



U.S. DEPARTMENT OF ENERGY AGENCY FINANCIAL REPORT



FISCAL YEAR 2007

— Foreword —

The *Reports Consolidation Act of 2000* authorizes Federal agencies to consolidate various reports in order to provide performance, financial and related information in a more meaningful and useful format. In accordance with the Act, the Department of Energy (Department or DOE), in previous years, has produced a Performance and Accountability Report (PAR). For FY 2007, the Department has chosen to produce an alternative report to the consolidated PAR and to participate in the FY 2007 pilot pursuant to the Office of Management and Budget's (OMB) Circular A-136. The Department's FY 2007 pilot reporting includes the following three components and is available at the website below:

Agency Financial Report (AFR) [available November 15, 2007]

The AFR, the following report, is organized by the following three major sections:

- **Management's Discussion and Analysis** section provides executive-level information on the Department's history, mission, organization, key activities within five strategic themes, analysis of financial statements, systems, controls and legal compliance and other challenges facing the Department.
- **Financial Results** section provides a Message from the Chief Financial Officer, the Department's consolidated and combined financial statements and the Auditors' Report.
- **Other Accompanying Information** section provides the Inspector General's Management and Performance Challenges, Improper Payments Information Act Reporting Details and other statutory reporting.

Annual Performance Report (APR) [available February 4, 2008]

The APR will be produced in conjunction with the Congressional Budget Justifications and will provide the detailed performance information and descriptions of results by each performance measure.

Highlights [available February 1, 2008]

This document will summarize the Department's financial and performance information from the AFR and APR using a forward-looking perspective.

The Department believes that this reporting approach will simplify and shorten the performance presentations for readers while utilizing the Internet for providing and leveraging additional performance information.

This report meets the following legislated reporting requirements:

Department of Energy Organization Act of 1977

– requires an annual report on agency activities.

Federal Managers' Financial Integrity Act (FMFIA) of 1982

– requires a report on the status of internal controls and the most serious problems.

Federal Financial Management Improvement Act (FFMIA) of 1996

– requires an assessment of the agency's financial systems for adherence to Government-wide requirements.

Inspector General (IG) Act of 1978 (Amended)

– requires information on management actions in response to Inspector General audits.

Government Management Reform Act (GMRA) of 1994

– requires agency audited financial statements.

Reports Consolidation Act of 2000

– requires the consolidated reporting of performance, financial and related information in a Performance and Accountability Report.

Improper Payment Information Act (IPIA) of 2002

– requires reporting on agency efforts to identify and reduce erroneous payments.

All pilot reporting components will be available at
www.cfo.doe.gov/cf1-2/2007parpilot.htm

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— Message from the Secretary —



I am pleased to present the Department of Energy's fiscal year 2007 Agency Financial Report (AFR). This report is the first of three integrated reporting components that the Department will issue through our participation in an alternative reporting pilot program with the Office of Management and Budget. The remaining two pilot report components will be issued in conjunction with the submission to Congress of the Department's fiscal year 2009 budget request in February 2008. This alternative reporting will enhance the Department's ability to present our information in a more meaningful and transparent manner for the public.

This past year was exciting for the Department because it was our first under the Department's new strategic plan. This plan provides the roadmap to address the energy, environmental and nuclear security challenges before us. I am very proud of the work we have accomplished for the American public. Each day, we are working toward our mission of "Discovering the solutions to power and secure America's future."

The Department's strategic themes – *Energy Security, Nuclear Security, Scientific Discovery and Innovation, Environmental Responsibility and Management Excellence* – serve as the basic guide for us to address the Nation's energy, environmental, and nuclear security challenges through the Department's scientific discovery and innovation initiatives.

