

# RECLAMATION

*Managing Water in the West*

## 2005 Annual Report



U.S. Department of the Interior  
Bureau of Reclamation

On the cover: Pathfinder Dam, located 47 miles  
Southwest of Casper, Wyoming, Great Plains Region.

Comments and questions about this report or its contents can be made to Ed Abreo, Bureau of Reclamation, Management Services Office, D-7400, P.O. Box 25508, Denver, Colorado 80225-0508, Telephone: 303-445-3423.

This report was written and produced by Reclamation's Technical Communications Group and the Visual Presentations Group. All financial material was prepared by Reclamation's Financial Policy Division.

This Annual Report can be found on the Internet at <http://www.usbr.gov/library/>.

**Fiscal Year 2005 Annual Report**

U.S. Department of the Interior  
Bureau of Reclamation



## TABLE OF CONTENTS

Mission and History .....	ii
Fiscal Year 2005 Overview of Accomplishments .....	iii
Letter from the Commissioner .....	iv
Management's Discussion and Analysis .....	1
Fiscal Year 2005 Accomplishments and Future Challenges .....	2
Developing and Managing Water .....	2
Generating Power .....	15
Maintaining and Protecting Infrastructure .....	19
Other Programs and Benefits .....	22
Management Excellence .....	29
2005 Performance Measure Highlights .....	35
Delivering Water .....	36
Delivering Power .....	37
2005 Assurance Statement .....	38
Financial Analysis .....	39
Change in Accounting Principle .....	39
Accelerated Reporting Due Dates .....	40
Financial Statements .....	41
Financial Statements and Notes .....	47
Auditor's Report .....	49
Response to Auditor's Report .....	65
Consolidated Balance Sheet .....	80
Consolidated Statement of Net Cost .....	81
Consolidated Statement of Changes in Net Position .....	82
Combined Statement of Budgetary Resources .....	83
Consolidated Statement of Financing .....	84
Notes to the Financial Statements for the Years Ended September 20, 2005, and 2004 .....	85
Supplemental Section .....	121
Required Supplementary Information .....	124
Financial Resources .....	124
Required Supplementary Stewardship Information .....	134
Federal Stewardship Assets .....	134
Audits of Reclamation Programs .....	142

# Mission and History

**T**he Bureau of Reclamation was created in 1902 to help settle the American West. Then called the “Reclamation Service,” we were authorized by Congress to assist local communities in building water projects to “reclaim” the arid West.

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

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

Today, as the largest wholesaler of water in the country, we furnish water to 31 million people. Reclamation is also the second largest producer of hydroelectric power in the Nation. Many of our projects have produced benefits for 50 or 60 years with a few benefiting the West in excess of 100 years. They have continued to provide water and power during droughts and flood control during times of surplus water.

Over time, water from our projects has helped fuel a boom of settlement throughout the West. Over this same period, our focus has changed. Managing existing resources is our major priority, now that new construction is not as frequent. The requirements of increased populations for domestic water, recreational activities, and water to maintain ecosystems have resulted in increasing demands on existing water supplies. Our existing facilities still play a major role in meeting these demands, while our expertise in managing water and researching new technologies provides new opportunities for us to contribute.

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

# FY 2005 Accomplishments

**R**eclamation had numerous accomplishments during fiscal year 2005, including the following:

- Delivered 31.9 million acre-feet of water (1 acre-foot supplies enough water for a family of four for 1 year).
- Generated about 42 million kilowatthours (wKWh) of hydroelectric energy, enough to meet the annual needs of 9 million people.
- Under the Water 2025 Program, awarded more than \$10 million in Challenge Grants to fund 43 water conservation or development projects in 13 States.
- Launched a 50-year Lower Colorado River Multi-Species Conservation Program to coordinate response to protect fish and wildlife along 400 miles of the lower Colorado River, while still meeting water and power needs of farmers, tribes, industries, and urban residents.
- Implemented security improvements for our critical infrastructure.
- By purchasing from willing sellers, developed a water bank of more than 118,000 acre-feet of water to help the endangered salmon in the Klamath Project in California and Oregon.

# Letter from the Commissioner



*I*t is my pleasure to present the Bureau of Reclamation's 2005 Annual Report to the Congress and the public.

*At the beginning of this fiscal year, Reclamation continues relief activities in response to hurricanes Katrina and Rita. We have deployed people and provided such important equipment as the water purification unit that provided water to the Biloxi Medical Center. Katrina is the worst natural disaster in our Nation's history, and all of us will feel its effects for some time to come. Reclamation is always ready to respond to catastrophe as we carry out our core mission of delivering water and generating power in the seventeen western States.*

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

*Reclamation is also the Nation's tenth largest power utility and second largest producer of hydroelectric power. Our 58 powerplants serve nine million people, providing more than 42 billion kilowatt hours of energy each year—equivalent to the energy provided by 80 million barrels of crude oil—and generating nearly one billion dollars in power revenues for the U.S. Treasury.*

*We continue to look ahead to meet the water needs of the West through such programs as Interior Secretary Gale Norton's initiative, Water 2025. The program aims at water conservation and the prevention of crises and conflict through technological improvement and innovations such as water banking and desalination. In fact, desalination research produced the water purification unit now being used in the Katrina relief. We are in the second year of the highly successful Water 2025 Challenge Grant program, which provides seed money to local partners to implement on-the-ground solutions that stretch current water supplies. In 2005, we expanded the program to include a Challenge Grant program for States.*

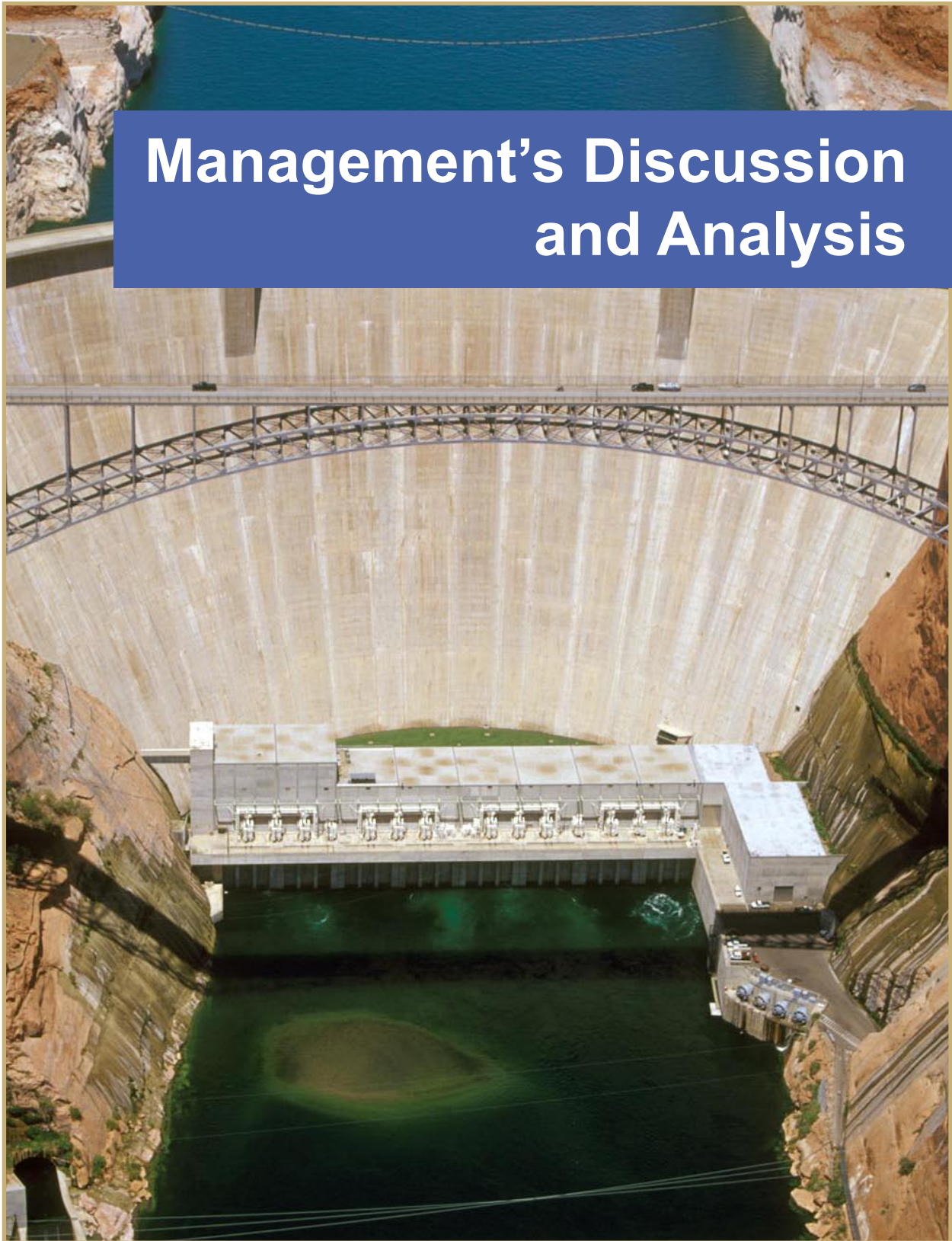
*Our partnerships with State, local, and Tribal partners are instrumental in our operations. Our work is guided by Secretary Norton's principle of the 4Cs—Conservation through cooperation, communication, and consultation.*

*Safety continues to be emphasized for our employees and the public at our facilities.*

*We also work to satisfy the Secretary's Native American trust responsibilities.*

*Reclamation has the privilege to work in the fastest growing region of our Nation, and we will continue to supply the water and power that enables the high quality of life in the West.*

A handwritten signature in black ink that reads "John W. Key, III". The signature is written in a cursive style with a large, looping initial "J".



# Management's Discussion and Analysis



# Management's Discussion and Analysis



**T**he Management's Discussion and Analysis section of the Bureau of Reclamation's Annual Report summarizes how Reclamation fulfilled its mission in fiscal year (FY) 2005. This section contains a narrative discussion of Reclamation activities and highlights of performance. It is divided into three main categories: Fiscal Year 2005 Accomplishments and Future Challenges, 2005 Performance Measure Highlights, and Financial Analysis. More detail on Reclamation projects and activities may be found at [www.usbr.gov](http://www.usbr.gov).

## Fiscal Year 2005 Accomplishments and Future Challenges

In FY 2005, Reclamation continued to accomplish mission-related goals in managing, developing, and protecting water and related resources. Our water projects meet authorized obligations to provide water and power under contracts with project beneficiaries. In addition, we provide related benefits as directed by Congress. To accomplish our mission, our Commissioner has established four overarching priorities:

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

### Developing and Managing Water

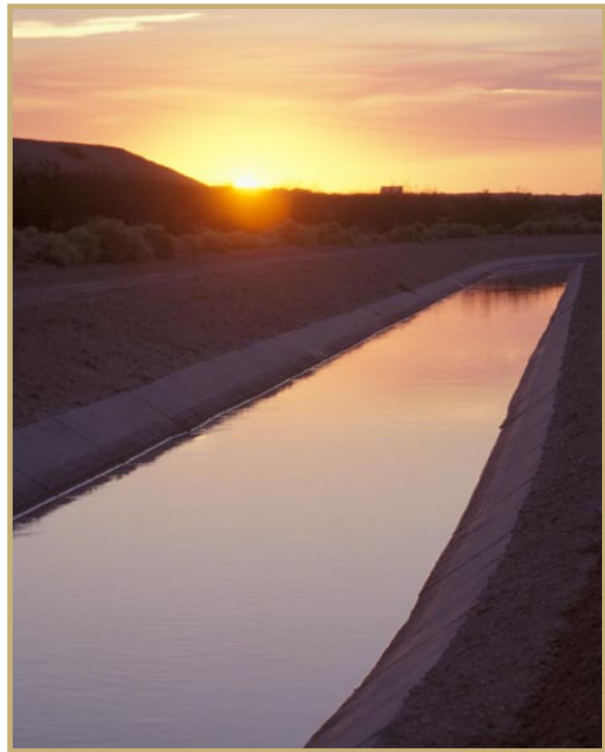
One of Reclamation's primary missions is storing and delivering water throughout the 17 Western States. Ongoing droughts and burgeoning Western populations have made

this job more challenging in recent years. We continuously evaluate our management strategies and incorporate new technologies to develop new water supplies and use water more efficiently.

**Water 2025: Preventing Crises and Conflict in the West**

Water is the lifeblood of the American West and the foundation of its economy. It is also the scarcest resource in some of the fastest-growing areas of the country.

Water 2025 is intended to focus attention on the reality that explosive population growth in western urban areas, the emerging need for water for environmental and recreational uses, and the national importance of the domestic production of food and fiber from western farms and ranches are driving major conflicts between these competing uses of water. The program provides a basis for public discussion of the realities that face the West so that decisions can be made at the appropriate level in advance of water supply crises. It also sets forth a framework to identify the problems, solutions, and a plan of action to focus the conversation as the Department of the Interior (Interior) works with States, tribes, local governments, and the private sector to meet water supply challenges.



**Lined canals save water by reducing seepage.**

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

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

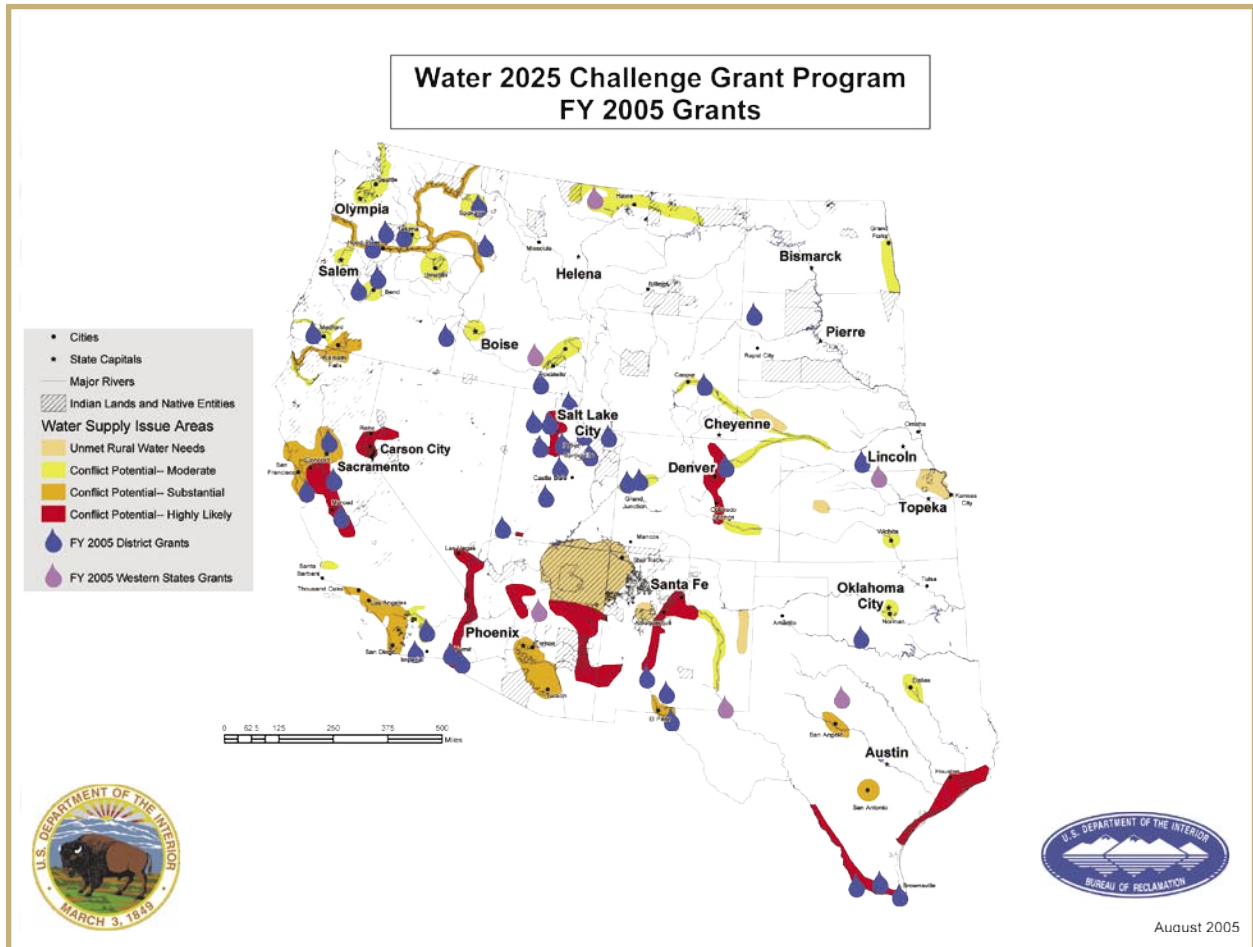


**FY 2005 Highlights**

*Water 2025 Challenge Grants.*—In FY 2005, for the second year in a row, Reclamation received more than 100 proposals for Challenge Grant funding. With \$10 million available for the Challenge Grant Program for irrigation and water districts, 43 projects in 13 States were selected for award in FY 2005. These projects represent a combined investment of more than \$27 million in water improvements, including non-Federal cost-share contributions of more than \$17 million.

The grants will fund a variety of projects to make more efficient use of existing water supplies through water conservation, efficiency, and water marketing projects. Some examples include:

- The Elephant Butte Irrigation District (New Mexico) will save up to 8,000 acre-feet of water a year by installing 100 flow control meters to better manage and monitor water deliveries to farms.



- The Sevier River Water Users Association (Utah) will save up to 22,500 acre-feet of water by expanding and enhancing its real-time monitoring and control system to better manage water deliveries.

In spring 2005, Reclamation also launched its Water 2025 Challenge Grant Program for the Western States. State governmental entities with water management authority (e.g., State Departments of Water Resources, State Engineers' Offices, etc.), located in the 17 Western States, were invited to compete for cost-share funding for projects that will result in more efficient use of existing water supplies. For the \$1 million available, Reclamation received 25 proposals from 13 States.

Six projects by the Western States were selected for funding in spring 2005, amounting to more than \$2 million in total project costs, including non-Federal cost-share contributions. Idaho, Kansas, Texas, Arizona, Montana, and New Mexico will receive about \$1 million in grants that will help fund projects to recharge groundwater, install flow-measurement and leak-detection equipment on canals and pipelines, and develop Web-based tools and databases to manage water resources more efficiently.

*Improvement of Technology.*—Under Water 2025 significant progress has also been made toward improving technology used to stretch water supplies. In FY 2005, \$1.7 million in Water 2025 funds were awarded through Reclamation's Science and Technology Program to cost-share competitive grants to outside entities for research, pilot, and demo projects focused on the improvement of water purification technology.

Reclamation is continuing work to improve technology through a number of partnerships established in FY 2004 to implement congressional earmarks (a specific amount of spending for specific projects) included in the FY 2004 and FY 2005 budgets for Water 2025. For example, \$1.0 million was earmarked in FY 2004 and another \$1.0 million in FY 2005 for Reclamation to work with a consortium of universities in Ohio to develop advanced remote sensing technologies. These technologies will help Reclamation manage water resources in areas where there are current or potential water conflicts.

Reclamation is continuing work with the Middle Rio Grande Conservancy District in New Mexico to modernize its water delivery facilities. Applying earmarks of \$1.75 million in 2004 and \$1.75 million in 2005, Reclamation and the district have entered into a 50-50 cost-share partnership to implement water efficiency measures, including installing flow measurement devices, lining canals, and automating weather stations and diversion dams throughout the district. The district expects to complete the projects implemented with the FY 2004 funding in fall 2007 and will complete the FY 2005 funded projects in fall 2008.

Pursuant to a \$2 million earmark in FY 2005, Reclamation is working with the Desert Research Institute in Nevada on three projects:

1. Investigating the human health and environmental safety of using polyacrylamide (PAM) to reduce canal seepage in unlined canals.
2. Evaluating sediment transport in the downstream reach of the Las Vegas Wash, including analysis of sediment management impacts on Lake Mead.
3. Evaluating methods for automating check and diversion structures along the Truckee River.

### ***Klamath Water Bank***

Reclamation established a Water Bank to increase Klamath River flows to benefit the endangered Coho salmon. The Klamath Project, which provides irrigation water in Oregon and California, has reduced flows in the Klamath River. A biological opinion from the National Marine Fisheries Service designated baseline flows needed to reduce threat to habitat conditions for the endangered species.

The Klamath Water Bank is not a body of water but, rather, a procedure to account for water not used by farmers and ranchers on an annual basis. This water is purchased by Reclamation from willing sellers and released to increase Klamath River flows at specific times of the year to benefit the Coho salmon. The Water Bank requirement for 2005 was 100,000 acre-feet of water; in total, Reclamation contracted for 118,738 acre-feet. We announced selections for all Water Bank programs on March 16 and executed all contracts for 2005. Applications came from farmers for land idling (40,000 acre-feet) and farmers using groundwater instead of surface water (13,900 acre-feet). We also contracted with three groups of well pumpers (50,000 acre-feet). In addition, the Lower Klamath National Wildlife Refuge is storing 15,000 acre-feet of water for Klamath Water Bank use.

By working with willing sellers, Reclamation was able to meet endangered species needs while continuing to provide irrigation water to other users.

### ***Multi-Species Conservation Program***

River systems in the West are facing demands to meet many different uses—water for cities, farms, tribes, recreation, and endangered species, among others. Cooperation is essential to make the most of our limited water resources. In FY 2005, Reclamation and Interior launched a 50-year Lower Colorado River Multi-Species Conservation Program. This initiative provides more than \$626 million (not including indexing) over the 50-year period in Federal and local funding to protect fish and wildlife along 400 miles of the lower Colorado River, while meeting the needs of farmers, tribes, industries, and urban residents who rely on the river for water and power supplies.



