,629	(7,154)	379,475
227,296	138,056	193,848	46,528	877,578	-	877,578
276,678	194,016	244,135	89,589	1,264,207	(7,154)	1,257,053
(32,794)	(7,309)	(62,591)	7	(190,532)	7,154	(183,378)
(208,313)	(55,003)	(32,321)	(6,689)	(459,723)	-	(459,723)
(241,107)	(62,312)	(94,912)	(6,682)	(650,255)	7,154	(643,101)
35,571	131,704	149,223	82,907	613,952	-	613,952
20,744	10,799	15,425	1,894	93,249	(1,350)	91,899
37,265	24,032	35,340	803	166,161	-	166,161
58,009	34,831	50,765	2,697	259,410	(1,350)	258,060
(8,595)	(1,378)	(13,238)	-	(58,749)	1,350	(57,399)
(54,674)	(13,272)	(34,903)	(5)	(143,942)	-	(143,942)
(63,269)	(14,650)	(48,141)	(5)	(202,691)	1,350	(201,341)
(5,260)	20,181	2,624	2,692	56,719	-	56,719
13,834	8,441	191	831	23,764	(1,771)	21,993
7,439	27,104	394	514	37,653	-	37,653
21,273	35,545	585	1,345	61,417	(1,771)	59,646
(5,184)	(1,809)	(222)	-	(7,598)	1,771	(5,827)
(32,928)	(13,610)	(114)	(1)	(46,802)	-	(46,802)
(38,112)	(15,419)	(336)	(1)	(54,400)	1,771	(52,629)
(16,839)	20,126	249	1,344	7,017	-	7,017
2,850	379	1,091	-	13,214	(61)	13,153
8,862	907	1,907	(15)	24,113	-	24,113
11,712	1,286	2,998	(15)	37,327	(61)	37,266
(1,739)	(62)	(336)	-	(5,713)	61	(5,652)
(11,047)	(469)	(174)	(5)	(18,966)	-	(18,966)
(12,786)	(531)	(510)	(5)	(24,679)	61	(24,618)
(1,074)	755	2,488	(20)	12,648	-	12,648
26,051	25,985	14,108	122,930	228,911	(355,430)	(126,519)
41,418	39,512	25,575	94,112	297,645	-	297,645
67,469	65,497	39,683	217,042	526,556	(355,430)	171,126
(49,329)	(47,384)	(37,278)	(167,424)	(409,314)	355,430	(53,884)
(19,978)	(31,229)	(1,672)	(3,250)	(80,980)	-	(80,980)
(69,307)	(78,613)	(38,950)	(170,674)	(490,294)	355,430	(134,864)
(1,838)	(13,116)	733	46,368	36,262	-	36,262
112,861	101,564	81,102	168,716	745,767	(365,766)	380,001
322,280	229,611	257,064	141,942	1,403,150	-	1,403,150
435,141	331,175	338,166	310,658	2,148,917	(365,766)	1,783,151
(97,641)	(57,942)	(113,665)	(167,417)	(671,906)	365,766	(306,140)
(326,940)	(113,583)	(69,184)	(9,950)	(750,413)	-	(750,413)
(424,581)	(171,525)	(182,849)	(177,367)	(1,422,319)	365,766	(1,056,553)
10,560	159,650	155,317	133,291	726,598	-	726,598

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

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

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