Energy Security

The Advanced Energy Initiative aims to increase investment in clean energy sources that will help transform how we fuel our vehicles and power our homes and businesses. To that end, the Department is focused on diversifying America's energy supply, improving our energy efficiency and expanding supplies of clean energy. We are emphasizing technologies with the potential to reduce our growing reliance on oil imports and to produce clean electricity with reduced emissions. Over the past five years, the U.S. solar and wind energy industries have seen explosive growth. In fiscal year 2007, an additional 3,000 megawatts of wind and approximately 200 megawatts of solar capacity were installed in the United States. This newly installed capacity can power 850,000 households and will avert seven million tons of carbon dioxide emissions that might otherwise have been produced from traditional power sources.

Nuclear Security

With the ever present threat of terrorism, security of the nuclear weapons and materials around the world has never been more important. The Department maintains and enhances the safety, security, reliability and performance of the U.S. nuclear weapons stockpile in support of Department of Defense requirements. A significant challenge to the Department is providing a responsive nuclear weapons infrastructure that is smaller, safer, more secure and reliable, and more responsive to changing technical, geopolitical and military requirements. The Department continues to strengthen innovative programs around the world to address nonproliferation priorities and combat global nuclear terrorism. As a direct result of this effort, the Department has worked with Russia to convert more than 300 metric tons of former Soviet weapons highly enriched uranium to low-enriched uranium for use in U.S. nuclear power plants.

Scientific Discovery and Innovation

Developing revolutionary, science-driven technology is at the heart of the Department's mission. Investing in science is vital to sustaining our economic position in the world. Estimates are that half of the growth in the U.S. economy in the last 50 years had a grounding in Federal funding of scientific and technological innovation. American taxpayers have received great value for their investment in the basic research sponsored by the Department. To ensure that America remains at the forefront in an increasingly competitive world, the Department is pursuing new transformational technologies in the cutting-edge scientific fields of the 21st century – areas like nanotechnology, materials science, biotechnology and high-speed computing. President Bush's American Competitiveness Initiative commits to doubling the Federal investment in the most critical basic

research programs in the physical sciences over the next ten years. In fiscal year 2007, the Department launched three new Bioenergy Research Centers, which will address inherently interdisciplinary scientific problems requiring scientific expertise and technological capabilities that span the physical and biological sciences. Some of the activities these Centers will be focused on include genomics, microbial and plant biology, analytical chemistry, computational biology and bioinformatics, and engineering.

Environmental Responsibility

The Department is ensuring the protection of human health and the environment by cleaning up Cold War legacy waste and working to establish a national permanent nuclear waste repository at Yucca Mountain, Nevada. Like many of the Department's major programs, the environmental cleanup and the nuclear waste repository programs have undergone management and programmatic reforms, resulting in improvements in operational effectiveness and efficiency. By the end of fiscal year 2007, the Department completed cleanup at 86 of its 108 Cold War legacy waste sites, a significant achievement. However, the remaining large sites, Savannah River, Idaho National Laboratory, Portsmouth, Paducah, Oak Ridge and Hanford, present enormous challenges to the Department.

Management Excellence

By 2010, over a quarter of the Department's current workforce will be eligible to retire. Nuclear and electrical engineers, contract and program managers, and human resource specialists are critical to the continued success of the Department's programs. To help attract the brightest and most driven employees, the Department adopted a new 5-year Human Capital Management Strategic Plan. This plan, comprised of 43 programs and initiatives, will enhance productivity and accountability and assure the Department has the right people with the right skills and the right jobs to accomplish its mission.

Financial and Program Performance Data

The independent public accounting firm KPMG LLP, conducted an audit of the Department's fiscal year 2007 financial statements contained in this report. Based on the results of that audit, I am very proud to announce that the Department has received an unqualified audit opinion. The Department has worked extremely hard during the last three years to overcome several financial and accounting challenges and can now demonstrate the results of our promise to provide effective stewardship over the public funds entrusted to us by the American people. The Department has also taken actions to strengthen controls and reporting processes for performance data. Based on our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete and reliable, and accurately describes the results achieved by the Department.

Conclusion

As this Agency Financial Report demonstrates, the Department is committed to making a positive difference in the lives of all Americans. We recognize the importance of our work to the country's economic, environmental, and national security and embrace our role in powering and securing America's future.



Samuel W. Bodman
November 14, 2007