**The whooping cranes (left) and piping plover (right) are two examples of the many endangered species that Reclamation is working to protect.**

The program was selected as an outstanding example of a successful conservation partnership and was showcased at the White House Conference on Cooperative Conservation in St. Louis, Missouri, on August 29, 2005.

The conservation program is designed to benefit at least 26 species. Along the lower Colorado River, the partnership will restore 8,132 acres of riparian, marsh, and backwater habitat for six federally protected species and at least 20 other species that are native to the river system.

By meeting the needs of fish and wildlife under the Endangered Species Act and preventing the listing of additional species, the Lower Colorado River Multi-Species Conservation Program plan provides greater certainty of continued water and power supplies from the river for users in Nevada, California, and Arizona. It also is designed to allow future water transfers for these States.

The agreement calls for the program's conservation work to be cooperatively funded over the next 50 years. The Federal Government and local agencies are each contributing 50 percent of the \$626 million cost of the program, which will be indexed annually for inflation to ensure adequate funding in the future for species protection.

The effort will be carried out along 400 miles of the main stem of the lower Colorado River from Lake Mead to the Mexican border and includes the river's historic flood plain and all the reservoirs to their full capacity.

### **Construction**

Most of Reclamation's construction is in support of the Dam Safety Program or is performed as part of specific projects that have been authorized by the Congress, including the Animas-La Plata Project. Portions of this and other authorized projects have been contracted to Indian tribes pursuant to the Indian Self-Determination and Education Assistance Act, Public Law (P.L.) 93-638. In FY 2005, Reclamation's major construction efforts were on the Animas-La Plata Project in western Colorado.

Since 2002, construction contracts in excess of \$211 million have been awarded for the Animas-La Plata Project. This water delivery project is being constructed pursuant to the Colorado Ute Indian Water Rights Settlement Act of 1988 and will provide water for the Ute Mountain Ute and Southern Ute Indian Tribes and the Navajo Nation, as well as benefit four other entities: (1) the Animas-La Plata Water Conservancy District, Colorado; (2) the State of Colorado; (3) the San Juan Water Commission, New Mexico; and (4) the La Plata Conservancy District, New Mexico. The project consists of Ridges Basin Dam and Lake Nighthorse, Durango Pumping Plant, Ridges Basin Inlet Conduit, and Navajo Nation Municipal Pipeline, as well as fish, wildlife, wetlands, and cultural resources mitigation.

### **FY 2005 Highlights**

The contract for completion of the Ridges Basin Dam was awarded to the Ute Mountain Ute Tribe in March 2005. At a celebration to mark the initial placement of impervious core material in Ridges Basin Dam on August 12, 2005, Reclamation announced the rising of the dam from its excavated foundation. When completed (expected in 2008), Ridges Basin Dam, a key component of the Animas-La Plata Project, will include a state-of-the art pumping plant. The dam will create Lake Nighthorse, which will provide the Four Corners area with 120,000 acre-feet of long-term water storage. Upon completion of the entire project, water stored in Lake Nighthorse will be used by municipal and industrial users within Colorado and New Mexico.

Construction on Ridges Basin Dam and pumping plant continued in FY 2005. Excavation for the outlet works tunnel and foundation of the dam and the pumping plant was completed. Construction of 5 of 11 drop structures also was completed; these structures provide gradient control between the dam and the Animas River. Grouting of the dam foundation is well underway, with placement of dam embankment currently in progress. Placement of concrete for the pumping plant began in 2004 and continues. Final design of components to Navajo Nation Municipal Pipeline and of the inlet conduit is underway. Construction of the entire Animas-La Plata Project is nearly 25 percent complete.



Another current Reclamation construction project is the Upper Stillwater Dam Project, Utah. Phase I of the project is approximately 98 percent complete. The downstream drain has been completed. Installing membranes in the three major cracks is in the final stages, and all membranes should be installed by December 15, 2005. To date, the contract amount is \$8,492,125.

**Future Challenges and Goals**

The Animas-La Plata Project is currently scheduled, based upon a reasonable funding level, to be completed in 2011, including filling of the reservoir, at an estimated total cost of \$500 million, plus indexing for inflation.

**Research and Development Programs**

The Research and Development (R&D) Office is responsible for the Science and Technology Program, for the Desalination and Water Purification Research Program, for commercialization and cooperative R&D with the

**Durango Pumping Plant with the intake manifold on the left and the discharge manifold on the right.**

**Ridges Basin Dam from the left abutment. Zone 1 is in the center with Zones 2 and 3 to the left.**



private sector, and for providing assistance to other Reclamation projects and programs that have R&D collateral responsibility.

The Yuma Area Office administers desalination R&D associated with implementing the Colorado River Basin Salinity Control Project. The R&D is focused on ensuring contemporary and efficient operations of the Yuma Desalting Plant, but technology advancements are typically transferable to the desalination industry. The R&D is commonly conducted through collaborative efforts with municipalities, the private sector, and/or the Science and Technology Program.

The Science and Technology Program funds internal R&D through a Reclamation-wide competitive process. The purpose of the program is to conduct applied R&D focused on Reclamation's core mission of water and power deliveries to Reclamation project beneficiaries and has contributed many of the tools and capabilities in use today by Reclamation and western water managers. The Desalination and Water Purification Research Program is focused on funding external research in desalination technologies that benefit the Nation through competitive, cost-shared cooperative agreements.

#### **FY 2005 Highlights**

*Slowsand Filtration to Reduce Costs of Desalting Water.*—Desalting can offer “drought-proof” water supplies by converting both sea water and salty inland waters to fresh drinking water. Because reverse osmosis desalting plants are very sensitive to particulates in their salty feed water, they require effective prefiltration of water before desalting. Slowsand filtration is a low-tech technology that uses no chemical coagulants. Results of field tests to date indicate that the use of slowsand filtration could reduce total desalting costs by about 30 percent.

*Flow Deflectors to Prevent Stilling Basin Abrasion Damage.*— Costly, recurring erosion damage plagues many of the stilling basins where water deliveries are released from dams. Research conducted by Reclamation's Water Resources Research Laboratory demonstrates that flow deflectors can prevent riverbed gravels from being carried into the stilling basin, where they combine with the churning flows to create the destructive erosive force. An initial demonstration project at Mason Dam, Oregon, was successful, and there are now plans to place flow deflectors in the stilling basin of Choke Canyon Dam in Texas.

*Butterflies as Indicators of Riparian Quality.*— Riparian areas, because of high habitat qualities and biodiversity, are among the most important ecosystems in the West. Reclamation research has demonstrated that butterfly communities provide useful ecological indicators of the health of complex riparian areas. Monitoring butterflies has been used successfully along the lower Colorado River to help indicate areas of emerging ecosystem stress and to help evaluate the effectiveness of restoration efforts.



*Automatic Fish Classifier.*— In conjunction with several Brazilian water and hydropower utilities and universities, Reclamation has developed an automatic fish classifier that uses a video camera and software to recognize and count specific species. When dam operators are alerted to the presence of specific fish species, they can modify operational water releases based on the validated presence of the fish, as appropriate, to meet mitigation commitments.

*Cooperative Agreement for Desalination Pilot*

*Projects.*—Reclamation and the Metropolitan Water District (MWD) of Southern California have entered into a cooperative research agreement to test three water desalination pilot projects at Reclamation's Water Quality Improvement Center, a 12,000-square-foot building with three test trains and multiple stand-alone test devices in Yuma, Arizona. The innovative technologies highlighted in these projects have the potential to reduce the cost of desalination while increasing the amount of water available after treatment. The \$3 million research agreement includes in-kind and cash contributions from MWD.



**Water Quality Improvement Center in Yuma, Arizona.**

*Tularosa Desalination Facility.*—Construction is continuing on the Tularosa Basin National Desalination Research Facility in Alamogordo, New Mexico. The facility will be housed in a 16,000-square-foot building with offices, a conference room, a laboratory, three outside research pads, and six interior research bays.

The facility will be a national center for research in the desalting of brackish groundwater found in inland States. It is estimated that the facility will be fully operational by early FY 2007.

*Licensing Agreement for Magnetic Flux Probe.*—Reclamation has signed a licensing agreement with Iris Engineering to mature and commercialize a probe developed by Reclamation's Hydroelectric Research and Technical Services Group that monitors the magnetic field in the airgap between the rotor and stator of hydropower generators and motors. This device is more accurate than conventional methods of measuring magnetic fields in generators. Using it could help prevent a costly generator failure

and also would reduce routine maintenance requirements at power generation facilities. Reclamation and the Reclamation inventors were granted a patent for this probe in 2002. This technology transfer is authorized under the Federal Technology Transfer Act, as amended.

### **Water Conservation Field Services Program**

Our Water Conservation Field Services Program provides technical and financial assistance to water districts covered by the Reclamation Reform Act and to other entities. Districts covered by the Reclamation Reform Act represent more than 10.5 million irrigated acres. The Water Conservation Field Services Program involves assistance from Reclamation's regional and area offices to help water users at the local level. The program provides assistance in four areas: (1) preparing water conservation plans; (2) implementing effective, efficient water management measures; (3) demonstrating innovative conservation technologies; and (4) training and outreach.

### **FY 2005 Highlights**

- Renewed the Bridging-the-Headgate Declaration of Cooperation partnership between Reclamation, U.S. Department of Agriculture's Natural Resources Conservation Service, National Association of State Conservation Agencies, National Association of Conservation Districts, National Water Resources Association, and Western States Water Council. The Irrigation Association was added as a new partner this year.
- Continued with technical assistance to irrigation districts in developing and updating water conservation plans.
- Provided demonstrations of new technology, such as a prototype, hand-held software application for recording water deliveries at farm turnouts, which was developed by the Oklahoma-Texas Area Office.

### **Drought**

Reclamation's approach to addressing drought conditions begins with storing water for times of shortage. During the recent, prolonged drought, our reservoirs have performed well, meeting water requirements in most areas of the West despite precipitation shortages.

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

Part of this advance planning involves interagency efforts such as the Drought Action Teams developed in collaboration with the U.S. Department of Agriculture. We make grants available under the Water 2025 Program and under our Water Conservation Field

Services Program to help water users make more efficient use of water, particularly during times of drought.

In addition, Reclamation responds to emergencies by using its authority under the Reclamation States Emergency Drought Relief Act of 1991, as amended. We contribute funds to a variety of projects at State and local levels to mitigate the impacts of drought. In FY 2005, we funded a total of almost \$1.5 million in emergency drought relief to a number of entities:

- Several communities in Montana and an Indian Pueblo in New Mexico received funds to drill municipal wells.
- Nebraska, Kansas, and New Mexico purchased temporary supplies of water from willing sellers to provide flows for endangered fish or to leave water in storage.
- Two municipalities in New Mexico were able to initiate planning activities for long-term water supplies.

### ***Flood Control***

Flood control is a major purpose of many of Reclamation's dams. Water management systems—several dams and reservoirs that have coordinated management—allow us to shift water from one reservoir to another to mitigate both water shortages and flooding. Each year, the U.S. Army Corps of Engineers (Corps) calculates the amount of damage that most likely would have occurred without water management systems. The most recent figures developed by the Corps indicate that, in FY 2003, Reclamation's dams and reservoirs prevented a total of almost \$200 million in damages throughout the West. Cumulative benefits from 1950, when records were first kept, through FY 2003 total more than \$29 billion.



**Parker Dam, located on the Colorado River northeast of Parker, Arizona.**

### **Contract Renewals**

Reclamation is unique among Federal agencies because our project development costs are repaid by those who benefit from them. Costs are repaid under water service and repayment contracts with the entities who receive the water our projects store and the power our hydroelectric plants generate. Water service contracts typically run for 40 years and must be renegotiated when they expire. Because conditions change over time and costs increase, renegotiating contracts can be challenging and time consuming.

In the Pacific Northwest Region, Reclamation is in the process of converting 19 water service contracts to repayment contracts for Lucky Peak Reservoir, a Corps of Engineers project in the Boise and Lucky Peak Projects, Idaho. Existing contracts expire between 2005 and 2008. The contracts account for about 71,000 acre-feet of the active space in Lucky Peak Reservoir. These contracts, which currently have a 40-year term, provide a supplemental irrigation water supply from the reservoir that is mainly used during drought years. The National Environmental Policy Act (NEPA) documentation and the Endangered Species Act (ESA) consultation to support the conversion have been completed. Reclamation is proceeding with contract execution.

Reclamation's Mid-Pacific Region completed the process of renewing the Sacramento River Settlement contracts by executing 124 contracts. Reclamation started the process of renewing the 141 Sacramento River Settlement Contracts in 2002, completed

#### ***Provo River Title Transfer***

*In November 2004, Reclamation, the Provo River Water Users District, and the Metropolitan District of Salt Lake and Sandy executed a Master Title Transfer Agreement that will implement the authorizations in Public Law 108-382. Title to certain lands and facilities in the Provo River Project, including the Salt Lake Aqueduct and the Provo Reservoir Canal, will transfer from the United States to the water districts.*

negotiation of the contracts in 2004, and received the environmental documentation supporting the renewal in 2005. Seventeen contracts either will not be renewed at the contractors' request or for other reasons. The signed contracts represent nearly 2.2 million acre-feet of water.

The Mid-Pacific Region has also been in the process of renewing up to 109 water service contracts. Twenty-eight of those contracts were signed in 2001. In 2005, Reclamation signed an additional 53 contracts. Negotiations are continuing on four contracts, and it is anticipated that the final environmental documentation for the remaining 24 contracts will be received in early 2006. The

contracts awaiting environmental documentation are in the American River, San Luis, and Cross Valley units/divisions of the Central Valley Project. Significant terms of the new contracts include an initial 25-year term for irrigation and mixed irrigation and municipal and industrial contracts; an initial 40-year term for municipal and industrial only contracts; rates for water adjusted annually according to the irrigation

and municipal and industrial rate-setting policies; tiered water pricing; opportunities for contractors to engage in water management activities such as transfers, water banking, and groundwater recharge; measurement of all water deliveries; development of water conservation plans; and communication, cooperation, and coordination between the parties to improve project management and operation. These water service contracts cover approximately 5.4 million acre-feet of water annually.

In FY 2005, the Great Plains Region completed four contract renewals. Three of the four contract renewals were with entities in Montana, and the other was with an entity in North Dakota.

Reclamation completed an environmental assessment for the three contract renewals in Montana. One NEPA document was completed that covered all three contractors: Helena Valley Irrigation District, Toston Irrigation District, and the city of Helena. They are all within the Canyon Ferry Project. Helena Valley Irrigation District and Toston Irrigation District entered into repayment contracts for beneficial use of irrigation water that have a repayment obligation for 40 years. The city of Helena entered into a water service contract with a 40-year term for up to 11,300 acre-feet of water for domestic, commercial, industrial, or municipal purposes.

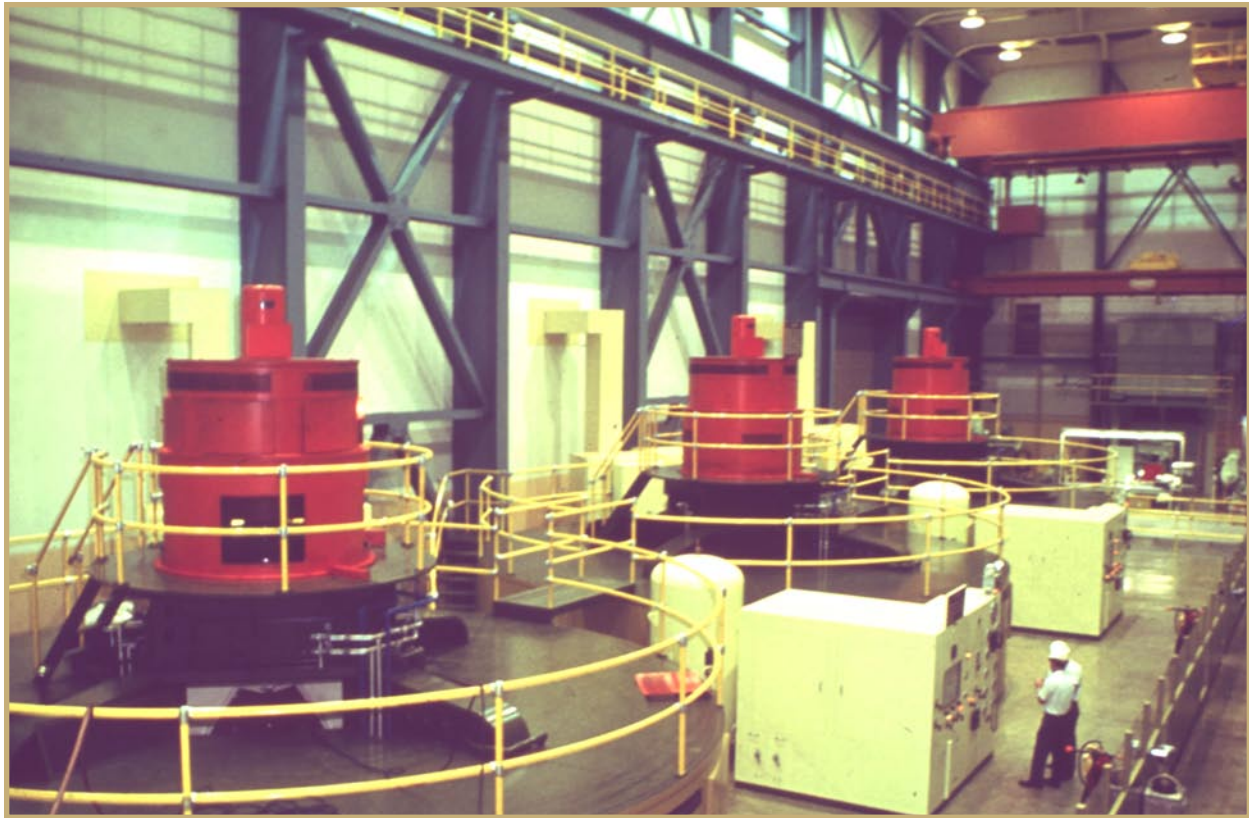
Reclamation also completed an environmental assessment for a contract renewal in North Dakota. The contractor was Western Heart Irrigation District. The contract is both a water service and repayment contract. The water service provides a water supply for the irrigation of 2,593 acres of land and has a 40-year term. The repayment portion is for the construction of the irrigation distribution works, which will be fully repaid in 2007.

## **Generating Power**

Reclamation's hydroelectric power facilities include some of the most important electrical resources in the Western United States. We are the Nation's second largest hydroelectric power producer, with 58 hydroelectric powerplants having an installed capacity of more than 14,500 megawatts. Reclamation's hydroelectric powerplants annually generate about 42 million kilowatthours of hydroelectric energy, enough to meet the annual needs of 9 million people, or the energy equivalent of over 80 million barrels of crude oil. Over the last 10 years, annual power sales revenue has averaged just under \$700 million. This revenue is collected by Western Area Power Administration (Western) and Bonneville Power Administration (BPA), which markets power generated at Reclamation facilities. In addition, BPA funds both operation and maintenance (O&M), expenses as well as capital improvements in the Pacific Northwest Region.

Under interagency agreement, BPA provides for direct funding of power operations at all hydroelectric power facilities in the Pacific Northwest Region. This agreement





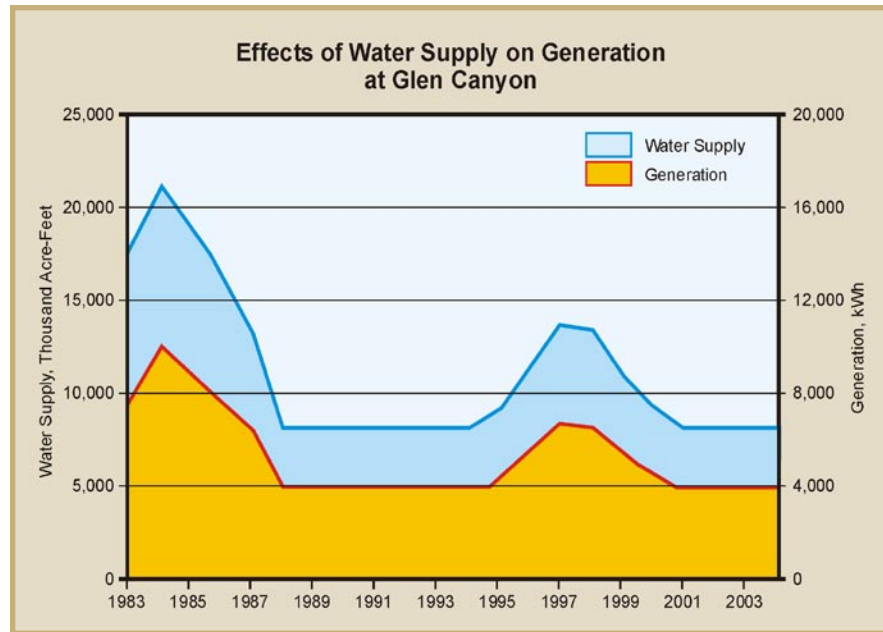
**The Flaming Gorge Powerplant has three 10-foot-diameter penstock pipes near the center of the dam, which convey water to the powerplant. The powerplant is at the downstream toe of the dam and houses three 50,650-kilowatt generators driven by three 50,000-horsepower Francis-type turbines. It is located on the Green River, about 43 miles from Vernal, Utah.**

allows for day-to-day power operations and maintenance and includes various performance measures and targets for Reclamation to meet. BPA also provides funding, under separate agreement, for major maintenance and infrastructure improvement. One example of major work currently being funded is the turbine runner replacement program on generators 1-18 at Grand Coulee Dam, which is estimated to cost \$125 million over a 16-year period.

Western markets power generated at Reclamation facilities across 11 ratesetting systems. Throughout these ratesetting systems, O&M expenses are funded through revenue-generated funding, customer funding, and appropriations. For example, the Parker-Davis Project is entirely advance-funded by power customers, while the Colorado River Storage, Dolores, and Seedskafee Projects are funded with revolving funds and not included in Reclamation O&M appropriations. Reclamation also works closely with Western's area offices and their power customers to develop O&M work plans that meet customer needs while maintaining Reclamation's superior operating record.

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

The ongoing 5-year drought (2000-2005) has significantly impacted hydropower production and may impact the rates that customers pay for power. As of July 8, 2005, Lake Powell was 115 feet below full surface elevation of 3700 feet. Because of the lower lake level, Glen Canyon Powerplant's generation capacity has been reduced by about 25 percent, from 1,320 megawatts (MW) to approximately 990 MW. Meanwhile, Western finalized a rate increase to raise the composite firm power rate from 20.28 mills/kilowatthour (mills/kWh) to 25.77 mills/kWh, in part to accommodate increased purchase power costs to replace the generation shortfall. Glen Canyon Dam accounts for slightly more than 75 percent of the generation for the total Colorado River Storage Project, which also includes five other dams and associated facilities.



To put drought impacts into perspective, the average annual generation at Glen Canyon Dam since the powerplant went online in 1964 is 4.5 billion kWh. In 1983, when Colorado River flows were at a record high, generation was 8.8 billion kWh. In 1998, the last year when Lake Powell was nearly full, generation at Glen Canyon Powerplant was 6.6 billion kWh. In 1999, generation dropped by 1 billion kWh to 5.6 billion kWh. By 2004, it was down to 3.3 billion kWh.

The Glen Canyon Powerplant is capable of providing the sole source of electric power for about 1.8 million people across the marketing area in Arizona, Utah, Colorado, Wyoming, New Mexico, and Nevada. Power generated by the Colorado River Storage Project serves more than 3 million people.

### **FY 2005 Highlights**

Reclamation has authority to use a portion of power revenues to fund construction, operation, and maintenance costs at our hydroelectric power-related facilities.

Reclamation hydroelectric powerplants range in size from 350 kilowatts at Lewiston Powerplant to 6.8 million kilowatts at the Grand Coulee facility, which has the largest generating capacity of any facility in the United States.



**Partnership with U.S. Army Corps of Engineers**

*Reclamation and the Office of the Assistant Secretary of the Army for Civil Works signed a partnership agreement designed to increase coordination, collaboration, and cooperation between the two agencies.*

*Under the agreement, Reclamation and the Corps will collaborate in executing their responsibilities for developing, managing, and protecting the Nation's water and related land resources.*

Reclamation leads the hydropower industry for low costs and high reliability. We strive to keep our generators at their peak by rehabilitating older models or replacing them with new, more efficient equipment. By efficiently using financial resources and maintaining reliable facilities, we are keeping costs in check. In fact, Reclamation's facilities produced power at a cost estimated to be within the lowest quartile of all hydropower producers. We also have an outstanding record for reliable power delivery, having bested the industry average over the past 5 years.

**Future Challenges and Goals**

While Reclamation's forced outage rate is lower than the current industry average, the Hydropower Program must continue striving to improve its

performance and to optimize hydroelectric power generation, consistent with project purposes, to maintain this level of performance. Reclamation conducts frequent assessments of O&M effectiveness at all of its 58 hydroelectric powerplants and major pumping plants. Recommendations made to correct deficiencies or improve local programs are tracked to completion.

Reclamation is also actively tracking emerging issues and trends in the evolving wholesale energy markets. By participating in regional transmission organization development, monitoring changes and trends in regulatory policy, and providing input on renewable energy initiatives, Reclamation has begun to establish a significant presence within the wholesale electric power industry. Internally, Reclamation's Hydropower Program continues to monitor the skills and abilities needed to operate our facilities. We continue to develop specialized technical training courses, such as Maintenance Excellence and Principles of Hydropower, to ensure that current and future employees have the knowledge and skills to effectively operate and maintain our powerplants.

Major improvements in operating equipment continue, such as the installation of more efficient turbine runners at Flaming Gorge Dam (FY 2005 through FY 2007) and Glen Canyon Dam (FY 2005 through FY 2013).

Our Research and Technology Program is a key part of our efforts to meet future demands for power. We are developing power apparatus, controls, automation systems, and other devices to enhance O&M of power facilities to reduce costs, increase efficiency, and improve system reliability, stability, and safety.

## Maintaining and Protecting Infrastructure

In addition to delivering water and power, Reclamation has the responsibility to maintain and safeguard our facilities.

### **Site Security and Law Enforcement Programs**

The overall objective of Reclamation's Security Program is to protect the public, Reclamation employees, and Reclamation's water and power delivery capability against terrorism and other illegal activity.

### **FY 2005 Highlights**

Reclamation continued to implement security improvements at critical infrastructure facilities. We completed integrated security upgrades at Grand Coulee Dam and awarded contracts to install and upgrade integrated security systems at three National Critical Infrastructure facilities: Folsom, Shasta, and Glen Canyon. Security enhancements include barriers, video surveillance, intrusion detection, access control, communication systems, and guard forces.

In FY 2005, we completed security risk assessment decision documents on 110 critical infrastructure and project essential facilities, bringing the total to 176 completed decision documents and 2,156 approved security recommendations. By the end of FY 2005, we had completed 1,303 of the approved security recommendations (60 percent). We also completed security risk assessments and site verifications on an additional 93 project essential facilities. Security risk assessments have now been completed on all critical and project essential facilities, and decision documents have been completed for 67 percent of these facilities.

Over 100 incidents, including suspicious activities, were recorded and investigated by Reclamation's intelligence unit in FY 2005. This information is directly shared with dam and power transmission members and with appropriate intelligence agencies. Contract investigators and intelligence analysts also completed 123 threat assessments and produced intelligence products to protect Reclamation and associated water and power transmission infrastructure. When necessary, we coordinated with other agencies, including the Department of Energy, the Office of Counterintelligence, and the Federal Bureau of Investigation.



**Integrated security upgrades have been completed at Grand Coulee Dam, located on the Columbia River in Washington.**

Reclamation completed work to validate the accuracy of facility data, adjust the factors in the security prioritization formula, and adjust facility category designations. The revised security categories include 5 National Critical Infrastructure, 21 Major Mission Critical, 152 Mission Critical, and 86 Project Essential facilities. We also worked with Interior and the Department of Homeland Security on nationwide prioritization methodologies for dams.

We worked closely with the Department of Homeland Security and other agencies to develop the Federal Sector-Specific Critical Infrastructure Protection Plan for Dams as a Key Resource, which is part of the overall National Infrastructure Protection Plan developed by the Department of Homeland Security. This document will lead to further interagency cooperation and coordination on all aspects of security for dams and related infrastructure. We continued to work with other agencies to share information, including suspicious activities and best practices, to protect critical infrastructure, and to develop and refine risk assessment methodologies. We also continued to work with other Federal agencies and laboratories to enhance understanding of the effects of terrorist activities on dams and related resources.

We initiated work on Homeland Security Presidential Directive 12 (HSPD-12), which established a Governmentwide policy titled "Policy for a Common Identification Standard for Federal Employees and Contractors."

We completed the Office of Management and Budget's Program Assessment Rating Tool on the Security and Law Enforcement Program, which resulted in the development of five new performance measures and a program rating of *Moderately Effective*. We also implemented new directives and standards on Personnel Security and Suitability and developed draft policies and directives on information security and facility security.

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

Reclamation plans to complete security risk assessments for remaining Project Essential Facilities and will continue to implement security enhancements at all Critical Infrastructure and Project Essential Facilities. After initial security risk assessments are completed, we will implement a periodic security risk assessment process to ensure new information concerning threats and vulnerabilities is incorporated into our efforts to make our facilities as secure as possible. We will also continue to develop security-related policies, including policies on personnel identity verification, information security, and facility security standards for Reclamation facilities. Reclamation will continue to work closely with managing partners in implementing effective security measures and will work with State, local, and tribal law enforcement entities to effectively promote law enforcement at our facilities.

### **Dam Safety**

Reclamation is responsible for 472 dams and dikes that form a significant part of the water resources infrastructure for the 17 Western States. As these structures age, concerns increase about their continued satisfactory performance. Of these dams and dikes, 361 structures for which failure or misoperation could cause loss of human life or other significant losses are included in the Dam Safety Program. Dam Safety activities are directly related to Reclamation's core mission of water and power delivery. The objectives of our Dam Safety Program are as follows:

1. To ensure that Reclamation facilities do not present unreasonable risks to people, property, and/or the environment.
2. To take appropriate action to reduce and manage risks in an efficient and cost-effective manner.

### **FY 2005 Highlights**

This year, we completed 39 comprehensive facility reviews; continued ongoing risk reduction actions at Deer Flat Dam, Idaho; and began risk reduction actions at Grassy Lake Dam, Idaho; Pine View Dam, Utah; Deer Creek Dam, Utah (Phase I); Hyrum Dam, Utah; and Keechelus Dam, Washington.

**Reclamation periodically reviews its facilities, such as Shasta Dam, for dam safety issues.**







### **Disaster Relief**

*In FY 2005, Reclamation mobilized equipment and staff to respond to the disasters caused by Hurricanes Katrina and Rita. On behalf of Interior, Reclamation has been assigned as the Department of the Interior Coordination Center for Emergency Support Function #3 - Public Works and Engineering (ESF-3) to provide assistance to the U.S. Army Corps of Engineers under the new National Response Plan.*

*Reclamation's responses were coordinated with the Corps and Interior, which resulted in the deployment of employees to disaster areas in Mississippi and Louisiana. Employees provided quality assurance and quality control for debris removal and temporary roofing missions. Deployments are typically for a minimum of 30 days. Reclamation also provided assistance to the Corps for levee repairs and stabilization of the New Orleans area.*

*Reclamation has incurred reimbursable and nonreimbursable costs of approximately \$997,900. Costs will be reconciled in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act and billed to the Corps.*

*Reclamation also sent the Expeditionary Unit for Water Purification to Biloxi, Mississippi, to provide treated drinking water to the Biloxi Regional Medical Center. The portable unit was designed to purify contaminated and saline waters to better-than-EPA drinking water standards. Depending on the quality of the water it is treating, the unit can produce 100,000 to 200,000 gallons per day.*

In FY 2005, Congress reauthorized the Reclamation Safety of Dams Act of 1978 to allow the Dam Safety program to continue. Also, the Dam Safety Program was reviewed under the Office of Management and Budget's (OMB) Program Assessment Rating Tool Program. Please see the "Management Excellence" section of this report for more information.

### **Future Challenges and Goals**

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

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

### **Other Programs and Benefits**

Our projects also provide ancillary benefits for recreation, fish and wildlife, and environmental and Native American trust responsibilities.

## **Serving Native American Communities**

### **FY 2005 Highlights**

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

In FY 2005, Congress allocated \$7.7 million to NAAO programs and projects that benefit tribes. Our largest expenditures are for construction of facilities that will provide water to Indian tribes, sometimes as part of Indian water rights settlements. Some of this work is carried out by the tribes under Title I and Title IV of the Indian Self-Determination and Education Assistance Act, P.L. 93-638, as amended.

The Native American Program provides technical and financial assistance to Indian tribes, institutions of higher education, national Indian organizations, and tribal organizations to increase opportunities for Indian tribes to develop, manage, and protect their water-related resources. Program activities include assisting tribes to better understand their water-related needs and helping them to develop their water resources, including rural water supplies on Indian reservations.



**Hands-on-training of Tribal Water Treatment Plant operators by Reclamation Water Treatment Engineering and Research staff on the Green Sand Filter Unit, designed by Reclamation.**

In 2005, NAAO provided approximately \$2.1 million to support tribal project requests, including such items as needs assessments and water management, quality, and measurement studies. Some of this work was also performed by tribes pursuant to Title I and Title IV of P.L. 93-638. More than 50 tribes benefited from this technical assistance program.

We also continued our participation in the Secretary of the Interior's Indian Water Rights Settlement Program, which included 20 Indian water rights negotiation teams and 15 water rights settlement implementation teams.

### **Future Challenges and Goals**

Indian tribes continue to experience a tremendous need for adequate water supply infrastructure to ensure the health and safety of reservation populations and to provide a base for economic development. While Reclamation cannot solve the problem of

inadequate tribal water supply infrastructure alone, we will continue to assist federally recognized tribes located within the Reclamation States.

Overallocated water supplies impact Indian tribes just as much as other entities in the West. We will continue endeavors to minimize conflict through our planning and management processes, as well as through participation in the Secretary's Indian Water Rights Settlement Program.

### **Information Technology Security Program**

Information Technology (IT) security is an essential tool in conducting business in the 21<sup>st</sup> century. Reclamation's IT Security Program ensures our critical engineering and

other mission-related information is accessible to those who need it while remaining protected from unauthorized users, as mandated by the Federal Information Security Management Act (FISMA).

### **FY 2005 Highlights**

To improve overall efficiency and effectiveness, several IT initiatives were launched to consolidate and enhance our infrastructure and communication capabilities. These efforts will reduce overhead requirements, strengthen IT security, and prepare the organization for future technologies. Additionally, in an effort to better align our requirements with industry standards and legislated guidance, Reclamation engaged outside parties to benchmark its IT security related policies and procedures against Federal and non-Federal requirements. The long-range aim of this effort will be to improve Reclamation's IT security practices.

Supplementing these activities, Reclamation's IT Security Program supported compliance with FISMA requirements and security investigations of Supervisory Control and Data Acquisition Systems (SCADAs) located at its National Critical Infrastructure sites. These technically focused investigations helped to illustrate that Reclamation's SCADA systems are appropriately isolated from both our administrative networks and the Internet, further enhancing IT security of these critical automation systems. Finally, Reclamation completed management-level IT security reviews (Management Control Reviews) of all IT systems.



### **Job Corps Celebrates 40<sup>th</sup> Anniversary**

*Job Corps is the Nation's largest residential education and training program for low-income youth. Reclamation manages five Job Corps centers under contract with the Department of Labor. The centers provide a residential program that includes supervised dormitory housing, meals, medical care, counseling, and vocational training. Reclamation-run centers are Centennial in Nampa, Idaho; Collbran in Collbran, Colorado; Columbia Basin in Moses Lake, Washington; Fort Simcoe in White Swan, Washington; and Weber Basin in Ogden, Utah. Collbran and Weber Basin centers both rank in the top five Job Corps centers nationwide.*



The completed reviews found no significant weaknesses in management-level IT security controls within Reclamation.

In addition, the IT program supported the development and implementation of Reclamation's Electronic Document System to improve engineering and drawing workflow processes and training initiatives aimed at enhancing employee IT security awareness and project management skills. The IT program also supported 26,000 help desk requests, maintained 300 network servers essential to the operation of mission systems and applications, and responded to over 350 Freedom of Information Act (FOIA) requests in 2005.

### **Future Challenges and Goals**

Reclamation faces increasing pressure to fund, develop, and implement common, Governmentwide IT solutions and mandated IT requirements that do not always align well with mission goals and objectives. Balancing these demands and legislative mandates with mission requirements will continue to be our greatest challenge. The goal of the IT program continues to be consolidating, where possible, and implementing cost-effective IT solutions and improvements that enhance our infrastructure, communications, information management, operational capabilities, and security.

### **Recreation**

Reclamation has more than 300 recreation sites that accommodate more than 90 million visits annually on over 8 million acres of land and water. When possible, Reclamation enters into agreements with non-Federal managing partners to manage the recreation areas at our projects. Other Federal agencies with recreation expertise also manage larger projects when they have been designated as National Recreation Areas by the Congress. Some of these areas are Lake Powell, Lake Mead, and Flaming Gorge. Reclamation has 21 visitor centers located on project lands. These facilities help visitors understand Reclamation's mission to deliver water and power across the Western States.

As the population of the West increases, so does the demand for adequate recreational opportunities

**Reclamation provides a myriad of recreational opportunities for visitors.**



and facilities. This steady increase in visitation is a challenge to public agencies that provide recreation facilities at Reclamation reservoirs. We are also concerned about providing accessible opportunities to all visitors. To ensure that Reclamation and our partners provide equal opportunities to participate, Reclamation initiated a 10-year plan in 2000 to monitor accomplishment toward providing facilities and programs that are compliant with accessibility laws. Reclamation and our non-Federal partners are cooperating to increase management efficiency; however, financing is limited for new services and recreation facilities.

### **FY 2005 Highlights**

In order to determine how Reclamation can assist in ensuring the future success of our non-Federal recreation management partners, Reclamation completed a comprehensive study entitled, *An Assessment of the Bureau of Reclamation's Non-Federal Recreation Management Partnerships*. The results of this study will be used to help guide future decisions on recreation management and policy direction.

Concessions provide a crucial role in meeting the public demands for access to the water. To help enhance the visitor's experience, more than 200 concessions are located on Reclamation projects. Reclamation is focused on ensuring that all new contracts provide appropriate facilities and services necessary to meet the future public demand. In order to facilitate Reclamation's goal to achieve uniformity in managing concessions, in April 2005 Reclamation issued its *Concession Management Guidelines*. These guidelines provide comprehensive instructions and recommendations for the development of concessions prospectuses and concessions contracts. They also provide information and guidance on other concessions issues including, but not limited to, rate approvals, standards for concessions reviews and evaluations, financial reporting, and insurance information requirements.

### **Future Challenges and Goals**

Recreation/tourism is one of the largest industries in the Western United States and the second largest employer nationwide. Reclamation reservoirs and lands are primary recreation destinations for Americans and many foreign visitors. Recreation pursuits in and around reservoirs include hunting, skiing, boating, fishing, and other water sports and activities. National surveys and statistics show that water-based recreation activities are among the most popular recreation experiences. Reclamation continues to pursue the goal of having all Reclamation recreation sites managed by non-Federal partners such as State and local agencies. Reclamation has also begun a process of using exhibits and interpretative signs to improve communication with the public. Appropriate interpretation can assist in delivering Reclamation's message and reducing costs.



### **CAST for Kids**

*CAST for Kids is an outdoor fishing and boating event for disabled and disadvantaged children and developmentally impaired adults. The event provides an opportunity to learn to fish or to hone existing skills. For many of the children, this is their first chance to participate in angling because of limitations caused by their disabilities, socioeconomic status, and/or perceptions of their abilities. CAST for Kids is a family activity, and parents and siblings are encouraged to become involved.*



*Reclamation's Pacific Northwest Region was the first region to become involved with the CAST for Kids Foundation in 1991, when it was initially formed. This partnership with the foundation and the Bass Anglers Sportsman's Society has resulted in an event that benefits both children and adults. Participants are given a wonderful opportunity to learn fishing skills and to experience the thrill of fishing, while the volunteers who support the event learn valuable lessons about living with disabilities or other limitations. In FY 2005, Reclamation participated in 21 CAST for Kids events across the West, benefiting nearly 1,000 special needs children.*

### **Fish and Wildlife**

Reclamation has responsibilities for fish and wildlife resources at its projects, based upon individual project authorizations and the mandates of other Federal statutes, such as the Endangered Species Act. While providing water and power is our primary mission, we also work to minimize impacts on fish and wildlife in cooperation with the U.S. Fish and Wildlife Service, State fish and wildlife agencies, and others. Habitat provided or supported by Reclamation's projects can make a significant contribution to fish and wildlife resources.

### **FY 2005 Highlights**

Reclamation was involved in a number of activities to improve conditions for endangered fish and wildlife, including the following:

- Continued to lead multi-agency Native Fish Work Group in the lower Colorado River basin that has reared more than 100,000 endangered razorback suckers and released large numbers back into Lakes Mohave and Mead.
- Partnered with the Corps and BPA to improve conditions for 12 anadromous fish species and 2 nonanadromous fish species in the Columbia and Snake River systems, as required by Endangered Species Act biological opinions. Reclamation also met its commitment to provide 427,000 acre-feet of flow augmentation water for ESA-listed salmon and steelhead in 2005. In addition, in cooperation with the State of Idaho, Reclamation implemented a key provision of the Nez Perce Water Rights Settlement by securing 60,000 acre-feet of natural flows. The Idaho Water Resources Board acquired the water from the Bell Rapids Mutual Irrigation Company. Reclamation and the board executed an agreement under which Idaho will make available and protect for flow augmentation 60,000 acre-feet of water for the anticipated 30-year term of the ESA coverage for the Nez Perce Water Rights Settlement.
- Constructed fish screen structures at the Redlands Power Canal on the Gunnison River, Colorado, and the Grand Valley Project Diversion Dam on the Colorado River, Colorado. Constructed fish passage structures at Link River Dam, Oregon, and irrigation structures on the Upper Colorado River.
- Complied with Central Valley Project Improvement Act by helping increase the numbers of anadromous fish returning to Central Valley rivers and streams; creating or enhancing wetland areas that support hundreds of thousands of ducks, geese, and other migratory birds; and acquiring or restoring tens of thousands of acres of existing habitats for listed threatened and endangered species.
- Participated in the Trinity River Restoration Program, California, by working to restore and maintain the fish and wildlife stocks of the Trinity River basin to those levels that existed just before the Central Valley Project's Trinity River Division construction.
- Complied with the requirements of the biological opinion for the Middle Rio Grande.
- The Glen Canyon Adaptive Management Program, operating through the Adaptive Management Work Group, formulated a high-flow test to redeposit sediment that had accumulated downstream of Glen Canyon Dam below the confluence of the Paria River and the Colorado River. The objectives of the high-flow test were to

restore sandbars and recreate backwater channels that serve as the rearing areas and habitat for the humpback chub and other native species. The high-flow test took place from November 21, 2004, to November 25, 2004. During the high-flow test, releases averaged 41,000 cubic feet per second. Reclamation, the National Park Service, and the U.S. Geological Survey cooperated in the high-flow test.

### **Future Challenges and Goals**

*Lower Yellowstone River.*—Reclamation entered into a memorandum of understanding (MOU) with the Corps, the State of Montana, the U.S. Fish and Wildlife Service, and The Nature Conservancy to plan and implement measures to reduce the adverse effects of operations of Reclamation's Lower Yellowstone Irrigation Project on the endangered pallid sturgeon and to improve fish passage. The MOU will lead to specific projects in FY 2006.

*Missouri River Recovery Implementation Committee.*—Reclamation provided funding to assist the efforts of the Missouri River Recovery Implementation Committee, which the Corps hopes will result in a consensus-based proposal for operating Corps dams on the main stem Missouri River.

## **Management Excellence**

### ***Managing to Perform Our Mission More Effectively***

At Reclamation, management excellence is an ongoing commitment. We are committed to improving business processes and improving customer satisfaction.

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

OMB established an Executive Branch Management Scorecard, updated annually, to monitor department status and progress in attaining Presidential Management Agenda (PMA) goals. The objective of the scorecard is to strengthen agency accountability. Interior adapted this concept and developed their "Getting to Green" Scorecard as a tool for monitoring each bureau's and office's PMA progress. In FY 2005, criteria were generally more stringent than in the past and, as expected, resulted in lower scores than earned last year under the previous scorecard criteria. Reclamation continues to make achieving PMA goals a top priority. Although Reclamation's scorecard ratings declined in FY 2005, we made progress achieving PMA objectives. For example, Reclamation aligned performance plans and human capital policies to support PMA and mission goals, increased oversight of our acquisitions and financial processes, improved internal control processes, implemented corrective actions to resolve an outstanding material weakness, linked budget and performance data, and demonstrated cost savings in the area of competitive sourcing. Reclamation ratings for the five key areas are presented in the table on the next page.



<b>Reclamation "Getting to Green" Scorecard Ratings, as of September 30, 2005</b>			
	Green/Success	Yellow	Red/Failure
Strategic Management of Human Capital	X		
Expanding E-Government	X		
Competitive Sourcing		X	
Budget and Performance Integration		X	
Improving Financial Performance		X	

### **Managing Human Capital to Maintain a Quality Workforce**

As a world leader in developing and managing water resources, Reclamation requires a world-class workforce. Reclamation's highly competent and skilled staff of about 6,000 employees operate and maintain our vast water and power infrastructure; manage and support our technical programs; and address financial, acquisition, information technology, and business management challenges. However, our management is facing many challenges as they work to ensure that our future workforce meets the same standards. Issues they must address include:

- Increasing retirement rates
- Increasing job market competition
- Attracting qualified engineers and scientists
- Declining willingness among candidates to relocate
- Recruiting and retaining a diverse labor force

Our goal is to begin developing tomorrow's workforce today. This goal will be accomplished through advanced planning, such as the FY 2004-2008 Reclamation Workforce Plan, which is updated annually; a bureauwide Outreach and Recruitment Team; Targeted Recruitment Plans for mission-critical occupations, as well as for people with disabilities; and the successful use of the Student Educational Employment Program and the Federal Career Intern Program. Reclamation currently employs 331 students and 45 Federal Career Interns.

In addition, Reclamation implemented a new multi-level performance system this calendar year, and 95 percent of all standards include Government Performance and Results Act (GPRA) and/or strategic goals.

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

Under the PMA, Federal agencies were tasked with delivering results through adopting and expanding electronic government (E-Government) principles and best practices for managing information technology and providing timely and accurate information to citizens and government decisionmakers while ensuring security and privacy. These goals and objectives are reflected in Interior's E-Government Scorecard, which closely mirrors the PMA scorecard. In 2005, Reclamation received a "green score" from Interior for its E-Government programs and activities. Reclamation's achievements

in E-Government include active participation in several government- and enterprise-wide initiatives that offer common solutions to simplify and standardize infrastructure and communications capabilities. These initiatives include Enterprise Services Network, Enterprise Messaging System, and Active Directory and are designed to improve system interoperability, knowledge sharing, and other operational efficiencies. Reclamation plans to build upon early initiative successes and has completed an IT Strategic/E-Government Plan and E-Government Migration Strategy to ensure that these technologies are deployed in an effective and cost-efficient manner.

In 2005, Reclamation also launched an enterprise architecture initiative—the Water Management Modernization Blueprint Initiative—to provide a framework for developing a more service-oriented architecture, leveraging existing IT capabilities to their maximum potential, and developing and deploying more efficient and customer-centered IT capabilities and services in the future. Reclamation received high marks for taking the lead in this initiative, which offers the opportunity for collaboration and promotes



### **Take Pride in America Activities**

*Reclamation workers have always played active roles in their communities. This year, Valerie J. Curley, of our South-Central California Area Office (SCCAO) in Fresno, California, was selected as one of 25 “Take Pride in America” national award winners for 2005. The winners were honored at an awards ceremony September 30 in the White House’s Eisenhower Executive Office Building. “Take Pride in America,” coordinated by Interior, is a national partnership program of volunteers who work to improve public parks, forests, reservoirs, wildlife refuges, cultural and historical sites, and other areas. Ms. Curley was honored for her leadership in SCCAO’s Catch a Special Thrill (CAST) for Kids event and San Joaquin River cleanup activities.*

*For more information on the CAST for Kids program please see the highlighted story on page 27.*

*In 2004, Ms. Curley facilitated three efforts to clean up the San Joaquin River that resulted in the removal of more than 54,000 pounds of trash from the river. The cleanup was accomplished through a partnership among Reclamation, the city of Firebaugh, and RiverTree Volunteers, with assistance from the Sierra Club, the California Conservation Corps, and hundreds of volunteers from local organizations and schools.*

information-sharing across Government. Other bureaus and offices within Interior, as well as non-Interior agencies, are expected to participate and contribute to this initiative over the next few years.

Further, Reclamation received “green scores” from Interior for adopting and applying best practices in the areas of IT investment management and IT security. Reclamation is one of only three bureaus and offices within Interior that complies with IT investment management practices and standards prescribed by the Government Accountability Office for IT investment management. More importantly, Reclamation continues to manage IT investments in an effective manner and has consistently kept cost variances for major IT investments below 10 percent—resulting in high marks from OMB. Reclamation’s IT Security Program also received “green scores” from Interior for complying with existing and ever-evolving IT security guidance, investing in network and auditing security technologies, developing new techniques to monitor security activities, and supporting training programs aimed at IT security personnel and general users.

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

Competitive sourcing, one of the five elements of the President’s Management Agenda, is a tool for use in ensuring that citizens receive the best value from the Government. Competitive sourcing does not mean that functions will always be outsourced. Instead, competitive reviews provide a disciplined, periodic way to review and compare our current operations with alternatives: Are we the best we can be? Might a restructuring generate a more efficient organization? Might contracting with a provider free up resources that can be reallocated to other priorities? Some competitive reviews have produced substantial savings.

Competitive sourcing involves conducting public-private competitions that compare the performance of a Government organization with that of a private sector or other non-Federal organization. Conducting a public-private competition is a highly structured process to ensure that both the private and public sectors compete on a level playing field. For example, Reclamation initiated a formal competitive sourcing study of the Centennial Job Corps Center in Nampa, Idaho. We compared a proposed “most-efficient organization” restructuring with private-sector options. Our approach produced savings of approximately \$400,000. The “most-efficient organization” was implemented, with its first performance year ending June 30, 2005.

In FY 2005, Reclamation began conducting four streamlined studies (65 or fewer full-time equivalents), which will be completed by December 31, 2005. The projected performance period for these studies will be 5 years. The original studies had a performance period of 3 years. The four streamlined studies will be conducted by the newly funded Competitive Sourcing Program Office positioned under the Denver Acquisition and Assistance Management Division.

### **Budget and Performance Integration**

In line with Interior's initiative, Reclamation continues to advance its efforts to improve budget and performance integration. To do so, Reclamation's senior leadership participates in quarterly reviews with Interior, during which it provides projections of whether or not its published annual performance targets will be met by the end of the fiscal year. When it is determined that accomplishment of a performance target may be in question, corrective actions that may be taken are identified.

Reclamation also provides estimates of the annual level of funding against each of its end outcome goals during the quarterly reviews. Both its budget and performance documents incorporate references to its outcome-oriented goals and measures, and the information that is used in quarterly reviews with senior leadership. Reclamation's completion of baseline data for several new measures in 2004 will enable us, over time, to develop and analyze historical trends that may be used to better support our budget requests and the goals included in our operating plan.

Reclamation continues to refine its Activity Based Costing/Management (ABC/M) system. During the initial stages of the 2007 budget process, activities/outputs were identified that could be most useful in budget decisionmaking. These activities/outputs will continue to be refined in late 2005 to improve their utility for Reclamation's managers.

Currently, managers at all levels within Reclamation have the capability to extract reports on funding and performance data. Reclamation will continue to improve its reporting capability in a manner that will encourage the use of ABC/M data for better estimating marginal changes in funding associated with changes in an end outcome performance measure target.

### **Improving Financial Performance**

As we work toward improving our financial management systems, processes, and controls, our goals are to maintain an unqualified opinion and to ensure the integrity of financial information needed for decisionmaking and to measure program and financial performance. In FY 2005, we received an unqualified opinion, we implemented a change in accounting principle that required extensive work and research (see Financial Analysis—Change in Accounting Principle section), we resolved an outstanding material weakness, and we continued to make significant financial management improvements. Reclamation's scores for Interior's financial management metrics consistently exceeded Interior's goals. For example, we implemented 100 percent of corrective actions for our outstanding financial statement audit findings, we have consistently achieved the 97-percent goal of paying vendors on time (over 98-percent), our rate of payments via electronic funds transfer has exceeded 99 percent all year (goal 92 percent), our rate of delinquent debt referral to the U.S. Department of the Treasury for offset remains high, and our charge card delinquency rate has consistently been below the 1-percent goal.

These improvements ensure that management receives accurate and timely financial information and that we continue to receive unqualified audit opinions. Since 1995, Reclamation has received unqualified audit opinions on all reports issued, which is a testament to our strong commitment to provide accurate and timely financial information. We will continue to ensure that information is provided to management, the Presidential administration, and the Congress for effective decisionmaking and that reliable and accurate information is provided for our publics and partners to forge effective relationships.

Reclamation implemented corrective actions and resolved all outstanding financial statement internal control weaknesses, including the material weakness associated with our land reconciliation. The successful resolution of the land material weakness was the result of a collaborative effort consisting of regional office reconciliation efforts, central finance and program oversight reviews, development of accounting policy, and training.

#### **Program Assessment Rating Tool**

Through the Program Assessment Rating Tool (PART) process, Reclamation works with Interior and OMB to systematically assess program purposes and design, planning, management, and results in order to identify recommendations for program improvement. The PART puts heavy emphasis on the need to develop, track, and use efficiency and performance measures in planning and budgeting to describe what improvements are being made, or can be made, based on programmatic and/or resource reallocation decisions. Reclamation is working to better explain how planning and budgeting decisions affect performance in quantitative terms as well as use performance results to direct program improvements, justify funding requests, and management actions.

In FY 2005, Reclamation's Dam Safety, Site Security, and Water Management/Supply—Operations and Maintenance programs were evaluated by PART.

*Dam Safety:* The objectives of the Dam Safety Program are to ensure that Reclamation facilities do not present unreasonable risks to people, property, and/or the environment; and to take appropriate action to reduce and manage risks in an efficient and cost-effective manner.

The PART review acknowledged that the program has a clear purpose of ensuring that Reclamation water storage facilities do not present unreasonable risk to public safety, the environment, or cultural resources. The Dam Safety Program was rated as *Effective*; however, the program needs to work with project beneficiaries to better define their role and to effectively align their goals with the goals of the program.

*Site Security:* The overall objective of Reclamation's Site Security Program is to protect the public, Reclamation employees, and Reclamation's water and power



delivery capability against terrorism and other illegal activity. This is accomplished by reducing security-related risks through a combination of preparedness, prevention, protection, and response.

The PART assessment rated the program as *Moderately Effective*. Program performance should increase as new performance measures demonstrate the program's long-term effectiveness. Tentative recommendations for improving program performance include: (1) working with the Congress and Reclamation's operating entities to implement reimbursability of security-related operation and maintenance costs, (2) tying Reclamation's security budget to the accomplishment of annual and long-term performance goals, and (3) tracking accomplishment of new performance measures in order to demonstrate long-term program accomplishment.

*Water Management/Supply—Operation and Maintenance:* The Operations and Maintenance program ensures the O&M of project features, to deliver water to irrigators and municipal users and to provide storage to help mitigate flooding. Although a significant portion of this program relates to the accomplishment of direct physical O&M activities necessary to keep water-related facilities in a reliable condition, Reclamation implements a number of related supporting activities to ensure reliable project operations.

The PART assessment rated the program as *Adequate* and recommended that improvements be made to facilitate water transfers and clarify acre limitations for those who receive federally subsidized irrigation water, as identified in earlier program reviews. Reclamation's request that the National Academy of Sciences undertake a review of the program was acknowledged as a positive indicator of it seeking ways to better understand any flaws in the program and make improvements.

## 2005 Performance Measure Highlights

The Government Performance and Results Act of 1993 requires Federal bureaus to establish performance goals, set annual accomplishment targets, and report annual accomplishments. Reclamation's goals stem from Interior's FY 2003–2008 Unified Strategic Plan.

All of Reclamation's performance information is now incorporated into Interior's unified strategic and annual plans and reported in Reclamation's Annual Operating Plan, which may be found on the GPRA website [intra.usbr.gov/gpra](http://intra.usbr.gov/gpra). Eight of our goals that best reflect our mission and key accomplishments are highlighted in this annual report.

## Delivering Water

On the following pages are four key water goals and narratives to clarify them.

The Water Delivery Performance Goal measures the amount of water releases or diversions from Reclamation-owned and -operated facilities. Water delivered includes water provided for agriculture, municipal and industrial uses, fish and wildlife, and other contracted and authorized purposes. This goal does not include water delivered from transferred works or facilities operated by districts where Reclamation does not have substantial operational control. In FY 2005, Reclamation delivered more than 28.4 million acre-feet of water to meet contract obligations and other water resource needs.

<b>Goal: Deliver Water</b>	<b>Annual Target</b>	<b>Estimated Accomplishment</b>
Acre-feet of water delivered in million acre-feet (MAF)	28.1	28.4

In order to meet the Facility Reliability Performance Goal to ensure reliable delivery of water from our facilities, we continue to monitor the condition of our dams and associated water facilities using a facility rating system. This system incorporates operations, maintenance, dam safety, and management criteria to evaluate the facility's reliability. The ratings in FY 2005 continue to show an extremely high percentage of Reclamation's facilities are in the fair and good ranges.

<b>Goal: Facility Reliability</b>	<b>Annual Target</b>	<b>Actual Accomplishment</b>
Percent of dams with a good to fair reliability rating	94	98
Percent of associated features with a good to fair reliability rating	93	97

The performance goal, Increase Water Availability, was accomplished this year through several kinds of projects with various financial arrangements. Reclamation has several authorities in place that allow us to enter into reimbursable agreements, where we contribute funds; grants, where we fund the operation; or contracting, where we pay directly for the work to be performed on projects. Reclamation increased the amount

of water available for use by 52,815 acre-feet through completion of major phases of rural water distribution projects, water reuse and recycling, and aquifer groundwater investigations.

<b>Goal: Increase Water Availability</b>	<b>Annual Target</b>	<b>Actual Accomplishment</b>
Increase in acre-feet of water availability	31,689	52,815

The Increase Water Availability performance goal measures the success of our efforts to increase the total amount of salt controlled each year. To date, 569,000 tons of salt each year are being controlled from entering the Colorado River system as the result of Reclamation's sponsored control and prevention projects. The goals of the Colorado River Salinity Control Program are to maintain salinity below the water quality standards set for the Colorado River Basin and to reduce the economic damages of more than \$300 million that occur each year in the lower basin. Reducing the amount of water applied to saline soils is the single most cost-effective salinity control measure. Reclamation has been able to reduce Colorado River salt removal project costs from an average of \$70 per ton removed in the 1980s to an average of \$30 per ton today.

<b>Goal: Remove Colorado River Salt</b>	<b>Annual Target</b>	<b>Actual Accomplishment</b>
Tons of salt loading eliminated	21,000	22,250

## **Delivering Power**

The Following are three key hydropower goals and some specific accomplishment activities for this year.

Reclamation's Hydropower Program has been successful in meeting the benchmarking goals it compares against the hydropower industry: cost of power and forced outage rates. Our O&M costs have been in the lowest quartile of hydropower producers every year since benchmarking began. In addition, our forced outage rate has bested the current industry average of 2.5 percent.

Reclamation has established an internal rating system of facility reliability. In 2003, the Hydropower Program established a baseline to determine the percentage of facilities ranking in fair to good condition that will be reported for all Reclamation hydropower facilities in aggregate.

## 2005 Assurance Statement

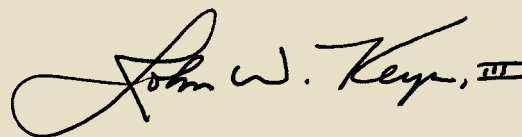
Reclamation has completed an assessment of its systems of management, administrative, and financial controls in accordance with the standards and guidelines established by the Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget. The objectives of this assessment were to ensure that:

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

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

Based on the results of the fiscal year 2005 assessment, I conclude that Reclamation's systems of management, administrative, and financial controls provide reasonable assurance that the objectives of the FMFIA have been achieved. I also conclude that Reclamation's sensitive information systems provide reasonable assurance that the objectives of OMB's Circular A-130, Management of Federal Information Resources, Appendix III, and the Federal Information Security Management Act requirements have been achieved. Further, based on the results of the annual audit of Reclamation's financial statements by KPMG, I conclude that Reclamation substantially complies with the three components of the Federal Financial Management Improvement Act (FFMIA): Financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The corrective action report for the land reconciliation material weakness carried over from the prior year was completed. The report identifies the nature of the weakness, its cause and effect, appropriate milestones in the corrective action plan, progress to date, and the individual accountable for the timely completion of stated corrective actions. The existence of this material weakness does not prevent Reclamation from providing reasonable assurance on the effectiveness of its management controls taken as a whole. It should also be noted that the correction of this weakness was completed by September 30, 2005.



<b>Goal: Power Production Benchmarking</b>	<b>Annual Target</b>	<b>Estimated Accomplishment</b>
Cost-effective power production	Upper 25 <sup>th</sup> percentile	+/- 5% of target

<b>Goal: Forced Outage</b>	<b>Annual Target</b>	<b>Estimated Accomplishment</b>
Forced outage rate less than or equal to industry average	2.5%	0.41% of target

<b>Goal: Facility Reliability Rating– Power</b>	<b>Annual Target</b>	<b>Actual Accomplishment</b>
Percent of hydropower facilities in fair to good condition	95	100

## Financial Analysis

### Change in Accounting Principle

In March 2005, OMB issued final guidance regarding the accounting treatment for payments made from the Reclamation Fund to the Department of Energy's Western Area Power Administration (Western). OMB adopted the Accounting and Auditing Policy Committee's draft Technical Release, Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration, which required Reclamation to recognize a receivable instead of a transfer. OMB's guidance, as well as additional changes resulting from our due diligence to implement the accounting changes, resulted in significant changes to the FY 2005 Consolidated Balance Sheet.

A detailed explanation of the accounting and reporting changes can be found in this year's Note 1 N, *Change in Accounting Principle*.

In performing due diligence to implement this accounting change, Reclamation reviewed all of the financial relationships and determined that the change in accounting principle applied to more than just the appropriations Western receives from the Reclamation Fund. Reclamation and Western worked together to



improve coordination, to ensure consistency, and to reconcile Western's liability to Reclamation's receivable. As a result, Reclamation's receivable from Western reflects components included in Western's liability; appropriations transferred; the net book value of transmission assets, funded from the Reclamation Fund, which Reclamation transferred to Western; and the associated interest. Reclamation also has recorded a receivable from the Department of Energy's Bonneville Power Administration (BPA) for a similar relationship that exists between Reclamation and BPA. In contrast, however, Reclamation's receivable due from BPA is based upon BPA's authorizing legislation and subsequent legislation that requires BPA to assume the repayment or advance funding responsibility for Reclamation's power assets in the Pacific Northwest Region.

Reclamation also recorded a liability to the U.S. Treasury General Fund (General Fund) to implement a change in accounting principle applied to appropriations Reclamation receives from the General Fund that are expended for reimbursable project purposes. This is based upon precedent set by other Federal entities; Reclamation determined that a payable to the General Fund should be recorded in our accounting records and should be reported in our financial statements.

As of September 30, 2005, Reclamation's financial records will reflect the following:

	<b>Receivable Balance Due to Reclamation</b>	<b>Reclamation's Payable Balance Due to Treasury</b>	<b>Net Effect</b>
Western	\$1,834,935,194		\$1,834,935,194
BPA	623,139,771		623,139,771
Reclamation		\$1,780,969,639	(1,780,969,639)
<b>Total</b>	<b>\$2,458,074,965</b>	<b>\$1,780,969,639</b>	<b>\$677,105,326</b>

### **Accelerated Reporting Due Dates**

Reclamation is committed to providing management with accurate and timely financial information to be used in the decisionmaking process. For example, Reclamation is proud to report that we completed the FY 2005 fiscal year-end closing process in just 2 days. Our financial statements and this annual report were completed and submitted to Interior by October 15, just 15 days after our year ended. This is a significant accomplishment given the diversity of our programs and financing sources. Reclamation's successful and timely completion of the financial statement audit contributed to Interior's successful completion of their annual report and audit by the November 15 due date established by OMB.

The preparation of accurate financial and performance information is not a one-time event. Generally accepted accounting principles (GAAP) require that accurate and timely financial information be produced and available to program managers, partners,

beneficiaries, other Federal agencies, and the auditors throughout the fiscal year. This year, Reclamation prepared monthly financial statements and quarterly financial statements with footnotes. Due dates were progressively shortened for each quarter. The accelerated reporting due dates established by OMB are intended to bring Federal agency financial reporting up to private sector standards.

## **Financial Statements**

Reclamation's management is responsible for the integrity and objectivity of financial information presented in our financial statements. The financial statements and supplemental schedules in this year's annual report reflect the financial position and results of our operations and are compliant with the Chief Financial Officers Act of 1990, GPRA, and 31 U.S.C. 3515(b). The statements should be read with the realization that they are for a component of the U.S. Government (OMB Circular A-136, p. 118, section 11.1J). While the statements have been prepared from Reclamation's books and records in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are, in addition to the financial reports, used to monitor and control budgetary resources, which are prepared from the same books and records.

The integrity of these statements is supported by the results of our audit, which was conducted by an independent, certified public accounting firm under contract with the OIG. Reclamation achieved an unqualified audit opinion again this year. To ensure future financial statements continue to achieve unqualified audit opinions, internal control efforts, which are compliant with FFMIA requirements, are in place and are continually being improved. Moreover, the discipline and staffing required to produce audited financial statements show that management is dedicated to improving financial management and complying with applicable laws and regulations. These statements allow the Congress, external partners, and the general public to monitor how Reclamation uses the resources provided by the Congress and our partners.

### ***Consolidated Balance Sheet***

**Net Position** The Balance Sheet displays Assets, Liabilities, and Net Position. Our Net Position increased by \$1.8 billion in FY 2005. This increase is \$1.06 billion more than the Net Position increase in FY 2004.

**Total Assets** FY 2005 Total Asset value is \$22.8 billion, an increase of \$3.7 billion over the FY 2004 Total Asset value. The table on the following page shows the change by asset type.

The change in Fund Balance with Treasury is the result of increased collections from Minerals Management Service attributable to an increase in oil and gas production. The change in Accounts and Interest Receivable, Net, is primarily the result of a corresponding increase due from Minerals Management Service.

Reclamation's property, plant, and equipment (PP&E) \$13 billion balance accounts for approximately 75 percent of Interior's PP&E total reported in its annual report.

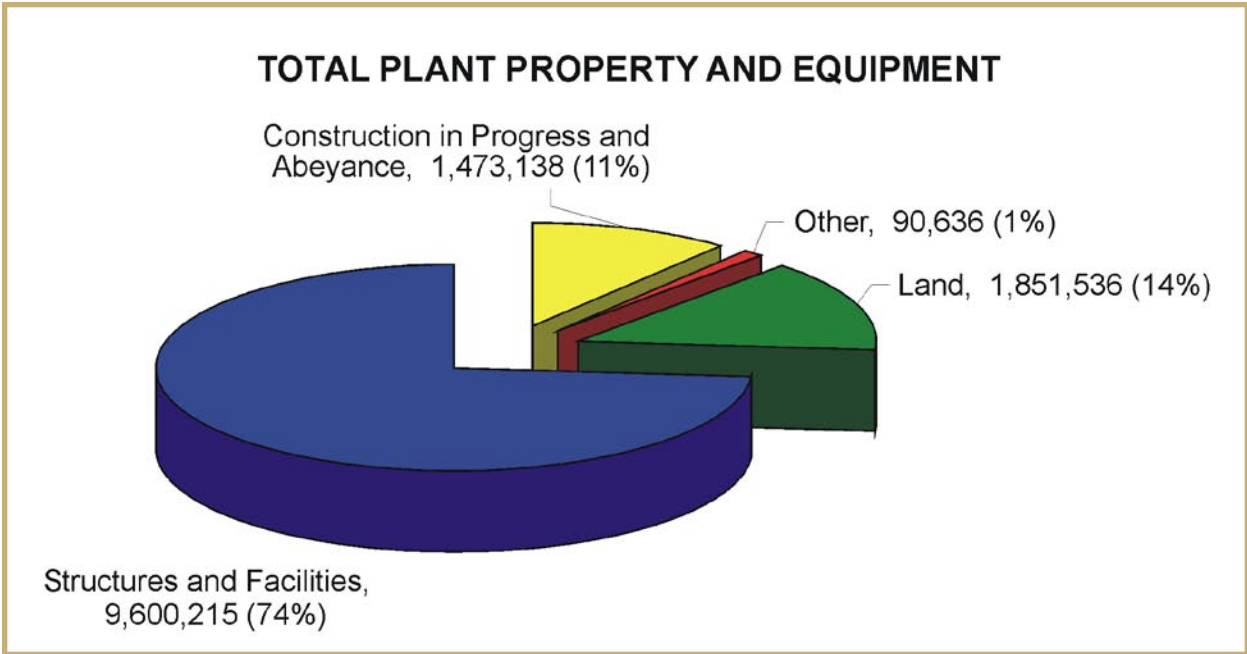
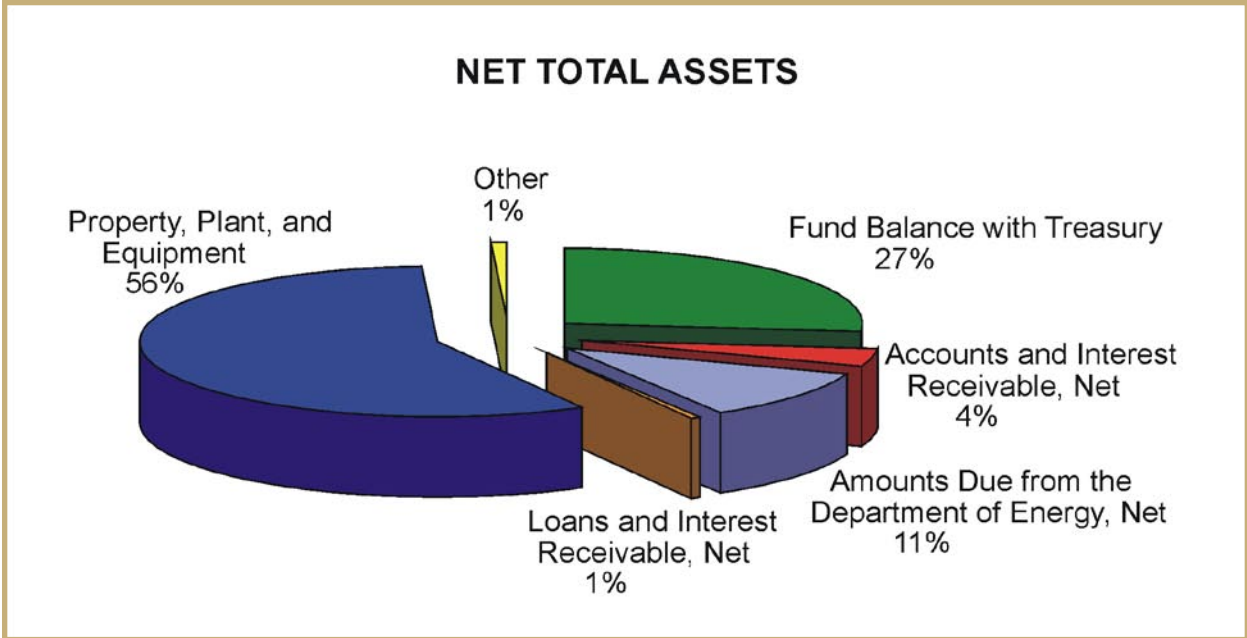
**Fund Balance with Treasury** The Fund Balance with Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. The Reclamation Fund (\$4.6 billion) Fund Balance and other unavailable (restricted) receipt fund balances are included in this asset category. The Congress allocates most of our annual appropriations out of the Reclamation Fund, and many of the revenues received from our beneficiaries are returned to the Reclamation Fund. In contrast to most other Federal public works programs, most of the costs of Reclamation's projects are repaid by beneficiaries, including irrigation districts, municipalities, and power customers.

<b>Net Change in Assets (In Thousands)</b>			
<b>Type of Asset</b>	<b>FY 2005</b>	<b>FY 2004</b>	<b>Net Change</b>
Fund Balance with Treasury	6,090,731	5,233,607	857,124
Accounts and Interest Receivable, Net	857,433	383,944	473,489
Amounts Due from the Department of Energy, Net	2,458,075	–	2,458,075
Loans and Interest Receivable, Net	146,468	166,900	(20,432)
Property, Plant, and Equipment	13,015,525	13,065,549	(50,024)
Other	199,838	193,310	6,528
<b>Total</b>	<b>22,768,070</b>	<b>19,043,310</b>	<b>3,724,760</b>

**General Property, Plant, and Equipment** Reclamation's PP&E consists of an extensive infrastructure of dams, powerplants, pumping stations, canals, and other water delivery systems that are used in Reclamation's day-to-day operations. These assets are reported as General PP&E in accordance with Federal GAAP. Our major PP&E asset categories include Structures and Facilities, Land, Construction-in-Progress and Abeyance, and Other (consisting of Equipment, Vehicles, Buildings, and Internal Use Software).

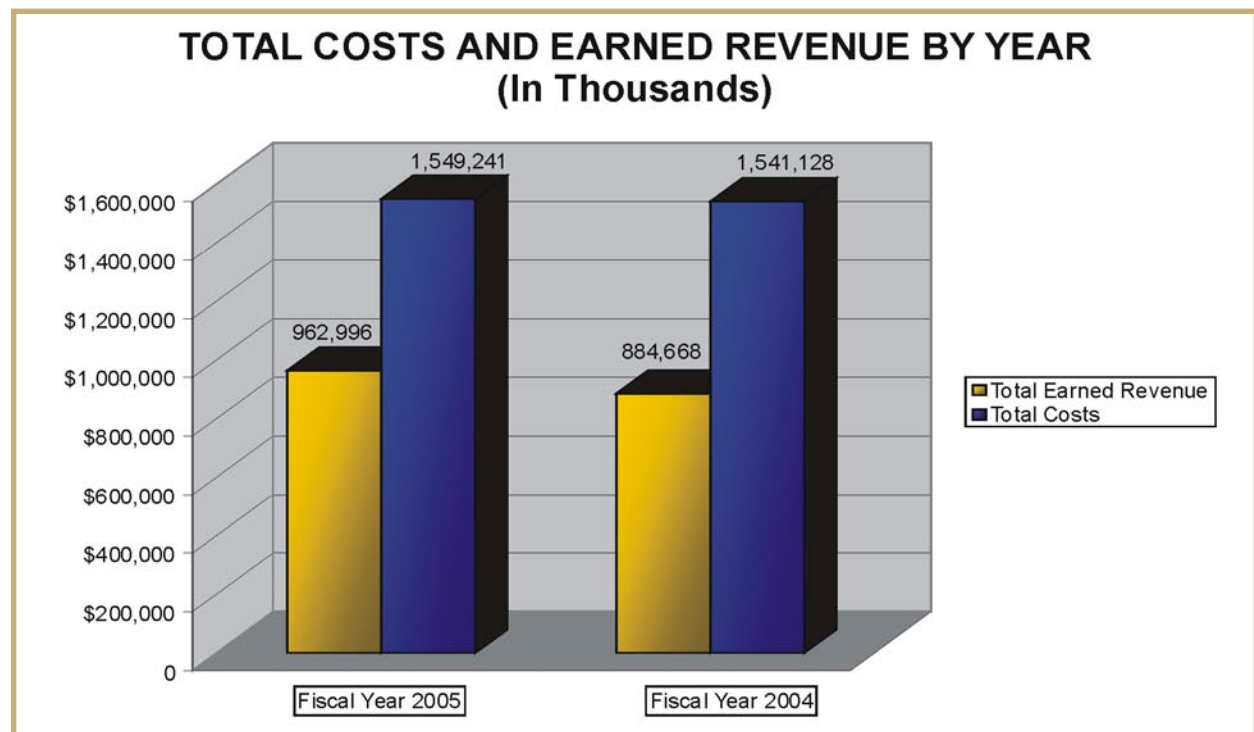
**Total Liabilities** FY 2005 Total Liabilities are \$2.8 billion, a \$1.9 billion increase from FY 2004. The majority of the \$1.9 billion increase is the result of Reclamation recording a liability to the General Fund to implement a change in accounting principle applied to appropriations Reclamation receives from the General Fund that are expended for reimbursable project purposes.

Reclamation is a bureau of the executive branch of the United States Government, a sovereign entity. Federal agencies, by law, cannot make any payments unless the Congress has appropriated funds. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and ongoing operations are subject to the enactment of appropriations. Reclamation's Funded Liabilities are paid out of funds currently available to Reclamation. Unfunded liabilities consist primarily of environmental and legal liabilities that will be paid out of



funds made available to Reclamation in future years. Funded and unfunded liabilities are discussed in Notes to the Financial Statements.

Net Change in Liabilities (In Thousands)			Net Change
Type of Liability	FY 2005	FY 2004	
Accounts Payable	229,519	221,712	7,807
Debt	96,811	114,098	(17,287)
Accrued Employee Benefits and Payroll	70,343	65,918	4,425
Advances, Deferred Revenue, and Deposit Funds	464,070	281,681	182,389
Judgment Fund Liability to Treasury	47,950	46,959	991
Resources Payable to Treasury	1,780,970	–	1,780,970
Federal Employee Benefits, Actuarial	88,702	85,815	2,887
Environmental and Disposal Liabilities	35,360	5,629	29,731
Contingent Liabilities	9,515	62,625	(53,110)
Other	19,804	21,143	(1,339)
<b>Total</b>	<b>2,843,044</b>	<b>905,580</b>	<b>1,937,464</b>





### **Consolidated Statement of Net Costs**

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

In FY 2005, Reclamation reported \$1.3 billion of cost and \$868 million of earned revenues under the Resource Use mission goal. Our key mission activities are reported under this mission goal. It includes the costs associated with providing water and hydropower to our customers in an environmentally responsible and cost-efficient manner. It also includes hydropower and water sales revenue, which reflect cost recovery to the Government for costs incurred to produce and deliver water and hydropower to our customers.

The costs and revenues reported in the financial reporting category, Centralized Program Support and Other, reflect administrative, working capital, and other costs and revenues incurred and earned while supporting Reclamation's mission goals.

The Consolidated Statement of Net Cost displays the net cost of operations, which is the difference between revenues and expenses for our core mission of delivering water and power, operating and maintaining our facilities, and the support costs associated with all of these activities. Reclamation's total FY 2005 net cost of operations was \$586.2 million, a decrease of \$70.2 million from the FY 2004 net cost of operations.

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

**Revenues and Costs** Revenues earned by Reclamation as the result of providing goods or services are reported in the Consolidated Statement of Net Cost.

Total FY 2005 earned revenue was \$963 million, \$78 million or 9 percent more than was reported in FY 2004. FY 2005 costs were \$1.55 billion compared to \$1.54 billion in FY 2004, a 1-percent increase from FY 2004.

### **Combined Statement of Budgetary Resources**

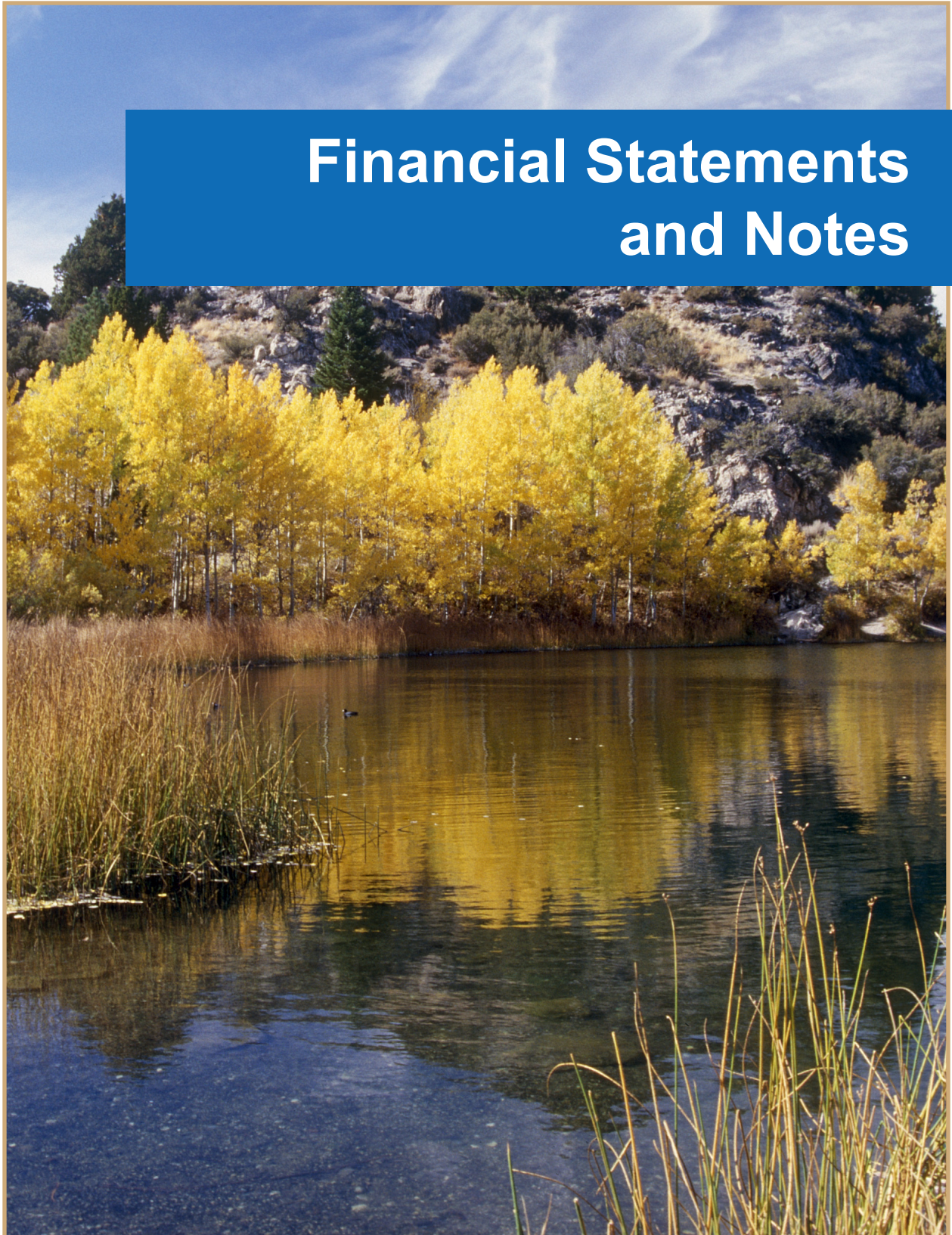
**Budgetary Resources** The Combined Statement of Budgetary Resources and related disclosures provide information about budgetary resources and their status at the end of the year. Reclamation's FY 2005 Total Budgetary Resources were \$2.49 billion compared to \$2.43 billion in FY 2004, an increase of \$64.2 million. Reclamation's major budget accounts are broken down into five categories; our funding is derived predominantly from three of the five categories: Total Budgetary

Authority, Unobligated Balances (i.e., prior year carryforward balances), and Offsetting Collections. Refer to the Combined Statement of Budgetary Resources and the detailed budgetary information in the Supplemental Section of this report for more information.

### **Improper Payments**

Reclamation completed its FY 2005 Improper Payments risk assessment on the Water and Related Resources Program as required by the Improper Payments Information Act of 2002, P.L. 107-300. No major changes in policies, procedures, staffing, or systems implementation which would pose a high risk of allowing improper payments to occur were identified within the functions of Acquisitions, Property, or Finance. Reclamation certified that there were no major operating changes from the risk assessment performed in FY 2004. Based on the information reviewed, the FY 2005 final risk assessment for the Water and Related Resources Program is low.

# Financial Statements and Notes









## United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL  
Washington, D.C. 20240

December 28, 2005

### Memorandum

To: Commissioner, Bureau of Reclamation

From: Anne L. Richards *Anne L. Richards*  
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2005 and 2004 (Report No. X-IN-BOR-0013-2005)

Attached is the subject auditors' report prepared by KPMG LLP (Attachment 1). It contains an unqualified opinion on the Bureau of Reclamation's (Reclamation) financial statements. However, KPMG identified five reportable conditions on Reclamation's internal controls over financial reporting; one of the conditions was considered to be a material weakness. KPMG also found significant deficiencies in reporting the condition of heritage and stewardship assets and reporting the amount of stewardship land. In addition, KPMG found instances in which Reclamation's financial management systems did not fully comply with federal accounting standards and with the Federal Financial Management Improvement Act (FFMIA).

In its November 18, 2005 response to the draft auditors' report (Attachment 2), Reclamation agreed with findings A, B, and C; partially agreed with findings D, E, and G; and disagreed with finding F. Subsequent to issuing the draft auditors' report, management provided additional evidence to clear the portion of finding E related to recommendation E.2. KPMG reaffirmed its position that the remaining findings are valid. Based on the responses, we consider recommendations A.1, A.2, A.3, B.1, B.2, B.3, C.1, C.2, D.1, D.2, D.3, D.4, E.1, and G.1 resolved and not implemented and recommendations D.5, F.1, F.2, F.3, and G.2 unresolved. We will refer the resolved and not implemented recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. The unresolved recommendations will be referred for resolution.

The Department of the Interior contracted with KPMG, an independent certified public accounting firm, to audit Reclamation's financial statements for fiscal years 2005 and 2004. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget's Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*.



KPMG is responsible for the auditors' report and for the conclusions expressed in the report. We do not express an opinion on Reclamation's financial statements, KPMG's conclusions on the effectiveness of internal controls, conclusions on whether Reclamation's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

We appreciate the cooperation and assistance of Reclamation personnel during the audit. If you have any questions regarding the report, please contact me at (202) 208-5512.

Attachments (2)

cc: Assistant Secretary for Water and Science  
Chief Financial Officer, Bureau of Reclamation  
Director, Office of Financial Management  
Audit Liaison Officer, Water and Science  
Audit Liaison Officer, Bureau of Reclamation  
Audit Liaison Officer, Office of Financial Management  
Focus Leader for Financial Reporting, Office of Financial Management  
Focus Leader for Management Control and Audit Followup,  
Office of Financial Management



KPMG LLP  
 Suite 2700  
 707 Seventeenth Street  
 Denver, CO 80202

### Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Bureau of Reclamation (Reclamation) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years then ended (hereinafter referred to as the financial statements). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered Reclamation's internal control over financial reporting and tested Reclamation's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

#### SUMMARY

As stated in our opinion on the financial statements, we concluded that Reclamation's financial statements as of and for the years ended September 30, 2005 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1N to the financial statements, Reclamation changed its method of accounting for appropriated debt transactions in accordance with the provisions of OMB guidance effective October 1, 2004. Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

#### Reportable Condition Considered to be a Material Weakness

- A. Controls over Implementation of New Accounting Principle

#### Other Reportable Conditions

- B. Security and Internal Control over Information Technology Systems
- C. Controls over Charge Card Reviews
- D. Controls over Management Review and Approval of Process-level Activities
- E. Controls over Credit Reform Loans

Our limited procedures over Required Supplementary Information and Required Supplementary Stewardship Information identified the following significant deficiency:

- F. Reporting the Condition of Heritage and Stewardship Assets and Related Deferred Maintenance

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed two instances where Reclamation's financial management systems did not substantially comply with the following:

**G. Federal Accounting Standards**

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

**OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of Reclamation as of September 30, 2005 and 2004, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reclamation as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1N to the financial statements, Reclamation changed its method of accounting for appropriated debt transactions in accordance with the provisions of OMB guidance effective October 1, 2004.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*. We did not audit this information and, accordingly, we express no opinion on it. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. As a result of such limited procedures, we believe that Reclamation's reporting of the condition of heritage and stewardship assets in Required Supplementary Stewardship Information and deferred maintenance in Required Supplementary Information is not in conformity with accounting principles generally accepted in the United States of America.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

In our fiscal year 2005 audit, we noted certain matters, described below, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable condition A is a material weakness.

#### A. Controls over Implementation of New Accounting Principle

In March 2005, the OMB issued guidance in response to the Federal Accounting Standards Advisory Board's Accounting and Auditing Policy Committee's Technical Exposure Draft entitled, *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities, and SFFAS 5, Accounting for Liabilities of the Federal Government*. OMB's guidance instructed Reclamation to cease recording appropriations to and subsequent recoveries from Western Area Power Administration (Western) as transfers and to prospectively record a receivable for the balance owed to the Reclamation Fund. In addition, Reclamation applied OMB's guidance to other similar conditions, including amounts due from Bonneville Power Administration (BPA) to the Reclamation Fund and amounts owed by Reclamation to the U.S. Treasury's General Fund (Treasury).

In implementing OMB's guidance, Reclamation applied significant resources and effort, including a coordinated effort with Western, BPA, the U.S. Department of Energy, the U.S. Department of the Interior (DOI), the U.S. Treasury, and OMB.

Western's appropriations from the Reclamation Fund are used for capital investment and operations and maintenance activities related to those functions. Associated recoveries received by Western are deposited into the Reclamation Fund. Unlike Western, BPA does not receive appropriations from the Reclamation Fund; however, BPA has legislatively assumed the repayment obligation to the Reclamation Fund for the appropriations used to construct certain Reclamation facilities. The amounts owed by Reclamation to Treasury consist of appropriations received to construct, operate, and maintain various multipurpose projects, a large portion of which are reimbursable and require subsequent repayment to Treasury.

In accordance with the change in accounting guidance, Reclamation calculated and recorded the September 30, 2004 receivables due from Western and BPA and a liability balance due to Treasury. These balances were recorded prospectively in fiscal year 2005 as an approximate \$1.724 billion, \$617 million, and \$1.936 billion, respectively, cumulative effect on beginning equity balances as of October 1, 2004.

Despite Reclamation's efforts with regards to the Western receivable, at September 30, 2005, there existed an unreconciled amount of approximately \$1.97 million (net) between Reclamation's receivable and Western's payable. Reclamation's receivable balance was approximately \$1.97 million less than Western's payable, comprised of \$39.78 million in positive differences and \$41.75 million in negative differences. In addition, our testwork revealed that approximately \$205.5 million of repayments received prior to fiscal year 2004 were recorded as current year repayments to the Reclamation Fund, misstating the cumulative effect on beginning equity. Both differences were corrected by management in the 2005 financial statements.

Our testwork over the Treasury liability revealed that: (1) repayments made to Treasury during the current fiscal year were recorded as prior-period activity, and (2) the repayments of one project were not appropriately allocated between Reclamation and other project sponsors, misstating the cumulative effect on beginning equity and the ending liability balance by \$261.2 million and \$111.9 million, respectively. In addition, we identified one project for which the beginning liability balance was understated by approximately \$26.6 million. These differences were corrected by management in the 2005 financial statements. Further, we identified approximately \$314,000 not recorded to the Treasury liability due to a miscommunication between Reclamation regional offices.

These deficiencies are partially a result of underdeveloped accounting policies and procedures and U.S. Treasury account posting models not implemented as of September 30, 2005.

### **Recommendations**

We recommend that the Commissioner, U.S. Bureau of Reclamation:

1. Improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures and improved coordination with the U.S. Treasury regarding appropriate account posting models, as necessary.
2. Implement controls to ensure current-year additions to and repayments against the Treasury liability are properly recorded in the standard general ledger, including sufficient management oversight and review.
3. Implement controls, including sufficient management oversight and review, to ensure current-year appropriations to and repayments from Western are properly recorded in the standard general ledger and budgetary and proprietary balances are properly reported. Further, Reclamation should continue to resolve the unreconciled differences between Reclamation's receivable and Western's liability and continue to improve coordination between Western, the U.S. Department of Energy, DOI, and OMB.

### **Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and will improve its policies, procedures, and controls in accordance with the recommendations. The target date for implementation of the improvements is June 30, 2006.

## **B. Security and Internal Control over Information Technology Systems**

Security and general controls over Reclamation's financial management systems have not been fully implemented. Improvement is needed in the area described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. The condition identified below could affect Reclamation's ability to prevent or detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources.

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that: (1) only authorized users have access to data and resources, (2) users have the minimum access necessary to perform their job functions, (3) access to very sensitive resources, such as security software programs, is limited to very few individuals, and (4) network security configurations are optimized to provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. Our audit found that Reclamation's user access authorization, user restriction, and termination procedures are not sufficient to minimize the risks of unauthorized access to its systems and its data.

Specifically, our audit identified 15 combined instances within the Water Operating and Record Keeping System (WORKS) and the Interior Department Electronic Acquisition System – Procurement Desktop (IDEAS-PD) where access granted was not evidenced by supervisor approval. In addition, we identified 71 combined instances within those systems where the user had inappropriate access for their specific job



function. Our audit further identified 46 combined instances within the Moveable Property System (MPS) and IDEAS-PD where access rights for terminated employees were not removed. We noted, however, that the network accounts for the terminated employees were properly removed, which minimizes the risk of the user gaining access to the applications.

### **Recommendations**

We recommend that the Commissioner, U.S. Bureau of Reclamation:

1. Implement policies and procedures and related controls over the retention of new user authorization and access change documentation.
2. Ensure administrators and system managers receive adequate training to ensure responsible personnel are aware of existing policies and procedures governing user access. Reclamation should monitor personnel to ensure that policies and procedures are followed.
3. Monitor the process to ensure that periodic reviews of user access, including reviews at the Sys Operations task level, are performed at the designated intervals and that action is taken in a timely manner to investigate and modify or remove access as a result of the review. Supplement existing guidance to state explicit criteria that should be considered in the periodic review of user access listings and the appropriate personnel to perform the review. Specifically, someone familiar with the users and their current roles/responsibilities should perform the periodic review; an effective review may require involvement at the regional and/or office level. Further, the objectives of the review are two-fold: 1) to ensure users' access remains appropriate, and 2) to identify any terminated users.

### **Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and has updated and distributed user administration procedures in accordance with the recommendations. The target dates for implementation of the improvements are April 30, 2006, June 30, 2006, and May 30, 2006 for recommendations B.1, B.2, and B.3, respectively.

### **C. Controls over Charge Card Reviews**

Reclamation, through DOI, has provided charge cards to its employees in order to streamline acquisition and payment procedures and to reduce the administrative burden associated with traditional purchasing of travel items, supplies, and services. In conjunction with the issuance of charge cards, DOI has published guidance and instructions on charge card utilization through the Integrated Charge Card Program Guide. This policy sets forth restrictions on the use of the charge cards as well as certain internal control procedures, including timely and complete reconciliation of the billing statements by the cardholders and approving officials. During fiscal year 2005, Reclamation had approximately 7,200 active charge cards, which include purchase, travel, fleet, and corporate cards and incurred approximately 241,370 transactions for approximately \$60.3 million. Our audit identified control exceptions in eight of 22 statements tested, resulting in a total of 12 exceptions. These exceptions were as follows:

- One statement was not signed by the approving official.
- Two statements were not dated by the cardholder.
- Two statements were not dated by the approving official.

- Two statements were not reviewed by the approving official in a timely manner.
- One statement was not reviewed by the cardholder in a timely manner.
- Four statements did not include receipts to support all of the charges on the sampled statement.

#### **Recommendations**

We recommend that the Commissioner, U.S. Bureau of Reclamation:

1. Ensure compliance with its established charge card policies. To help ensure compliance, Reclamation management at all regional, area, and field office locations should be more diligent in monitoring and enforcing compliance with DOI charge card policies.
2. Design and implement policies to monitor the results of internal reviews of charge card statements to ensure that the internal reviews are effective in ensuring compliance with charge card policies.

#### **Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and will improve its policies, procedures, and controls in accordance with the recommendations. The target date for implementation of the improvements is June 30, 2006.

#### **D. Controls over Management Review and Approval of Process-level Activities**

OMB Circular A-123 (revised June 21, 1995), *Management's Accountability and Control*, Section II, bullet *Recording and Documentation*, states: "transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination." Lack of documented policies and procedures for preparing and reviewing journal entries and standard vouchers could result in improper amounts being reported, either due to intentional or unintentional errors. Further, ineffective management review of controls over key, process-level activities could result in ineffective controls and misstatements within the financial statements and related notes.

During our audit, we tested manual journal entries and key, risk-mitigating controls to determine if the activities and associated outputs were initiated by an appropriate individual, properly reviewed, supported by sufficient documentation, properly recorded, consistent with accounting principles, and consistent with Reclamation policy. Our testing of over 150 journal entries and process-level activities and controls identified the following:

##### ***Journal Entries***

- Two instances in which there was insufficient supporting documentation for journal entries made to record anticipated budgetary resources.
- One instance in which the preparer and approver of a journal entry were the essentially same individual (the preparer, although a different individual, was asked by the approver to prepare an entry for which the preparer did not understand).

- Three instances where the journal entry was not approved prior to being entered into the Federal Financial System (FFS).
- Four instances in which there was no indication of the individual responsible for preparing the tested journal entry.

***Process-level Activities***

- Three of 26 billing documents totaling \$319,015 were not reviewed prior to being mailed to the customer.
- Twenty of 20 Form 528 documents, which are used in support of certain land balances in the Foundation Information for Real Property Management (FIRM) database, were not reviewed when the transactions were initiated.
- Two of two monthly reconciliations lacked evidence that an investigation of the FMS 6652 differences was performed, nor was there any evidence of difference resolution as a part of the reconciliations performed in subsequent months.

**Recommendations**

We recommend that the Commissioner, U.S. Bureau of Reclamation:

1. Establish and document policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews.
2. Design and implement procedures and controls consistent across all regions for reviewing and approving billing documents. These procedures and controls should be designed to ensure that billing documents are accurate and properly supported, which will mitigate the risk of misstatement of accounts receivable and related revenues.
3. Design and implement a process and controls for reviewing and approving information entered onto the Form 528, which will ensure that the Form 528, which is used to support FIRM, is accurate and properly supported.
4. Improve its internal control environment to ensure that all controls performed are properly documented, including improved training of personnel to ensure awareness and knowledge of requirements and an internal assessment of controls to verify controls are being performed and are operating effectively.
5. Improve its reconciliation procedures over the FMS 6652 to ensure all differences are investigated. Improvements should include:
  - a. Documentation of the investigation and resolution of each difference
  - b. Signature and date of the person performing the investigation
  - c. Documentation of follow-up procedures performed in instances where the difference was not cleared in the original month reported

### **Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with recommendations D.1 through D.4 and will improve its policies, procedures, and controls in accordance with the recommendations by a target date of June 30, 2006. Management partially agreed with recommendation D.5 to improve its reconciliation procedures over the FMS 6652 to ensure all differences are investigated. Reclamation agreed that non-timing differences requiring investigation should be well-documented with pertinent details. The target date for implementation of the improvements is June 30, 2006. However, management indicated that the recommendation to document every difference is neither an efficient nor an effective use of Reclamation resources, as the majority of differences are temporary due to month-end timing differences.

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

The Treasury Financial Manual (TFM), Part 2, Chapter 5100, requires agencies to reconcile Fund Balance with Treasury on a monthly basis, including the FMS 6652 Statement of Differences. The TFM further requires agencies to investigate all Treasury-reported differences and research and trace all adjustments to supporting documents. The key focus of this finding is that Reclamation does not have sufficient policies, procedures, and controls in place to identify and document the nature and cause of stated differences and to ensure differences are due solely to timing.

## **E. Controls over Credit Reform Loans**

Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, provides accounting standards for Federal direct loans. The standard requires that the cost of direct loans obligated after September 30, 1991 be accounted for on a present value basis consistent with the Federal Credit Reform Act of 1990. SFFAS No. 2, paragraph 22 states, "The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance." Further, paragraph 30 states, "The subsidy allowance for direct loans is amortized by the interest method...the amortized amount is recognized as an increase or decrease in interest income" and paragraph 32 states, "The subsidy cost for direct loans... [is] re-estimated each year as of the date of the financial statements...any increase or decrease in the subsidy cost allowance...resulting from the re-estimates is recognized as a subsidy expense."

Further, Section 502(5)(A) of the Federal Credit Reform Act states, "The term 'cost' means the estimated long-term cost to the Government of a direct loan or loan guarantee or modification thereof, calculated on a net present value basis, excluding administrative costs and any incidental effects on government receipts or outlays."

Reclamation does not have sufficient controls in place to ensure the subsidy re-estimate is accurately recorded and that all relevant factors, including cohort year, year-to-date loan disbursements, and associated subsidy rates are properly applied to the re-estimate calculation. As a result, the subsidy allowance and related subsidy amortization was misstated by an estimated \$10.4 million in fiscal year 2005.

### **Recommendation**

We recommend that the Commissioner, U.S. Bureau of Reclamation:

1. Develop and implement controls to ensure the subsidy re-estimate is accurately recorded based on all relevant factors. Also, the subsidy re-estimation should be revised and approved by appropriate management.

### **Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and will improve its policies, procedures, and controls in accordance with the recommendations. The target date for implementation of the improvements is June 30, 2006. Management's official response, as attached, refers to recommendation E.2 in the draft independent auditors' report regarding administrative costs. Subsequent to the issuance of our draft finding, which included a recommendation regarding the exclusion of administrative costs from the loans receivable balance, management provided additional evidence to sufficiently clear that portion of the finding.

A summary of the status of prior-year reportable conditions is included as Exhibit I. We also noted certain additional matters that we reported to the management of Reclamation in a separate letter dated November 21, 2005.

### **INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION AND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

We noted certain significant deficiencies in internal control over Required Supplementary Information and Required Supplementary Stewardship Information discussed below, that, in our judgment, could adversely affect Reclamation's ability to collect, process, record, and summarize Required Supplementary Information and Required Supplementary Stewardship Information.

#### **F. Reporting the Condition of Heritage and Stewardship Assets and Related Deferred Maintenance**

Reclamation has not fully implemented the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, as amended by SFFAS No. 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6 and SFFAS No. 8*. SFFAS No. 6 requires Reclamation to estimate the deferred maintenance for its general, heritage, and stewardship assets using either the condition assessment survey or life cycle costing method. Paragraph 83 of SFFAS No. 6 requires Reclamation to disclose deferred maintenance information for all categories of property, plant, and equipment (general, stewardship, and heritage).

Reclamation has adopted the condition assessment survey method, which requires Reclamation to perform periodic inspections of assets to determine their current condition and estimate the cost to correct any deficiencies. Reclamation has implemented procedures to measure deferred maintenance for operating assets, including multi-use heritage assets. However, Reclamation has not fully established controls over the condition assessments performed to determine deferred maintenance for all assets as follows.

Reclamation has not completed condition assessments and estimated deferred maintenance for all known heritage assets. Specifically, conditions assessments performed in relation to archeological and historic sites, national historic landmarks, national register of historic places, paleontological sites, and museum collections are 82%, 20%, 69%, 99%, and 62% complete, respectively. No formal condition assessment program exists



for archeological properties. Further, the condition of non-collectible, natural heritage assets remains largely undocumented.

### **Recommendations**

We recommend that the Commissioner, U.S. Bureau of Reclamation:

1. Perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance.
2. Require supervisors to review and approve condition assessments and deferred maintenance estimates to ensure they are performed consistently and in accordance with policies.
3. Update the condition assessment and deferred maintenance estimates periodically and ensure the rotation schedule is properly maintained and monitored by individuals at the appropriate supervisory level.

### **Management Response**

Management has prepared an official response presented as a separate attachment to this report. In summary, management did not agree with our recommendations. Management indicated they do not believe condition assessments and deferred maintenance calculations on heritage and stewardship assets are required under SFFAS No. 6.

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

SFFAS No. 6 discusses four categories of property, plant, and equipment (PP&E), including heritage assets and deferred maintenance. SFFAS No. 6 outlines the requirements for estimated deferred maintenance for all categories of property, plant, and equipment, but does reference additional standards for the purpose of stewardship reporting. SFFAS No. 8, *Supplementary Stewardship Reporting*, was developed to establish standards over stewardship assets. SFFAS No. 8, paragraph 32, states, "many state and local governments, members of Congressional oversight committees, and national groups, have raised the issue of deteriorating condition of federally-owned PP&E because of deferred maintenance associated with these assets...as a result, a deferred maintenance standard in Accounting for Property, Plant, and Equipment, SFFAS No. 6, establishes reporting requirements related to the condition and future maintenance requirements for PP&E."

Further, SFFAS No. 8, paragraph 33, states, "the deferred maintenance standard is applicable to all PP&E whether the PP&E is reported as general PP&E or stewardship PP&E." Accordingly, SFFAS No. 6 is relevant with regards to heritage and stewardship assets and Reclamation is not in full compliance with this standard.

## **COMPLIANCE AND OTHER MATTERS**

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described below, where Reclamation's financial management systems did not substantially comply with the requirements discussed below.

## G. Federal Accounting Standards

As discussed in reportable condition A and significant deficiency F, Reclamation needs to: (1) improve its policies and procedures for recording activity in relation to the Western receivable and the Treasury general fund liability in response to the new accounting guidance, and (2) complete condition assessments and estimate any associated deferred maintenance for all known heritage and stewardship assets.

### Recommendations

We recommend that the Commissioner, U.S. Bureau of Reclamation:

1. Improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures, and improved coordination with the U.S. Treasury regarding appropriate account posting models, as necessary.
2. Perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance.

### Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with recommendation G.1 to improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury general fund liability. Management did not agree with recommendation G.2 to perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance. Management indicated they do not believe condition assessments and deferred maintenance calculations on heritage and stewardship assets are required under Federal accounting standards and accordingly, does not believe this finding to be a substantial non-compliance with FFMIA.

### Auditors' Response to Management's Response

FFMIA requires an entity's financial management system to comply with all relevant Federal accounting standards. As discussed in significant deficiency F, Reclamation has not completed condition assessments and estimated deferred maintenance for all known heritage and stewardship assets in accordance with SFFAS No. 6, as amended by SFFAS No. 14.

The results of our tests of FFMIA disclosed no instances in which Reclamation's financial management systems did not substantially comply with the Federal financial management systems or the standard general ledger at the transaction level requirements.

## RESPONSIBILITIES

**Management's Responsibilities.** The *Government Management Reform Act of 1994 (GMRA)*, *Accountability of Tax Dollars Act*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To assist DOI in meeting the GMRA reporting requirements, Reclamation prepares annual financial statements in accordance with Part A of OMB Circular A-136.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting;
- Complying with laws, regulations, contracts, and grant agreements, including FFMLA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements of Reclamation based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Reclamation's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2005 audit, we considered Reclamation's internal control over financial reporting by obtaining an understanding of Reclamation's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on Reclamation's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, we considered Reclamation's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of Reclamation's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance

on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis and Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Reclamation's fiscal year 2005 financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Reclamation. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether Reclamation'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.

#### **DISTRIBUTION**

This report is intended solely for the information and use of Reclamation management, the U.S. Department of the Interior Office of Inspector General, OMB, the 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 21, 2005

**U.S. BUREAU OF RECLAMATION**  
 Summary of the Status of Prior Year Findings  
 September 30, 2005

<b>Ref</b>	<b>Condition</b>	<b>Status</b>
<b>A</b>	Controls over land inventory	This condition has been corrected.
<b>B</b>	Controls over revenue recognition	This condition has been corrected.
<b>C</b>	Federal Financial Management Improvement Act of 1996	This condition has been corrected with regards to controls over land inventory. New findings were identified in fiscal year 2005 relating to the Federal Financial Management Improvement Act of 1996. See reportable condition A and significant deficiency F.



United States Department of the Interior

BUREAU OF RECLAMATION  
Washington, D.C. 20240

IN REPLY REFER TO:

D-7400  
ADM-1.00

MEMORANDUM

To: Office of the Inspector General  
Attention: Assistant Inspector General for Audits

Through: Mark Limbaugh *[Signature]* **NOV 18 2005**  
Assistant Secretary - Water and Science

From: John W. Keys, III *[Signature]* **NOV 15 2005**  
Commissioner

Subject: Bureau of Reclamation's Response to the Draft Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2005 and 2004 (Assignment No. X-IN-BOR-0013-2005)

We appreciate the opportunity to review and comment on the draft audit report titled Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2005 and 2004. Attached for your consideration is Reclamation's response to the recommendations as stated in the draft audit report.

If you have any questions or require additional information, please contact Reclamation's Audit Liaison Officer, [redacted] at [redacted]

Attachment

cc: Assistant Secretary - Water and Science  
Attention: [redacted]  
Associate Director - Financial Policy and Operations  
Attention: [redacted]  
(w/copy of incoming and att to each)



Bureau of Reclamation  
KPMG, LLP Draft Audit Report  
Response to Draft Audit Report Recommendations  
November 2005

**A. Controls over Implementation of New Accounting Principle**

Recommendation A.1

Improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures and improved coordination with the U.S. Treasury regarding appropriate account posting models, as necessary.

Response

Concur. Reclamation will improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures and improved coordination with the Treasury regarding appropriate account posting models, as necessary.

The responsible officials are the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for improving policies and procedures related to the Western receivable and Treasury liability is June 30, 2006.

Recommendation A.2

Implement controls to ensure current year additions to and repayments against the Treasury liability are properly recorded in the standard general ledger, including sufficient management oversight and review.

Response

Concur. Reclamation will implement controls to ensure current year additions to and repayments against the Treasury liability are properly recorded in the standard general ledger, including sufficient management oversight and review.

The responsible officials are the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for implementing controls to ensure that current year activity related to the Treasury liability is properly recorded in the standard general ledger is June 30, 2006.

Recommendation A.3

Implement controls, including sufficient management oversight and review, to ensure current year appropriations to and repayments from Western are properly recorded in the standard general ledger and budgetary and proprietary balances are properly reported. Further, Reclamation should continue to resolve the unreconciled differences between Reclamation's receivable and Western's liability and continue to improve coordination between Western, the U.S. Department of Energy, Department of the Interior, and Office of Management and Budget.

Response

Concur. Reclamation will implement controls, including sufficient management oversight and review, to ensure current year appropriations to and repayments from the Western Area Power Administration (Western) are properly recorded in the standard general ledger and budgetary and proprietary balances are properly reported. Further, Reclamation will continue to resolve the unreconciled differences between Reclamation's receivable and Western's liability and continue to improve coordination between Western, the Department of Energy, Department of the Interior, and the Office of Management and Budget.

The responsible officials are the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for implementing controls, including management oversight and review, to ensure that activity related to the receivable from Western is properly recorded and reported is June 30, 2006.

**B. Security and Internal Control over Information Technology Systems****General Comments:**

Although Reclamation agrees that application account management procedures could be further improved, other controls are in place to mitigate the risk of this weakness jeopardizing financial systems or the data provided in support of the financial statement. These controls include:

- Management and termination of Local Area Network (LAN) access
- Password requirements
- Data edits in the financial application
- Constraints on transmission of data to the financial system

These controls and procedures were effective in preventing LAN access, even though about 1 percent of the terminated users retained access to applications, as validated by KPMG.

Recommendation B.1

Implement policies and procedures and related controls over the retention of new user authorization and access change documentation.

Response

Concur. Reclamation Manual Directives and Standards, IRM 08-12, "Computer Protections, Anti-Virus, Access Control and Passwords" (available at [www.usbr.gov/recman/irm/irm08-12.htm](http://www.usbr.gov/recman/irm/irm08-12.htm)) provides policy for managing user accounts.

Reclamation has updated user administration procedures for the Movable Property System (MPS) and the Interior Department Electronic Acquisition System (IDEAS-PD). The updated procedures were completed and distributed in June and July 2005, respectively, and clarify requirements associated with user account maintenance and oversight responsibilities for system administrators. As of August 2005, Reclamation standardized user access forms for the Bureau of Reclamation Water Operations and Record Keeping System (BORWORKS) and developed a refined process for creating and modifying user accounts to help ensure access is properly authorized.

System administrators and local managers began implementing these procedures upon distribution. The new procedures will ensure that authorization and access documentation is maintained and reviewed by system managers and administrators. The procedures also require that the Reclamationwide functional system administrator conduct semiannual reviews of all user account activities to verify and validate that required reviews have been completed by local system administrators. These newly established procedures require the retention of new user authorization and access change documentation.

Mitigation of this finding will be tracked in the Reclamation Plan of Action and Milestones reports for systems as soon as the final audit report is received.

The responsible official is the Chief Information Officer. Reclamation has completed the task of developing and distributing policies and procedures. The target date for verifying the implementation of the newly established procedures is April 30, 2006.

Recommendation B.2

Ensure administrators and system managers receive adequate training to ensure responsible personnel are aware of existing policies and procedures governing user access. Reclamation should monitor personnel to ensure that policies and procedures are followed.

Response

Concur. Reclamation will conduct training on the new procedures described above to further ensure compliance and an understanding of requirements. Procedures will be implemented to provide adequate training on access controls for new system administrators and other personnel, as needed to ensure that responsible personnel are aware of policies and procedures. Reclamation has procedures in place to inform new system owners and managers of their responsibilities related to application access authorization and account management. As stated in our response to Recommendation B.1, new procedures include monitoring account management procedures.

Mitigation of this finding will be tracked in the Reclamation Plan of Action and Milestones reports for systems as soon as the final audit report is received.

The responsible official is the Chief Information Officer. The target date for initial training to ensure responsible personnel are aware of existing policies and procedures is June 30, 2006.

Recommendation B.3

Monitor the process to ensure that periodic reviews of user access, including reviews at the Sys Operations task level, are performed at the designated intervals and that action is taken in a timely manner to investigate and modify or remove access as a result of the review. Supplement existing guidance to state explicit criteria that should be considered during periodic reviews of user access listings, which will include the oversight of the appropriateness of personnel to perform the reviews. Specifically, someone familiar with the users and their current roles/responsibilities should perform the periodic review; an effective review may require involvement at the regional and/or office level. Further, the objectives of the review are two-fold: 1) to ensure users' access remains appropriate; and 2) to identify any terminated users.

Response

Concur. As stated in our response to Recommendation B.1, Reclamation has updated user administration procedures for MPS and IDEAS-PD. The procedures require that an independent system administrator conduct periodic audits of user account listings to verify and validate that required reviews have been completed by local system administrators. System administrators and local managers began implementing these procedures upon distribution.

In addition, Reclamation's Information Technology Security Assurance program will include a review of account management procedures in its site and system reviews this year.

Mitigation of this finding will be tracked in the Reclamation Plan of Action and Milestones reports for systems as soon as the final audit report is received.

The responsible official is the Chief Information Officer. The target date for a cycle of account management review is May 30, 2006.

### **C. Controls over Charge Card Reviews**

#### Recommendation C.1

Ensure compliance with its established charge card policies. To help ensure compliance, Reclamation management at all regional, area, and field office locations should be more diligent in monitoring and enforcing compliance with DOI charge card policies.

#### Response

Concur. Reclamation will continue to implement internal controls and perform oversight to ensure compliance with established charge card policies. Draft Reclamation charge card guidance has been issued for review and comment and is scheduled to be formally issued in fiscal year 2006.

The responsible officials are the Deputy Commissioner, External and Intergovernmental Affairs, Deputy Commissioner, Operations, and Deputy Commissioner, Policy, Administration and Budget. The target date for implementing internal controls and performing oversight to ensure compliance with charge card policies is June 30, 2006.

#### Recommendation C.2

Design and implement policies to monitor the results of internal reviews of charge card statements to ensure that the internal reviews are effective in ensuring compliance with charge card policies.

#### Response

Concur. Draft Reclamation charge card guidance has been issued for review and comment and is scheduled to be formally issued in fiscal year 2006. This guidance includes policies and procedures which require charge card reviews to ensure compliance with charge card policies.

The responsible official is the Deputy Commissioner, Policy, Administration and Budget. The target date for implementing policies to monitor the results of internal charge card statement reviews is June 30, 2006.



**D. Controls over Management Review and Approval of Process-level Activities**

Recommendation D.1

Establish and document policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews.

Response

Concur. Reclamation will establish and document policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews.

The responsible officials are the Chief Financial Officer, Deputy Chief Financial Officer, and all Regional Directors. The target date for establishing and documenting policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews is June 30, 2006.

Recommendation D.2

Design and implement procedures and controls consistent across all regions for reviewing and approving billing documents. These procedures and controls should be designed to ensure that billing documents are accurate and properly supported, which will mitigate the risk of misstatement of accounts receivable and related revenues.

Response

Concur. Reclamation will assess the internal controls over the billing process review for each region and design and implement additional procedures and internal controls as necessary.

The responsible officials are the Chief Financial Officer, Deputy Chief Financial Officer, and all Regional Directors. The target date for assessing the internal controls and implementing new controls is June 30, 2006.

Recommendation D.3

Design and implement a process and controls for reviewing and approving information entered onto the Form 528, which will ensure that the Form 528, which is used to support FIRM, is accurate and properly supported.

Response

Concur. Reclamation will design and implement a process and controls for reviewing and approving information entered onto the Form 528, which will ensure that the Form

528, which is used to support the Foundation Information for Real Property Management System, is accurate and properly supported.

The responsible official is the Regional Director, Mid-Pacific Region. The target date for designing and implementing new internal controls is June 30, 2006.

Recommendation D.4

Improve its internal control environment to ensure that all controls performed are properly documented, including improved training of personnel to ensure awareness and knowledge of requirements and an internal assessment of controls to verify controls are being performed and are operating effectively.

Response

Concur. Reclamation will improve its internal control environment to ensure that all controls performed are properly documented, including improved training of personnel to ensure awareness and knowledge of requirements and an internal assessment of controls to verify controls are being performed and are operating effectively.

The responsible official is the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for improving the internal control environment is June 30, 2006.

Recommendation D.5

Improve its reconciliation procedures over the FMS 6652 to ensure all differences are investigated. Improvements should include:

- a. Documentation of the investigation and resolution of each difference.
- b. Signature and date of the person performing the investigation.
- c. Documentation of follow-up procedures performed in instances where the difference was not cleared in the original month reported.

Response

Partially concur. The recommendation to document every difference is neither an efficient nor an effective use of Reclamation resources. The majority of differences are temporary, due to month end timing differences between Treasury and Reclamation. Reclamation generates a monthly report that systematically documents the aging, by schedule and document number, of all differences for the month including those that have not been cleared in the original month reported. Reclamation agrees that non-timing differences, that require investigation, should be well documented with pertinent details, investigator's name, and dates of completion by the person performing the investigation.

The responsible official is the Deputy Chief Financial Officer. The target date for implementing new procedures to document differences requiring investigation is June 30, 2006.

## **E. Controls over Credit Reform Loans**

### Recommendation E.1

Develop and implement controls to ensure the subsidy re-estimate is accurately recorded based on all relevant factors. Also, the subsidy re-estimation should be revised and approved, by appropriate management.

#### Response

Concur. Reclamation will develop and implement controls to ensure the subsidy re-estimate is accurately recorded based on all relevant factors, and will also assess the proper level of management review of subsidy re-estimates.

The responsible official is the Deputy Commissioner, Policy, Administration and Budget. The target date for assessing and implementing this recommendation is June 30, 2006.

### Recommendation E.2

Design and implement a mechanism to properly exclude administrative costs from the net loan receivable balance.

#### Response

Nonconcur. Reclamation properly includes **reimbursable** administrative costs due from loan recipients in the loan receivable balance reported in the financial statements. Reclamation properly excludes appropriated or nonreimbursable administrative costs associated with the loan program from the loan receivable balance reported in the financial statements.

Reclamation's direct loans authorized after September 30, 1991, are provided for by the Small Reclamation Projects Act of 1956 (Public Law 84-984). This Act states, "The reasonable cost of any plans, specification, and other unpublished material furnished by the Secretary pursuant to this section and the cost of making and administering any loan under this Act shall, to the extent that they would not be nonreimbursable in the case of a project constructed under the Federal Reclamation laws, be treated as a loan and covered in the provisions of the contract entered into under section 5 of this Act unless they are otherwise paid for by the organization." Reimbursable administrative costs become part of the loan balance due from the customer as incurred per the authorizing legislation. As these costs are reimbursable, they do not qualify as costs to the Government of a direct loan as defined in Section 502(5)(A) of the Federal Credit Reform Act of 1990.

## F. Reporting the Condition of Heritage and Stewardship Assets

### Recommendation F.1

Perform condition assessments for all heritage assets and stewardship assets, and estimate the related deferred maintenance.

#### Response

Non-concur. Reclamation does not believe that the requirements of the Statement of Federal Financial Accounting Standards (SFFAS) No. 6 for performing condition assessments and estimating deferred maintenance is applicable to its heritage assets. As discussed in the Executive Summary of SFFAS No. 6, paragraph c, there are four categories of Property, Plant, and Equipment (PP&E): (1) general PP&E; (2) Federal mission PP&E; (3) heritage assets; and 4) stewardship land. Paragraph d of the Executive Summary states that: "Complete accounting standards for general PP&E are included in this document." This infers that SFFAS No. 6 does not provide complete accounting standards for the other three categories, including heritage assets.

In SFFAS No. 6, accounting standards related to heritage assets are limited to the recognition and measurement of costs for financial statement reporting purposes (refer to paragraphs 61 and 62 of SFFAS No. 6). Paragraph 62 states that: "Additional reporting requirements will be developed for stewardship report items in a separate standard." The deferred maintenance requirements of SFFAS No. 6 do not apply to heritage assets.

SFFAS No. 8 "Supplementary Stewardship Reporting" provides additional guidance and requirements for stewardship assets, including heritage assets, Federal mission property, and stewardship land. SFFAS No. 8, Chapter 2, provides guidance for reporting heritage asset information as Required Supplementary Stewardship Information. Under the "Minimum Reporting" section, paragraph 50 provides agencies with **latitude** in determining the appropriate information to report, including condition and deferred maintenance. Paragraph 50 states:

"The determination of the most relevant information to be presented should be made by the preparer; however, reporting at the entity level shall be more specific than at the government-wide level. The following are examples of information that *should be considered* for presentation." (italics added for emphasis)

The fourth bullet under paragraph 50 is "condition." The fifth bullet states: "A reference to a note to the financial statements *if* deferred maintenance is reported for the assets." (italics added for emphasis)

By reviewing the deferred maintenance requirements that are addressed in SFFAS numbers 6, 8, and 14, it can also be inferred that the Federal Accounting Standards Advisory Board (FASAB) intended to provide agencies some latitude in the application

of deferred maintenance, including the performance of condition assessments, for its PP&E. For example, paragraph y in the Executive Summary to SFFAS 6 states:

“The standards recognize that there are many variables in estimating deferred maintenance amounts. The standards acknowledge that condition rating is a management function since different conditions might be considered acceptable by different entities as well as for different items of PP&E held by the same entity. In addition, management *may* use condition assessment surveys or life cycle cost plans to estimate the amount of deferred maintenance.” (italics added for emphasis)

SFFAS No. 8, paragraph 32, also includes inferences that the primary intent of the deferred maintenance requirements is to ensure that the operational PP&E of an agency is identified and reported. Paragraph 33 provides agency flexibility in the application of condition assessment and deferred maintenance requirements. This paragraph states that: “These requirements are flexible since different conditions may be considered acceptable by different entities, as well as for different items of PP&E held by the same entity.”

In addition, SFFAS No. 6, Chapter 3 indicates that deferred maintenance requirements are primarily applicable to an agency's operating PP&E. Paragraph 77 defines deferred maintenance 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.” Paragraph 78 elaborates on the definition of maintenance:

“For purposes of this standard, maintenance is described as the act of keeping fixed assets in acceptable condition. It includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life.”

The third bullet of paragraph 83 states: “If the condition assessment survey method of measuring deferred maintenance is used, the following should be presented for each class of PP&E: (1) description of requirements or standards for acceptable operating condition; (2) any changes in the condition; (3) asset condition and a range estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition.” Since reference is made to acceptable operating condition, it appears that this requirement is applicable to fixed assets such as plant and equipment. It does not appear that heritage assets meet the criteria for the deferred maintenance requirement as required by SFFAS No. 6, paragraphs 77 and 78. If deferred maintenance is not applicable to heritage assets, it can be inferred that condition assessments on these assets are not required.

Finally, SFFAS No. 14, paragraph 80 indicates that amounts for deferred maintenance may be measured using condition assessment surveys. Paragraph 81 defines condition assessment surveys as “periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies.” From the criteria specified in SFFAS No. 14, it can be inferred that deferred maintenance is generally not applicable to heritage



assets when these assets are an incidental aspect of an agency. This SFFAS indicates that condition assessments may be performed to identify costs that need to be incurred to bring an asset up an acceptable operating condition. Operating condition is not an applicable measure, generally, for Reclamation's heritage assets as the great majority are archaeological properties. One exception might be multi-use heritage assets, heritage assets that are used to accomplish Reclamation's mission. For these situations, such assets would be included in Reclamation's assessment of deferred maintenance of its reserved water and power facilities.

Reclamation recognizes its responsibility to manage and protect heritage assets, and to comply with Federal law and regulations in that regard. However, the management of heritage assets is secondary to Reclamation's mission of delivering water and power. Highest priority, of necessity, is given to conducting condition assessments and addressing deferred maintenance of Reclamation water and power facilities. The Federal government has not issued any standards or guidance for conducting condition assessments and evaluating deferred maintenance of archaeological sites, which comprise the majority of Reclamation's non-collectible heritage assets. The Federal government also has no laws or regulations in place for evaluating the significance, condition, or deferred maintenance of paleontological resources, another category of non-collectible heritage assets.

It should be noted that Reclamation is in full compliance with condition assessment and deferred maintenance requirements for its general PP&E, as required by SFFAS No. 6. Reclamation has long-established policies and procedures for conducting comprehensive and rigorous condition assessments of all of its high and significant hazard dams, power plants, and associated facilities. Deferred maintenance on all Reclamation reserved works facilities (owned and operated by Reclamation) is updated quarterly. This would include multi-use heritage assets; e.g., Hoover Dam, which is a National Historic Landmark. The Department requires comprehensive condition assessments every 5 years. Reclamation currently performs condition assessments of its water and power facilities on a 3-year frequency.

Reclamation conducts scheduled condition assessments and determines deferred maintenance of its non-collectible heritage assets that fall under the definition of buildings and structures, in particular those that are multi-use heritage assets. In addition, Reclamation's reserved buildings are now also subject to scheduled condition assessments. In fiscal year 2004, Reclamation completed a preliminary condition assessment of all its reserved buildings that have a current replacement value of greater than \$50,000. Over the next five years, comprehensive condition assessments of those properties will be scheduled and completed. Deferred maintenance needs will be identified and reported.

In terms of collectible heritage assets, Department standards exist for evaluating the condition of facilities that display, exhibit, or store museum property. Reclamation uses the Department Facility Checklist for assessing condition and maintenance needs of such

facilities. Item-level condition assessments are conducted as part of annual inventories and when accessioned items are cataloged. Conservation surveys that would identify costs for rehabilitation of items occur only as needed, as per 411DM.

In addition, in an October 21, 2005, memo from the Assistant Secretary, Policy, Management and Budget (AS-PMB) to the Assistant Inspector General for Audits the Department resolved the disputed fiscal year 2004 Independent Auditors' Reports to several Department bureaus regarding the auditor's recommendations on collectable heritage assets. Specifically, KPMG noted significant deficiencies for those bureaus' internal controls over Required Supplemental Stewardship Information related to condition assessments of collectable heritage assets and controls over Required Supplementary Information related to deferred maintenance amounts for such assets. KPMG concluded that these deficiencies in internal control were also indicators of noncompliance with Federal Financial Management Improvement Act provisions relating to Federal accounting standards. In the AS-PMB's final conclusion and resolution, it was stated that:

“Collections that are housed in facilities in good condition are deemed to be in good condition. Therefore, Interior's policy of assessing the condition of museum objects based upon the condition of the facility housing the collection is considered appropriate and is supported by professional museum policy and practice.”

It should be noted that the condition of heritage assets issue is a Department-wide issue. Reclamation is in full compliance with all Departmental reporting requirements regarding heritage assets. Due to budgetary constraints, it is unlikely that sufficient funding would be available to perform condition assessments and estimate deferred maintenance on all heritage assets. Accordingly, it would not be feasible or cost-effective to implement this recommendation.

#### Recommendation F.2

Require supervisors to review and approve condition assessments and deferred maintenance estimates to ensure they are performed consistently and in accordance with policies.

#### Response

Non-concur. Since Reclamation does not concur with Recommendation F.1, Reclamation cannot concur to this recommendation. Nevertheless, Reclamation believes it is important to note the supervisory requirements Reclamation does have in place. Reclamation has already instituted supervisory approval where required. Reclamation uses the Department Facility Checklist for assessing condition and maintenance needs of such facilities. Item-level condition assessments are conducted as part of annual inventories and when accessioned items are cataloged. Conservation surveys that would identify costs for rehabilitation of items occur only as needed, as per 411DM. Reclamation requires assessments of its non-collectable multi-use heritage assets. All

assessments are reviewed and approved by supervisors and managers; for both collectable and non-collectable heritage assets these internal review and approval requirements are being codified in the Reclamation Manual.

Recommendation F.3

Update the condition assessment and deferred maintenance estimates periodically and ensure the rotation schedule is properly maintained and monitored by individuals at the appropriate supervisory level.

Response

Non-concur. Since Reclamation does not concur with Recommendation F.1, Reclamation cannot concur to this recommendation. Nevertheless, Reclamation believes it is important to note actions it does take with regard to performing condition assessments and deferred maintenance. Reclamation is in full compliance with condition assessment and deferred maintenance requirements for its general PP&E, as required by SFFAS No. 6. Reclamation has long-established policies and procedures for conducting comprehensive and rigorous condition assessments of all of its high and significant hazard dams, power plants, and associated facilities. Deferred maintenance on all Reclamation reserved works facilities (owned and operated by Reclamation) is updated quarterly. This includes multi-use heritage assets; e.g., Hoover Dam, which is a National Historic Landmark. The Department requires comprehensive condition assessments every 5 years. Reclamation currently performs condition assessments of its water and power facilities on a 3-year frequency.

Reclamation conducts scheduled condition assessments and determines deferred maintenance of its non-collectible heritage assets that fall under the definition of buildings and structures, in particular those that are multi-use heritage assets. In addition, Reclamation's reserved buildings are now also subject to scheduled condition assessments. In fiscal year 2004, Reclamation completed a preliminary condition assessment of all its reserved buildings that have a current replacement value of greater than \$50,000. Over the next 5 years, comprehensive condition assessments of those properties will be scheduled and completed. Deferred maintenance needs will be identified and reported.

In terms of collectible heritage assets, Federal standards exist for evaluating the condition of facilities that display, exhibit, or store museum property. Reclamation uses the Department Facility Checklist for assessing condition and maintenance needs of such facilities. Item-level condition assessments are conducted as part of annual inventories and when accessioned items are cataloged. Conservation surveys that would identify costs for rehabilitation of items occur only as needed, as per 411DM. All regional submittals of condition assessments and deferred maintenance data are processed through senior regional management prior to submission to those who compile

and write the quarterly or annual data reports. All data and reports submitted to the Department are monitored and approved by senior Reclamation management.

**G. Federal Accounting Standards**

Recommendation G.1

Improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures and improved coordination with the U.S. Treasury regarding appropriate account posting models, as necessary.

Response

Concur. See response to Recommendation A.1.

Recommendation G.2

Perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance.

Response

Non-Concur. See response provided for Recommendation F.1.

**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidated Balance Sheet  
As of September 30, 2005, and 2004**

(In Thousands)	2005	2004
<b>ASSETS (Note 2)</b>		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	\$ 6,090,731	\$ 5,233,607
Accounts Receivable	825,974	351,765
Amounts Due from the U.S. Department of Energy, Net (Notes 1.N, 5)	2,458,075	-
Other:		
Advances and Prepayments	1,423	1,236
<b>Total Intragovernmental Assets</b>	<b>9,376,203</b>	<b>5,586,608</b>
Cash	100	91
Accounts and Interest Receivable, Net (Note 4)	31,459	32,179
Loans and Interest Receivable, Net (Note 6)	146,468	166,900
General Property, Plant, and Equipment, Net (Note 7)	13,015,525	13,065,549
Other:		
Advances and Prepayments	37,736	21,612
Power Rights, Net	160,579	170,371
<b>Total Other Assets</b>	<b>198,315</b>	<b>191,983</b>
<b>Total Assets</b>	<b>\$ 22,768,070</b>	<b>\$ 19,043,310</b>
<b>LIABILITIES (Note 8)</b>		
Intragovernmental Liabilities:		
Accounts Payable	\$ 24,651	\$ 25,712
Debt (Note 9)	96,811	114,098
Other:		
Accrued Employee Benefits	21,357	21,100
Advances, Deferred Revenue, and Deposit Funds	8,781	10,381
Judgment Fund Liability	47,950	46,959
Resources Payable to Treasury (Note 1.N)	1,780,970	-
Other Liabilities	19,689	21,028
<b>Total Other Liabilities</b>	<b>1,878,747</b>	<b>99,468</b>
<b>Total Intragovernmental Liabilities</b>	<b>2,000,209</b>	<b>239,278</b>
Accounts Payable	204,868	196,000
Federal Employee Benefits, Actuarial	88,702	85,815
Environmental and Disposal Liabilities (Note 10)	35,360	5,629
Other:		
Accrued Payroll and Benefits	48,986	44,818
Advances, Deferred Revenue, and Deposit Funds	455,289	271,300
Contingent Liabilities (Note 10)	9,515	62,625
Other Liabilities	115	115
<b>Total Other Liabilities</b>	<b>513,905</b>	<b>378,858</b>
<b>Total Liabilities</b>	<b>2,843,044</b>	<b>905,580</b>
<b>NET POSITION</b>		
Unexpended Appropriations	350,519	325,934
Cumulative Results of Operations	19,574,507	17,811,796
<b>Total Net Position</b>	<b>19,925,026</b>	<b>18,137,730</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 22,768,070</b>	<b>\$ 19,043,310</b>

The accompanying notes are an integral part of these statements.



**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidated Statement of Net Cost  
For the Years Ended September 30, 2005, and 2004**

(In Thousands)	2005	2004
<b>RESOURCE USE</b>		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	\$ 1,065,165	\$ 1,128,404
Earned Revenues	(517,262)	(497,059)
Net Cost	<u>547,903</u>	<u>631,345</u>
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	257,373	212,861
Earned Revenues	(350,931)	(267,143)
Net Cost	<u>(93,558)</u>	<u>(54,282)</u>
<b>RESOURCE PROTECTION</b>		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Costs	34,907	16,472
Earned Revenues	(1,910)	191
Net Cost	<u>32,997</u>	<u>16,663</u>
<b>RECREATION</b>		
Provide Quality and Fair Value in Recreation:		
Costs	27,720	22,540
Earned Revenues	(13,654)	(24,479)
Net Cost	<u>14,066</u>	<u>(1,939)</u>
<b>CENTRALIZED PROGRAM SUPPORT AND OTHER</b>		
Working Capital Fund, Policy and Administration, and Other:		
Costs	164,076	160,851
Earned Revenues	(79,239)	(96,178)
Net Cost	<u>84,837</u>	<u>64,673</u>
<b>TOTAL</b>		
Costs	1,549,241	1,541,128
Earned Revenues	(962,996)	(884,668)
<b>Net Cost of Operations (Note 12)</b>	<u>\$ 586,245</u>	<u>\$ 656,460</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior**  
**Bureau of Reclamation**  
**Consolidated Statement of Changes in Net Position**  
**For the Years Ended September 30, 2005, and 2004**

(In Thousands)	2005	2004
<b>UNEXPENDED APPROPRIATIONS</b>		
Beginning Balance	\$ 325,934	\$ 314,643
Budgetary Financing Sources:		
Appropriations Received, General Funds	190,227	168,998
Appropriations Transferred In/(Out)	41,639	38,141
Appropriations Used	(205,939)	(195,353)
Other Adjustments	(1,342)	(495)
Net Change in Unexpended Appropriations	24,585	11,291
<b>Ending Balance - Unexpended Appropriations</b>	<b>\$ 350,519</b>	<b>\$ 325,934</b>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Beginning Balance, as Previously Reported	\$ 17,811,796	\$ 17,098,978
Change in Accounting Principle (Note 1.N)	405,417	-
Beginning Balance, as Adjusted	18,217,213	17,098,978
Budgetary Financing Sources:		
Appropriations Used	205,939	195,353
Royalties Retained	1,763,969	1,066,779
Non-exchange Revenue	17	149
Transfers In/(Out) Without Reimbursement	(78,763)	(5,449)
Other Budgetary Financing Sources	33,958	-
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others	67,863	137,554
Transfers In/(Out) Without Reimbursement	(51,621)	(25,181)
Donations of Property	2,177	73
Total Financing Sources	1,943,539	1,369,278
Net Cost of Operations	(586,245)	(656,460)
Net Change in Cumulative Results of Operations	1,357,294	712,818
<b>Ending Balance - Cumulative Results of Operations</b>	<b>\$ 19,574,507</b>	<b>\$ 17,811,796</b>

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior**  
**Bureau of Reclamation**  
**Combined Statement of Budgetary Resources**  
**For the Years Ended September 30, 2005, and 2004**

(In Thousands)	Total Budgetary Accounts		Non-budgetary Credit Program Financing Account	
	2005	2004	2005	2004
<b>BUDGETARY RESOURCES</b>				
Budget Authority:				
Appropriations Received	\$ 1,080,755	\$ 1,020,602	\$ -	\$ -
Borrowing Authority	-	-	995	4,125
Net Transfers, Current Year Authority	2,000	4,664	-	-
Unobligated Balance:				
Beginning of Fiscal Year	602,241	558,743	-	-
Net Transfers, Unobligated Balance, Actual	-	1,346	-	-
Spending Authority from Offsetting Collections:				
Earned:				
Collected	780,978	795,718	24,718	8,011
Receivable from Federal Sources	4	14,795	-	-
Change in Unfilled Customer Orders:				
Advance Received	167,901	3,854	-	-
Without Advance from Federal Sources	6,279	1,493	-	-
Subtotal: Spending Authority from Offsetting Collections	955,162	815,860	24,718	8,011
Recoveries of Prior Year Obligations	33,981	41,478	9	26
Temporarily Not Available Pursuant to Public Law	(6,066)	-	-	-
Permanently Not Available	(177,798)	(16,659)	(18,282)	(4,853)
<b>Total Budgetary Resources</b>	<b>\$ 2,490,275</b>	<b>\$ 2,426,034</b>	<b>\$ 7,440</b>	<b>\$ 7,309</b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
Obligations Incurred (Note 13):				
Direct	\$ 1,018,358	\$ 990,891	\$ 7,440	\$ 7,309
Reimbursable	805,909	832,902	-	-
Total Obligations Incurred	1,824,267	1,823,793	7,440	7,309
Unobligated Balance:				
Apportioned	621,064	562,797	-	-
Exempt from Apportionment	44,944	39,444	-	-
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,490,275</b>	<b>\$ 2,426,034</b>	<b>\$ 7,440</b>	<b>\$ 7,309</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>				
Obligations Incurred	\$ 1,824,267	\$ 1,823,793	\$ 7,440	\$ 7,309
Obligated Balance, Net, Beginning of Fiscal Year	674,943	627,386	3,951	8,051
Obligated Balance, Net, End of Fiscal Year:				
Accounts Receivable	37,334	37,330	-	-
Unfilled Customer Orders from Federal Sources	36,138	29,859	-	-
Undelivered Orders	(513,248)	(488,201)	(3,942)	(3,951)
Accounts Payable	(267,525)	(253,931)	-	-
Total Obligated Balance, Net, End of Fiscal Year	(707,301)	(674,943)	(3,942)	(3,951)
Less: Spending Authority Adjustments	(40,264)	(57,766)	(9)	(26)
Outlays:				
Disbursements	1,751,645	1,718,470	7,440	11,383
Collections	(948,879)	(799,572)	(24,718)	(8,011)
Net Outlays Before Offsetting Receipts	802,766	918,898	(17,278)	3,372
Less: Offsetting Receipts	(1,787,437)	(1,460,188)	-	-
<b>Net Outlays (Receipts)</b>	<b>\$ (984,671)</b>	<b>\$ (541,290)</b>	<b>\$ (17,278)</b>	<b>\$ 3,372</b>

The accompanying notes are an integral part of these statements.

**U.S. Department of the Interior**  
**Bureau of Reclamation**  
**Consolidated Statement of Financing**  
**For the Years Ended September 30, 2005, and 2004**

(In Thousands)	2005	2004
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 1,831,707	\$ 1,831,102
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(1,013,870)</u>	<u>(865,375)</u>
Obligations Net of Offsetting Collections and Recoveries	817,837	965,727
Less: Offsetting Receipts	<u>(1,787,437)</u>	<u>(1,460,188)</u>
Net Obligations	(969,600)	(494,461)
Other Resources:		
Donations of Property	2,177	73
Transfers In/(Out) Without Reimbursement	(51,621)	(25,181)
Imputed Financing from Costs Absorbed by Others	<u>67,863</u>	<u>137,554</u>
Net Other Resources Used to Finance Activities	18,419	112,446
Total Resources Used to Finance Activities	<u>(951,181)</u>	<u>(382,015)</u>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(41,464)	(74,832)
Change in Unfilled Customer Orders	174,179	5,347
Resources That Fund Expenses Recognized in Prior Periods	(53,697)	(2,725)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections That Increase Liabilities for Allowances for Subsidy	24,717	-
Offsetting Receipts Not Part of the Net Cost of Operations	1,268,023	1,050,255
Resources That Finance the Acquisition of Assets	(146,216)	(261,540)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>27,029</u>	<u>36,451</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>1,252,571</u>	<u>752,956</u>
Total Resources Used to Finance the Net Cost of Operations	301,390	370,941
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	121	-
Increase in Environmental and Disposal Liabilities	29,731	-
Increase in Exchange Revenue Receivable from the Public	2,999	2,995
Increase in Other Unfunded Liabilities	<u>14,247</u>	<u>9,020</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	47,098	12,015
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	189,438	185,514
Revaluation of Assets	9,154	44,791
Allocation Transfer Reconciling Items (Note 14)	37,923	43,795
Other	<u>1,242</u>	<u>(596)</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>237,757</u>	<u>273,504</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>284,855</u>	<u>285,519</u>
<b>Net Cost of Operations</b>	<u>\$ 586,245</u>	<u>\$ 656,460</u>

The accompanying notes are an integral part of these statements.

# U.S. Department of the Interior Bureau of Reclamation Notes to the Financial Statements for the Years Ended September 30, 2005, and 2004

## Note 1. Summary of Significant Accounting Policies

### A. Reporting Entity

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

### B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations of Reclamation as required of Interior by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements have been prepared from Reclamation's books and records in accordance with the Office of Management and Budget's (OMB) Circular A-136, "Financial Reporting Requirements," dated August 23, 2005. Furthermore, the financial statements have been prepared in accordance with Reclamation's accounting policies that are summarized herein.

Reclamation's accounting records are kept, and these financial statements have been prepared, in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Federal Accounting Standards Advisory Board (FASAB), recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal Government. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accounts are maintained



in accordance with the U.S. Department of Treasury's (Treasury) United States Standard General Ledger. Reclamation's fiscal year (FY) covers the period which begins on October 1 and ends on September 30 of the following year. Certain prior year balances have been reclassified to conform to current year financial statement presentation.

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

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

### **C. Budgets and Budgetary Accounting**

Reclamation receives the majority of its required funding to support its programs through appropriations authorized by the Congress. Additional FY 2005 and 2004 budgetary resources have been provided by permanent authority, contributed funds, revolving funds, operation and maintenance (O&M) reimbursements from water and power users, and transfers from other Federal agencies.

OMB Circular A-136 requires that the Combined Statement of Budgetary Resources be consistent with the Budget of the United States Government (President's Budget). These financial statements include all funds and accounts under the control of Reclamation, except for allocation transfers from other Federal agency appropriations. An allocation transfer is the amount of budget authority transferred, under specific legislative authority, from one Federal agency, bureau, or account that is set aside in a transfer appropriation account to carry out the purposes of the parent appropriation or fund. The budgetary activity and balances related to these allocation transfer accounts are not included in the Combined Statement of Budgetary Resources or the President's Budget for Reclamation, but the proprietary activity and balances are included in the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. All allocation transfer budget authority and related activity is reported by the parent appropriation in the President's

Budget. The difference between the budgetary and proprietary accounting treatment of allocation transfer accounts is reconciled as part of the Consolidated Statement of Financing.

Reclamation is responsible for administering or posting transactions to approximately 50 separate Treasury symbols. These funds fall into a variety of classes, including general appropriation, revolving (permanent), contributed funds, working capital, and special receipt accounts. Reclamation finances its activities from several sources: Treasury's General Fund, the Reclamation Fund, and contributed funds.

The Reclamation Fund is a restricted, unavailable receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of capital investment costs, associated interest, and O&M reimbursements from water and power users) and receipts from other Federal agencies (primarily revenues from certain Federal mineral royalties and hydropower transmission) are deposited. No expenditures are made directly from the Reclamation Fund; however, funds are transferred from the Reclamation Fund into Reclamation's appropriated expenditure funds or to other Federal agencies pursuant to congressional appropriation acts.

#### **D. Fund Balance with Treasury**

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

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

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

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

## **F. Loans Receivable**

Reclamation operates loan programs that provide Federal assistance to non-Federal organizations for constructing or improving water resource projects in the West. Reclamation's loan programs are authorized under the Small Reclamation Projects Act of 1956 (Public Law [P.L.] 84-984), the Distribution System Loans Act (P.L. 84-130), the Rural Development Policy Act of 1980 (P.L. 96-355) as amended by P.L. 97-273, and the Rehabilitation and Betterment Act (P.L. 81-335). The loan programs are classified into two major categories. The first category is Credit Reform Loans, which consists of loans made after FY 1991 that have been accounted for under the provisions of the Credit Reform Act of 1990 (Credit Reform) (P.L. 101-508).

The second category is Other Loans, which pertains to those loans made prior to the requirements of Credit Reform and consist primarily of drought relief and repayment loans. The Other Loans receivable balances shown represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance is determined by management for loan balances where collectibility is considered to be uncertain based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

Loan interest rates vary, depending on the applicable legislation; and, in some cases, there is no interest accrued on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status.

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

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

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

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

General property, plant, and equipment (PP&E) consists of that property which is used in Reclamation's operations. General PP&E includes the following categories: structures and facilities, land, Construction in Progress – General, construction in abeyance, equipment, vehicles and aircraft, buildings, and internal use software.

Real property is not subject to a capitalization threshold, while equipment (including vehicles and aircraft) has a \$15,000 threshold per item. Internal use software is subject to a \$100,000 capitalization threshold. All costs under the applicable threshold are expensed as incurred.

Structures and facilities, comprised primarily of Reclamation's investment in its multipurpose water facilities, are recorded at acquisition cost, net of accumulated depreciation. Costs include direct labor and materials, payments to contractors, and indirect charges for engineering, supervision, and overhead. The costs for power and municipal and industrial (M&I) water facilities also include capitalized interest during construction (IDC), charged according to authorizing legislation.

In general, structures and facilities are depreciated based on the composite service life of each project, using the straight-line method of depreciation. The composite service life is based on the weighted-average estimated useful life of a project's components. Project composite service lives range from 13 to 100 years. Structures and facilities that are included on the *National Register of Historic Places* are considered multiuse heritage assets. Reclamation's multiuse heritage assets are included in the PP&E balances and are further discussed in the "Supplemental Section" under "Federal Stewardship Assets."

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

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

Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. Project costs are transferred from construction in progress to structures and facilities when a project or feature of a project is deemed to be substantially complete, is providing benefits and services for the intended purpose, and is generating project purpose revenue, where applicable. Until these three criteria are met, accumulated costs are retained in construction in progress.

Investigations and development costs represent expended funds for such activities as general engineering studies and surveys that are directly related to project construction. Reclamation capitalizes investigation and development costs that are incurred after the decision is made to pursue construction or after construction authorization. These capitalized costs are included in Construction in Progress – General. Reclamation’s accounting treatment for investigation and development costs not related to project construction, incurred prior to the decision to pursue construction, or incurred before construction authorization, results in these costs being expensed as incurred.

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

In past years, Reclamation began the planning of, and construction on, various features included in 10 projects located in Arizona, California, Colorado, North and South Dakota, and Washington, for which activities have either been placed in abeyance or intended benefits have never been provided. These capitalized costs are included in construction in abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been, and will continue to be, budgeted and expended to minimize the erosive effects of weather and time and to keep the assets ready for potential completion. The calculation and recording of IDC is suspended after an asset is transferred to abeyance. If the asset is later transferred back to construction in progress, IDC will be retroactively computed.

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

Buildings consist of houses, garages, and shops owned by Reclamation and used in power, irrigation, M&I, or multipurpose operations that are not included in structures

and facilities of a specific project. Buildings are valued at acquisition cost and are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives for calculating depreciation on buildings range from 10 to 75 years.

Capitalized software includes commercial off-the-shelf (COTS) purchases, contractor-developed software, or internally developed software. For COTS software, the capitalized costs include the amount paid to the vendor for the software; and for contractor-developed software, it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. These capitalized costs are limited to those incurred after: (1) management authorizes and commits to a computer software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function with an estimated life of 2 years or more; and (2) the completion of conceptual formulation, design, and testing of possible software project alternatives (the preliminary design stage). