



# FINANCIAL RESULTS

## — Message from the Chief Financial Officer —



I am very proud of the extraordinary efforts of the financial management community over the last two years and am extremely pleased to report on the Department's success in regaining its clean audit opinion this year. Congratulations to everyone who contributed to this great accomplishment.

The Secretary, Deputy Secretary and the entire senior leadership team recognize the value of accurate and timely financial information for decision making and are committed to ensuring that our annual financial statements fully pass audit scrutiny. That commitment, together with the immense amount of work performed by both the headquarters and field Federal and contractor financial community, resulted in the improved controls over financial reporting that underpin the auditor's unqualified "clean" audit opinion on our fiscal year 2007 financial statements.

The Department's fiscal year 2007 financial statements were reviewed by independent auditors and received a clean opinion. This is the best possible opinion and an upgrade from the qualified balance sheet only opinion issued in fiscal year 2006. No material weaknesses in internal controls were identified and the auditors concluded that the Department had corrected the material weakness identified last year regarding controls over the reporting of undelivered orders. The Department also completed an evaluation of its financial management system and found it to be in general conformance with governmental financial system requirements and identified no material nonconformances.

I am committed to ensuring the Department has the organization, systems and resources to sustain the Department's clean opinion in future years and to continue to improve on our financial management performance. Our new core financial system standardizes key business and financial processes used throughout the agency. Combined with its companion data warehouse, we are delivering to program offices the most up-to-date financial and programmatic information to facilitate better decision making. As the CFO, my highest priority, *Our People*, is to ensure that we invest in the right skills mix, resources, and training and development opportunities to further strengthen our financial management and analysis capabilities. And, my next priority, *Our Customers*, is to work closely with program offices, the Administration, and Congress to achieve the results expected by the American people. I believe this report demonstrates that we are on the right track.

In previous years, the Department produced a Performance and Accountability Report which consolidated multiple statutory reporting requirements, including the reporting of performance results, audited financial statements and the status of internal controls. This year, the Department is participating in a pilot program for Federal agencies to experiment with alternative approaches to performance and accountability reporting. This Agency Financial Report presents financial and performance results in a more flexible and transparent format.

Lastly, another of my priorities, *Our Commitments*, is representative of our effort to provide the highest quality products for Departmental and stakeholder use. I look forward to and welcome feedback from the readers of this report as we continue to look for opportunities to improve the way we communicate the results of the Department's performance. Thank you.

A handwritten signature in black ink, appearing to read "S. Isakowitz".

Steve Isakowitz  
November 14, 2007



## — Consolidated and Combined Financial Statements —

The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Circular A-136, "Financial Reporting Requirements."

The responsibility for the integrity of the financial information included in these statements rests with the management of the Department of Energy. The audit of the Department's principal financial statements was performed by an independent certified public accounting firm selected by the Department's Office of Inspector General. The auditors' report issued by the independent certified public accounting firm is included in this report.

The following provides a brief description of the nature of each required financial statement.

The **Consolidated Balance Sheets** describe the assets, liabilities, and net position components of the Department.

The **Consolidated Statements of Net Cost** summarize the Department's operating costs by the strategic themes and goals identified in the Department's September 30, 2006, Strategic Plan. All operating costs reported reflect full costs, including all direct and indirect costs, consumed by a program or responsibility segment. The full costs are reduced by earned revenues to arrive at net costs.

The **Consolidated Statements of Changes in Net Position** identify appropriated funds used as a financing source for goods, services, or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the Consolidated Balance Sheets from the beginning to the end of the reporting period.

The **Combined Statements of Budgetary Resources** identify the Department's budget authority. Budget authority is the authority that Federal law gives to agencies to incur financial obligations that will eventually result in outlays or expenditures. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. The Combined Statements of Budgetary Resources provides information on budgetary resources available to the Department during the year and the status of those resources at the end of the year. Detail on the amounts shown in the Combined Statements of Budgetary Resources is included in the Required Supplementary Information section on the schedule Budgetary Resources by Major Account.

The **Consolidated Statements of Custodial Activities** identify revenues collected by the Department on behalf of others. These revenues primarily result from power marketing administrations that sell power generated by hydroelectric facilities owned by the Corps of Engineers and the Bureau of Reclamation.

— Principal Statements —

U. S. Department of Energy  
Consolidated Balance Sheets

As of September 30, 2007 and 2006

(\$ in millions)

	FY 2007	FY 2006
<b>ASSETS:</b> <sup>(Note 2)</sup>		
Intragovernmental Assets:		
Fund Balance with Treasury <sup>(Note 3)</sup>	\$ 18,359	\$ 17,189
Investments, Net <sup>(Note 4)</sup>	25,681	23,767
Accounts Receivable, Net <sup>(Note 5)</sup>	575	615
Regulatory Assets <sup>(Note 6)</sup>	5,456	5,476
Other Assets	8	1
Total Intragovernmental Assets	<u>\$ 50,079</u>	<u>\$ 47,048</u>
Investments, Net <sup>(Note 4)</sup>	202	210
Accounts Receivable, Net <sup>(Note 5)</sup>	3,939	4,020
Inventories, Net: <sup>(Note 7)</sup>		
Strategic Petroleum and Northeast Home Heating Oil Reserve	19,415	19,172
Nuclear Materials	21,040	21,199
Other Inventory	470	456
General Property, Plant, and Equipment, Net <sup>(Note 8)</sup>	24,866	24,122
Regulatory Assets <sup>(Note 6)</sup>	5,636	5,961
Other Non-Intragovernmental Assets <sup>(Note 9)</sup>	5,032	3,864
Total Assets	<u>\$ 130,679</u>	<u>\$ 126,052</u>
<b>LIABILITIES:</b> <sup>(Note 10)</sup>		
Intragovernmental Liabilities:		
Accounts Payable	\$ 66	\$ 82
Debt <sup>(Note 11)</sup>	11,481	10,780
Deferred Revenues and Other Credits <sup>(Note 12)</sup>	36	52
Other Liabilities <sup>(Note 13)</sup>	271	257
Total Intragovernmental Liabilities	<u>\$ 11,854</u>	<u>\$ 11,171</u>
Accounts Payable	3,793	3,817
Debt Held by the Public <sup>(Note 11)</sup>	6,427	6,436
Deferred Revenues and Other Credits <sup>(Note 12)</sup>	25,145	23,507
Environmental Cleanup and Disposal Liabilities <sup>(Note 14)</sup>	263,603	230,321
Pension and Other Actuarial Liabilities <sup>(Note 15)</sup>	12,433	12,059
Obligations Under Capital Leases <sup>(Note 16)</sup>	214	172
Other Non-Intragovernmental Liabilities <sup>(Note 13)</sup>	3,272	2,828
Contingencies and Commitments <sup>(Notes 12 and 17)</sup>	11,071	6,836
Total Liabilities	<u>\$ 337,812</u>	<u>\$ 297,147</u>
<b>NET POSITION:</b>		
Unexpended Appropriations		
Unexpended Appropriations - Earmarked Funds <sup>(Note 18)</sup>	\$ 17	\$ 47
Unexpended Appropriations - Other Funds	10,665	9,864
Cumulative Results of Operations		
Cumulative Results of Operations - Earmarked Funds <sup>(Note 18)</sup>	(5,524)	(1,345)
Cumulative Results of Operations - Other Funds	(212,291)	(179,661)
Total Net Position	<u>\$ (207,133)</u>	<u>\$ (171,095)</u>
Total Liabilities and Net Position	<u>\$ 130,679</u>	<u>\$ 126,052</u>

The accompanying notes are an integral part of these statements

**U. S. Department of Energy  
Consolidated Statements of Net Cost**

For Years Ended September 30, 2007 and 2006

(\$ in millions)

**STRATEGIC THEMES:**

**Energy Security:**

Energy Diversity

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Energy Diversity

Environmental Impacts of Energy

Program Costs

Less: Earned Revenues (Note 19)

Net Costs of Environmental Impacts of Energy

Energy Infrastructure

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Energy Infrastructure

Energy Productivity Program Costs

Net Cost of Energy Security

**Nuclear Security:**

Nuclear Deterrent Program Costs

Weapons of Mass Destruction Program Costs

Nuclear Propulsion Plants

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Nuclear Propulsion Plants

Net Cost of Nuclear Security

**Scientific Discovery and Innovation:**

Net Cost of Scientific Discovery and Innovation

**Environmental Responsibility:**

Environmental Cleanup

Program Costs

Less: Earned Revenues (Note 19)

Net Costs of Environmental Cleanup

Managing the Legacy Program Costs

Net Cost of Environmental Responsibility

Net Cost of Strategic Themes

**OTHER PROGRAMS:**

Reimbursable Programs:

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Reimbursable Programs

Other Programs: (Note 20)

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Other Programs

Costs Applied to Reduction of Legacy Environmental Liabilities (Notes 14 and 21)

Costs Not Assigned (Note 22)

Net Cost of Operations (Note 23)

	FY 2007	FY 2006 (Unaudited)
	\$ 1,085	\$ 1,415
	(6)	(616)
	<u>1,079</u>	<u>799</u>
	1,041	989
	(60)	(95)
	<u>981</u>	<u>894</u>
	3,930	3,951
	(4,146)	(4,313)
	<u>(216)</u>	<u>(362)</u>
	496	470
	<u>2,340</u>	<u>1,801</u>
	6,851	6,671
	<u>1,539</u>	<u>1,377</u>
	810	783
	(19)	(11)
	<u>791</u>	<u>772</u>
	<u>9,181</u>	<u>8,820</u>
	4,004	3,734
	5,861	6,007
	(493)	(509)
	<u>5,368</u>	<u>5,498</u>
	57	62
	<u>5,425</u>	<u>5,560</u>
	<u>20,950</u>	<u>19,915</u>
	3,529	3,398
	(3,521)	(3,385)
	<u>8</u>	<u>13</u>
	690	653
	(312)	(218)
	<u>378</u>	<u>435</u>
	(5,573)	(6,207)
	<u>45,732</u>	<u>49,724</u>
	<u>\$ 61,495</u>	<u>\$ 63,880</u>

The accompanying notes are an integral part of these statements

**U. S. Department of Energy  
Consolidated Statements of Changes in Net Position**

For Years Ended September 30, 2007 and 2006

(\$ in millions)

**CUMULATIVE RESULTS OF OPERATIONS:**

	FY 2007			
	Earmarked Funds <sup>(Note 18)</sup>	All Other Funds	Eliminations	Consolidated
Beginning Balances	\$ (1,345)	\$ (179,661)	\$ -	\$ (181,006)
Change in Accounting Principle <sup>(Note 24)</sup>	333	622	-	955
Beginning Balances, as Adjusted	\$ (1,012)	\$ (179,039)	\$ -	\$ (180,051)
Budgetary Financing Sources:				
Appropriations Used	\$ 36	\$ 22,502	\$ -	\$ 22,538
Nonexchange Revenue	72	2	-	74
Donations and Forfeitures of Cash	-	12	-	12
Transfers - In/(Out) Without Reimbursement	(878)	9	-	(869)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	4	-	-	4
Transfers - In/(Out) Without Reimbursement <sup>(Note 23)</sup>	48	144	-	192
Imputed Financing from Costs Absorbed by Others <sup>(Note 23)</sup>	2	1,744	-	1,746
Other	343	163	(472)	34
Total Financing Sources	\$ (373)	\$ 24,576	\$ (472)	\$ 23,731
Net Cost of Operations	(4,139)	(57,828)	472	(61,495)
Net Change	\$ (4,512)	\$ (33,252)	\$ -	\$ (37,764)
Total Cumulative Results of Operations	\$ (5,524)	\$ (212,291)	\$ -	\$ (217,815)

**UNEXPENDED APPROPRIATIONS:**

Beginning Balances	\$ 47	\$ 9,864	\$ -	\$ 9,911
Budgetary Financing Sources:				
Appropriations Received <sup>(Note 25)</sup>	\$ 5	\$ 23,291	\$ -	\$ 23,296
Appropriations Transferred - In/(Out)	-	13	-	13
Other Adjustments	1	(1)	-	-
Appropriations Used	(36)	(22,502)	-	(22,538)
Total Budgetary Financing Sources	\$ (30)	\$ 801	\$ -	\$ 771
Total Unexpended Appropriations	\$ 17	\$ 10,665	\$ -	\$ 10,682
Net Position	\$ (5,507)	\$ (201,626)	\$ -	\$ (207,133)

**CUMULATIVE RESULTS OF OPERATIONS:**

	FY 2006 (Unaudited)			
Beginning Balances	\$ 3,264	\$ (143,021)	\$ -	\$ (139,757)
Budgetary Financing Sources:				
Appropriations Used	\$ 14	\$ 22,706	\$ -	\$ 22,720
Nonexchange Revenue	60	2	-	62
Donations and Forfeitures of Cash	-	13	-	13
Transfers - In/(Out) Without Reimbursement	(216)	-	-	(216)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	1	-	-	1
Transfers - In/(Out) Without Reimbursement <sup>(Note 23)</sup>	(611)	(15)	-	(626)
Imputed Financing from Costs Absorbed by Others <sup>(Note 23)</sup>	2	621	-	623
Other	502	11	(459)	54
Total Financing Sources	\$ (248)	\$ 23,338	\$ (459)	\$ 22,631
Net Cost of Operations	(4,361)	(59,978)	459	(63,880)
Net Change	\$ (4,609)	\$ (36,640)	\$ -	\$ (41,249)
Total Cumulative Results of Operations	\$ (1,345)	\$ (179,661)	\$ -	\$ (181,006)

**UNEXPENDED APPROPRIATIONS:**

Beginning Balances	\$ 10	\$ 8,968	\$ -	\$ 8,978
Budgetary Financing Sources:				
Appropriations Received <sup>(Note 25)</sup>	\$ 52	\$ 23,847	\$ -	\$ 23,899
Appropriations Transferred - In/(Out)	-	17	-	17
Other Adjustments	(1)	(262)	-	(263)
Appropriations Used	(14)	(22,706)	-	(22,720)
Total Budgetary Financing Sources	\$ 37	\$ 896	\$ -	\$ 933
Total Unexpended Appropriations	\$ 47	\$ 9,864	\$ -	\$ 9,911
Net Position	\$ (1,298)	\$ (169,797)	\$ -	\$ (171,095)

The accompanying notes are an integral part of these statements

**U. S. Department of Energy  
Combined Statements of Budgetary Resources**

For Years Ended September 30, 2007 and 2006

(\$ in millions)

**BUDGETARY RESOURCES:**

Unobligated balance, Brought Forward, October 1 <sup>(Note 25)</sup>  
Recoveries of Prior Year Unpaid Obligations  
Budget Authority:  
  Appropriations <sup>(Note 25)</sup>  
  Borrowing Authority  
  Contract Authority  
Spending Authority from Offsetting Collections:  
  Earned:  
    Collected  
    Change in Receivables from Federal Sources  
  Change in Unfilled Customer Orders:  
    Advances Received  
    Without Advance from Federal Sources  
  Subtotal  
Nonexpenditure Transfers, Net, Anticipated and Actual  
Temporarily not Available Pursuant to Public Law  
Permanently Not Available  
Total Budgetary Resources <sup>(Note 25)</sup>

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred:  
  Direct  
  Exempt from Apportionment  
  Reimbursable  
  Total Obligations Incurred <sup>(Notes 23 and 25)</sup>  
Unobligated Balance:  
  Apportioned  
  Exempt from Apportionment  
Unobligated Balance Not Available <sup>(Notes 3 and 25)</sup>  
Total Status of Budgetary Resources

**CHANGE IN OBLIGATED BALANCE:**

Obligated Balance, Net:  
  Unpaid Obligations, Brought Forward, October 1 <sup>(Note 25)</sup>  
  Less: Uncollected Customer Payments from  
    Federal Sources, Brought Forward, October 1  
  Total Unpaid Obligated Balance, Net, October 1  
Obligations Incurred <sup>(Note 25)</sup>  
Less: Gross Outlays  
  
Less: Recoveries of Prior Year Unpaid Obligations, Actual  
Change in Uncollected Customer Payments from Federal Sources  
  
Obligated Balance, Net, End of Period:  
  Unpaid Obligations <sup>(Notes 3 and 25)</sup>  
  Less: Uncollected Customer Payments from Federal Sources <sup>(Note 3)</sup>  
  Total, Unpaid Obligated Balance, Net, End of Period

**NET OUTLAYS:**

Gross Outlays  
Less: Offsetting collections  
Less: Distributed Offsetting Receipts <sup>(Notes 23 and 25)</sup>  
Net Outlays <sup>(Note 25)</sup>

	FY 2007	FY 2006 (Unaudited)
Unobligated balance, Brought Forward, October 1 <sup>(Note 25)</sup>	\$ 4,159	\$ 4,244
Recoveries of Prior Year Unpaid Obligations	52	47
Budget Authority:		
Appropriations <sup>(Note 25)</sup>	\$ 24,616	\$ 25,374
Borrowing Authority	315	270
Contract Authority	692	871
Spending Authority from Offsetting Collections:		
Earned:		
Collected	7,755	7,727
Change in Receivables from Federal Sources	(22)	16
Change in Unfilled Customer Orders:		
Advances Received	9	30
Without Advance from Federal Sources	124	(603)
Subtotal	\$ 33,489	\$ 33,685
Nonexpenditure Transfers, Net, Anticipated and Actual	117	(52)
Temporarily not Available Pursuant to Public Law	(257)	(266)
Permanently Not Available	(1,428)	(1,838)
Total Budgetary Resources <sup>(Note 25)</sup>	<u>\$ 36,132</u>	<u>\$ 35,820</u>
Obligations Incurred:		
Direct	\$ 24,770	\$ 24,701
Exempt from Apportionment	2,897	3,047
Reimbursable	4,385	3,908
Total Obligations Incurred <sup>(Notes 23 and 25)</sup>	<u>\$ 32,052</u>	<u>\$ 31,656</u>
Unobligated Balance:		
Apportioned	2,495	2,552
Exempt from Apportionment	50	32
Unobligated Balance Not Available <sup>(Notes 3 and 25)</sup>	1,535	1,580
Total Status of Budgetary Resources	<u>\$ 36,132</u>	<u>\$ 35,820</u>
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1 <sup>(Note 25)</sup>	\$ 18,196	\$ 17,229
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(4,100)	(4,687)
Total Unpaid Obligated Balance, Net, October 1	<u>\$ 14,096</u>	<u>\$ 12,542</u>
Obligations Incurred <sup>(Note 25)</sup>	32,052	31,656
Less: Gross Outlays	(30,748)	(30,642)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(52)	(47)
Change in Uncollected Customer Payments from Federal Sources	(102)	587
	<u>\$ 15,246</u>	<u>\$ 14,096</u>
Obligated Balance, Net, End of Period:		
Unpaid Obligations <sup>(Notes 3 and 25)</sup>	\$ 19,447	\$ 18,196
Less: Uncollected Customer Payments from Federal Sources <sup>(Note 3)</sup>	(4,201)	(4,100)
Total, Unpaid Obligated Balance, Net, End of Period	<u>\$ 15,246</u>	<u>\$ 14,096</u>
NET OUTLAYS:		
Gross Outlays	\$ 30,748	\$ 30,642
Less: Offsetting collections	(7,764)	(7,757)
Less: Distributed Offsetting Receipts <sup>(Notes 23 and 25)</sup>	(2,926)	(3,264)
Net Outlays <sup>(Note 25)</sup>	<u>\$ 20,058</u>	<u>\$ 19,621</u>

The accompanying notes are an integral part of these statements

**U. S. Department of Energy  
 Consolidated Statements of Custodial Activities**

For Years Ended September 30, 2007 and 2006

(\$ in millions)

**SOURCES OF COLLECTIONS:**

Cash Collections: <sup>(Note 26)</sup>

Interest  
     Federal Energy Regulatory Commission  
     Power Marketing Administration Custodial Revenue  
 Total Cash Collections  
 Accrual Adjustment  
 Total Custodial Revenue

**DISPOSITION OF REVENUE:**

Transferred to Others:

    Department of the Treasury  
     Army Corps of Engineers  
     Bureau of Reclamation  
     Others  
 Decrease/(Increase) in Amounts to be Transferred  
 Net Custodial Activity

	FY 2007	FY 2006 (Unaudited)
	\$ 13	\$ 17
	82	44
	532	545
	\$ 627	\$ 606
	(5)	13
	\$ 622	\$ 619
	(290)	(200)
	(31)	3
	(305)	(333)
	(7)	(5)
	11	(84)
	\$ -	\$ -

*The accompanying notes are an integral part of these statements*



## — Notes to the Consolidated and Combined Financial Statements —

### 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Energy (the Department). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to Federal entities.

#### B. Description of Reporting Entity

The Department is a cabinet level agency of the Executive Branch of the U.S. Government. The Department is not subject to Federal, state, or local income taxes. The Department's headquarters organizations are located in Washington, D. C. and Germantown, Maryland, and consist of an executive management structure that includes the Secretary; the Deputy Secretary; the Under Secretary of Energy; the Under Secretary for Nuclear Security/Administrator for The National Nuclear Security Administration; the Under Secretary for Science; Secretarial staff organizations; and program organizations that provide technical direction and support for the Department's principal programmatic missions. The Department also includes the Federal Energy Regulatory Commission (FERC), which is an independent organization responsible for regulating the transmission and sale of natural gas for resale in interstate commerce and for the transmission and wholesale of electricity in interstate commerce and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, power marketing administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. The contractors operate, maintain, or support the Department's Government-owned facilities on a day-to-day basis and provide other special work under the direction of DOE field organizations. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting system are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for funding certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these contractors. As a

result, the Department's financial statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (e.g., employee advances and prepaid pension costs) and liabilities (e.g., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.

#### C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All material intra-departmental balances and transactions have been eliminated in the Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Consolidated Statements of Custodial Activities. The Combined Statements of Budgetary Resources are prepared on a combined basis and do not include intra-departmental eliminations.

Throughout these financial statements, assets, liabilities, earned revenue, and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other Federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other Federal entities, and intragovernmental costs are payments or accruals to other Federal entities.

#### D. Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department's records are reconciled with those of Treasury (see Note 3).

#### E. Investments, Net

All investments are reported at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

#### F. Accounts Receivable, Net

The amounts due for non-intragovernmental (non-Federal) receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see Note 5).

### G. Inventory, Net

Stockpile materials are recorded at historical cost in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property, except for certain nuclear materials identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value (see Note 7).

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

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is \$50,000 except for the power marketing administrations (PMAs) and FERC, which use thresholds ranging from \$5,000 to \$25,000. The capitalization threshold for internal use software is \$750,000, except for the PMAs and FERC, which use thresholds ranging from \$5,000 to \$150,000 (see Note 8).

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy or use, the cost is transferred to the appropriate property account. Property, plant, and equipment related to environmental management facilities storing and processing the Department's environmental legacy wastes are not capitalized.

Depreciation expense is generally computed using the straight-line method. The units of production method is used only in special cases where applicable, such as depreciating automotive equipment on a mileage basis and construction equipment on an hourly use basis. The ranges of service lives are generally as follows:

- Structures and Facilities 25 – 50 years
- Automated Data Processing Software 3 – 7 years
- Equipment 5 – 40 years
- Land and land rights – duration of period or 50 years, whichever is less.

### I. Liabilities

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see Note 10), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

### J. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits

or purposes, and must be accounted for separately from the Government's general revenues (see Note 18).

### K. Accrued Annual, Sick, and Other Leave

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

### L. Retirement Plans

#### *Federal Employees*

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System. The Department does report, as an imputed financing source (see Note 23) and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the Office of Personnel Management. The PMAs make additional annual contributions to the U. S. Treasury to ensure that all postretirement benefit programs provided to their employees are fully funded and such costs are both recovered through rates and properly expensed.

#### *Contractor Employees*

Most of the Department's major contractors maintain a defined benefit pension plan under which they promise to pay employees specific benefits, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of employer contributions to the pension plans. Amounts are calculated for employers to contribute to their pension plan to ensure the plan assets are sufficient or provide for accrued benefits of contractor employees. The level of contributions is dependent on plan provisions and actuarial assumptions about the future, such as interest rates, employee turnover and mortality, age of retirement, and compensation

increases. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly post-retirement health care benefits which are generally funded on a pay-as-you-go basis. Since the Department is ultimately responsible for the allowable costs of funding the pension and PRB plans, it reports assets and liabilities for these plans (see Note 15).

### M. Net Cost of Operations

Program costs are summarized in the Consolidated Statements of Net Cost by the strategic themes and goals identified in the Department's September 30, 2006, Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these strategic themes and goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 19 and 20). The strategic themes and goals are summarized below.

#### *Energy Security*

- Energy Diversity – Increase our energy options and reduce dependence on oil, thereby reducing vulnerability to disruptions and increasing the flexibility of the market to meet U.S. needs.
- Environmental Impacts of Energy – Improve the quality of the environment by reducing greenhouse gas emissions and environmental impacts to land, water, and air from energy production and use.
- Energy Infrastructure – Foster a more flexible, more reliable, and higher capacity U.S. energy infrastructure.
- Energy Productivity – Cost-effectively improve the energy efficiency of the U.S. economy.

#### *Nuclear Security*

- Nuclear Deterrent – Transform the Nation's nuclear weapons stockpile and supporting infrastructure to be more responsive to the threats of the 21st Century.
- Weapons of Mass Destruction – Prevent the acquisition of nuclear and radiological materials for use in weapons of mass destruction and in other acts of terrorism.
- Nuclear Propulsion Plants – Provide safe, militarily effective nuclear propulsion plants to the U.S. Navy.

#### *Scientific Discovery and Innovation*

- Scientific Breakthroughs – Achieve the major scientific discoveries that will drive U.S. competitiveness and inspire and revolutionize our approaches to the Nation's energy, national security, and environmental quality challenges.
- Foundations of Science – Deliver the scientific facilities, train the next generation of scientists and engineers, and provide the

laboratory capabilities and infrastructure required for U.S. scientific primacy.

- Research Integration – Integrate basic and applied research to accelerate innovation and to create transformational solutions for energy and other U.S. needs.

#### *Environmental Responsibility*

- Environmental Cleanup – Complete cleanup of the contaminated nuclear weapons manufacturing and testing sites across the United States.
- Managing the Legacy – Manage the Department's post-closure environmental responsibilities and ensure the future protection of human health and the environment.

### N. Revenues and Other Financing Sources

The Department receives the majority of the funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. In addition to appropriations, financing sources include exchange and non-exchange revenues, imputed financing sources, and custodial revenues.

#### *Exchange and Non-Exchange Revenues*

In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value (see Note 19). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. Non-exchange revenues also include interest earned on investments funded from amounts remaining from the privatization of the United States Enrichment Corporation (see Note 4). These revenues are not considered to reduce the cost of the Department's operations and are reported on the Consolidated Statements of Changes in Net Position.

#### *Imputed Financing Sources*

In certain instances program costs of the Department are paid out of the funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the Consolidated Statements of Net Cost. In addition, these amounts are recognized as imputed financing sources on the Consolidated Statements of Changes in Net Position (see Note 23).

*Custodial Revenues*

The Department collects certain revenues on behalf of others which are designated as custodial revenues. The Department incurs virtually no costs to generate these revenues, nor can it use these revenues to finance its operations. The revenues are returned to Treasury and others and are reported on the Consolidated Statements of Custodial Activities (see Note 26).

**O. Use of Estimates**

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from these estimates.

**P. Comparative Data**

Certain FY 2006 amounts have been reclassified to conform to the FY 2007 presentation.

**2. Non-Entity Assets (in millions)**

	FY 2007	FY 2006
Intragovernmental		
Naval Petroleum Reserve Deposit Fund <sup>(Note 13)</sup>	\$ 323	\$ 323
Investments - Petroleum Pricing Violation Escrow Fund <sup>(Notes 4 and 13)</sup>	47	72
Subtotal	\$ 370	\$ 395
Investments - Petroleum Pricing Violation Escrow Fund <sup>(Notes 4 and 13)</sup>	202	210
Inventories - Department of Defense stockpile oil <sup>(Notes 7 and 13)</sup>	123	123
Other	-	18
Total non-entity assets	\$ 695	\$ 746
Total entity assets	129,984	125,306
<b>Total assets</b>	<b>\$ 130,679</b>	<b>\$ 126,052</b>

Assets in the possession of the Department that are not available for its use are considered non-entity assets.

*Naval Petroleum Reserve Deposit Fund*

The balance in this fund represents proceeds from the sale of the Naval Petroleum Reserve at Elk Hills that are being held until final disposition in accordance with the Decoupling Agreement. Approximately \$288 million is being held for a contingency payment to Chevron, Inc., pending the outcome of equity finalization. The remaining \$35 million is reserved for anticipated adjustments to Occidental's final payment and for possible reimbursement to the investment banker for an advance on its commission.

*Petroleum Pricing Violation Escrow Fund*

The Petroleum Pricing Violation Escrow Fund represents custodial receipts collected as a result of agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance. The investments are liquidated, as needed, to make payments from this fund.

3. Fund Balance with Treasury (in millions)

	FY 2007				
	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	\$ 2,158	\$ 168	\$ 219	\$ -	\$ 2,545
Unavailable (Note 25)	15	1,476	44	-	1,535
Obligated balance not yet disbursed					
Unpaid obligations (Note 25)	16,302	2,460	685	-	19,447
Uncollected customer payments from Federal sources	(3,851)	(322)	(28)	-	(4,201)
Deposit fund and other liabilities	-	(3)	-	360	357
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(694)	-	-	(437)
Unavailable receipt accounts	-	-	882	-	882
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(108)	-	(108)
Uranium Enrichment D&D Fund	-	-	(188)	-	(188)
U.S. Enrichment Corporation revolving fund	-	(1,473)	-	-	(1,473)
<b>Total FY 2007 fund balance with Treasury</b>	<b>\$ 14,881</b>	<b>\$ 1,612</b>	<b>\$ 1,506</b>	<b>\$ 360</b>	<b>\$ 18,359</b>

	FY 2006				
	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	\$ 2,367	\$ 95	\$ 122	\$ -	\$ 2,584
Unavailable (Note 25)	39	1,441	100	-	1,580
Obligated balance not yet disbursed					
Unpaid obligations (Note 25)	15,115	2,452	628	1	18,196
Uncollected customer payments from Federal sources	(3,697)	(386)	(17)	-	(4,100)
Deposit fund liabilities	-	-	-	377	377
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(871)	-	-	(614)
Unavailable receipt accounts	-	-	881	-	881
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(183)	-	(183)
Uranium Enrichment D&D Fund	-	-	(110)	-	(110)
Pajarito Plateau Homesteaders Compensation Fund	-	-	(8)	-	(8)
U.S. Enrichment Corporation revolving fund	-	(1,414)	-	-	(1,414)
<b>Total FY 2006 fund balance with Treasury</b>	<b>\$ 14,081</b>	<b>\$ 1,317</b>	<b>\$ 1,413</b>	<b>\$ 378</b>	<b>\$ 17,189</b>

4. Investments, Net (in millions)

Face	FY 2007				
	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains (Losses)	Market Value	
Intragovernmental Non-Marketable					
Nuclear Waste Fund	\$ 39,434	\$ (19,971)	\$ 19,463	\$ 1,179	\$ 20,642
D&D Fund	4,623	50	4,673	20	4,693
U.S. Enrichment Corporation	1,502	(4)	1,498	-	1,498
Petroleum Pricing Violation Escrow Fund	47	-	47	-	47
Subtotal	\$ 45,606	\$ (19,925)	\$ 25,681	\$ 1,199	\$ 26,880
Petroleum Pricing Violation Escrow Fund	202	-	202	-	202
<b>Total FY 2007 investments</b>	<b>\$ 45,808</b>	<b>\$ (19,925)</b>	<b>\$ 25,883</b>	<b>\$ 1,199</b>	<b>\$ 27,082</b>

Face	FY 2006				
	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains (Losses)	Market Value	
Intragovernmental Non-Marketable					
Nuclear Waste Fund	\$ 36,481	\$ (18,529)	\$ 17,952	\$ 1,393	\$ 19,345
D&D Fund	4,228	82	4,310	(68)	4,242
U.S. Enrichment Corporation	1,426	(1)	1,425	-	1,425
Petroleum Pricing Violation Escrow Fund	72	-	72	-	72
Pajarito Plateau Homesteaders Compensation Fund	8	-	8	-	8
Subtotal	\$ 42,215	\$ (18,448)	\$ 23,767	\$ 1,325	\$ 25,092
Petroleum Pricing Violation Escrow Fund	210	-	210	-	210
<b>Total FY 2006 investments</b>	<b>\$ 42,425</b>	<b>\$ (18,448)</b>	<b>\$ 23,977</b>	<b>\$ 1,325</b>	<b>\$ 25,302</b>

Pursuant to statutory authorizations, the Department invests monies in Treasury securities and commercial certificates of deposit that are secured by the Federal Deposit Insurance Corporation. The Department's investments primarily involve the Nuclear Waste Fund (NWF) and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds. Funds in excess of those needed to pay current program costs are invested in Treasury securities.

Upon privatization of the United States Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. These funds are invested in Treasury securities.

The Federal Government does not set aside assets to pay for expenditures associated with the funds for which the Department holds Treasury securities. These Treasury securities are an asset to the Department and a liability to Treasury. Because the Department 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 U.S. Government-wide financial statements.

Treasury securities provide the Department with authority to draw upon the U.S. Treasury to make expenditures, subject to available appropriations and OMB apportionments. When the Department requires redemption of these securities, 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.

## 5. Accounts Receivable, Net (in millions)

	FY 2007			FY 2006		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	\$ 575	\$ -	\$ 575	\$ 615	\$ -	\$ 615
Nuclear Waste Fund	3,308	-	3,308	3,153	-	3,153
Uranium Enrichment D&D Fund	-	-	-	181	-	181
Power marketing administrations	519	(41)	478	559	(42)	517
Petroleum Pricing Violation Escrow Fund	2	-	2	2	-	2
Credit programs	49	-	49	51	(26)	25
Other	145	(43)	102	181	(39)	142
Subtotal	\$ 4,023	\$ (84)	\$ 3,939	\$ 4,127	\$ (107)	\$ 4,020
<b>Total accounts receivable</b>	<b>\$ 4,598</b>	<b>\$ (84)</b>	<b>\$ 4,514</b>	<b>\$ 4,742</b>	<b>\$ (107)</b>	<b>\$ 4,635</b>

Intragovernmental accounts receivable primarily represent amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority, as well as interest earned on investments held in Treasury securities.

Non-intragovernmental receivables primarily represent amounts due for NWF fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. Other receivables due from the public include reimbursable work billings and other amounts related to trade receivables, and other miscellaneous receivables.

## 6. Regulatory Assets (in millions)

	FY 2007	FY 2006
Intragovernmental		
Refinanced and additional appropriated capital	\$ 5,456	\$ 5,476
Non-operating regulatory assets	3,887	3,928
Investor owned utilities exchange benefits	885	1,207
Conservation and fish and wildlife projects	377	401
Other regulatory assets	487	425
Subtotal	\$ 5,636	\$ 5,961
<b>Total regulatory assets</b>	<b>\$ 11,092</b>	<b>\$ 11,437</b>

The Department's power marketing administrations (PMAs) record certain amounts as assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

In order to defer incurred costs under SFAS No. 71, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers. If BPA's rates should become market-based, SFAS No. 71 would no longer be applicable, and all of the deferred costs under that standard would be expensed.

### *Refinanced and Additional Appropriated Capital*

The BPA Refinancing Section of the Omnibus Consolidated Recissions and Appropriations Act of 1996 (Refinancing Act), 16 U.S.C. 838(l), required that the outstanding balance of the Federal Columbia River Power System (FCRPS) be reset and assigned market rates of interest prevailing as of September 30, 1996. This resulted in a determination that the principal amount of appropriations should equal the present value of the principal and interest that would have been paid to the U.S. Treasury in the absence of the Refinancing Act, plus \$100 million. These appropriations include the unpaid balance of capital appropriations of the power generating assets of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation associated with the FCRPS as well as additional capital investment post- Refinancing Act. The Corps and the Bureau of Reclamation continue to own and operate these assets, with BPA having the responsibility to recover the

costs of the assets from power ratepayers. BPA established an intra-governmental regulatory asset representing the repayment amount of the transmission and power generating assets that will be recovered in BPA rates. This regulatory asset is being amortized on a straight-line method over the service lives of the assets. BPA recognized annual amortization costs of \$91 million as of September 30, 2007, and \$120 million as of September 30, 2006 (unaudited). The Consolidated Balance Sheets include a regulatory asset and an offsetting related debt (see Note 11).

*Non-Operating Regulatory Assets*

BPA has acquired all or part of the potential generating capability of three terminated nuclear facilities and one hydro project that are not providing power. The contracts to acquire the generating capability of these projects require BPA to pay all or part of the annual projects' budgets, including maintenance expense and debt service. These projects' costs are recovered through BPA's rates. The Consolidated Balance Sheets include a regulatory asset and offsetting related debt (see Note 11).

*Investor Owned Utilities (IOU) Exchange Benefits*

The IOU Exchange Benefits reflect costs that will be recovered through rates. As provided for in the Northwest Power Act, beginning in 1982 BPA entered into residential exchange contracts with most of its electric utility customers. These contracts resulted in payments to the utilities if a utility's average system cost exceeded BPA's priority firm rate on the "exchanged" power. These payments were required to be passed through to the utilities' qualified residential and small-farm customers.

BPA entered into certain agreements, as amended, with the Northwest IOUs to settle BPA's statutory obligation to provide benefits under the Residential Exchange Program for specified periods that began October 1, 2001. Although the amended agreements settled disputes with the IOUs concerning the levels of exchange benefits, in May 2007 based on lawsuits presented to the Ninth Circuit Court

of Appeals, the Court ruled these agreements were inconsistent with the requirements established in the Northwest Power Act. In addition, in a related lawsuit the Court ruled that BPA did not allocate the cost of the amended agreements appropriately and remanded rates to BPA. As a result of the Court ruling, in May 2007 BPA suspended IOU payments under these agreements of approximately \$28 million per month.

The Residential Exchange Program continues to be a requirement of the Northwest Power Act. Efforts are underway to develop a within-region solution to issues and to restore appropriate benefits under the Program. BPA expects any proposed solution to require initiation of a formal rate setting process sometime in fiscal year 2008. Until the uncertainty about the level of the future BPA obligations under the Residential Exchange Program is reduced, the financial statements will continue to reflect the obligations at levels associated with the settlement agreements.

*Conservation and Fish and Wildlife Projects*

Conservation measures consist of the costs of capitalized conservation measures and are amortized over periods from 5 to 20 years. Fish and wildlife measures consist of the costs of capitalized fish and wildlife projects and are amortized over a period of 15 years.

*Other Regulatory Assets*

Other regulatory assets consist of BPA deferred expenses where the costs are included in rates charged to customers. These assets primarily include direct service industry benefits that will be recovered in rates; decommissioning and site restoration costs reflecting amounts to be recovered in future rates for funding the Trojan asset retirement obligation liability; settlements reflecting agreements or proposed settlements stemming from litigation; conservation related to programs sponsored by BPA; spacer dampers on transmission lines; and capital bond premiums, which represent the deferred losses related to refinanced debt and are amortized over the life of the new debt instruments.

**7. Inventory, Net**

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve (SPR) and the Northeast Home Heating Oil Reserve, nuclear materials, highly enriched uranium, and other inventory consisting primarily of operating materials and supplies.

*Strategic Petroleum Reserve*

The SPR consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2007, and September 30, 2006, the Reserve contained crude oil with a historical cost of \$19,340

million and \$19,095 million, respectively. The Reserve provides a deterrent to the use of oil as a political instrument and provides a response mechanism should a disruption occur. Included in the SPR is six million barrels of crude oil held for future Department of Defense (DoD) use. The FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DoD. The crude oil purchased with DoD funding is commingled with the Department's stock and is valued at its historical cost of \$123 million at September 30, 2007, and September 30, 2006 (see Notes 2 and 13).



*Northeast Home Heating Oil Reserve*

The Northeast Home Heating Oil Reserve was established in FY 2000 pursuant to the Energy Policy and Conservation Act. The Reserve contains petroleum distillate in the New England, New York, and New Jersey geographic areas valued at historical costs of \$75 million as of September 30, 2007, and \$77 million as of September 30, 2006.

*Nuclear Materials*

Nuclear materials include weapons and related components, including those in the custody of the DoD under Presidential Directive, and materials used for research and development purposes. Certain surplus plutonium carried at zero value (a provision for disposal is included in environmental liabilities) has significant arms control and nonproliferation value and is instrumental to the U.S. in ensuring that Russia continues toward the disposition of its weapons-grade plutonium.

The Department has inventories amounting to a total of 17,596 metric tons of uranium (MTU) as hexafluoride as of the end of FY 2007. This total can be divided into three separate stockpiles. First, the Department in 1996 received from USEC a transfer of 5,521 MTU associated with the natural uranium component of low enriched uranium (LEU) delivered under the U.S. and Russia Highly Enriched Uranium (HEU) Purchase Agreement in 1995 and 1996. About 1,079 MTU remains in the Department's inventories as a result of: (1) 2,228 MTU transferred consistent with section 3112 of the USEC Privatization Act between 1996 and 2001; (2) 1,105 MTU transferred to USEC for sale in FY 2005 and FY 2006; (3) 906 MTU sold by the Department in FY 2006 (see Notes 4 and 19); and (4) 200 MTU sold in FY 2007 using the proceeds for the technetium cleanup program. In addition to the 1,079 MTU, the Department received 361 MTU of Russian origin from the Tennessee Valley Authority (TVA) in return for the Department providing a similar quantity of U.S. origin uranium under a prior agreement with TVA.

The second stockpile of uranium, amounting to 11,000 MTU, was purchased from Russia for \$325 million consistent with Public Law 105-277. This material is the natural uranium component of LEU delivered under the U.S. and Russia HEU Agreement in 1997 and 1998. Final disposition of the material cannot occur until after March 2009 based upon an international agreement between the U.S. and Russia that requires the Department to maintain a 22,000 MTU stockpile and restricts the entry of the uranium into the commercial market until after March 2009.

The third stockpile of uranium consists of U.S. origin uranium of 5,156 MTU, the majority of which is also restricted from sale into the commercial market until after March 2009. Sampling and analysis indicate that a portion of the Department's stockpile of uranium hexafluoride contains technetium exceeding nuclear fuel specifications. This uranium is currently being processed to meet commercial specifications. About 3 MTU remain unrecoverable as cylinder heels from the technetium cleanup program and is included in the 5,156 MTU. Based on current market data, the carrying value of this material is not impaired as of September 30, 2007. Approximately 361 MTU of U.S. origin uranium was provided to TVA in return for a similar quantity of Russian origin uranium provided by TVA to the Department.

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions for most of these items will be made through analysis of the economic benefits and costs, and the environmental impacts of the various use and disposition alternatives. The carrying value of these items is not significant to the nuclear materials stockpile inventory balance. The Department will recognize disposition liabilities and record the material at net realizable value when disposal as waste is identified as the most likely alternative and disposition costs can be reasonably estimated. Inventory values are reduced by costs associated with decay or damage.

*Highly Enriched Uranium*

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 metric tons (MT) of the Department's HEU were excess to national security needs. Most of this material (about 156 MT) will be blended for sale as LEU and used over time as commercial or research nuclear reactor fuel to recover its value. The remaining portion (about 18 MT) of the material is already in the form of irradiated fuel or other waste forms and will be disposed of directly as waste. In November 2005, the Secretary of Energy declared that an additional 200 MT of HEU will never again be used as fissile material in nuclear weapons. Out of the 200 MT, approximately 20 MT will be down blended to LEU for use in commercial or research reactors, 20 MT will be used for research and 160 MT will be provided to Naval Reactors for programmatic use. Approximately 20% of the Naval Reactors material is expected to be rejected by Naval Reactors and re-designated for down-blending and sale as LEU fuel. Down-blending of this material will occur over the next 25 to 50 years.

**8. General Property, Plant, and Equipment, Net (in millions)**

	FY 2007			FY 2006		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	\$ 1,612	\$ (767)	\$ 845	\$ 1,564	\$ (753)	\$ 811
Structures and facilities	35,545	(23,050)	12,495	33,665	(22,312)	11,353
Internal use software	457	(237)	220	471	(203)	268
Equipment	16,151	(10,682)	5,469	15,796	(10,563)	5,233
Natural resources	65	(16)	49	65	(16)	49
Construction work in process	5,788	-	5,788	6,408	-	6,408
<b>Total property, plant, and equipment</b>	<b>\$ 59,618</b>	<b>\$ (34,752)</b>	<b>\$ 24,866</b>	<b>\$ 57,969</b>	<b>\$ (33,847)</b>	<b>\$ 24,122</b>

**9. Other Non-Intragovernmental Assets (in millions)**

	FY 2007	FY 2006
Purchased generating capability	2,465	2,435
Prepaid pension plan costs <sup>(Note 15)</sup>	1,918	868
Oil due from others	119	83
Prepayments and advances	95	63
Other	\$ 435	\$ 415
<b>Total other non-intragovernmental assets</b>	<b>\$ 5,032</b>	<b>\$ 3,864</b>

*Purchased Generating Capability*

Through contracts, BPA has acquired all of the generating capability of one nuclear power plant and one hydroelectric project. The contracts require BPA to pay operating expenses and debt service for these facilities. The Consolidated Balance Sheets include an offsetting, related debt for these amounts.

*Oil Due from Others*

The Department has a Royalty-In-Kind exchange arrangement with the Department of the Interior's Mineral Management Service (MMS) to receive crude oil from Gulf of Mexico Federal off-

shore leases. The oil from the MMS offshore leases was exchanged for other crude oil (exchange oil) to be delivered to the SPR. As a result of companies deferring the delivery of some of the exchange oil, the Department earns additional oil as a premium. The value of the exchange and premium barrels due was \$119 million as of September 30, 2007.

Due to Hurricane Katrina, the SPR contracted with six oil companies to loan SPR oil in exchange for the return of contracted plus premium barrels related to the exchange. In June 2006, the SPR delivered 750,000 barrels of oil from the reserve in exchange for 772,400 barrels to be returned back to the reserve by October 2006. As of September 30, 2007 all of the oil has been returned.

## 10. Liabilities Not Covered By Budgetary Resources (in millions)

	FY 2007	FY 2006
Intragovernmental		
Debt <sup>(Note 11)</sup>	\$ 11,481	\$ 10,780
Other	17	17
Total intragovernmental	\$ 11,498	\$ 10,797
Debt <sup>(Note 11)</sup>	6,427	6,436
Nuclear Waste Fund deferred revenues <sup>(Note 12)</sup>	22,778	21,116
Environmental liabilities <sup>(Note 14)</sup>	260,901	228,301
Pension and other actuarial liabilities <sup>(Note 15)</sup>	12,433	12,059
Other liabilities		
Environment, safety and health compliance activities <sup>(Note 13)</sup>	1,190	861
Accrued annual leave for Federal employees	123	121
Other	321	187
Contingencies and commitments <sup>(Note 17)</sup>	11,071	6,836
Total liabilities not covered by budgetary resources	\$ 326,742	\$ 286,714
Total liabilities covered by budgetary resources	11,070	10,433
<b>Total liabilities</b>	<b>\$ 337,812</b>	<b>\$ 297,147</b>

## 11. Debt (in millions)

	FY 2007			FY 2006		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental <sup>(Note 10)</sup>						
Borrowing from Treasury	\$ 2,482	\$ (241)	\$ 2,241	\$ 2,777	\$ (295)	\$ 2,482
Appropriated capital	3,202	226	3,428	2,972	230	3,202
Refinanced and additional appropriations	3,170	781	3,951	2,219	951	3,170
Capitalization adjustment	1,926	(65)	1,861	1,990	(64)	1,926
Subtotal	\$ 10,780	\$ 701	\$ 11,481	\$ 9,958	\$ 822	\$ 10,780
Non-Federal projects <sup>(Note 10)</sup>	6,436	(9)	6,427	6,405	31	6,436
<b>Total debt</b>	<b>\$ 17,216</b>	<b>\$ 692</b>	<b>\$ 17,908</b>	<b>\$ 16,363</b>	<b>\$ 853</b>	<b>\$ 17,216</b>

### Borrowing from Treasury

To finance its capital programs, BPA is authorized by Congress to issue to Treasury up to \$4,450 million of interestbearing debt with terms and conditions comparable to debt issued by U.S. Government corporations. A portion (\$1,250 million) is reserved for conservation and renewable resource loans and grants. As of September 30, 2007, and September 30, 2006, of the total \$2,241 million and \$2,482 million of outstanding debt respectively, \$755 million and \$765 million, respectively, were conservation and renewable resource loans and grants (including Corps, Bureau of Reclamation and U.S. Fish and Wildlife capital investments). The weighted average interest rates for Treasury borrowing as of September 30, 2007, and September 30, 2006, were 5.44 percent and 5.08 percent, respectively. The fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 2007, and September 30, 2006, for similar maturities, exceeds carrying value by approximately \$153 million and \$132 million respectively.

### Appropriated Capital

Appropriated capital owed represents the balance of appropriations provided to the Department's power marketing administrations for construction, operation, and maintenance of power facilities which will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation Fund. The amount owed also includes accumulated interest on the net unpaid Federal investment in the power projects. The Federal investment in these facilities is to be repaid within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of Federal investments are generally expected to be repaid over their useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the power marketing administrations, except for BPA, receives an annual appropriation to fund construction, operation, and maintenance expenses. These appropriated funds are repaid to Treasury's General Fund and Interior from the revenues generated from the sale of power and transmission services. To the extent that funds are not available for payment, such unpaid annual net deficits become payable

from the subsequent years' revenues prior to any repayment of Federal investment. The Department treats these appropriations as a debt owed to Treasury's General Fund and Interior, and as such, the Consolidated Statements of Changes in Net Position do not reflect these funds as appropriated capital used.

Except for the appropriation refinancing asset described in Note 6 and in the next paragraph, the Department's financial statements do not reflect the Federal investment in power generating facilities owned by the Department of Defense, U.S. Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's power marketing administrations, except BPA, are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 26). BPA makes annual payments to Treasury from its net proceeds.

#### *Refinanced and Additional Appropriations*

As discussed in Note 6, BPA refinanced its unpaid capital appropriations as of September 30, 1996, and is responsible for the repayment of additional appropriated capital investment post-Refinancing Act. The weighted average interest rate on outstanding appropriations was 6.6 and 6.7 percent as of September 30, 2007, and September 30, 2006. The remaining periods of repayment on the FY 2007 balances for refinanced appropriations and on additional appropriations are 39 and 50 years, respectively. Repayment amounts were determined based on the date the respective facilities were placed in service using the weighted average service lives of the associated investments, not to exceed 50 years. BPA repays amounts owed to Treasury's General Fund and Interior's Reclamation Fund. The Department recorded an \$828 million increase to correct the refinanced and additional appropriations

liability in FY 2007 for cumulative transfers of direct funding provided to the Corps of Engineers from FY 1995 through FY 2003.

#### *Capitalization Adjustment*

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1996 was \$6.6 billion. After refinancing, the appropriations outstanding were \$4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over 40 years of which 29 years remain. The weighted average interest rate was 6.7 percent as of September 30, 2007, and September 30, 2006.

#### *Non-Federal Projects*

As discussed in Notes 6 and 9, the non-Federal projects debt primarily represents BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of one operating and three nonoperating nuclear power plants as well as one operating and one terminated hydroelectric project. The majority of BPA's non-Federal projects debt is with Energy Northwest for which the fair value exceeds recorded value by \$303 million and \$349 million, as of September 30, 2007, and September 30, 2006, respectively. The valuations are based on discounted future cash flows using interest rates for similar debt which could have been issued at September 30, 2007, and September 30, 2006, respectively. The weighted average interest rate was 5.3 percent on the major portion of outstanding non-Federal projects debt as of September 30, 2007.

The following table summarizes future principal payments required for the debt described above.

(in millions)

Fiscal Year	Borrowing from Treasury	Appropriated Capital	Refinanced Appropriations	Capitalization Adjustment	Non-Federal Projects
2008	\$ 480	\$ 20	\$ 11	\$ 65	\$ 294
2009	440	21	10	65	282
2010	365	13	4	65	288
2011	135	38	21	65	285
2012	40	26	25	65	443
2013+	781	3,310	3,880	1,536	4,835
<b>Total</b>	<b>\$ 2,241</b>	<b>\$ 3,428</b>	<b>\$ 3,951</b>	<b>\$ 1,861</b>	<b>\$ 6,427</b>

## 12. Deferred Revenues and Other Credits (in millions)

	FY 2007	FY 2006
Intragovernmental	\$ 36	\$ 52
Nuclear Waste Fund <sup>(Note 10)</sup>	\$ 22,778	\$ 21,116
Power marketing administrations	2,097	2,109
Reimbursable work advances	245	240
Other	25	42
Subtotal	\$ 25,145	\$ 23,507
<b>Total deferred revenues and other credits</b>	<b>\$ 25,181</b>	<b>\$ 23,559</b>

### *Nuclear Waste Fund*

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities. Adjustments are made to defer revenues that exceed the NWF expenses.

### *Power Marketing Administrations*

The power marketing administrations' deferred revenues and other credits primarily represent a liability for IOU Residential Exchange Benefits (discussed below), advances received from BPA's customers where either the customer or BPA will own the resulting asset, and Direct-service industries benefits that reflect a contractual liability to Northwest aluminum companies and one paper mill through fiscal year 2011. Other primary components include regulatory liabilities that reduce future rates, amounts paid to BPA from participants under various alternating current intertie capacity agreements generator funds held as security for network upgrades that will be returned as credits against future transmission service, and fiber optic leasing fees that reflect unearned revenue related to the leasing of the fiber optic cable.

As provided in the Northwest Power Act, beginning in 1982 BPA entered into 20-year Residential Purchase and Sale Agreements (RPSA) with eligible regional utility customers. The RPSAs implemented the Residential Exchange Program. BPA signed Residential Exchange Settlement Agreements with the region's six investor-owned utilities, under which BPA was to provide monetary and power benefits as a settlement of residential exchange disputes for the period July 1, 2001, through September 30, 2011. BPA later signed additional agreements and amendments related to the settlement agreements with the IOU customers. The later agreements and amendments (referred to herein as the Supplemental Agreements) provided for minimum and cap amounts for the IOUs' monetary benefits for fiscal years 2007 through 2011, provided that BPA had no obligation to provide power to the IOUs in such period, and also provided for the elimination or deferral of certain payments during that period.

The IOU Residential Exchange benefits liability is in question because of a recent ruling by the United States Court of Appeals for the Ninth Circuit Court (Ninth Circuit Court). The ruling invalidated the Residential Exchange Settlement Agreements and directed BPA to set power rates consistent with applicable law and the Court's opinion.

Prior to the Court's ruling, BPA had set its power rates for the three fiscal years beginning with FY 2007 on the basis of financial assumptions derived from the terms of the foregoing agreements and amendments. While the ruling raises questions regarding the amount of payments that BPA will make to the IOUs, if any, BPA believes that the amount recorded will ultimately be incurred, whether by payment to the IOUs and/or by some form of return to other ratepayers. In view of the order of remand, BPA's FY 2007 obligations with respect to the Residential Exchange Program will not be determined until BPA completes rate proceedings that will occur during FY 2008.

As of September 30, 2007, BPA had recorded a \$1,068 million liability including \$168 million for the suspended settlement payments for the last half of fiscal year 2007; \$600 million for IOU exchange benefits for fiscal years 2008 through 2009 (recorded at the cap amount of \$300 million per year); \$200 million for IOU exchange benefits for fiscal years 2010 and 2011 (recorded at the annual floor of \$100 million, until the amount can be reasonably estimated, which is expected to occur after BPA proposes power rates for the fiscal year 2010 - 2011 rate period); and \$100 million for certain risk contingency payments and certain deferred payment obligations to IOUs, in each case as BPA agreed under certain of the Supplemental Agreements. The final amount of such aggregate liability could differ substantially from the amount of benefit payments that BPA currently recognizes for fiscal year 2007 and will not be known until the definitive level of benefits is determined through the rate setting process. The amounts to be collected through future rates are included in corresponding non-intragovernmental regulatory assets of \$885 million (see Note 6).

BPA remains obligated to offer Residential Purchase and Sales Agreement contracts to eligible utilities. Given the uncertainties associated with this matter, it is not clear whether any financial settlements of prior payments will occur or whether such settlements will result in a direct liability to BPA. No changes have been made to the recorded liability.

### 13. Other Liabilities (in millions)

	FY 2007	FY 2006
Intragovernmental		
Oil held for Department of Defense <sup>(Notes 2 and 7)</sup>	\$ 123	\$ 123
Other	148	134
Total other intragovernmental liabilities	\$ 271	\$ 257
Environment, safety and health compliance activities <sup>(Notes 10 and 23)</sup>	\$ 1,190	\$ 861
Accrued payroll, benefits and withholding taxes	983	942
Petroleum Pricing Violation Escrow Fund <sup>(Note 2)</sup>	249	282
Naval Petroleum Reserve Deposit Fund <sup>(Note 2)</sup>	323	323
Asset retirement obligations	176	169
Other	351	251
Subtotal	\$ 3,272	\$ 2,828
<b>Total other liabilities</b>	<b>\$ 3,543</b>	<b>\$ 3,085</b>

#### *Environment, Safety and Health Compliance Activities*

The Department's environment, safety, and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate. The September 30, 2007, change in the ES&H liability is due to: (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulations, agreements, and the Department's orders; (2) revised cost estimates for existing ES&H activities; (3) costs of work performed during the year, and (4) addition of contingency to the overall ES&H liability in FY 2007.

#### *Accrued Payroll and Benefits*

Accrued payroll and benefits represent amounts owed to the Department's Federal and contractor employees for accrued payroll, unfunded accrued annual leave for Federal employees, payroll withholdings owed to state and local governments, and Thrift Savings Plan withholdings and employer contributions.

#### *Asset Retirement Obligations*

Bonneville Power Administration (BPA) has recognized asset retirement obligations (AROs) that primarily represent legal obligations related to dismantlement and restoration costs on non-federally owned or operated nuclear facilities. The AROs relate primarily to Columbia Generating Station (CGS) decommissioning and site restoration, terminated Energy Northwest Project Nos. 1 and 4 site restoration, and decommissioning costs for the former Trojan nuclear power plant, which has been dismantled. Included in BPA's non-intragovernmental other assets are trust fund balances for the CGS and Energy Northwest AROs. BPA has also recognized a non-intragovernmental regulatory asset for funding the Trojan ARO liability. BPA recovers all ARO costs through rates charged to customers.

#### *Other Liabilities*

The balance consists primarily of liabilities associated with custodial and non-custodial deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

14. Environmental Cleanup and Disposal Liabilities (in millions)

	FY 2007	FY 2006
Environmental Management Program	\$ 188,665	\$ 159,167
Legacy environmental liabilities - other	29,428	28,095
Total legacy environmental liabilities	\$ 218,093	\$ 187,262
Active and surplus facilities	29,156	27,587
High-level waste and spent nuclear fuel disposition	16,354	15,472
Total environmental cleanup and disposal liabilities	\$ 263,603	\$ 230,321
Amount funded by current appropriations	(2,702)	(2,020)
<b>Total unfunded environmental cleanup and disposal liabilities</b>	<b>\$ 260,901</b>	<b>\$ 228,301</b>
<i>Changes in environmental cleanup and disposal liabilities</i>		
Total environmental cleanup and disposal liabilities, beginning balance	\$ 230,321	\$ 189,710
Changes to environmental cleanup and disposal liability estimates		
Legacy environmental liabilities	37,101	45,249
Active and surplus facilities	1,617	1,662
High-level waste and spent nuclear fuel disposition	1,240	802
Total changes in estimates (Notes 22 and 23)	\$ 39,958	\$ 47,713
Costs applied to reduction of legacy environmental liabilities (Note 21)	(5,573)	(6,207)
Capital expenditures related to remediation activities	(1,103)	(895)
<b>Total environmental cleanup and disposal liabilities</b>	<b>\$ 263,603</b>	<b>\$ 230,321</b>

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than one thousand nuclear tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

**Assumptions and Uncertainties**

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a condition suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving the former conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be

legally required. The baseline estimates reflect applicable local decisions and expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs.

The liabilities as of September 30, 2007, and September 30, 2006, are stated in FY 2007 dollars and FY 2006 dollars, respectively, as required by generally accepted accounting principles for Federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

**Components of the Liability**

*Environmental Management Program Estimates*

EM is responsible for managing the legacy of contamination from the nuclear weapons complex. As such, EM manages thousands of contaminated facilities formerly used in the nuclear weapons program, oversees the safe management of vast quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The FY 2007 EM life-cycle cost estimate reflects a strategic vision to complete this cleanup mission. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. Each project baseline estimate includes detailed projections of the technical scope, schedule, and estimable costs at each site

for the cleanup of contaminated soil, groundwater, and facilities; treating, storing, and disposing of wastes; and managing nuclear materials. The baseline estimates also include costs for related activities such as landlord responsibilities, program management, and legally prescribed grants and cooperative agreements for participation and oversight by Native American tribes, regulatory agencies, and other stakeholders.

Over the past several years a number of management reforms have been implemented within the EM program. These reforms include: (1) redefining and aligning acquisition strategies; (2) instituting robust project management practices and procedures in executing the cleanup program; and (3) implementing a strict configuration control system for key management parameters of the cleanup program. In FY 2007, progress towards improving efficiency and management of the program continued. Field offices have prepared technical baselines that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to ascertain whether cleanup progress remains on schedule and within budget. Achievement of cleanup goals is largely contingent upon receipt of funding, yet to be approved by Congress, during FY 2008 and succeeding years. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM baseline estimates:

- The Department has identified approximately 10,400 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and regulatory decisions have not been made for many sites. Site-specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.
- Cost estimates for management of the Department's high-level waste are predicated upon assumptions as to the timing and rate of acceptance of the waste by the first geological repository. Delays in opening the repository could cause EM project costs to increase.
- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.
- Estimated cleanup costs at sites for which there is no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas. However, because the Department has not identified effective remedial technologies for these sites, no basis for estimating costs is available. An example of a site for which cleanup costs are excluded is the nuclear explosion test area at the Nevada Test Site.

Changes to the EM baseline estimates during FY 2007 and FY 2006 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of

work; revisions in technical approach or scope, including provisions for increases in the cost and duration of high-level waste programs and related increases in contingency estimates; regulatory changes; cleanup activities performed; scope transfers into the EM baseline estimates; and additions for facilities transferred from the active and surplus category discussed below.

#### *Legacy Environmental Liabilities – Other*

These liabilities are comprised of the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites after the EM program activities have been completed. The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e. through 2082 in FY 2007 and through 2081 in FY 2006. While some post-cleanup monitoring and other long-term stewardship activities past 2082 are included in the liability, there are others the Department expects to continue beyond 2082 for which the costs cannot reasonably be estimated.

Also included in these liabilities are estimates for the disposition of various materials. The most significant of these materials is surplus plutonium. The surplus plutonium liability was increased in FY 2007 due to an updated disposition cost estimate that includes a provision for additional plutonium declared surplus to Departmental needs.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of certain low-level wastes generated by the Department and others that are not suitable for near-surface disposal. Although a final disposal path has not been determined, estimated costs for storage, monitoring and disposal have been included in the liability.

#### *Active and Surplus Facilities*

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM baseline estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for newly contaminated facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to \$760 million at September 30, 2007, and \$505 million at September 30, 2006.

In September 2006, the Federal Accounting Standards Advisory Board issued Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, which requires Federal agencies to estimate



and record liabilities by FY 2010 for removal and disposal of asbestos, including non-friable (not easily crumbled) asbestos, from their plant and equipment, where removal and disposal during or prior to demolition is legally required. The Department has already recorded such liabilities for a sizable portion of its facilities, including facilities that are in the EM cleanup program, active and surplus facilities contaminated with radioactive or hazardous wastes, and other facilities containing friable asbestos (Note 13, environment, safety and health compliance activities). The Department will recognize in FY 2010 an additional liability for asbestos mitigation in its remaining facilities in accordance with the provisions of the Technical Bulletin, but has not determined the amount of the additional liability.

*High-Level Waste and Spent Nuclear Fuel Disposition*

The Nuclear Waste Policy Act of 1982 (NWPA) established the Department's responsibility to provide for permanent disposal of the

Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during FY 2007 and FY 2006 resulted from inflation adjustments to reflect current year constant dollars, revisions in technical approach or scope, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

**15. Pension and Other Actuarial Liabilities (in millions)**

	FY 2007	FY 2006
Contractor pension plans	\$ 1,976	\$ 2,234
Contractor postretirement benefits other than pensions	10,329	9,707
Contractor disability and life insurance plans	23	21
Federal Employees' Compensation Act	105	97
<b>Total pension and other actuarial liabilities</b>	<b>\$ 12,433</b>	<b>\$ 12,059</b>

Most of the Department's site/facility management contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual contractor contributions to these pension plans. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. The Department approves these contractors' pension and postretirement benefit plans and is ultimately responsible for the allowable costs of funding the plans. The Department also reimburses its major contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

The Department implemented in FY 2007 the requirements of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 amends the accounting requirements of SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, requiring the recognition of a plan's "funded status" as a liability or asset rather than recognizing the accrued benefit cost under delayed recognition requirements of SFAS No. 87 and SFAS No. 106 prior to amendment by SFAS No. 158. A \$620 million beginning balance adjustment to the FY 2007 cumulative results of operations was recorded for the cumulative effects of this change in accounting principle (see Note 24). Included in this adjustment to cumulative

results of operations as of September 30, 2007, is the recognition of the remaining net asset at transition of \$377 million, net prior service cost of \$293 million, and net gain of \$452 million. Prior to the adoption of SFAS No. 158, amounts recognized in cumulative results of operations as of September 30, 2006, include the additional minimum liability of \$979 million.

*Contractor Pension Plans*

The Department follows SFAS No. 87, as amended by SFAS No. 158, for contractor plans for which the Department has a continuing obligation to reimburse costs. As of September 30, 2007, the Department has pension assets of \$1,907 million and pension liabilities of \$1,976 million after implementing SFAS No. 158. If SFAS No. 158 had not been applied, the Department would have had prepaid pension costs of \$741 million and accrued pension costs of \$1,555 million, both after minimum liability adjustment. The impact of SFAS No. 158 was a decrease in the net pension liability of \$745 million. The Department has a continuing obligation to reimburse costs for a variety of contractor-sponsored pension plans (40 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (31 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Seventeen of the plans cover nonunion employees only; 9 cover union employees only; and 20 cover both union and nonunion employees.

For qualified plans, the Department's current funding policy is for contributions made to a trust during a plan year for a separate defined benefit pension plan to not exceed the greater of (1) the minimum contribution required by Section 302 of the Employee Retirement Income Security Act (ERISA) or (2) the amount estimated to eliminate the unfunded current liability as projected to the end of the plan year. The term "unfunded current liability" refers to the unfunded current liability as defined in Section 302(d)(8) of ERISA. For nonqualified plans, the funding policy is pay-as-you-go.

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. There are three plans that have securities of the employer or related parties included in the plan assets. The total amount invested in such securities is \$2.1 million.

**Assumptions and Methods** – In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include the discount rates, mortality assumptions, and an expected long-term rate of return on plan assets, salary scale, and any other economic assumption consistent with an expected long-term inflation rate of 3.0 percent for the entire U.S. economy with adjustments to reflect regional or industry rates as appropriate. In most cases, ERISA valuation actuarial assumptions for demographic assumptions were used.

The following specific assumptions and methods were used to determine the net periodic pension cost. The weighted average discount rate was 5.75 percent for FY 2007 and 5.25 percent for FY 2006; the average long-term rate of return on assets was 7.85 percent in FY 2007 and 7.84 percent in FY 2006; and the average rate of compensation increase was 4.5 percent in both FY 2007 and in FY 2006. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2007 and 2006 were 6.25 percent and 5.75 percent, respectively.

Straight line amortization of prior service cost over the average remaining years of service of the active plan participants and the minimum amortization of gains and losses were used. The transition obligation was amortized over the greater of 15 years or the average remaining service.

The estimated amortization of the net transition (asset)/obligation, the net prior service cost/(credit), and the net (gain)/loss for the defined benefit pension plans that will be included in net periodic benefit cost in the next fiscal year are (\$126) million, \$107 million, and (\$24) million, respectively. No assets are expected to be returned to the employers during the next fiscal year.

The Department recorded the decrease of \$895 million and \$568 million in the minimum liability adjustment as a component of costs not assigned (see Note 22) in FY 2007 and FY 2006, respectively.

*Contractor Postretirement Benefits Other Than Pensions*

The Department follows SFAS No. 106, as amended by SFAS No. 158, for contractor plans for which the Department has a continuing obligation to reimburse costs. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2007, the Department has PRB assets of \$11 million and PRB liabilities of \$10,329 million after implementing SFAS No. 158. If SFAS No. 158 had not been applied, the Department would have had prepaid PRB costs of \$8 million and accrued PRB costs of \$10,201 million. The impact of SFAS No. 158 was an increase in the net PRB liability of \$125 million. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are six contractors, however, that are prefunding benefits in part as permitted by law. The Department's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical (41 contractors), dental (19 contractors), life insurance (23 contractors), and Medicare Part B premium reimbursement (5 contractors). Thirty-nine of the contractors sponsor a point of service plan, a PPO, an HMO, or similar plan. Twenty-two of these also have a traditional indemnity or similar plan. Two additional contractors have only a traditional indemnity or similar plan.

**Assumptions and Methods** – In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include medical and dental trend rates, discount rates, and mortality assumptions.

The following specific assumptions and methods, with respect to trends in the costs of medical and dental benefit plans, were used in determining the PRB estimates. The medical trend rates for a point of service plan, an HMO, a PPO, or similar plan, grade from 9.0 percent in 2007 down to 5.0 percent in 2015 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 10.0 percent in 2007 down to 5.0 percent in 2015 and later. The dental trend rates at all ages grade down from 6.75 percent in 2007 to 5.0 percent in 2014 and later.

The weighted average discount rates of 5.75 percent for FY 2007 and 5.25 percent for FY 2006, and the average longterm rate of return on assets of 7.00 percent in both FY 2007 and in FY 2006 were used to determine the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2007 and 2006 were 6.25 percent and 5.75 percent, respectively.

Straight line amortization of prior service cost over the average remaining years of service to full eligibility for benefits of the active plan participants and the minimum amortization of gains and losses were used. The Department chose immediate recognition of the transition obligation existing at the beginning of FY 1994.

The estimated amortization of the net prior service cost/(credit) and the net (gain)/loss for the PRB plans that will be included in net periodic benefit cost in the next fiscal year are (\$81) million, and \$20 million, respectively. The net transition (asset)/obligation has already been fully amortized. No assets are expected to be returned to the employers during the next fiscal year.

	(in millions)			
	Pension Benefits		Other Postretirement Benefits	
	FY 2007	FY 2006	FY 2007	FY 2006
<i>Reconciliation of funded status</i>				
Accumulated benefit obligation	\$ 24,027	\$ 24,923		
Effect of future compensation increases	3,486	3,684		
Benefit obligation	\$ 27,513	\$ 28,607	\$ 10,480	\$ 11,500
Plan assets	27,444	24,108	162	164
Funded status	\$ (69)	\$ (4,499)	\$ (10,318)	\$ (11,336)
Net (asset)/obligation at transition	(377)	(503)		
Net prior service cost/(credit)	654	748	(361)	(408)
Net (gain)/loss	(938)	3,860	486	2,044
Prepaid/(accrued) benefit cost before minimum liability	\$ (730)	\$ (394)	\$ (10,193)	\$ (9,700)
Minimum liability adjustment	(84)	(979)	-	-
Prepaid/(accrued) benefit cost after minimum liability	\$ (814)	\$ (1,373)	\$ (10,193)	\$ (9,700)
Adjustment for SFAS No. 158 <sup>(Note 24)</sup>	745	-	(125)	-
Net amount recognized in the balance sheet	\$ (69)	\$ (1,373)	\$ (10,318)	\$ (9,700)
<i>Amounts recognized in the balance sheet</i>				
Total prepaid asset	\$ 1,907	\$ 861	\$ 11	\$ 7
Total (accrued) liability	(1,976)	(2,234)	(10,329)	(9,707)
Net amount recognized in the balance sheet	\$ (69)	\$ (1,373)	\$ (10,318)	\$ (9,700)
<i>Components of net periodic costs</i>				
Service costs	\$ 823	\$ 927	\$ 244	\$ 292
Interest costs	1,622	1,559	613	618
Expected return on plan assets	(1,825)	(1,722)	(11)	(11)
Net amortization	130	391	(21)	102
(Gain)/loss due to curtailments, settlements or special termination benefits	6	58	(1)	(4)
Total net periodic costs	\$ 756	\$ 1,213	\$ 824	\$ 997
<i>Contributions and benefit payments</i>				
Employer contributions	\$ 387	\$ 530	\$ 334	\$ 328
Participant contributions	3	3	79	71
Benefit payments	1,311	1,181	426*	403*

\* Includes \$13 million paid from plan assets for 2007 and \$6 million paid from plan assets for 2006.

	(in millions)	
	Pension Benefits	Other Post-retirement Benefits
<i>Expected contributions for fiscal year ending 9/30/2008</i>		
Employer contributions	\$ 387	\$ 380
Participant contributions	4	87
<i>Estimated future benefit payments</i>		
Fiscal year 2008	\$ 1,287	\$ 502
Fiscal year 2009	1,355	552
Fiscal year 2010	1,433	604
Fiscal year 2011	1,524	659
Fiscal year 2012	1,623	712
Fiscal year 2013 to 2017	9,700	4,330

The following chart shows the average target allocation for the 39 pension benefit plans and six other postretirement benefit plans with assets.

The average actual fiscal year 2007 and 2006 allocations of assets are also shown.

#### Pension Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2007	Percent of Plan Assets at September 30, 2006
Cash and equivalents	2.1%	3.3%	2.6%
Government bonds	10.8%	7.2%	9.8%
Corporate bonds	21.8%	21.2%	16.7%
Domestic equities	42.5%	41.2%	40.4%
International equities	12.6%	13.5%	12.4%
Real estate	0.9%	1.3%	0.8%
Insurance contracts (general accounts)	7.9%	10.1%	13.1%
Insurance contracts (separate accounts)	0.0%	0.1%	2.6%
Employer securities	0.2%	0.0%	0.0%
Other	1.2%	2.1%	1.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

#### Other Postretirement Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2007	Percent of Plan Assets at September 30, 2006
Cash and equivalents	0.0%	0.5%	0.8%
Government bonds	0.0%	7.2%	7.4%
Corporate bonds	5.2%	8.4%	8.2%
Domestic equities	7.3%	10.6%	9.2%
International equities	7.5%	6.6%	5.4%
Real estate	0.0%	0.0%	2.3%
Insurance contracts (general accounts)	60.0%	50.0%	50.0%
Insurance contracts (separate accounts)	0.0%	0.0%	0.0%
Employer securities	0.0%	0.0%	0.0%
Other	20.0%	16.7%	16.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Each contractor develops its own investment policies and strategies for the plans it sponsors. Therefore, there is no one overall investment policy for the contractors' plans. Generally, their objectives provide for benefit security for plan participants through the maximization of total returns while limiting risk and providing liquidity coverage of benefit payments.

The Department is aware of the Pension Protection Act of 2006 and its revision of pension funding rules which will generally require accelerated funding of benefit obligations for certain contractor defined benefit pension plans.

## 16. Obligations Under Capital Leases (in millions)

	FY 2007
Summary of assets under capital lease:	
Power line equipment	\$ 134
Buildings and improvements	42
ADP equipment	165
Other equipment	12
Total capital lease assets	353
Less accumulated depreciation	(115)
Net assets under capital leases	238

Fiscal Year	Power Line Equipment	Other	Total
2008	\$ 16	\$ 8	\$ 24
2009	13	7	20
2010	13	7	20
2011	12	3	15
2012	11	-	11
2013+	347	1	348
Total future lease payments	\$ 412	\$ 26	\$ 438
Less: imputed interest	(220)	(2)	(222)
Less: executory costs	(2)	-	(2)
Net capital lease liability	\$ 190	\$ 24	\$ 214

## 17. Contingencies and Commitments (in millions)

	FY 2007	FY 2006
Spent nuclear fuel litigation	\$ 10,966	\$ 6,717
Other	105	119
<b>Total contingencies and commitments</b> <sup>(Note 10)</sup>	<b>\$ 11,071</b>	<b>\$ 6,836</b>

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where the loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government. The following are significant contingencies:

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

To date, seven suits have been settled involving utilities that collectively produce about 25 percent of the nuclear generated electricity in the United States. Under the terms of the settlements, the Judgment Fund, 31 U.S.C. 1304, paid \$256 million through

September 30, 2007, to the settling utilities for delay damages they have incurred through September 30, 2006. In addition, two cases have been resolved by final judgments: a judgment of \$35 million that was not appealed and paid by the Judgment Fund in FY 2006; and a final judgment awarding no damages affirmed by the appellate court. Through September 30, 2007, the Judgment Fund had made total payments of \$291 million.

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

The Department previously reported several developments that made it difficult to reasonably predict the amount of the Government's likely liability. The courts have since resolved that jurisdiction for these cases is appropriate in the Court of Federal Claims, but have

not resolved whether the Government can assert the unavoidable delays defense, under which, if applicable, the Government would not be liable for any damages.

Under current law, any damages or settlements in this litigation will be paid out of the Judgment Fund. The Department's contingent liability estimate of \$10,966 million for SNF litigation is reported net of amounts paid by the Judgment Fund.

- *Alleged Exposures to Radioactive and/or Toxic Substances* – A number of class action and/or multiple plaintiff tort suits have been filed against current and former DOE contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; Paducah, Kentucky; Portsmouth (Piketon), Ohio; Mound, Ohio; and Brookhaven, New York. Collectively, in these cases, damages in excess of \$109 billion are sought.

These cases are being vigorously defended. Two cases have gone to trial. In the Rocky Flats litigation, the jury returned a substantial verdict in favor of the plaintiffs, which will be appealed when a judgment is entered on the verdict. In the Hanford litigation, ten of twelve "bellwether" plaintiffs' claims were resolved in favor of the defendants, and relatively small judgments were entered in favor of two "bellwether" plaintiffs. Both plaintiffs and defendants appealed the disposition of the "bellwether" claims; the Ninth Circuit affirmed some of the judgments and reversed and remanded others for further proceedings; and both plaintiffs and defendants have filed petitions for rehearing and suggestions for rehearing en banc. Pending completion of the appellate process, proceedings on the remaining Hanford plaintiff's claims have been suspended. Additionally, some cases have been dismissed by trial courts based on legal rulings and appealed to the courts of appeal, and the final resolution of these issues has not been determined.

Based on the resolution of prior similar litigation, and the favorable results obtained to date in most of the pending cases, the Department believes that, the likelihood of liability in many of these cases is remote, and that in those cases where liability is reasonably possible, any liability that might ultimately be imposed would be significantly less than what the plaintiffs seek.

- *Natural Resources Damages* – The Confederated Tribes of the Yakama Nation filed suit in September 2002 against DOE and the Department of Defense alleging natural resources damages (NRD) in the 1100 area of the Hanford site. The Yakama have since amended their complaint to add the 100 and 300 areas to the suit, alleging additional natural resources damages. In addition, the States of Washington and Oregon, as well as the Confederated Tribes of the Umatilla, have joined the suit. The case is in pre-trial phase. The district court has denied the government's motion to dismiss two of the plaintiffs' claims on the ground that they are not ripe, but has stayed any proceedings on one of those claims. Potential losses to the Department cannot be estimated at this time.

- *Cleanup and Waste Disposal at West Valley* – The State of New York filed a complaint for a declaratory judgment and monetary relief, raising claims under Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the West Valley Demonstration Project Act and the NWPA. This case involves a dispute between the Department and the State of New York concerning their respective obligations for cleanup and waste disposal at West Valley. The court approved the parties' joint motion providing for a six-month stay of the litigation to allow the parties to attempt to resolve the CERCLA and Demonstration Act claims through mediation. Estimated total decontamination and decommissioning costs could reach \$2.1 billion.
- *Refunds to Utility Companies* – An earlier decision in *BPA v. FERC*, 422 F.3d 908 (9th Cir. 2005) found that government entities like BPA are not subject to FERC statutory refund authority. Three California Investor Owned utilities and the California Electricity Oversight Board have now filed complaints in the United States Court of Federal Claims for damages and declaratory relief related to BPA's 2000-2001 wholesale power transactions in the California Power Exchange and California Independent System Operator markets. Claimants allege that BPA, along with WAPA, is contractually obligated to provide refunds of amounts received in excess of mitigated market clearing prices established by FERC plus interest but has refused to do so. Claimants allege breach of contract and also seek declaratory relief that they are entitled to recover the claimed amounts. Claimants also seek pre-judgment and post-judgment interest and litigation costs. Complaints were filed on March 12 and March 13, 2007. BPA and WAPA have filed a motion to stay the proceedings until such time as the plaintiff's writ of certiorari is ruled on in the U.S. Supreme Court in the *BPA v. FERC* case. The motion is currently pending and no date for a hearing has been established. BPA has engaged in settlement discussions prior to the filing of these suits and continues to be open to settlement. It has been estimated that the potential loss could be as high as \$188 million.
- *Transuranic Waste* – The State of Idaho is challenging the interpretation of a Settlement Agreement reached in 1995 concerning the shipment of transuranic waste from Idaho National Laboratory. The Government asserts that the Agreement requires only stored waste to be shipped off-site by 2018, but the State asserts that this requirement also applies to buried transuranic waste. In March of 2003, the Idaho District Court found in favor of the State. In November of 2004, the 9th Circuit Court of Appeals reversed and remanded the case back to the Idaho District Court for fact finding. On May 25, 2006, after a trial, the District Court issued its judgment that the buried transuranic waste falls under the 1995 agreement. The Government has taken an appeal to the Ninth Circuit, which has been fully briefed and is awaiting oral argument. The cost of excavating all buried transuranic waste would be significant. If the courts ultimately find that the Department is required by the 1995 Settlement Agreement to excavate all buried transuranic waste for shipment off-site and the Department fails to do so, under the terms of the settlement agreement, the Department would not be able to continue to send Departmental spent nuclear fuel to Idaho National Laboratory. The potential cost impact of this litigation to Departmental programs cannot be estimated at this time.

- *Off-site Waste Litigation* – The State of Washington and interest groups have filed complaints in District Court seeking to prevent shipment of radioactive waste by the Department to the Hanford site. The complaints allege violations of the National Environmental Policy Act (NEPA) and the State of Washington Hazardous Waste Management Act (HWMA). In early 2005, the District Court ruled against the United States on the HWMA portion of the case. The Government has appealed the adverse ruling on the HWMA portion of the case, and the parties settled the NEPA portion of the case on January 6, 2006. In that settlement, the Department agreed to prepare a new environmental impact statement for its solid waste program at the Hanford site and suspend most off-site shipments of transuranic wastes to Hanford. Oral argument on the Government’s HWMA appeal was heard in October 2007. The impact of this litigation on the costs of the Department’s cleanup program is uncertain, and no provision for additional costs is included in the consolidated financial statements.
- *Waste Disposal* – The United States filed for a preliminary injunction prior to Washington State Initiative 297, the Cleanup Priority Act, becoming effective in December 2004. The District Court granted an injunction that prevented implementation of the initiative in all respects, except it enjoined the Department from importing offsite waste to Hanford. The State sought certification of five questions of interpretation to the Washington State Supreme Court. The State Court issued its opinion in July 2005, and the case returned to the United States District Court. The United States District Court issued its decision in favor of the United States and held the Act unconstitutional on June 12, 2006. The Judge reached his decision on several grounds. The State of Washington filed its appeal with the United States Court of Appeals for the 9th Circuit Court on July 12, 2006. The appeal has been fully briefed and an oral argument is scheduled for December 3, 2007. Potential losses to the Department’s programs complex-wide cannot be estimated at this time.
- *Commitments* – The Department has a variety of commitments to provide partial funding for technology development projects managed by private industry. The annual funding commitment varies by year and is contingent on Congressional appropriations and other factors.

- *Purchase Power and Transmission/Sales Commitments and Irrigation Assistance* – The PMAs have entered into various agreements for power and transmission purchases and sales that vary in length but generally do not exceed 20 years. Current rates recover the additional costs of the obligations. The sales commitments are arrangements to sell expected generation for future dates and the purchase commitments are to purchase power at future dates when the PMAs forecast a resource shortage.

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by Federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife consistent with the Northwest Power Act and the Pacific Northwest Power and Conservation Council’s Columbia River Basin Fish and Wildlife Program. In addition, in the wake of certain listings of fish species under the Endangered Species Act (ESA) as threatened or endangered, BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions prepared by the National Oceanic and Atmospheric Administration and the Fish and Wildlife Service in furtherance of the ESA.

As directed by legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators’ ability to pay. These irrigation distributions do not specifically relate to power generation and are required only if doing so does not result in an increase to power rates. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues or expenses when paid.

The following table summarizes future purchase power and transmission/sales commitments and irrigation assistance.

Fiscal Year	(in millions)		
	Purchase Power and Transmission	Sales Commitments	Irrigation Assistance
2008	\$ 112	\$ 2,549	\$ 3
2009	102	2,557	7
2010	68	2,594	-
2011	68	2,588	-
2012	44	620	1
2013+	62	10,274	678
<b>Total</b>	<b>\$ 456</b>	<b>\$ 21,182</b>	<b>\$ 689</b>

18. Earmarked Funds (in millions)

	Nuclear Waste					
	Fund	D&D Fund	USEC	PMA's	Other	Total
<b>Balance Sheet as of September 30, 2007</b>						
<b>Assets</b>						
Fund Balance with Treasury	\$ 3	\$ 1	\$ -	\$ 2,010	\$ 1,022	\$ 3,036
Investments	19,463	4,673	1,498	-	-	25,634
Accounts Receivable	3,364	53	17	506	-	3,940
Inventory	-	-	-	86	78	164
General Property Plant and Equipment	9	-	-	6,471	19	6,499
Regulatory Assets	-	-	-	11,092	-	11,092
Other Assets	-	-	-	2,920	1	2,921
<b>Total Assets</b>	<b>\$22,839</b>	<b>\$ 4,727</b>	<b>\$ 1,515</b>	<b>\$ 23,085</b>	<b>\$ 1,120</b>	<b>\$ 53,286</b>
<b>Liabilities and Net Position</b>						
Accounts Payable	\$ 39	\$ 52	\$ -	\$ 328	\$ 11	\$ 430
Debt	-	-	-	17,908	-	17,908
Deferred Revenues and Other Credits	22,776	-	-	2,097	3	24,876
Environmental Cleanup and Disposal Liabilities	-	14,733	-	-	-	14,733
Pensions and Other Actuarial Liabilities	11	128	-	62	-	201
Obligations Under Capital Leases	-	-	-	188	-	188
Other Liabilities	15	24	-	376	-	415
Contingencies and Commitments	-	-	-	42	-	42
Unexpended Appropriations	-	8	-	-	9	17
Cumulative Results of Operations	(2)	(10,218)	1,515	2,084	1,097	(5,524)
<b>Total Liabilities and Net Position</b>	<b>\$22,839</b>	<b>\$ 4,727</b>	<b>\$ 1,515</b>	<b>\$ 23,085</b>	<b>\$ 1,120</b>	<b>\$ 53,286</b>
<b>Statement of Net Costs for Year Ended September 30, 2007</b>						
Program Costs	\$ 181	\$ 20	\$ -	\$ 4,051	\$ 95	\$ 4,347
Less Earned Revenues	(230)	(205)	-	(4,443)	(21)	(4,899)
Net Program Costs	\$ (49)	\$ (185)	\$ -	\$ (392)	\$ 74	\$ (552)
Costs Not Assigned	(3)	4,694	-	-	-	4,691
Net Cost of Operations	\$ (52)	\$ 4,509	\$ -	\$ (392)	\$ 74	\$ 4,139
<b>Statement of Changes in Net Position for Year Ended September 30, 2007</b>						
Beginning Balance - Cumulative Results of Operations	\$ (5)	\$ (6,025)	\$ 1,444	\$ 2,208	\$ 1,033	\$ (1,345)
Adjustments - Change in Accounting Principles	(2)	-	-	335	-	333
Beginning Balance, as adjusted	\$ (7)	\$ (6,025)	\$ 1,444	\$ 2,543	\$ 1,033	\$ (1,012)
Appropriations Used	-	(8)	-	-	44	36
Non Exchange Revenue	-	-	72	-	-	72
Donations and Forfeitures of Cash	-	-	-	4	-	4
Transfers - In/(Out) Without Reimbursement	(49)	-	-	(855)	74	(830)
Imputed Financing	2	-	-	-	-	2
Other	-	324	(1)	-	20	343
Net Cost of Operations	52	(4,509)	-	392	(74)	(4,139)
Ending Balance - Cumulative Results of Operations	\$ (2)	\$ (10,218)	\$ 1,515	\$ 2,084	\$ 1,097	\$ (5,524)
Beginning Balance - Unexpended Appropriations	\$ -	\$ -	\$ (1)	\$ -	\$ 48	\$ 47
Appropriations Received	-	-	-	-	5	5
Other Adjustments	-	-	1	-	-	1
Appropriations Used	-	8	-	-	(44)	(36)
Ending Balance - Unexpended Appropriations	\$ -	\$ 8	\$ -	\$ -	\$ 9	\$ 17



	Nuclear Waste Fund	D&D Fund	USEC	PMA's	Other	Total
<b>Balance Sheet as of September 30, 2006</b>						
<b>Assets</b>						
Fund Balance with Treasury	\$ 11	\$ 27	\$ -	\$ 1,583	\$ 1,062	\$ 2,683
Investments	17,952	4,310	1,425	-	8	23,695
Accounts Receivable	3,214	239	19	544	1	4,017
Inventory	-	-	-	84	2	86
General Property Plant and Equipment	12	-	-	5,952	20	5,984
Regulatory Assets	-	-	-	11,437	-	11,437
Other Assets	1	-	-	2,850	-	2,851
<b>Total Assets</b>	<b>\$21,190</b>	<b>\$ 4,576</b>	<b>\$ 1,444</b>	<b>\$ 22,450</b>	<b>\$ 1,093</b>	<b>\$ 50,753</b>
<b>Liabilities and Net Position</b>						
Accounts Payable	\$ 43	\$ 36	\$ -	325	\$ 4	\$ 408
Debt	-	-	-	17,216	-	17,216
Deferred Revenues and Other Credits	21,122	-	-	2,119	4	23,245
Environmental Cleanup and Disposal Liabilities	-	10,552	-	-	-	10,552
Pensions and Other Actuarial Liabilities	10	-	-	53	-	63
Obligations Under Capital Leases	-	-	-	138	-	138
Other Liabilities	20	13	-	362	5	400
Contingencies and Commitments	-	-	-	29	-	29
Unexpended Appropriations	-	-	-	-	47	47
Cumulative Results of Operations	(5)	(6,025)	1,444	2,208	1,033	(1,345)
<b>Total Liabilities and Net Position</b>	<b>\$21,190</b>	<b>\$ 4,576</b>	<b>\$ 1,444</b>	<b>\$ 22,450</b>	<b>\$ 1,093</b>	<b>\$ 50,753</b>

**Statement of Net Costs  
for the Year Ended September 30, 2006 (unaudited)**

Program Costs	\$ 153	\$ 1,946	\$ -	\$ 4,013	\$ 50	\$ 6,162
Less Earned Revenues	(220)	(166)	-	(4,582)	(756)	(5,724)
<b>Net Program Costs</b>	<b>\$ (67)</b>	<b>\$ 1,780</b>	<b>\$ -</b>	<b>\$ (569)</b>	<b>\$ (706)</b>	<b>\$ 438</b>
Costs Not Assigned	3	3,926	(6)	-	-	3,923
<b>Net Cost of Operations</b>	<b>\$ (64)</b>	<b>\$ 5,706</b>	<b>\$ (6)</b>	<b>\$ (569)</b>	<b>\$ (706)</b>	<b>\$ 4,361</b>

**Statement of Changes in Net Position for the Year  
Ended September 30, 2006 (unaudited)**

Beginning Balance - Cumulative Results of Operations	\$ (63)	\$ (766)	\$ 1,378	\$ 1,805	\$ 910	\$ 3,264
Appropriations Used	-	-	-	-	14	14
Non Exchange Revenue	-	-	60	-	-	60
Donations and Forfeitures of Cash	-	-	-	1	-	1
Transfers - In/(Out) Without Reimbursement	(49)	-	-	(167)	(611)	(827)
Imputed Financing	2	-	-	-	-	2
Other	41	447	-	-	14	502
<b>Net Cost of Operations</b>	<b>64</b>	<b>(5,706)</b>	<b>6</b>	<b>569</b>	<b>706</b>	<b>(4,361)</b>
<b>Ending Balance - Cumulative Results of Operations</b>	<b>\$ (5)</b>	<b>\$ (6,025)</b>	<b>\$ 1,444</b>	<b>\$ 2,208</b>	<b>\$ 1,033</b>	<b>\$ (1,345)</b>
Beginning Balance - Unexpended Appropriations	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ 10
Appropriations Received	-	-	-	-	52	52
Other Adjustments	-	-	-	-	(1)	(1)
Appropriations Used	-	-	-	-	(14)	(14)
<b>Ending Balance - Unexpended Appropriations</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 47</b>	<b>\$ 47</b>

*Nuclear Waste Fund*

The NWPA requires the civilian owners and generators of nuclear waste to pay their share of the full cost of the Civilian Radioactive Waste Management Program. The NWPA also established a fee for electricity generated and sold by civilian nuclear power reactors which the Department must collect and annually assess to determine its adequacy. A special fund within Treasury was created to account for the collection of fees. Fees are invested in Treasury securities and any interest earned is available to pay costs incurred by the NWF. The NWPA requires annual financial statements to be prepared as well as reporting of financial performance measures such as the maintenance of liquid reserves and investment strategies.

*Decontamination and Decommissioning Fund*

The Energy Policy Act of 1992 established the D&D fund to pay for the costs of decontamination and decommissioning of gaseous diffusion facilities through collection of revenues derived from domestic utility assessments and government appropriations. The Energy Policy Act also requires that balances in the D&D fund be invested in Treasury

securities and any interest earned would be available to pay the costs of environmental remediation. The Energy Policy Act requires annual financial statements to be prepared as well as periodic reporting of financial performance measures relating to fee receipt and investment income.

*United States Enrichment Corporation*

Upon privatization of USEC on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. These funds are invested in Treasury securities.

*Power Marketing Administrations*

The power marketing administrations are funded primarily from four sources. These include contract and borrowing authority, direct receipts generated from the sale of power, annual appropriations from the Department of the Interior's Reclamation Fund, and appropriations from Treasury's General Fund. In most instances, the annual appropriations from the Reclamation Fund and the General Fund are repaid to Interior and Treasury, respectively, from the receipts generated from power sales.

**19. Earned Revenues (in millions)**

	FY 2007				FY 2006 (Unaudited)			
	Intra-governmental	Public	Deferred Revenue Adjustment	Total	Intra-governmental	Public	Deferred Revenue Adjustment	Total
Energy diversity	\$ -	\$ (6)	\$ -	\$ (6)	\$ -	\$ (616)	\$ -	\$ (616)
Environmental impacts of energy								
Great Plains Gasification Plant	\$ -	\$ (43)	\$ -	\$ (43)	\$ -	\$ (79)	\$ -	\$ (79)
Isotope sales	(1)	(15)	-	(16)	(1)	(12)	-	(13)
Other	-	(1)	-	(1)	-	(3)	-	(3)
Total environmental impacts of energy	\$ (1)	\$ (59)	\$ -	\$ (60)	\$ (1)	\$ (94)	\$ -	\$ (95)
Energy infrastructure	\$ (67)	\$ (4,079)	\$ -	\$ (4,146)	\$ (65)	\$ (4,248)	\$ -	\$ (4,313)
Nuclear propulsion plants	\$ (19)	\$ -	\$ -	\$ (19)	\$ (11)	\$ -	\$ -	\$ (11)
Environmental cleanup								
Nuclear Waste Fund	\$ (1,024)	\$ (867)	\$ 1,647	\$ (244)	\$ (977)	\$ (838)	\$ 1,595	\$ (220)
Decommissioning Fund	(185)	(21)	-	(206)	(164)	-	-	(164)
Uranium sales	-	(43)	-	(43)	-	(125)	-	(125)
Total environmental cleanup	\$ (1,209)	\$ (931)	\$ 1,647	\$ (493)	\$ (1,141)	\$ (963)	\$ 1,595	\$ (509)
Reimbursable programs	\$ (2,933)	\$ (588)	\$ -	\$ (3,521)	\$ (2,852)	\$ (533)	\$ -	\$ (3,385)
Other programs								
Federal Energy Regulatory Commission (Note 20)	\$ -	\$ (240)	\$ -	\$ (240)	\$ -	\$ (234)	\$ -	\$ (234)
Other (Note 20)	(1)	(71)	-	(72)	6	10	-	16
Total other programs	\$ (1)	\$ (311)	\$ -	\$ (312)	\$ 6	\$ (224)	\$ -	\$ (218)
<b>Total earned revenues</b>	<b>\$ (4,230)</b>	<b>\$ (5,974)</b>	<b>\$ 1,647</b>	<b>\$ (8,557)</b>	<b>\$ (4,064)</b>	<b>\$ (6,678)</b>	<b>\$ 1,595</b>	<b>\$ (9,147)</b>

*Energy Diversity*

The FY 2006 revenues primarily resulted from the sale of oil from the SPR. Due to the disruption of crude oil supplies resulting from Hurricane Katrina in August 2005, the President ordered a drawdown of the SPR in September 2005. Oil sale proceeds from this drawdown totaled \$615 million in FY 2006 (unaudited) (see Note 23).

*Great Plains Gasification Plant*

These revenues primarily resulted from receipts stemming from the 1988 Great Plains Gasification Plant asset purchase agreement. These receipts were deposited into Treasury's miscellaneous receipts account (see Note 23). Under the terms of the asset purchase agreement, the Department will continue to receive revenue sharing payments, if applicable, through FY 2010.

*Isotope Sales*

These revenues result from the sale of radioactive and stable isotopes and associated services.

*Energy Infrastructure*

These revenues result from the Department's power marketing activities. The Department's four power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations, interest on the capital investment repayment, borrowings from Treasury, operation and maintenance costs as well as other payment obligations. Revenues collected by the Southeastern, Southwestern, and Western Area Power Administrations on behalf of other agencies are reported as custodial activity (see Note 26).

*Nuclear Propulsion Plants*

These revenues primarily represent reimbursements from the Department of the Navy for nuclear materials consumed during operations of naval reactors.

*Nuclear Waste Fund*

The NWPA requires the Department to assess fees against owners and generators of high-level radioactive waste and spent nuclear fuel to fund the costs associated with management and disposal activities under the Act. Fees of \$758 million and \$753 million were assessed as of September 30, 2007, and September 30, 2006 (unaudited), respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled \$1,133 million and \$1,062 million as of September 30, 2007, and September 30, 2006 (unaudited), respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., when costs are incurred) for the Civilian Radioactive Waste Management program.

*Decontamination and Decommissioning Fund*

These revenues primarily result from assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning the Depart-

ment's gaseous diffusion facilities used for uranium enrichment services. Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur. Accumulated funds in excess of those needed to pay current program costs are invested in Treasury securities. Interest earned on these investments totaled \$183 million and \$165 million for September 30, 2007, and September 30, 2006 (unaudited), respectively.

*Uranium Sales*

The Department sold 200 metric tons and 906 metric tons (unaudited) of Russian origin uranium in FY 2007 and FY 2006, respectively. The Russian origin uranium was originally purchased by the United States Executive Agent under the Russian HEU Agreement in 1995 and 1996. Subsequently, pursuant to the USEC Privatization Act, the uranium was transferred to the Department with the authorization for the Department to sell said uranium. All of the revenue will be used to fund the cleaning of technetium-99 contaminated uranium (see Note 7).

*Reimbursable Programs*

The Department performs work for other Federal agencies and private companies on a reimbursable work basis and on a cooperative work basis. The Department also has entered into cooperative research and development agreements to increase the transfer of federally funded technologies to the private sector for the benefit of the U.S. economy.

The Department's policy is to establish prices for materials and services provided to public entities at the Department's full cost. In some cases, the full cost information reported by the Department in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, exceeds revenues. This results from implementation of provisions contained in the Economy Act of 1932, as amended; the Atomic Energy Act of 1954, as amended; and the National Defense Authorization Act for Fiscal Year 1999, which provide the Department with the authority to charge customers an amount less than the full cost of the product or service. Costs attributable to generating intragovernmental reimbursable program revenues were \$3,018 million and \$2,935 million as of September 30, 2007, and September 30, 2006 (unaudited), respectively.

*Federal Energy Regulatory Commission*

FERC is an independent regulatory organization within the Department that regulates essential aspects of electric, natural gas and oil pipeline industries, and non-Federal hydropower industries. It ensures that the rates, terms, and conditions of service for segments of the electric and natural gas and oil pipeline industries are just and reasonable; it authorizes the construction of natural gas pipeline facilities; and it ensures that hydropower licensing administration and safety actions are consistent with the public interest. FERC assesses most of its administrative program costs as an annual charge to each regulated entity (see Note 20).

## 20. Supporting Schedule of Net Cost for Other Programs (in millions)

	FY 2007	FY 2006 (Unaudited)
Federal Energy Regulatory Commission		
Program costs - public	\$ 240	\$ 234
Less earned revenues <sup>(Note 19)</sup>	(240)	(234)
	\$ -	\$ -
Inspector General	43	46
Environment, safety and health	124	124
Other defense activities	193	210
Other programs - public		
Program costs	\$ 90	\$ 36
Less earned revenues <sup>(Note 19)</sup>	(72)	19
	18	55
<b>Total net cost for other programs</b>	<b>\$ 378</b>	<b>\$ 435</b>

## 21. Costs Applied to Reduction of Legacy Environmental Liabilities

Costs applied to reduction of legacy environmental liabilities are current year operating expenditures for the remediation of contaminated facilities and wastes generated from past operations.

These amounts are excluded from current year program expenses since the expense was accrued in prior years when the Department recorded the environmental liabilities.

## 22. Costs Not Assigned (in millions)

	FY 2007	FY 2006 (Unaudited)
Spent nuclear fuel contingency <sup>(Note 17)</sup>		
Current year Judgement Fund payments	\$ 103	\$ 107
Change in estimates <sup>(Note 23)</sup>	4,249	1,718
Current year spent nuclear fuel contingency costs	\$ 4,352	\$ 1,825
Change in environmental liability estimates <sup>(Notes 14 and 23)</sup>	39,958	47,713
Changes in contractor pension and PRB estimates <sup>(Note 23)</sup>	(404)	368
Change in unfunded safety and health liabilities <sup>(Notes 13 and 23)</sup>	329	(303)
Change in occupational illness program -		
Subtitle B	1,310	402
Subtitle E	213	(10)
Uranium enrichment services pricing litigation	-	28
Other	(26)	(299)
<b>Total costs not assigned</b>	<b>\$ 45,732</b>	<b>\$ 49,724</b>

### *Compensation Program for Occupational Illnesses*

The Energy Employees Occupational Illness Compensation Program Act (EEOICPA) authorized compensation for certain illnesses suffered by employees for the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Subtitle B covers illnesses associated with exposure to radiation, beryllium, or silica. In general, each eligible employee and survivors of deceased employees will receive compensation for the disability or death of that employee in the amount of \$150,000 plus the costs of medical care.

The National Defense Authorization Act of 2005 amended the EEOICPA to include Subtitle E, Contractor Employee Compensation. This amendment replaces Subtitle D of the EEOICPA, which provided

assistance for the Department in obtaining state workers' compensation benefits. The new program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. The amendment also makes it possible for uranium workers, as defined under Section 5 of the Radiation Exposure Compensation Act, to receive compensation under Subtitle E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act.

As of September 30, 2005, the law makes payments under these programs the responsibility of the Department of Labor. Therefore, the liability is recorded by the Department of Labor and changes in the total liability are recognized by the Department as imputed costs and imputed financing source.

23. Reconciliation of Net Cost of Operations to Budget (in millions)

	FY 2007	FY 2006 (Unaudited)	
<b>Resources Used to Finance Activities</b>			
Obligations Incurred	\$ 32,052	\$ 31,656	
Less spending authority from offsetting collections and recoveries	(7,918)	(7,217)	
Less offsetting receipts	(2,926)	(3,264)	
Net obligations	\$ 21,208	\$ 21,175	
Imputed financing from costs absorbed by others			
Change in occupational illnesses liability <sup>(Note 22)</sup>	\$ 1,523	\$ 392	
OPM imputed costs	91	88	
Payment made from Treasury's Judgement Fund	132	143	
Total imputed costs absorbed by others	1,746	623	
Transfers-in/(out) without reimbursement			
Transfer of SPRO sales receipts to Treasury <sup>(Note 19)</sup>	\$ -	\$ (615)	
Transfer of Great Plains Gasification Plant revenue sharing receipts to Treasury <sup>(Note 19)</sup>	(43)	(79)	
All other transfers, net	235	68	
Total transfers in/(out), net	192	(626)	
Nuclear Waste Fund offsetting receipts, deferred	2,017	2,345	
Other	34	55	
Total resources used to finance activities	\$ 25,197	\$ 23,572	
<b>Resources Used to Finance Activities Not Part of Net Cost of Operations</b>			
Change in budgetary resources obligated for orders but not yet provided	\$ (995)	\$ (1,235)	
Resources that finance the acquisition of assets	(3,404)	(3,103)	
Resources that fund expenses recognized in prior periods	(5,623)	(6,421)	
Other resources and adjustments	92	(423)	
Total resources used to finance items not part of Net Cost of Operations	\$ (9,930)	\$ (11,182)	
<b>Net Cost of Items that Do Not Require or Generate Resources in Current Period</b>			
Contractor Pension and PRB plans			
Contractor pension and PRB estimate changes <sup>(Note 22)</sup>	\$ (404)	\$ 368	
Current year pension and PRB service costs <sup>(Note 15)</sup>	1,067	1,219	
Current year pension and PRB employer contributions <sup>(Note 15)</sup>	(721)	(858)	
Total pension and PRB plans	\$ (58)	\$ 729	
Change in environmental liability estimates <sup>(Note 22)</sup>	39,958	47,713	
Change in Spent nuclear fuel contingency <sup>(Note 22)</sup>	4,249	1,825	
Change in unfunded safety and health liabilities <sup>(Notes 13 and 22)</sup>	329	(303)	
Change in other unfunded liabilities	286	10	
Depreciation of property, plant and equipment	1,474	1,376	
Amortization of premiums and discounts on Treasury investments	(721)	(649)	
Other amortization	155	193	
Other	556	596	
Total net cost of items that do not require or generate resources in current period	\$ 46,228	\$ 51,490	
<b>Net Cost of Operations</b>	<b>\$ 61,495</b>	<b>\$ 63,880</b>	

In accordance with Revised OMB Circular No. A-136, Financial Reporting Requirements, dated June 29, 2007, the Statement of Financing is presented as a footnote disclosure and is no longer a basic financial statement, as had been presented in prior years. The

information provided in the FY 2006 Statement of Financing is also presented in this footnote, to provide comparative disclosures, as required. The reconciliation of net cost of operations to budget for FY 2007 and FY 2006 is presented above.

*Nuclear Waste Fund Offsetting Receipts, Deferred*

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for spent nuclear fuel generated by civilian reactors. In addition, market value adjustments for Treasury

securities of the NWF are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts, interest collected, and the market value adjustments for zero coupon bond investments are reported as offsetting receipts on the Combined Statement of Budgetary Resources. Therefore, a reconciling amount is reported for the portion of the offsetting receipts for which revenues are not recognized in the current period.

**24. Changes in Accounting Principles (in millions)**

	FY 2007		
	Earmarked	All Other Funds	Total
Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans	\$ (2)	\$ 622	\$ 620
Transfer of budget authority	335		335
<b>Total changes in accounting principle</b>	<b>\$ 333</b>	<b>\$ 622</b>	<b>\$ 955</b>

*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*

The Department implemented in FY 2007 the requirements of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 amends the accounting requirements of SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requiring the recognition of a plan's "funded status" as a liability or asset rather than recognizing the accrued benefit cost under delayed recognition requirements of SFAS No. 87 and SFAS No. 106 prior to amendment by SFAS No. 158. A \$620 million beginning balance adjustment to the FY 2007 cumulative results of operations was recorded for the cumulative effects of this change in accounting principle.

*Transfer of Budget Authority*

A U.S. Army Corps of Engineers (Corps) transfer allocation account was established in 1995 to fund additions, improvements,

and replacements of Corps hydroelectric projects in the Pacific Northwest funded by the Bonneville Power Administration (BPA). Allocation transfers are legal delegations by one department (the Parent) of its authority to obligate budget authority and outlay funds to another department (the Child). A separate allocation fund account was created in the U.S. Treasury as a subset of the BPA parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the Corps are charged to this allocation account as they execute the delegated activity on behalf of BPA.

As a result of implementing new OMB financial statement guidance for parent/child allocation transfers, all financial activity of the Corps related to the allocation transfers is reported in the Department's financial statements beginning in FY 2007. A \$335 million beginning balance adjustment to the FY 2007 cumulative results of operations was recorded for the cumulative effects of this change in accounting principle.

## 25. Combined Statements of Budgetary Resources (in millions)

The *Statements of Budgetary Resources* is presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

### Adjustments to Beginning Balances of Budgetary Resources:

	FY 2007	FY 2006 (Unaudited)
<b>Beginning Unobligated Balance</b>		
Prior year unobligated balance, net – end of period		
Available, apportioned	\$ 2,552	\$ 2,588
Exempt from apportionment	32	24
Not available	1,580	1,629
Total – prior year unobligated balance	\$ 4,164	\$ 4,241
Adjustment for Strategic Petroleum Account	(5)	-
Other adjustments for Isotopes	-	3
<b>Current year unobligated balance, start of period</b>	<b>\$ 4,159</b>	<b>\$ 4,244</b>

	FY 2007	FY 2006 (Unaudited)
<b>Beginning Unpaid Balance</b>		
Prior year unpaid balance, net – end of period	\$ 18,196	\$ 17,232
Other adjustments for Isotopes	-	(3)
<b>Current year unpaid balance, start of period</b>	<b>\$ 18,196</b>	<b>\$ 17,229</b>

### Unobligated Balances Not Available:

	FY 2007	FY 2006 (Unaudited)
United States Enrichment Corporation Fund	\$ 1,473	\$ 1,414
Uranium sales and remediation	43	100
Reimbursable work/collections in excess of amount anticipated	3	27
Prior year deobligations in excess of apportioned amount	6	19
Expired appropriations and other amounts not apportioned	10	20
<b>Total unobligated balances not available</b> <sup>(Note 3)</sup>	<b>\$ 1,535</b>	<b>\$ 1,580</b>

Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.

### Details of Unpaid Obligations:

	FY 2007	FY 2006 (Unaudited)
Undelivered orders	\$ 12,473	\$ 11,339
Accounts payable	6,974	6,857
<b>Total unpaid obligations</b> <sup>(Note 3)</sup>	<b>\$ 19,447</b>	<b>\$ 18,196</b>

**Reconciliation to Appropriations Received on the Statements of Changes in Net Position:**

	FY 2007	FY 2006 (Unaudited)
Appropriations received on the Combined Statements of Budgetary Resources	\$ 24,616	\$ 25,374
Less:		
Special and trust fund appropriated receipts	(991)	(1,119)
Appropriated capital owed	(72)	(99)
Appropriations made available from previous year	(257)	(257)
<b>Appropriations received on the Statement of Changes in Net Position</b>	<b>\$ 23,296</b>	<b>\$ 23,899</b>

**Reconciliation to the Budget:**

	FY 2006 (Unaudited)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources as published	\$ 35,820	\$ 31,656	\$ (3,264)	\$ 19,621
OMB adjustments made to exclude:				
U.S. Enrichment Corporation	(1,414)	-	-	31
Expired accounts	(9)	-	-	-
Other	(5)	-	(7)	(3)
<b>Budget of the United States Government</b>	<b>\$ 34,392</b>	<b>\$ 31,656</b>	<b>\$ (3,271)</b>	<b>\$ 19,649</b>

The FY 2006 (unaudited) *Combined Statements of Budgetary Resources* are reconciled to the President's Budget that was published in February 2007. The President's Budget containing actual FY 2007 balances is expected to be published and available on the OMB web site, [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb), in February 2008. Budgetary resources

and obligations incurred are reconciled to the Departmental balances as published in the Appendix to the Budget; distributed offsetting receipts and net outlays are reconciled to the Departmental balances in the Federal Program by Agency and Account section of the Analytical Perspectives Volume of the President's Budget.



**26. Custodial Activities (in millions)**

	FY 2007	FY 2006 (Unaudited)
Cash collections		
Power marketing administrations	\$ 532	\$ 545
Petroleum Pricing Violation Escrow Fund	13	17
Federal Energy Regulatory Commission	82	44
<b>Total cash collections for custodial activities</b>	<b>\$ 627</b>	<b>\$ 606</b>

*Power Marketing Administrations*

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to Treasury and the Department of the Interior revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, U.S. Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

*Petroleum Pricing Violation Escrow Fund*

Custodial revenues for the Petroleum Pricing Violation Escrow Fund result primarily from interest earned from investment of the fund balance which is invested in U.S. Treasury Bills and certificates of deposit with minority owned financial institutions, pending determination of the disposition of the funds. Funds are disbursed to individuals and groups who are able to provide proof of financial injury related to the violations of Petroleum Pricing Regulations

during the 1970s and early 1980s. The Department also distributes funds to the U.S. Treasury and to the States, Possessions, and Territories of the United States.

*Federal Energy Regulatory Commission*

The Federal Energy Regulatory Commission is responsible for billing regulated companies annual charges as a custodian for certain Federal agencies. These include: 1) the U.S. Army Corps of Engineers for licensees to provide maintenance and operations of dams owned by the U.S. and maintenance for operations of headwater or other navigable waters owned by the U.S., 2) Department of Interior's Bureau of Reclamation for the occupancy and use of public lands and national parks owned by the U.S. and for Indian Tribal Trust Funds from licensees for the reservation of Indian land, 3) Treasury for revenues collected based on penalties, interest and administrative charges for overdue accounts receivables and for civil penalties, and 4) payments to states collected from licensees for the occupancy and use of national forests and public lands from development within the boundaries of any state.

— Consolidating Schedules —

U. S. Department of Energy  
Consolidating Schedules - Balance Sheets

As of September 30, 2007 and 2006  
(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
<b>ASSETS:</b>				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 48	\$ 2,010	\$ 16,301	\$ -
Investments, Net	-	-	25,681	-
Accounts Receivable, Net	-	28	784	(237)
Regulatory Assets	-	5,456	-	-
Other Assets	-	-	41	(33)
Total Intragovernmental Assets	\$ 48	\$ 7,494	\$ 42,807	\$ (270)
Investments, Net	-	-	202	-
Accounts Receivable, Net	5	478	3,456	-
Inventory, Net:				
Strategic Petroleum and Northeast Home Heating Oil Reserve	-	-	19,415	-
Nuclear Materials	-	-	21,040	-
Other Inventory	-	86	384	-
General Property, Plant, and Equipment, Net	8	6,471	18,387	-
Regulatory Assets	-	5,636	-	-
Other Non-Intragovernmental Assets	-	2,920	2,112	-
Total Assets	\$ 61	\$ 23,085	\$ 107,803	\$ (270)
<b>LIABILITIES:</b>				
Intragovernmental Liabilities:				
Accounts Payable	\$ 4	\$ (5)	\$ 251	\$ (184)
Debt	-	11,481	-	-
Deferred Revenues and Other Credits	-	-	70	(34)
Other Liabilities	6	55	215	(5)
Total Intragovernmental Liabilities	\$ 10	\$ 11,531	\$ 536	\$ (223)
Accounts Payable	10	333	3,497	(47)
Debt Held by the Public	-	6,427	-	-
Deferred Revenues and Other Credits	-	2,097	23,048	-
Environmental Cleanup and Disposal Liabilities	-	-	263,603	-
Pension and Other Actuarial Liabilities	-	62	12,371	-
Obligations Under Capital Leases	-	188	26	-
Other Non-Intragovernmental Liabilities	35	321	2,916	-
Contingencies and Commitments	-	42	11,029	-
Total Liabilities	\$ 55	\$ 21,001	\$ 317,026	\$ (270)
<b>NET POSITION:</b>				
Unexpended Appropriations				
Unexpended Appropriations- Earmarked Funds	\$ -	\$ -	\$ 17	\$ -
Unexpended Appropriations- Other Funds	4	-	10,661	-
Cumulative Results of Operations				
Cumulative Results of Operations - Earmarked Funds	-	2,084	(7,608)	-
Cumulative Results of Operations - Other Funds	2	-	(212,293)	-
Total Net Position	\$ 6	\$ 2,084	\$ (209,223)	\$ -
Total Liabilities and Net Position	\$ 61	\$ 23,085	\$ 107,803	\$ (270)

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U.S. DEPARTMENT OF ENERGY  
AGENCY FINANCIAL REPORT

FISCAL YEAR  
2007

Consolidated and Combined  
Financial Statements

FY 2006						
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated	
\$ 18,359	\$ 62	\$ 1,583	\$ 15,544	\$ -	\$ 17,189	
25,681	-	-	23,767	-	23,767	
575	3	26	743	(157)	615	
5,456	-	5,476	-	-	5,476	
8	-	1	19	(19)	1	
<b>\$ 50,079</b>	<b>\$ 65</b>	<b>\$ 7,086</b>	<b>\$ 40,073</b>	<b>\$ (176)</b>	<b>\$ 47,048</b>	
202	-	-	210	-	210	
3,939	23	518	3,479	-	4,020	
19,415	-	-	19,172	-	19,172	
21,040	-	-	21,199	-	21,199	
470	-	84	372	-	456	
24,866	10	5,952	18,160	-	24,122	
5,636	-	5,961	-	-	5,961	
5,032	-	2,849	1,015	-	3,864	
<b>\$ 130,679</b>	<b>\$ 98</b>	<b>\$ 22,450</b>	<b>\$ 103,680</b>	<b>\$ (176)</b>	<b>\$ 126,052</b>	
\$ 66	\$ 3	\$ 6	\$ 230	\$ (157)	\$ 82	
11,481	-	10,780	-	-	10,780	
36	-	10	61	(19)	52	
271	22	53	182	-	257	
<b>\$ 11,854</b>	<b>\$ 25</b>	<b>\$ 10,849</b>	<b>\$ 473</b>	<b>\$ (176)</b>	<b>\$ 11,171</b>	
3,793	11	319	3,487	-	3,817	
6,427	-	6,436	-	-	6,436	
25,145	-	2,109	21,398	-	23,507	
263,603	-	-	230,321	-	230,321	
12,433	-	53	12,006	-	12,059	
214	-	138	34	-	172	
3,272	49	309	2,470	-	2,828	
11,071	-	29	6,807	-	6,836	
<b>\$ 337,812</b>	<b>\$ 85</b>	<b>\$ 20,242</b>	<b>\$ 276,996</b>	<b>\$ (176)</b>	<b>\$ 297,147</b>	
\$ 17	\$ -	\$ -	\$ 47	\$ -	\$ 47	
10,665	9	-	9,855	-	9,864	
(5,524)	-	2,208	(3,553)	-	(1,345)	
(212,291)	4	-	(179,665)	-	(179,661)	
<b>\$ (207,133)</b>	<b>\$ 13</b>	<b>\$ 2,208</b>	<b>\$ (173,316)</b>	<b>\$ -</b>	<b>\$ (171,095)</b>	
<b>\$ 130,679</b>	<b>\$ 98</b>	<b>\$ 22,450</b>	<b>\$ 103,680</b>	<b>\$ (176)</b>	<b>\$ 126,052</b>	

See independent auditors' report

FINANCIAL RESULTS

**U. S. Department of Energy  
Consolidating Schedules of Net Cost**

For Years Ended September 30, 2007 and 2006  
(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
<b>STRATEGIC THEMES:</b>				
<b>Energy Security:</b>				
Energy Diversity				
Program Costs	\$ -	\$ -	\$ 1,085	\$ -
Less: Earned Revenues	-	-	(6)	-
Net Cost of Energy Diversity	-	-	1,079	-
Environmental Impacts of Energy				
Program Costs	-	-	1,061	(20)
Less: Earned Revenues	-	-	(60)	-
Net Cost of Environmental Impacts of Energy	-	-	1,001	(20)
Energy Infrastructure				
Program Costs	-	3,847	138	(55)
Less: Earned Revenues	-	(4,201)	-	55
Net Cost of Energy Infrastructure	-	(354)	138	-
Energy Productivity Program Costs	-	-	496	-
Net Cost of Energy Security	-	(354)	2,714	(20)
<b>Nuclear Security:</b>				
Nuclear Deterrent Program Costs	-	-	6,851	-
Weapons of Mass Destruction Program Costs	-	-	1,539	-
Nuclear Propulsion Plants				
Program Costs	-	-	810	-
Less: Earned Revenues	-	-	(19)	-
Net Cost of Nuclear Propulsion Plants	-	-	791	-
Net Cost of Nuclear Security	-	-	9,181	-
<b>Scientific Discovery and Innovation:</b>				
Net Cost of Scientific Discovery and Innovation	-	-	4,004	-
<b>Environmental Responsibility:</b>				
Environmental Cleanup				
Program Costs	-	-	6,313	(452)
Less: Earned Revenues	-	-	(493)	-
Net Costs of Environmental Cleanup	-	-	5,820	(452)
Managing the Legacy Program Costs	-	-	57	-
Net Cost of Environmental Responsibility	-	-	5,877	(452)
Net Cost of Strategic Themes	-	(354)	21,776	(472)
<b>OTHER PROGRAMS:</b>				
Reimbursable Programs:				
Program Costs	-	204	3,325	-
Less: Earned Revenues	-	(242)	(3,279)	-
Net Cost of Reimbursable Programs	-	(38)	46	-
Other Programs:				
Program Costs	240	-	557	(107)
Less: Earned Revenues	(240)	-	(179)	107
Net Cost of Other Programs	-	-	378	-
Costs Applied to Reduction of Legacy Environmental Liabilities	-	-	(5,573)	-
Costs Not Assigned	-	-	45,732	-
Net Cost of Operations	\$ -	\$ (392)	\$ 62,359	\$ (472)

See independent auditors' report

		FY 2006 (Unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated	
\$ 1,085	\$ -	\$ -	\$ 1,415	\$ -	\$ 1,415	
(6)	-	-	(616)	-	(616)	
1,079	-	-	799	-	799	
1,041	-	-	1,002	(13)	989	
(60)	-	-	(95)	-	(95)	
981	-	-	907	(13)	894	
3,930	-	3,854	165	(68)	3,951	
(4,146)	-	(4,381)	-	68	(4,313)	
(216)	-	(527)	165	-	(362)	
496	-	-	470	-	470	
2,340	-	(527)	2,341	(13)	1,801	
6,851	-	-	6,671	-	6,671	
1,539	-	-	1,377	-	1,377	
810	-	-	783	-	783	
(19)	-	-	(11)	-	(11)	
791	-	-	772	-	772	
9,181	-	-	8,820	-	8,820	
4,004	-	-	3,734	-	3,734	
5,861	-	-	6,453	(446)	6,007	
(493)	-	-	(509)	-	(509)	
5,368	-	-	5,944	(446)	5,498	
57	-	-	62	-	62	
5,425	-	-	6,006	(446)	5,560	
20,950	-	(527)	20,901	(459)	19,915	
3,529	-	159	3,239	-	3,398	
(3,521)	-	(201)	(3,184)	-	(3,385)	
8	-	(42)	55	-	13	
690	234	-	520	(101)	653	
(312)	(234)	-	(85)	101	(218)	
378	-	-	435	-	435	
(5,573)	-	-	(6,207)	-	(6,207)	
45,732	-	-	49,724	-	49,724	
\$ 61,495	\$ -	\$ (569)	\$ 64,908	\$ (459)	\$ 63,880	

See independent auditors' report

**U. S. Department of Energy  
Consolidating Schedules of Changes in Net Position**

For Years Ended September 30, 2007 and 2006

(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>				
Beginning Balances	\$ 4	\$ 2,208	\$ (183,218)	\$ -
Changes in Accounting Principle (Note 24)	-	335	620	-
Beginning Balances, as Adjusted	\$ 4	\$ 2,543	\$ (182,598)	\$ -
Budgetary Financing Sources:				
Appropriations Used	\$ 5	\$ -	\$ 22,533	\$ -
Nonexchange Revenue	-	-	74	-
Donations and Forfeitures of Cash	-	-	12	-
Transfers - In/(Out) Without Reimbursement	-	(831)	(38)	-
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	-	4	-	-
Transfers-In/(Out) Without Reimbursement	(18)	(24)	234	-
Imputed Financing from Costs Absorbed by Others	11	-	1,735	-
Other	-	-	506	(472)
Total Financing Sources	\$ (2)	\$ (851)	\$ 25,056	\$ (472)
Net Cost of Operations	-	392	(62,359)	472
Net Change	\$ (2)	\$ (459)	\$ (37,303)	\$ -
Total Cumulative Results of Operations	\$ 2	\$ 2,084	\$ (219,901)	\$ -
<b>UNEXPENDED APPROPRIATIONS:</b>				
Beginning Balances	\$ 9	\$ -	\$ 9,902	\$ -
Budgetary Financing Sources:				
Appropriations Received	\$ -	\$ -	\$ 23,296	\$ -
Appropriations Transferred - In/(Out)	-	-	13	-
Other Adjustments	-	-	-	-
Appropriations Used	(5)	-	(22,533)	-
Total Budgetary Financing Sources	\$ (5)	\$ -	\$ 776	\$ -
Total Unexpended Appropriations	\$ 4	\$ -	\$ 10,678	\$ -
Net Position	\$ 6	\$ 2,084	\$ (209,223)	\$ -

See independent auditors' report

FY 2006 (Unaudited)					
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ (181,006)	\$ 6	\$ 1,805	\$ (141,568)	\$ -	\$ (139,757)
955	-	-	-	-	-
\$ (180,051)	\$ 6	\$ 1,805	\$ (141,568)	\$ -	\$ (139,757)
\$ 22,538	\$ 4	\$ -	\$ 22,716	\$ -	\$ 22,720
74	-	-	62	-	62
12	-	-	13	-	13
(869)	-	(167)	(49)	-	(216)
4	-	1	-	-	1
192	(16)	-	(610)	-	(626)
1,746	10	-	613	-	623
34	-	-	513	(459)	54
\$ 23,731	\$ (2)	\$ (166)	\$ 23,258	\$ (459)	\$ 22,631
(61,495)	-	569	(64,908)	459	(63,880)
\$ (37,764)	\$ (2)	\$ 403	\$ (41,650)	\$ -	\$ (41,249)
\$ (217,815)	\$ 4	\$ 2,208	\$ (183,218)	\$ -	\$ (181,006)
\$ 9,911	\$ 14	\$ -	\$ 8,964	\$ -	\$ 8,978
\$ 23,296	\$ -	\$ -	\$ 23,899	\$ -	\$ 23,899
13	-	-	17	-	17
-	(1)	-	(262)	-	(263)
(22,538)	(4)	-	(22,716)	-	(22,720)
\$ 771	\$ (5)	\$ -	\$ 938	\$ -	\$ 933
\$ 10,682	\$ 9	\$ -	\$ 9,902	\$ -	\$ 9,911
\$ (207,133)	\$ 13	\$ 2,208	\$ (173,316)	\$ -	\$ (171,095)

See independent auditors' report

**U. S. Department of Energy  
Combining Schedules of Budgetary Resources**

For Years Ended September 30, 2007 and 2006

(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
<b>BUDGETARY RESOURCES</b>				
Unobligated balance, Brought Forward, October 1	\$ 6	\$ 172	\$ 3,981	\$ 4,159
Recoveries of Prior Year Unpaid Obligations	1	-	51	52
Budget Authority:				
Appropriations	\$ 3	\$ 307	\$ 24,306	\$ 24,616
Borrowing Authority	-	315	-	315
Contract Authority	-	692	-	692
Spending Authority from Offsetting Collections:				
Eamed:				
Collected	222	4,042	3,491	7,755
Change in Receivables from Federal Sources	-	(51)	29	(22)
Change in Unfilled Customer Orders:				
Advances Received	-	18	(9)	9
Without Advance from Federal Sources	-	(1)	125	124
Subtotal	\$ 225	\$ 5,322	\$ 27,942	\$ 33,489
Nonexpenditure Transfers, Net, Anticipated and Actual	-	94	23	117
Temporarily not Available Pursuant to Public Law	-	-	(257)	(257)
Permanently Not Available	-	(1,427)	(1)	(1,428)
Total Budgetary Resources	\$ 232	\$ 4,161	\$ 31,739	\$ 36,132
<b>STATUS OF BUDGETARY RESOURCES</b>				
Obligations Incurred:				
Direct	\$ 229	\$ 355	\$ 24,186	\$ 24,770
Exempt from Apportionment	-	2,768	129	2,897
Reimbursable	-	692	3,693	4,385
Total Obligations Incurred	\$ 229	\$ 3,815	\$ 28,008	\$ 32,052
Unobligated Balance:				
Apportioned	3	298	2,194	2,495
Exempt from Apportionment	-	47	3	50
Unobligated Balance Not Available	-	1	1,534	1,535
Total Status of Budgetary Resources	\$ 232	\$ 4,161	\$ 31,739	\$ 36,132
<b>CHANGE IN OBLIGATED BALANCE</b>				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	\$ 23	\$ 2,669	\$ 15,504	\$ 18,196
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	-	(403)	(3,697)	(4,100)
Total Unpaid Obligated Balance, Net, October 1	\$ 23	\$ 2,266	\$ 11,807	\$ 14,096
Obligations Incurred	229	3,815	28,008	32,052
Less: Gross Outlays	(230)	(3,802)	(26,716)	(30,748)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(1)	-	(51)	(52)
Change in Uncollected Customer Payments from Federal Sources	-	52	(154)	(102)
Obligated Balance, Net, End of Period:	\$ 21	\$ 2,331	\$ 12,894	\$ 15,246
Unpaid Obligations	\$ 21	\$ 2,683	\$ 16,743	\$ 19,447
Less: Uncollected Customer Payments from Federal Sources (Note 3)	-	(352)	(3,849)	(4,201)
Total, Unpaid Obligated Balance, Net, End of Period	\$ 21	\$ 2,331	\$ 12,894	\$ 15,246
<b>NET OUTLAYS</b>				
Gross Outlays	\$ 230	\$ 3,802	\$ 26,716	\$ 30,748
Less: Offsetting collections	(222)	(4,060)	(3,482)	(7,764)
Less: Distributed Offsetting Receipts	(85)	(479)	(2,362)	(2,926)
Net Outlays	\$ (77)	\$ (737)	\$ 20,872	\$ 20,058

See independent auditors' report



FY 2006 (Unaudited)				
Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated	
\$ 9	\$ 165	\$ 4,070	\$ 4,244	
-	-	47	47	
\$ 3	\$ 345	\$ 25,026	\$ 25,374	
-	270	-	270	
-	871	-	871	
220	4,032	3,475	7,727	
-	88	(72)	16	
-	(37)	67	30	
-	4	(607)	(603)	
\$ 223	\$ 5,573	\$ 27,889	\$ 33,685	
-	(69)	17	(52)	
-	(2)	(264)	(266)	
-	(1,583)	(255)	(1,838)	
\$ 232	\$ 4,084	\$ 31,504	\$ 35,820	
\$ 227	\$ 378	\$ 24,096	\$ 24,701	
-	2,905	142	3,047	
-	629	3,279	3,908	
\$ 227	\$ 3,912	\$ 27,517	\$ 31,656	
5	151	2,396	2,552	
-	-	32	32	
-	21	1,559	1,580	
\$ 232	\$ 4,084	\$ 31,504	\$ 35,820	
\$ 20	\$ 2,079	\$ 15,130	\$ 17,229	
-	(312)	(4,375)	(4,687)	
\$ 20	\$ 1,767	\$ 10,755	\$ 12,542	
227	3,912	27,517	31,656	
(224)	(3,321)	(27,097)	(30,642)	
-	-	(47)	(47)	
-	(92)	679	587	
\$ 23	\$ 2,266	\$ 11,807	\$ 14,096	
\$ 23	\$ 2,669	\$ 15,504	\$ 18,196	
-	(403)	(3,697)	(4,100)	
\$ 23	\$ 2,266	\$ 11,807	\$ 14,096	
\$ 224	\$ 3,321	\$ 27,097	\$ 30,642	
(220)	(3,995)	(3,542)	(7,757)	
(54)	(486)	(2,724)	(3,264)	
\$ (50)	\$ (1,160)	\$ 20,831	\$ 19,621	

See independent auditors' report

**U. S. Department of Energy  
Consolidating Schedules of Custodial Activities**

For Years Ended September 30, 2007 and 2006  
(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
<b>SOURCES OF COLLECTIONS:</b>				
Cash Collections:				
Interest	\$ -	\$ -	\$ 13	\$ -
Federal Energy Regulatory Commission	82	-	-	-
Power Marketing Administration Custodial Revenue	-	532	-	-
Total Cash Collections	\$ 82	\$ 532	\$ 13	\$ -
Accrual Adjustment	(12)	6	1	-
Total Custodial Revenue	\$ 70	\$ 538	\$ 14	\$ -
<b>DISPOSITION OF REVENUE:</b>				
Transferred to Others:				
Department of the Treasury	(60)	(230)	-	-
Army Corps of Engineers	(13)	(18)	-	-
Bureau of Reclamation	(9)	(296)	-	-
Others	(3)	(5)	1	-
Decrease/(Increase) in Amounts to be Transferred	15	11	(15)	-
Net Custodial Activity	\$ -	\$ -	\$ -	\$ -

See independent auditors' report

FY 2006 (Unaudited)					
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ 13	\$ -	\$ -	\$ 17	\$ -	\$ 17
82	44	-	-	-	44
532	-	545	-	-	545
\$ 627	\$ 44	\$ 545	\$ 17	\$ -	\$ 606
(5)	2	11	-	-	13
\$ 622	\$ 46	\$ 556	\$ 17	\$ -	\$ 619
(290)	(41)	(159)	-	-	(200)
(31)	-	3	-	-	3
(305)	-	(333)	-	-	(333)
(7)	(3)	(2)	-	-	(5)
11	(2)	(65)	(17)	-	(84)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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— Required Supplementary Stewardship Information (RSSI) —

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years 2007 through FY 2003 (in millions)

BASIC	FY 2007			FY 2006		
	Direct Cost	Deprecation & Other	Total	Direct Cost	Deprecation & Other	Total
<b>Energy Diversity</b>						
Energy Efficiency	\$0.4	\$0.0	\$0.4	\$1.3	\$0.1	\$1.4
<b>Environmental Impacts of Energy</b>						
Fossil Energy	\$4.4	\$1.3	\$5.7	\$4.3	\$0.8	\$5.1
Nuclear Energy	\$0.0	\$0.0	\$0.0	\$1.7	\$0.6	\$2.3
<b>Energy Infrastructure</b>						
Power Marketing Administration**	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Weapons of Mass Destruction</b>	\$11.1	\$1.0	\$12.1	\$6.8	\$0.8	\$7.6
<b>Scientific Breakthroughs &amp; Foundations of Science</b>	\$2,753.9	\$667.1	\$3,421.0	\$2,671.5	\$601.1	\$3,272.6
<b>TOTAL BASIC</b>	<b>\$2,769.8</b>	<b>\$669.4</b>	<b>\$3,439.2</b>	<b>\$2,685.6</b>	<b>\$603.4</b>	<b>\$3,289.0</b>
APPLIED*	Direct Cost	Deprecation & Other	Total	Direct Cost	Deprecation & Other	Total
<b>Energy Diversity</b>						
Energy Efficiency	\$169.2	\$9.5	\$178.7	\$169.5	\$12.5	\$182.0
Fossil Energy	\$0.0	\$0.0	\$0.0	\$32.1	\$7.5	\$39.6
<b>Environmental Impacts of Energy</b>						
Fossil Energy	\$136.8	\$41.7	\$178.5	\$98.1	\$20.6	\$118.7
Nuclear Energy	\$71.1	\$15.7	\$86.8	\$84.3	\$33.1	\$117.4
<b>Energy Infrastructure</b>						
Energy Efficiency	\$9.9	\$0.7	\$10.6	\$31.8	\$1.8	\$33.6
Electric Transmission & Distribution	\$12.9	\$1.3	\$14.2	\$66.8	\$3.8	\$70.6
Power Marketing Administration**	\$8.6	\$0.0	\$8.6	\$10.4	\$0.0	\$10.4
<b>Energy Productivity</b>						
Energy Efficiency	\$22.9	\$1.2	\$24.1	\$20.3	\$1.4	\$21.7
<b>Nuclear Deterrent</b>	\$1,799.3	\$165.7	\$1,965.0	\$1,955.6	\$183.1	\$2,138.7
<b>Weapons of Mass Destruction</b>	\$121.5	\$11.2	\$132.7	\$113.8	\$13.8	\$127.6
<b>Scientific Breakthroughs &amp; Foundations of Science</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Environmental Cleanup</b>	\$9.6	\$1.5	\$11.1	\$0.9	\$0.0	\$0.9
<b>Managing the Legacy</b>	\$172.8	\$1.9	\$174.7	\$259.3	\$3.1	\$262.4
<b>TOTAL APPLIED</b>	<b>\$2,534.6</b>	<b>\$250.4</b>	<b>\$2,785.0</b>	<b>\$2,842.9</b>	<b>\$280.7</b>	<b>\$3,123.6</b>
DEVELOPMENT*	Direct Cost	Deprecation & Other	Total	Direct Cost	Deprecation & Other	Total
<b>Energy Diversity</b>						
Energy Efficiency	\$145.4	\$9.0	\$154.4	\$205.7	\$12.0	\$217.7
Fossil Energy	\$0.0	\$0.0	\$0.0	\$48.2	\$11.3	\$59.5
<b>Environmental Impacts of Energy</b>						
Fossil Energy	\$127.7	\$36.6	\$164.3	\$95.8	\$19.9	\$115.7
Nuclear Energy	\$9.1	\$1.0	\$10.1	\$1.3	\$0.3	\$1.6
<b>Energy Infrastructure</b>						
Energy Efficiency	\$19.5	\$0.8	\$20.3	\$28.7	\$1.7	\$30.4
Electric Transmission & Distribution	\$17.0	\$1.7	\$18.7	\$26.0	\$1.6	\$27.6
Power Marketing Administration**	\$2.5	\$0.0	\$2.5	\$1.1	\$0.0	\$1.1
<b>Energy Productivity</b>						
Energy Efficiency	\$22.9	\$1.2	\$24.1	\$20.7	\$1.4	\$22.1
<b>Nuclear Deterrent</b>	\$595.4	\$195.3	\$790.7	\$467.4	\$117.3	\$584.7
<b>Weapons of Mass Destruction</b>	\$66.1	\$6.7	\$72.8	\$84.7	\$5.1	\$89.8
<b>Nuclear Propulsion Plants</b>	\$708.9	\$54.0	\$762.9	\$681.5	\$42.9	\$724.4
<b>Environmental Cleanup</b>	\$22.4	\$3.5	\$25.9	\$2.1	\$0.1	\$2.2
<b>TOTAL DEVELOPMENT</b>	<b>\$1,736.9</b>	<b>\$309.8</b>	<b>\$2,046.7</b>	<b>\$1,663.2</b>	<b>\$213.6</b>	<b>\$1,876.8</b>
<b>TOTAL R&amp;D</b>	<b>\$7,041.3</b>	<b>\$1,229.6</b>	<b>\$8,270.9</b>	<b>\$7,191.7</b>	<b>\$1,097.7</b>	<b>\$8,289.4</b>

\* Starting in FY 2006 Other Defense Activities will no longer be included due to classification issues.

\*\* Full R&D investments for the Power Marketing Administration's are included under direct costs of the Energy Infrastructure Goal.

U.S. DEPARTMENT OF ENERGY  
AGENCY FINANCIAL REPORT

FISCAL YEAR  
2007

Consolidated and Combined  
Financial Statements

FY 2005			FY 2004			FY 2003		
Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total
\$19.9	\$5.1	\$25.0	\$30.3	\$4.6	\$34.9	\$24.3	\$3.6	\$27.9
\$6.0	\$1.7	\$7.7	\$7.1	\$0.8	\$7.9	\$10.1	\$1.2	\$11.3
\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
\$0.0	\$0.0	\$0.0	\$3.4	\$0.0	\$3.4	\$3.3	\$0.0	\$3.3
\$3.2	\$0.3	\$3.5	\$13.2	\$1.0	\$14.2	\$10.2	\$1.4	\$11.6
\$2,808.7	\$735.5	\$3,544.2	\$2,581.3	\$583.4	\$3,164.7	\$2,448.0	\$594.0	\$3,042.0
<b>\$2,837.8</b>	<b>\$742.6</b>	<b>\$3,580.4</b>	<b>\$2,635.3</b>	<b>\$589.8</b>	<b>\$3,225.1</b>	<b>\$2,495.9</b>	<b>\$600.2</b>	<b>\$3,096.1</b>
Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total
\$161.9	\$24.8	\$186.7	\$130.9	\$13.1	\$144.0	\$81.7	\$11.5	\$93.2
\$34.1	\$8.4	\$42.5	\$38.6	\$3.1	\$41.7	\$41.3	\$4.2	\$45.5
\$123.3	\$41.8	\$165.1	\$137.9	\$16.4	\$154.3	\$145.4	\$17.5	\$162.9
\$52.5	\$35.8	\$88.3	\$74.3	\$6.4	\$80.7	\$12.3	\$1.2	\$13.5
\$74.5	\$7.8	\$82.3	\$45.8	\$4.0	\$49.8	\$56.1	\$6.0	\$62.1
\$55.6	\$4.1	\$59.7	\$18.7	\$2.0	\$20.7	\$0.0	\$0.0	\$0.0
\$9.7	\$0.0	\$9.7	\$11.8	\$0.0	\$11.8	\$11.4	\$0.0	\$11.4
\$15.1	\$2.0	\$17.1	\$25.7	\$3.1	\$28.8	\$31.9	\$4.4	\$36.3
\$1,898.6	\$192.9	\$2,091.5	\$1,888.0	\$404.9	\$2,292.9	\$1,660.5	\$454.5	\$2,115.0
\$73.1	\$5.6	\$78.7	\$60.4	\$4.4	\$64.8	\$95.2	\$13.8	\$109.0
\$0.0	\$0.0	\$0.0	\$3.1	\$0.6	\$3.7	\$2.9	\$0.5	\$3.4
\$15.6	\$1.2	\$16.8	\$28.1	\$4.1	\$32.2	\$23.4	\$4.5	\$27.9
\$144.0	\$1.9	\$145.9	\$65.3	\$1.8	\$67.1	\$75.8	\$1.0	\$76.8
<b>\$2,658.0</b>	<b>\$326.3</b>	<b>\$2,984.3</b>	<b>\$2,528.6</b>	<b>\$463.9</b>	<b>\$2,992.5</b>	<b>\$2,237.9</b>	<b>\$519.1</b>	<b>\$2,757.0</b>
Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total
\$265.8	\$28.0	\$293.8	\$326.8	\$32.3	\$359.1	\$78.3	\$10.3	\$88.6
\$51.2	\$12.6	\$63.8	\$57.9	\$4.7	\$62.6	\$63.6	\$6.5	\$70.1
\$121.0	\$40.3	\$161.3	\$135.0	\$16.1	\$151.1	\$138.5	\$16.6	\$155.1
\$1.2	\$0.8	\$2.0	\$20.5	\$1.6	\$22.1	\$16.0	\$2.4	\$18.4
\$54.2	\$7.1	\$61.3	\$69.6	\$6.3	\$75.9	\$248.8	\$29.1	\$277.9
\$13.5	\$3.2	\$16.7	\$38.0	\$3.2	\$41.2	\$0.0	\$0.0	\$0.0
\$2.1	\$0.0	\$2.1	\$8.8	\$0.0	\$8.8	\$8.7	\$0.0	\$8.7
\$15.1	\$2.0	\$17.1	\$25.7	\$3.1	\$28.8	\$25.3	\$3.5	\$28.8
\$467.2	\$106.8	\$574.0	\$543.4	\$120.9	\$664.3	\$734.3	\$221.5	\$955.8
\$53.6	\$2.8	\$56.4	\$49.4	\$3.1	\$52.5	\$66.1	\$9.8	\$75.9
\$724.7	\$40.6	\$765.3	\$667.1	\$17.7	\$684.8	\$621.8	\$16.3	\$638.1
\$36.4	\$3.6	\$40.0	\$65.5	\$9.5	\$75.0	\$54.7	\$10.3	\$65.0
<b>\$1,806.0</b>	<b>\$247.8</b>	<b>\$2,053.8</b>	<b>\$2,007.7</b>	<b>\$218.5</b>	<b>\$2,226.2</b>	<b>\$2,056.1</b>	<b>\$326.3</b>	<b>\$2,382.4</b>
<b>\$7,301.8</b>	<b>\$1,316.7</b>	<b>\$8,618.5</b>	<b>\$7,171.6</b>	<b>\$1,272.2</b>	<b>\$8,443.8</b>	<b>\$6,789.9</b>	<b>\$1,445.6</b>	<b>\$8,235.5</b>

FINANCIAL RESULTS

— Research and Development —

**Strategic Theme 1: Energy Security**

(Basic, Applied and Development)

*Environmental Impacts of Energy*

Energy Efficiency and Renewable Energy – The Department will improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies and exploring advanced technologies that make a fundamental improvement in our mix of energy options. Discussed below are contributions from the Department offices that contribute to the Energy Security general goal. Energy Efficiency and Renewable Energy – Activities relate to (1) solar technologies; (2) geothermal technologies; (3) wind and hydropower technologies; (4) hydrogen and fuel cell technologies for transportation, stationary, and portable application; (5) energy conservation for the building sector, including residential building, commercial building, and retrofit technologies; (6) biomass technologies; (7) energy efficiency and renewable energy efforts in the Federal sector; (8) energy conservation and energy supply efforts in the industry sector; (9) energy conservation for the transportation sector, including automotive alternative fuels and electric vehicles; and, (10) energy conservation and renewable energy for intergovernmental activities including the State Energy Program and Weatherization Program.

The Solar Energy Technology Program focuses on improving performance of solar energy systems and reducing development, production, and installation costs to competitive levels, thereby accelerating large-scale usage across the Nation and making a significant contribution to a clean, reliable and flexible U.S. Energy supply.

The Wind Program enables wind to compete with conventional fuel throughout the Nation, creating a clean renewable energy option through technology research and development, collaborative efforts, technical support and outreach.

Fossil Energy – Activities relate to (1) improving acceptable technology for advancing power conversion systems for generating electricity and hydrogen from coal; and (2) supporting of advanced technologies for the recovery of oil and natural gas through technologies and development in drilling and offshore oil production, and characterization research.

The Department is committed to developing advanced fossil power systems capable of achieving 45-50 percent efficiency at a capital cost of \$1,000 per kW or less for a coal-based plant (dollar amount based on FY 2002 dollars). To support this goal, the gasification technologies program is working towards the commercialization of economical and efficient sulfur removal and/or multi-contaminant clean-up.

*Energy Infrastructure*

Electricity Delivery and Energy Reliability R&D activities address high temperature superconductivity, transmission reliability, electric distribution transformation and innovative energy storage. These activities contribute to the modernization and expansion of the Nation's electricity delivery system to ensure a more reliable and robust electricity supply.

**Strategic Theme 2: Nuclear Security**

(Basic, Applied, & Development)

*Nuclear Deterrent*

Nuclear Weapons Stewardship Activities relate to (1) providing the scientific understanding and engineering development capabilities necessary to support near-term and long-term requirements of the nuclear stockpile; (2) providing scientific understanding of the nuclear package of the weapons systems in order to sustain our ability to certify the nuclear weapons stockpile, support stockpile refurbishment and life extension and to provide capabilities and components necessary to support maintenance and refurbishment in the absence of nuclear testing; and (3) ensuring the weapons complex and its facilities and infrastructure are in place to manufacture and certify the 21st century nuclear weapons stockpile. The applied research and development program of the Science Campaign helps to support the nuclear weapons stewardship goal by ensuring that our nuclear weapons will continue to serve their essential deterrence role.

*Weapons of Mass Destruction*

Activities conducted provide the science and technology required for treaty monitoring and material control, as well as early detection and characterization of the proliferation of weapons of mass destruction and special nuclear materials and improving the technologies leading to major improvements in responding to chemical and biological attacks. Under the Department's goal to have all worldwide fissile nuclear materials under controls acceptable to the United States by 2025, the nonproliferation verification research and development program will develop new technologies to improve our ability to detect and monitor nuclear explosions.

*Nuclear Propulsion Plants*

Activities include development, demonstration, improvement, and safe operation of nuclear propulsion plants and reactor cores for application to submarines and surface ships. The Transformational Technology Core (TTC) reactor plant design is designed to meet increasing demands on the submarine fleet, delivering a significant energy increase to future Virginia-class ships with minimum impact to the overall ship design.

**Strategic Theme 3: Scientific Discovery and Innovation**  
(Basic)

*Scientific Breakthroughs, Foundations of Science and Research Integration*

A major goal in this area is to achieve the major scientific discoveries that will drive U.S. competitiveness; inspire America, and revolutionize our approaches to the Nation's energy, national security, and environmental quality challenges. Another goal is to deliver the scientific facilities, train the next generation of scientists and engineers, and provide the laboratory capabilities and infrastructures required for U.S. scientific primacy. These two goals are inherently linked since scientific discoveries are dependent upon cutting edge technology and facilities support.

The Department conducts research in the areas of (1) advanced scientific computing relevant to the complex challenges faced by the Department and providing world class supercomputer and networking facilities for scientists; (2) basic energy sciences including nuclear sciences, materials sciences, chemical sciences, engineering geosciences, energy biosciences, advanced energy projects and advanced mathematical sciences; (3) biological and environmental research needed to identify, understand, and anticipate the long term health

and environmental consequences of energy production, development and use; (4) fusion energy sciences including broad-based fundamental research efforts aimed at producing knowledge on fusion; (5) high energy physics activities directed at understanding the nature of matter and energy; (6) nuclear physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and (7) small business innovative research/technology transfer support for energy related technologies that will significantly benefit US businesses, a technology transfer initiative.

**Strategic Theme 4: Environmental Responsibility**  
(Applied & Development)

*Managing the Legacy*

Some research and development activities focus on the Department's responsibility for cleaning up federal Cold War legacy waste sites. R&D activities are conducted on the long-term storage of high level nuclear waste at a permanent underground repository. Scientific work explores opportunities for better performance in the underground repository and improved cost savings. The work concentrates on four areas: Source Term; Materials Performance; Natural Barriers; and Advanced Technologies.

— Required Supplementary Information (RSI) —

(unaudited)

This section of the report provides required supplementary information for the Department on deferred maintenance and budgetary resources by major budget account.

**Deferred Maintenance**

Deferred maintenance information is a requirement under SFFAS No.6, Accounting for Property, Plant and Equipment and SFFAS No.14, Amendments to Deferred Maintenance which requires deferred maintenance to be disclosed as of the end of each fiscal year. Deferred maintenance is defined in SFFAS No.6 as “maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.” Estimates were developed for:

<b>Buildings and Other Structures and Facilities</b>	<b>\$3,287 million</b>
<b>Capital Equipment</b>	<b>\$85 million</b>
<b>Total</b>	<b>\$3,372 million</b>

**Buildings and Other Structures and Facilities**

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results

from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

The Department determines deferred maintenance and acceptable operating condition through various methods, including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification.

As of September 30, 2007, an amount of \$3,287 million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at 70 percent.

**Capital Equipment**

Pursuant to the cost/benefit considerations provided in SFFAS No. 6, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) is not applicable to property items with an acquisition cost of less than \$100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department’s capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of \$85 million of deferred maintenance was estimated to be needed as of September 30, 2007, to return capital equipment assets to acceptable operating condition.



U. S. Department of Energy  
Budgetary Resources by Major Account

As of September 30, 2007

(\$ in millions)

**BUDGETARY RESOURCES:**

Unobligated Balance, Brought Forward, Oct 1  
Recoveries of Prior Year Unpaid Obligations  
Budget Authority  
Nonexpenditure Transfers, Net  
Authority Not Available  
Total Budgetary Resources

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred  
Unobligated Balances Available  
Unobligated Balances Not Available  
Total Status of Budgetary Resources

**CHANGE IN OBLIGATED BALANCE:**

Obligated Balance, Brought Forward, Oct 1  
Obligations Incurred  
Less: Gross Outlays  
Obligated Balance Transferred, Net  
Less: Recoveries of PY Obligations, Actual  
Change in Uncollected Customer Payments, Federal  
Obligated Balance, Net, End of Period

**NET OUTLAYS**

Fossil Energy R&D 89X0213	Science 89X0222	Energy Supply & Conservation 89-0224	Strategic Petroleum Reserve 89X0233	Weapons Activities 89-0240
\$ 601	\$ 20	\$ 61	\$ 592	\$ 412
31	2	6	-	1
593	3,798	2,926	-	8,794
(12)	39	(4)	-	(17)
-	-	-	-	-
\$ 1,213	\$ 3,859	\$ 2,989	\$ 592	\$ 9,190
\$ 749	\$ 3,845	\$ 2,824	\$ -	\$ 9,025
463	14	160	592	165
1	-	5	-	-
\$ 1,213	\$ 3,859	\$ 2,989	\$ 592	\$ 9,190
\$ 560	\$ 2,232	\$ 1,446	\$ 26	\$ 2,222
749	3,845	2,824	-	9,025
(535)	(3,697)	(2,443)	(1)	(8,722)
-	-	1	-	-
(31)	(2)	(6)	-	(1)
-	-	(79)	-	(75)
\$ 743	\$ 2,378	\$ 1,743	\$ 25	\$ 2,449
\$ 535	\$ 3,697	\$ 1,750	\$ 1	\$ 6,279

**BUDGETARY RESOURCES:**

Unobligated Balance, Brought Forward, Oct 1  
Recoveries of Prior Year Unpaid Obligations  
Budget Authority  
Nonexpenditure Transfers, Net  
Authority Not Available  
Total Budgetary Resources

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred  
Unobligated Balances Available  
Unobligated Balances Not Available  
Total Status of Budgetary Resources

**CHANGE IN OBLIGATED BALANCE:**

Obligated Balance, Brought Forward, Oct 1  
Obligations Incurred  
Less: Gross Outlays  
Obligated Balance Transferred, Net  
Less: Recoveries of PY Obligations, Actual  
Change in Uncollected Customer Payments, Federal  
Obligated Balance, Net, End of Period

**NET OUTLAYS**

Other Defense Activities 89-0243	Defense Environmental Cleanup 89X0251	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X0314	Bonneville Power Administration 89X4045
\$ 53	\$ 32	\$ 462	\$ 4	\$ -
2	2	1	-	-
636	5,732	1,830	782	4,264
-	1	(6)	-	(22)
-	-	-	-	(1,427)
\$ 691	\$ 5,767	\$ 2,287	\$ 786	\$ 2,815
\$ 648	\$ 5,664	\$ 1,854	\$ 780	\$ 2,768
43	103	428	6	47
-	-	5	-	-
\$ 691	\$ 5,767	\$ 2,287	\$ 786	\$ 2,815
\$ 310	\$ 2,265	\$ 1,402	\$ 241	\$ 1,986
648	5,664	1,854	780	2,768
(549)	(5,859)	(1,547)	(816)	(2,782)
-	6	-	-	-
(2)	(2)	(1)	-	-
-	-	-	-	64
\$ 407	\$ 2,074	\$ 1,708	\$ 205	\$ 2,036
\$ 549	\$ 5,859	\$ 1,535	\$ 816	\$ (595)

**BUDGETARY RESOURCES:**

Unobligated Balance, Brought Forward, Oct 1  
Recoveries of Prior Year Unpaid Obligations  
Budget Authority  
Nonexpenditure Transfers, Net  
Authority Not Available  
Total Budgetary Resources

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred  
Unobligated Balances Available  
Unobligated Balances Not Available  
Total Status of Budgetary Resources

**CHANGE IN OBLIGATED BALANCE:**

Obligated Balance, Brought Forward, Oct 1  
Obligations Incurred  
Less: Gross Outlays  
Obligated Balance Transferred, Net  
Less: Recoveries of PY Obligations, Actual  
Change in Uncollected Customer Payments, Federal  
Obligated Balance, Net, End of Period

**NET OUTLAYS**

Western Area Power Administration 89X5068	Uranium Enrichment D&D 89X5231	United States Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
\$ 84	\$ -	\$ 1,414	\$ 424	\$ 4,159
-	-	-	7	52
753	557	59	2,765	33,489
108	-	-	30	117
-	-	-	(258)	(1,685)
\$ 945	\$ 557	\$ 1,473	\$ 2,968	\$ 36,132
\$ 739	\$ 556	\$ -	\$ 2,600	\$ 32,052
206	1	-	317	2,545
-	-	1,473	51	1,535
\$ 945	\$ 557	\$ 1,473	\$ 2,968	\$ 36,132
\$ 202	\$ 137	\$ -	\$ 1,067	\$ 14,096
739	556	-	2,600	32,052
(727)	(503)	-	(2,567)	(30,748)
-	-	-	(7)	-
-	-	-	(7)	(52)
(11)	-	-	(1)	(102)
\$ 203	\$ 190	\$ -	\$ 1,085	\$ 15,246
\$ 217	\$ 503	\$ (59)	\$ (1,029)	\$ 20,058

— Memorandum from the Inspector General —



Department of Energy  
Washington, DC 20585

November 9, 2007

MEMORANDUM FOR THE SECRETARY

FROM:

*Gregory H. Friedman*  
Gregory H. Friedman  
Inspector General

SUBJECT:

INFORMATION: Report on the Department of Energy's Fiscal Year 2007 Consolidated Financial Statements

This is to inform you that the audit of the Department's Fiscal Year (FY) 2007 Consolidated Financial Statements has resulted in an unqualified audit opinion. Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP (KPMG) to perform the audit. KPMG was responsible for expressing an opinion on the Department's consolidated financial statements based on its audits and the reports of other auditors for the year ended September 30, 2007.

KPMG concluded that the consolidated financial statements present fairly, in all material respects, the financial position of the Department and its net costs, changes in net position, budgetary resources and custodial activity in conformity with U.S. generally accepted accounting principles. As part of this review, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. The examination revealed the following two significant deficiencies in the Department's system of internal controls, neither of which were considered to be material weaknesses:

- **Environmental Liabilities:** Internal control deficiencies were found to exist in the process to identify and record environmental liabilities accurately, completely and in a timely manner. These weaknesses related to the inadequacy of management evaluations of supporting information, the use of erroneous assumptions and outdated information, and data inconsistencies between sites. The total value of the errors resulting from internal control weaknesses did not result in a material misstatement of the liabilities.
- **Unclassified Network and Information Systems:** Network vulnerabilities and weaknesses in access and other security controls over unclassified computer information systems continue to exist. The Department has taken steps to improve network security over the sites that were reviewed in prior years, however, auditors found weaknesses in user access controls, network monitoring, and software usage at the sites reviewed in the current year.



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The examination disclosed no instances of noncompliance that are required to be reported under applicable audit standards and requirements. With regard to the specific findings associated with the significant deficiencies, the Department concurred and agreed to take corrective actions.

The Office of Inspector General also engaged KPMG to perform additional audit procedures to test the September 30, 2006, recorded balance of undelivered orders. For FY 2006, KPMG expressed a qualified opinion on the Department's consolidated balance sheet because of accounting issues related to obligations and undelivered orders. Earlier this year, the Department provided sufficient evidential matter to substantiate its undelivered orders balance for the prior year. KPMG performed additional audit procedures on this balance and concluded that the Department's consolidated balance sheet presents fairly, in all material respects, its financial position as of September 30, 2006.

The preparation and audit of financial statements involve many parties. The Department is responsible for preparing and submitting its consolidated financial statements in accordance with Office of Management and Budget requirements and the Office of Inspector General is responsible for the audit. As previously stated, we contracted with the public accounting firm of KPMG LLP to conduct this audit. The Office of Inspector General monitored the contractor's progress, and reviewed the audit report and related documentation to ensure compliance with generally accepted Government auditing standards. The Office of Inspector General, however, did not render an independent opinion on the Department's consolidated financial statements.

I would like to thank each of the Department elements for their courtesy and cooperation during the review

Attachment

cc: Deputy Secretary  
Under Secretary for Energy, Science and Environment  
Administrator, National Nuclear Security Administration  
Chief of Staff  
Chief Financial Officer

Audit Report: OAS-FS-08-02

— Independent Auditors' Report —



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

**INDEPENDENT AUDITORS' REPORT**

The Inspector General, United States Department of Energy and  
The Secretary, United States Department of Energy:

We have audited the accompanying consolidated balance sheets of the United States Department of Energy (Department) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year ended September 30, 2007 (hereinafter referred to, respectively, as the fiscal year 2007 consolidated financial statements and the consolidated balance sheet as of September 30, 2006, or, if no date is specified, the consolidated financial statements). We were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and custodial activities, or the combined statement of budgetary resources, for the year ended September 30, 2006 (hereinafter referred to as the other fiscal year 2006 consolidated financial statements).

The objective of our audits was to express an opinion on the fair presentation of the consolidated financial statements. In connection with our fiscal year 2007 audit, we also considered the Department's internal controls over financial reporting and tested the Department'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.

As discussed in this report, two of the Department's power marketing administrations, whose Department-related financial data are included in the accompanying consolidated financial statements as of September 30, 2007, and the consolidated balance sheet as of September 30, 2006, were audited by other auditors whose reports have been furnished to us and were considered in forming our overall opinion on the Department's consolidated financial statements.

**SUMMARY**

As stated in our report on the consolidated financial statements, based upon our audits and the reports of other auditors, we conclude that the Department's consolidated balance sheets as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year ended September 30, 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. In our report dated November 8, 2006, we expressed a qualified opinion on the consolidated

KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss cooperative.



balance sheet as of September 30, 2006, because of issues related to accounting for obligations and undelivered orders. In fiscal year 2007, the Department provided sufficient evidential matter to support the undelivered orders balance as of September 30, 2006. Therefore, our present opinion on the Department's consolidated balance sheet as of September 30, 2006, as presented herein, is different from that expressed in our previous report. We did not audit the Department's other fiscal year 2006 consolidated financial statements.

Our report emphasizes that: (1) the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control; (2) the Department is involved as a defendant in several matters of litigation relating to its inability to accept commercial spent nuclear fuel by January 31, 1998, the date specified in the *Nuclear Waste Policy Act of 1982*, as amended; (3) the Department changed its method of reporting the reconciliation of net costs with budgetary obligations in fiscal year 2007; (4) the Department changed its method of accounting for its contractors' pension and other postretirement benefit plans in fiscal year 2007; and (5) the Department changed its method of reporting budget authority allocation transfers in fiscal year 2007.

Our consideration of internal control over financial reporting resulted in identification of significant deficiencies in the following areas:

- Accounting for environmental liabilities
- Unclassified network and information systems security

However, we do not consider these significant deficiencies to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. We disclose one other matter for which a final compliance determination has not been made.

The following sections discuss:

- Our opinion on the Department's fiscal year 2007 consolidated financial statements, and the consolidated balance sheet as of September 30, 2006;
- Our consideration of the Department's internal control over financial reporting;
- Our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements;
- Management's responsibilities; and,
- Our responsibilities.



#### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the United States Department of Energy as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year ended September 30, 2007.

We did not audit the financial statements of Bonneville Power Administration or Western Area Power Administration, whose Department-related financial data as of and for the years ended September 30, 2007 and 2006, are included in the accompanying consolidated financial statements. When combined and compared to the Department's consolidated financial statements, the financial data for these entities represent 17 percent of total assets; 50 percent of total earned revenues; and 13 percent of total program costs as of and for the year ended September 30, 2007; and 18 percent of total assets as of September 30, 2006. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the Department's fiscal year 2007 consolidated financial statements and the consolidated balance sheet as of September 30, 2006, insofar as it relates to the amounts included for Bonneville Power Administration and Western Area Power Administration, is based solely upon the reports of the other auditors.

In our report dated November 8, 2006, we expressed a qualified opinion on the Department's consolidated balance sheet as of September 30, 2006, because the Department did not complete corrective actions to address issues related to accounting for obligations and undelivered orders. The recorded balance of undelivered orders, reported as a component of the unexpended appropriations account balance, was \$11.3 billion as of September 30, 2006. Subsequently, the Department provided sufficient evidential matter to substantiate the fair presentation of undelivered orders as of September 30, 2006, and we performed additional audit procedures to test that account balance. Accordingly, our present opinion on the consolidated balance sheet as of September 30, 2006, as presented herein, is different from that expressed in our previous report.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy as of September 30, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity for the year ended September 30, 2007, in conformity with U.S. generally accepted accounting principles.

The Department did not engage us to audit the other fiscal year 2006 consolidated financial statements. Because we were unable to express an opinion on the 2005 consolidated financial statements, the 2006 opening balances were unaudited. Therefore, we did not audit the accompanying consolidated statements of net cost, changes in net position, and custodial activities, and the combined statement of budgetary resources, for the year ended September 30, 2006, and accordingly, we do not express an opinion on them.



As discussed in Note 14 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of \$264 billion and \$230 billion as of September 30, 2007 and 2006, respectively, are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control.

As discussed in Note 17 to the consolidated financial statements, the Department is involved as a defendant in several matters of litigation relating to its inability to accept commercial spent nuclear fuel by January 31, 1998, the date specified in the *Nuclear Waste Policy Act of 1982*, as amended. The Department has recorded liabilities for likely damages of \$11 billion and \$6.7 billion as of September 30, 2007 and 2006, respectively.

As discussed in Note 23 to the consolidated financial statements, the Department changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

As discussed in Notes 15 and 24 to the consolidated financial statements, the Department adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, to account for its contractors' pension and other postretirement benefit plans in fiscal year 2007. Note 24 also discloses the Department's implementation of OMB guidance related to reporting budget authority allocation transfers in fiscal year 2007.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections of the Department's fiscal year 2007 *Agency Financial Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules section of the Department's fiscal year 2007 *Agency Financial Report* is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and custodial activities of the Department's components individually. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based upon our audits and the reports of other auditors, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The other fiscal year 2006 information in the Consolidating Schedules section is based on the other fiscal year 2006 consolidated financial statements on which we express no opinion. Accordingly, we express no opinion on the other fiscal year 2006 information in the Consolidating Schedules.



The information in the Message from the Secretary and the Other Accompanying Information section of the Department's fiscal year 2007 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has not been subjected to auditing procedures 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 the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

In our fiscal year 2007 audit, we noted the following matters, described in more detail in Exhibit I, involving internal control over financial reporting and its operation that we consider to be significant deficiencies:

- **Accounting for environmental liabilities** – We identified deficiencies in the Department's internal controls over identifying and recording environmental liabilities accurately, completely, and timely. The Department should take steps to provide training to field offices regarding management reviews of cost estimates and recording adjustments to environmental liability balances in the proper period, and to ensure adequate coordination between its program offices in the development of cost estimates.
- **Unclassified network and information systems security** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increased the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

We do not believe that these significant deficiencies are material weaknesses. Exhibit II presents the status of audit findings reported in the prior year.





We noted certain additional matters involving internal control over financial reporting and internal control over financial management systems that we will report to management in separate letters.

#### COMPLIANCE AND OTHER MATTERS

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

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

**Other Matter.** The Government Accountability Office has asserted that the Department violated a restriction contained in the *Energy and Water Development Appropriations Act of 1993*, and further alleges that the Department violated the *Anti-Deficiency Act* in fiscal years 2006 and 2007 by engaging in activities preparatory to granting guaranteed loans under the *Energy Policy Act of 2005*. As of the date of this report, the Department is reviewing this matter, and has not made a final determination as to its compliance or noncompliance with the relevant provisions of these statutes.

#### RESPONSIBILITIES

**Management's Responsibilities.** The United States Code, Title 31, Sections 3515 and 9106, requires agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the Department prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal control; and,
- Complying with laws, regulations, contracts, and grant agreements applicable to the Department, including FFMIA.

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



**Auditors' Responsibilities.** Our responsibility is to express an opinion on the Department's consolidated financial statements based on our audits and the reports of other auditors. 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 the Department's internal control over financial reporting. Accordingly, we express no such opinion.

As discussed in the Report on the Consolidated Financial Statements section above, we were not engaged to audit the Department's other fiscal year 2006 consolidated financial statements and we express no opinion on them.

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 and the reports of other auditors provide a reasonable basis for our opinion.

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

As part of obtaining reasonable assurance about whether the Department's fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of the Department'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 the Department. 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 the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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The Department's responses to the findings identified in our audit are presented in Exhibit I. We did not audit the Department's responses and, accordingly, we express no opinion on them.

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

**KPMG LLP**

November 9, 2007

**Independent Auditors' Report**  
**Exhibit I – Significant Deficiencies**

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**Accounting for Environmental Liabilities**

We identified deficiencies in the Department's internal controls over identifying and recording environmental liabilities accurately, completely, and timely. The control deficiencies resulted in current year misstatements of environmental liabilities that were corrected by audit adjustments, and errors in the opening balance, caused by recording adjustments to the liability in the improper accounting period, that were corrected in fiscal year 2007. The current year adjustments to the overall environmental liabilities balance of \$264 billion reported in the fiscal year 2007 consolidated financial statements amounted to approximately \$4 billion. We determined that there was not a significant misstatement of environmental liabilities as of September 30, 2006.

The misstatements that we identified resulted from basing revised estimates on incorrect assumptions and on information that was outdated, a change in a waste shipment schedule that was not communicated between locations, and inadequate field office management reviews of cost estimates.

The Office of Environmental Management (EM) and the various field offices are responsible for reviewing the field office environmental liability submissions and ensuring the timely and accurate recording of the EM liability in the Department's consolidated financial statements. In addition to environmental liabilities that originate from field office submissions, certain liabilities are accounted for at the headquarters level. Most of the errors described above resulted from control deficiencies at field offices. We noted, however, certain headquarters estimates that were based on information that was outdated, resulting primarily from insufficient coordination and inconsistency of assumptions between the Office of Civilian Radioactive Waste Management (OCRWM) and EM.

We understand that in fiscal year 2007, EM began several initiatives to improve the overall accounting for environmental liabilities, including the identification of lessons learned, preparation of a standard operating procedures and policy manual, improving the coordination of inter-site waste shipment schedules and estimates, and development of a model to assess the impact of funding scenarios.

**Recommendations:**

We recommend that EM issue guidance and provide training to field offices regarding management reviews of cost estimates and recording adjustments to the EM liability in the proper period. The guidance and training should focus particular attention on ensuring that new cost estimates are evaluated in time for adjustment of the liability during or prior to year-end financial reporting, and that the estimates are evaluated to ascertain the potential impact on other components of the liability. EM should also develop procedures for an annual review of assumptions regarding inter-site dependencies, to ensure that assumptions, such as waste shipment schedules and estimates, are consistent between sites. These procedures should help EM to ensure that environmental liabilities reported in the Department's consolidated financial statements are complete and accurate.

**Independent Auditors' Report**  
**Exhibit I – Significant Deficiencies**

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We also recommend that OCRWM and EM develop procedures for adequate coordination between these offices in the development of cost estimates to ensure that annual updates to the estimates are based upon current information and consistent assumptions.

**Management's Response:**

The Department concurs with the recommendations to strengthen internal controls for environmental liabilities and agrees there was not a significant misstatement of environmental liabilities as of September 30, 2006. To address the recommendation, guidance and training to ensure cost estimates are reviewed by management and adjustments are recorded in the proper period will be provided in fiscal year 2008. Further, lessons learned from the audit are being compiled and will be incorporated into a standard operating procedure for recording environmental liabilities. This procedure will address the timely incorporation of revised estimates and adjustments, and the review of assumptions regarding inter-site dependencies such as waste shipments between sites or to the high-level waste repository. The Department will have the new procedure in place to support the issuance of the spring budget formulation guidance and development of the fiscal year 2008 environmental liability estimate.

**Independent Auditors' Report**  
**Exhibit I – Significant Deficiencies**

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**Unclassified Network and Information Systems Security**

The Department maintains a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites whose controls we, and the Department's Office of Health, Safety and Security (HSS), reviewed in prior years. However, we and the HSS continued to identify network security weaknesses at sites reviewed in fiscal year 2007, and the frequency and severity of those weaknesses remained consistent with our prior year findings. The Department recognizes these weaknesses and has categorized unclassified cyber security as a significant issue in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2007. Significant improvements are still needed in the areas of password management, configuration management, and restriction of network services.

Our fiscal year 2007 audit also disclosed weaknesses in access at several sites, similar to our prior year findings. Specifically, we noted weaknesses in the review and approval of user access privileges, password security, monitoring of networks for questionable activity, and usage of versions of application and operating system software that were outdated or not appropriately patched. We also noted weaknesses in the cyber security programs at certain locations in which Federal cyber security requirements and Departmental policies and controls were not properly implemented. Further, the Department's Office of Inspector General has reported deficiencies in the Department's network and information system risk management, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2007. Matters discussed in that report included an examination of non-financial systems.

The Department has acknowledged the need to improve its information systems security and other information technology controls. In fiscal year 2007, the Department's Chief Information Officer (CIO) continued to implement a comprehensive revitalization plan designed to improve the management of its information security program, and issued enhanced cyber security guidance to strengthen controls and reduce network vulnerabilities. The Cyber Security Revitalization Plan, launched in fiscal year 2006, is a collaborative effort between the Office of the CIO (OCIO), the Under Secretaries, and other senior management to identify and resolve cyber security problems, provide site assistance, and follow up on corrective actions. Once fully implemented, these initiatives and new policies and procedures should strengthen the Department's overall cyber security program.

The identified weaknesses in network vulnerabilities and access controls increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity of the Department's financial systems.

**Independent Auditors' Report**  
**Exhibit I – Significant Deficiencies**

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**Recommendation:**

While progress has been achieved, continued focus is needed to resolve the vulnerability and access control weaknesses described above. Therefore, we recommend that the program officials, in conjunction with the CIO, fully implement policies and procedures to ensure that the Federal information security standards are met and that networks and information systems are adequately protected against unauthorized access. Detailed recommendations to address the issues discussed above have been separately reported to the program offices and the OCIO.

**Management's Response:**

Management concurs with the recommendation, and shares the auditor's concerns that the cyber security controls are integral to the integrity of the Department's financial and accounting systems. The OCIO will continue to work with the Office of the Inspector General, the Chief Financial Officer, and other Department organizations to improve the implementation of cyber security controls, specifically in the areas of user access controls, password management, network monitoring, and configuration management.

As stated in the OCIO comments on the *Federal Information Security Management Act* report, the Department of Energy is committed to continued improvement of the protection of its information and information systems through a strong cyber security program. As part of this commitment, the Department has continued the development and implementation of the revitalized cyber security program defined in the March 2006 Revitalization Plan approved by the Deputy Secretary. The Secretary and the Deputy Secretary are personally involved in cyber security management and they have continued to guide the evolution of the Cyber Security Revitalization Plan and focus higher level of attention to the improvement and management of cyber security.

The strong focus on cyber security has led to the decision to institutionalize the current Department cyber security requirements, contained in a series of Technical and Management Requirements (TMRs), into Departmental directives. These directives will require the mandatory implementation of the policies and procedures documented in the directives. The continued high level Department attention to cyber security resulted in a Cyber Summit being convened by the Deputy Secretary to examine how to improve the protection of the Department's information and information systems. The Summit results are being integrated into the fiscal year 2008 cyber security action plan, which continues the implementation of the Revitalization Plan.

In addition to the Cyber Summit, efforts to implement the Revitalization Plan have included reviews of all guidance and the creation of eighteen TMRs. Department Manual 205.1-4, *National Security System Controls Manual*, was issued March 2007. Office of the CIO efforts to ensure compliance with Department policy will include reviews in fiscal year 2008 of all Program Cyber Security Plans (PCSPs) and reviews of the certification and accreditation of a significant number of the Department's information systems.

**Independent Auditors' Report**  
**Exhibit II – Status of Prior Year Audit Findings**

Fiscal Year 2006 Audit Findings (with parenthetical disclosure of year first reported)	Status at September 30, 2007
Financial Management and Reporting Controls - Accounting for Obligations and Undelivered Orders – Considered a Material Weakness (2005)	Implemented; finding closed.
Performance Measurement Reporting – Considered a Reportable Condition (2006)	Not evaluated in the fiscal year 2007 audit – Performance measures are not presented in the fiscal year 2007 <i>Agency Financial Report</i> , in accordance with OMB guidance; therefore, our 2007 audit did not include consideration of internal controls over performance measures.
Unclassified Information Systems Security – Considered a Reportable Condition (1999)	Not fully implemented – Unclassified network and information systems security issues continue to be reported in Exhibit I as a significant deficiency.





# OTHER ACCOMPANYING INFORMATION

— Inspector General's Management Challenges —

On an annual basis, the Office of Inspector General identifies what it considers to be the most significant management challenges facing the Department of Energy. Now codified as part of the Reports Consolidation Act of 2000, this effort assesses the agency's progress in addressing previously identified challenges and considers emerging issues facing the Department. The management challenges identified below constitute a major factor in setting priorities for Office of Inspector General audits, inspections, and other evaluations of Department of Energy programs and operations.

This year, we have identified seven management challenges, which include Safeguards and Security, Environmental Cleanup, Stockpile Stewardship, Contract Administration, Project Management, Cyber Security, and Human Capital Management. Representing risks inherent to the Department's complex missions as well as those related to management operations, these challenges are, for the most part, not amenable to immediate resolution and must, therefore, be addressed through a concentrated, persistent effort, resulting in positive results over time. In addition to identifying the above management challenges, we have also developed a "watch list," which consists of management issues that do not meet the threshold of being classified as management challenges, yet warrant continued attention by Department management. This year, the watch list consists of the following operational and programmatic functions: Worker and Community Safety and Infrastructure Modernization.

By aggressively addressing these challenges, the Department can enhance program efficiency and effectiveness; reduce or eliminate operational deficiencies; decrease fraud, waste, and abuse; and achieve substantial monetary savings. We look forward to working with senior management in a continuing effort to improve the Department's programs and operations.

**Safeguards and Security**

With the advancement of the Manhattan Project and the race to develop the atomic bomb during World War II, the origins of the Department are inextricably linked to principals of national security. While the Department has shifted its focus over its history as the needs of the Nation have changed, special emphasis on safeguards and security has remained a vital aspect of the Department's mission. The Department plays a key role in the Nation's security by ensuring the safety of the country's nuclear weapons, advancing nuclear non-proliferation, and providing safe and efficient nuclear power plants for the United States Navy. In order to faithfully execute and preserve this mission, the Department employs numerous protective force personnel, maintains various classified materials and other sensitive property, and develops policies designed to protect national security and other critical assets.

Over the past year, the Department has continued to make strides toward improving national security as well as safeguarding the

agency's numerous employees and facilities. While this progress represents a positive step, we conducted reviews during FY 2007, which highlighted the need for continued improvement in this area. For example, in light of the importance of safeguarding weapons parts in the post 9-11 environment, an audit was initiated to determine whether selected National Nuclear Security Administration sites had adequate accountability controls over classified weapons parts. Two of the three sites reviewed had not implemented adequate lifecycle controls and did not track many classified non-nuclear weapons parts in their custody. Accordingly, we made recommendations to improve accountability for all classified weapons parts.

The above example highlights the importance of a strong Safeguards and Security program and the necessity for continued focus and improvement by Department management on this crucial management challenge.

**Environmental Cleanup**

Since its establishment, the Department has maintained an important environmental mission. With the end of the Cold War, this mission has taken on greater importance, as efforts to dispose of large volumes of solid and liquid radioactive waste became more essential as a result of more than 50 years of nuclear defense work and energy research. The Department is responsible for cleaning contaminated sites and disposing of radioactive waste resulting from nuclear weapons production, nuclear powered naval vessels, and commercial nuclear energy production.

Due to the risks and hazards associated with this difficult and costly task, we conducted a series of reviews during FY 2007 to assess the Department's activities in fulfilling its mission with regard to environmental cleanup. For example, a review to determine if the Department had developed a comprehensive strategy for the remediation of specific burial grounds at the Hanford Site disclosed that planned Departmental actions did not address all pertinent issues. We found that the Department's remediation strategy may produce a waste package that, in some cases, will not meet the Department's current acceptance criteria for interim storage. In addition, the remediation strategy did not reflect the cost to prepare significant quantities of radioactive waste for final disposition. As a result, the Department may incur up to \$188 million more than planned to store, monitor, and manage waste retrieved from the burial grounds. We made recommendations to ensure that these issues are addressed as remediation plans for burial grounds evolve at the Hanford Site.

This review highlights just one example of the monumental task that the Department faces to ensure that contaminated materials and radioactive waste are disposed of in a safe, timely, and cost effective manner. Overseeing the largest cleanup effort in the world, in FY 2007, the Department made significant progress at several contaminated sites. However, the Department continues to experience delays

in accelerated cleanup programs and has been challenged by ongoing concerns at the Yucca Mountain Project. As has been the case in previous years, Environmental Cleanup remains a management challenge that warrants significant attention on the part of Departmental management.

### Stockpile Stewardship

The Department is responsible for the maintenance, certification, and reliability of the Nation's nuclear weapons stockpile. In order to ensure that our nuclear weapons continue to serve their essential deterrence role, the Department maintains stockpile surveillance and engineering capability, refurbishes selected nuclear systems, and sustains the ability to restore the manufacturing infrastructure for the production of replacement weapons, if necessary.

Given the importance and complexity of the Department's role in ensuring the vitality of the U.S. nuclear stockpile, we have classified Stockpile Stewardship as a significant management challenge. Over the past year, the Office of Inspector General has conducted a number of reviews to examine the Department's activities and management strategies in this crucial arena. For example, in 2001, the Office of Inspector General reported that the Department was behind schedule in conducting several stockpile surveillance tests, a key component of the Nuclear Weapons Stockpile Plan. A recent review to determine whether the National Nuclear Security Administration had resolved the weapons testing backlog revealed that while the Department made some progress, significant weapons testing backlogs continued to exist in the surveillance program. From our perspective, elimination of the existing surveillance testing backlog depends, in large part, on the successful implementation and execution of existing Departmental initiatives.

While the Department has taken several steps over the past few years to further enhance the safety and reliability of the country's weapons stockpile, further action is necessary. As illustrated in a number of Office of Inspector General reviews, the Department can continue to improve its Life Extension and Surveillance programs and enhance existing practices related to the cost and scheduling of various stockpile stewardship projects.

### Contract Management

As the largest civilian contracting agency in the Federal Government, the Department places significant reliance on the private sector, employing over 100,000 contractor employees. Contracts are awarded to industrial companies, academic institutions, and non-profit organizations that operate a broad range of Department facilities. In fact, most of the Department's operations are carried out through contracts that consume more than 90 percent of the agency's budget. As a result, effective contract administration is an essential component of the Department's management of its many programs.

During FY 2007, the Office of Inspector General conducted reviews that highlighted the need for improved management of

Department contracts. For example, a recent review determined that the Department did not have a system to determine the number and propriety of Intergovernmental Personnel Act (IPA) and Change of Station (COS) assignments at contractor-operated facilities. The Department was not actively ensuring that the IPA and COS assignments were cost effective and operated in accordance with existing procedures or good business practices, or that taxpayer-provided funds supporting these assignments were put to the best possible use. While IPA and COS programs can be beneficial, it is incumbent upon Department officials to ensure that the program is managed in the best interests of the U.S. taxpayers. Accordingly, the report included recommendations to address the problems in this area and to place the IPA and COS programs on a positive path forward.

To its credit, in response to several of our reviews, the Department has developed strategies and programs to improve deficiencies in the area of Contract Management. However, given the number of contracts handled by the Department on a yearly basis, combined with the continuing concerns found during our reviews, the area of Contract Management remains a significant management challenge.

### Project Management

The Department undertakes numerous unique and complex multi-million dollar projects in order to support its many goals and objectives. In recent years, the Department has responded to weaknesses in the area of project management in order to improve the discipline and structure for monitoring project performance. Utilizing stronger policies and controls to ensure that ongoing projects are reevaluated frequently, the Department has made project management a primary area of focus.

Recent Office of Inspector General reviews have identified additional improvements that are necessary to ensure that the Department's project management practices are effective and accomplish the goals of the agency. For example, in one of the largest and most important of its environmental remediation activities, the Department is constructing a \$12.2 billion Waste Treatment Plant at the Hanford Site. In order to meet quality assurance standards, the Plant design called for the installation of a computerized network to monitor the operation of the Plant. Our review determined that the Waste Treatment Plant control system acquired by the Department did not meet applicable quality assurance standards. Under the circumstances, we concluded that the Department can not be sure that the Plant's current system is suitable for processing high-level nuclear waste. Moreover, the review raised concerns as to the adequacy of the Department's quality assurance process in the development and deployment of large-scale projects.

Given the complexity and importance of the Department's numerous multi-million dollar projects and the results of recent Office of Inspector General reports, Project Management remains a significant management challenge.

**Cyber Security**

Given the importance and sensitivity of the Department's numerous projects, laboratories, and assets, along with the vast array of data that is produced, cyber security has become a crucial aspect of the Department's overall security structure as well as the security of the Nation as a whole. In 2005, the Department established a Cyber Security Improvement initiative, the goal of which was to identify improvements for cyber security controls within the Department. In recent years, threats to the Government's information systems have become a major security risk. As a result of these risks and in light of events in recent years involving intrusions to the Department's systems, the Office of Inspector General has categorized Cyber Security as a significant management challenge.

As required by the Federal Information Security Management Act (FISMA), the Office of Inspector General initiated a review to determine whether the Department's unclassified cyber security program adequately protects data and information systems. Our evaluation for FY 2007 found that the Department has taken steps to improve cyber security practices and continued to maintain strong network perimeter defenses against malicious intruders and other external threats. Certain problems, however, persist and additional action is needed to reduce the risk of compromise to information systems. Specifically, the Department should address continuing problems with the certification and accreditation of agency systems, a complex-wide inventory of information systems, and the protection of personal information. The risk of compromise to the Department's information and systems remains higher than acceptable. In order to combat this challenge, the Department has in place an aggressive effort to address existing weaknesses and it continued implementation of its plan to revitalize the cyber security program. To aid the Department in its ongoing efforts, we made several recommendations designed to enhance overall cyber security controls.

As the FISMA and related reports have indicated, the risks associated with protecting the Department's computer systems and personnel

information continue to exist. Due to the evolving nature of cyber security threats, immediate as well as long-term action is necessary to ensure the protection of the Department's information systems.

**Human Capital Management**

In the 2001 President's Management Agenda, the Office of Management and Budget recognized strategic management of human capital as one of the Government's "most glaring problems." The Agenda specifically outlined concerns that the Department's staff lacked adequate project and contract management skills required to oversee large projects. Subsequently, the Department undertook an effort to perform a critical skills gap analysis in order to review and evaluate specific critical skill needs.

Adding to existing concerns in the area of Human Capital Management, the Department has experienced a 27 percent reduction in the workforce since 1995. In addition, 26 percent of the Department's workforce will be eligible to retire within the next three years. When combined with other factors, the Department is faced with a difficult challenge to ensure that its workforce has the knowledge and skills that are necessary to fulfill the agency's various missions. Recent Office of Inspector General reviews have noted concerns related to Human Capital Management in various areas, including the Department's acquisition workforce and in the establishment of a new loan guarantee program.

As part of the Department's Human Capital Management Strategic Plan, during FY 2007, the Department continued its efforts to reshape its workforce through increased emphasis on performance and accountability. As a result, the Department instituted reorganizations in various program offices in order to address issues of performance excellence and leadership continuity. While these are positive steps, the area of Human Capital Management is an ongoing challenge that will require the attention of Department management in the years to come.

— Summary of Financial Statement Audit and Management Assurances —

<b>Audit Opinion</b>	Unqualified				
<b>Restatement</b>	No				
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
Accounting for Obligations and Undelivered Orders	√		√		
<b>Total Material Weaknesses</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>

<b>Effectiveness of Internal Control over Financial Reporting (FMFIA Section II)</b>						
Statement of Assurance	Qualified, due to scope limitation.					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
Accounting for Obligations and Undelivered Orders	√		√			
<b>Total Material Weaknesses</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Effectiveness of Internal Control over Operations (FMFIA Section II)</b>						
Statement of Assurance	Unqualified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
No Material Weaknesses reported						
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Conformance with financial management system requirements (FMFIA Section IV)</b>						
Statement of Assurance	Systems conform to financial management system requirements					
<b>Non-Conformances</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
No non-conformances reported						
<b>Total non-conformances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Conformance with Federal Financial Management Improvement Act (FFMIA)</b>						
	Agency			Auditor		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements				Yes		
2. Accounting Standards				Yes		
3. USSGL at Transaction Level				Yes		

— Financial Management Systems Plan —

The Integrated Management Navigation System (I-MANAGE) Program is the Department's solution for managing enterprise-wide systems initiatives to achieve improved financial and business efficiencies, integrated budget and performance, and expanded electronic government in support of the President's Management Agenda. The I-MANAGE Program is a collaborative Departmental effort to define and provide a modern, integrated corporate business system for the Department of Energy. The Project Portfolio is comprised of enterprise-wide systems initiatives to include: the Standard Accounting and Reporting System (STARS), I-MANAGE Data Warehouse (IDW), Standard Budget System (SBS), Strategic Integrated Procurement Enterprise System (STRIPES), and Corporate Human Resource Information System (CHRIS).

The I-MANAGE Program provides information for managers, ensures common goals and objectives are identified and followed, and eliminates redundant systems and data. The Program also provides more efficient use of finite human resources and allows DOE programs and projects to be managed as a portfolio with visibility and understanding of interrelationships, cost/benefits and dependencies. A blueprint for unified systems has been established and followed to align with the Department's Enterprise Architecture and cyber-security standards.

**Current Systems**

*Standard Accounting and Reporting System*

STARS provides the Department with a modern, comprehensive and responsive financial management system that will be the foundation for linking budget formulation, budget execution, financial accounting, financial reporting, cost accounting and performance measurement. The financial management component will be integrated with the other major corporate business systems, procurement and human resources.

*I-MANAGE Data Warehouse*

IDW is the nucleus for integrating data from all of the Department's business management information systems and facilitating corporate reporting and management decision-making. Data in the IDW will come from the authoritative Departmental corporate business systems. This data-centric approach to integrating data will allow the Department to rapidly respond to new and changing demands for information.

*Corporate Human Resource Information System*

CHRIS is a single, integrated human resource (HR) system created through a phased approach to provide the highest quality HR information and services to the Department's executives, managers and employees. The primary objectives for CHRIS are to: enhance operational efficiencies; reduce paperwork; eliminate redundant information systems; eliminate non-value added work; and provide strategic information necessary to make informed human resource management decisions.

**Systems Underway**

*Strategic Integrated Procurement Enterprise System*

STRIPES is the procurement and contracts management component of the overall I-MANAGE program. STRIPES will also represent the overall DOE approach to providing financial assistance through an OMB approved Grants Management Line of Business response. The STRIPES solution will replace and consolidate as many as 30 Federal corporate, regional and local procurement-related systems across the Department. The goal is to use existing enterprise financial management and other resource planning functionality in a fully integrated solution. The scope of the STRIPES project is focused on conducting those activities required or directly associated with planning, awarding and administering various unclassified acquisition and financial assistance instruments; thereby, increasing the internal efficiency of the Department. STRIPES will begin phased deployment in January 2008.

*Standard Budget System*

SBS will be the first DOE-wide budget formulation and budget execution system. This initiative will implement financial management goals outlined in the President's Management Agenda. SBS will standardize budget formulation and streamline execution processes, integrate budget and performance data, consolidate corporate budget data, provide analytic capability for slice/dice and what-if projections, and integrate with other business management and field systems. Budget formulation will begin deployment in early FY 2009.

## — Improper Payments Information Act Reporting Details —

### Improper Payments

Improper payments are monitored by the Department on an annual basis to ensure our error rates remain at minimal levels.

For determining payments subject to the *Improper Payments Information Act*, the Department includes all payments, whether from contracts or grants. The Departmental erroneous payment rate has remained below one percent since the inception of our tracking program in FY 2002.

### Improper Payment Rates and Outlook (\$ in millions)

Payment Type	FY 2006			FY 2007			FY 2008			FY 2009			FY 2010		
	Outlays \$	Improper Outlays \$	% of Improper Outlays	Outlays \$	Improper Outlays \$	% of Improper Outlays	Outlays \$	Improper Outlays \$	% of Improper Outlays	Outlays \$	Improper Outlays \$	% of Improper Outlays	Outlays \$	Improper Outlays \$	% of Improper Outlays
Vendor/Contracts	16,148	10	.06	16,753	16	.10	16,214	13.1	.08	16,181	11.8	.07	16,198	12.5	.08
Payroll	6,646	8	.12	6,373	3	.05	6,347	5.5	.09	6,496	6.8	.10	6,421	6.1	.10
Travel	494	.5	.10	438	.4	.09	466	.4	.09	479	.4	.08	473	.4	.08
Other	363	0	0	409	.3	.07	386	.2	.05	375	.1	.03	380	.2	.05
Total	23,651	18.5	.08	23,973	19.7	.08	23,413	19.2	.08	23,531	19.1	.08	23,472	19.2	.08

### Recovery Auditing

The Department has established a policy for implementing recovery auditing requirements. This policy prescribes requirements for identifying overpayments to contractors and establishes reporting stan-

dards to track the status of recoveries. Analysis of payment activities confirmed a low percentage of overpayments and a high recovery rate. The Department will continue to focus on both the identification and recovery of improper payments to maintain our record of low payment errors and ensure effective stewardship of public funds.

### Recovery Auditing (\$ in millions)

FY 2006				FY 2004 – FY 2005		FY 2004 – FY 2006	
Amount Subject to Review	Actual Amount Reviewed and Reported*	Amounts Identified for Recovery	Amounts Recovered	Amounts Identified for Recovery	Amounts Recovered	Cumulative Amounts Identified for Recovery	Cumulative Amounts Recovered
\$20,570	\$9,231	\$15	\$10	\$28.5	\$25.8	\$43.5	\$35.8

\* Utilized a statistically determined sample size at the 90 percent level of confidence.

— Management's Response to Audit Reports —

Pursuant to the Inspector General Act Amendments of 1988 (Public Law 100-504), agency heads are to report to Congress on the status of final action taken on audit report recommendations. This report complements a report prepared by the Department's Office of Inspector General (IG) that provides information on audit reports issued during the period and on the status of management decisions made on previously issued IG audit reports.

**Inspector General Audit Reports**

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the IG, and implementing agreed upon corrective actions. In some instances, we are able to take corrective action immediately and in others, action plans with long-term milestones are developed and implemented. The audit resolution and follow-up process is an integral part of the Department's effort to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase both the efficiency and effectiveness of our operations and strengthen our standards of accountability.

During FY 2007, the Department took final action on 43 IG reports with the agreed upon actions including final action on eight IG operational, financial and pre-award audit reports with funds put to better use. At the end of the period, 114 reports awaited final action.

**Status of Final Action on IG Audit Reports for FY 2007**

The following chart provides more detail on the audit reports with open actions and the dollar value of recommendations and funds "put to better use" that were agreed to by management.

Audit Reports	Number of Reports	Agreed-Upon Funds to Better Use (\$ in Millions)
Pending final action at the beginning of the period	102	\$683
With actions agreed upon during the period	55	\$79
Total pending final action	157	\$683
Achieving final action during the period	43	\$359
Requiring final action at the end of the period	114	\$324

**Inspector General's Contract Audit Reports**

During FY 2007, there are no IG contract audit reports pending final action.

**Contract Audit Reports Statistical Table FY 2007**

Total Number of IG Contract Audit Reports (Contract and Financial Assistance) and the dollar value of disallowed costs:

	Number of Reports	Disallowed Costs* (\$ in Millions)
Contract audit reports with management decisions on which final action had not been taken at the beginning of the period	0	\$0
Contract audit reports issued on which management decisions were made during the period	0	\$0
Total contract audit reports pending final action during the period	0	\$0
Contract audit reports on which final action was taken during the period	0	\$0
Recoveries	0	-
Reinstatements	0	-
Contract audit reports needing final action at the end of the period	0	\$0

\*The amount of costs questioned in the audit report with which the contracting officer concurs and has disallowed as a claim against the contract. Recoveries of disallowed costs are usually obtained by offset against current claims for payment and subsequently used for payment of other eligible costs under the contract.

**Government Accountability Office Audit Reports**

The U.S. Government Accountability Office (GAO) audits are a major component of the Department's audit follow-up program. At the beginning of FY 2007 there were 42 GAO audit reports awaiting final action. During FY 2007, the Department received 36 additional final GAO audit reports, of which 17 required tracking of corrective actions and 19 did not because the reports did not include actions to be taken by the Department. The Department completed agreed-upon corrective actions on 16 audit reports during FY 2007, leaving 42 GAO reports awaiting final action at year-end.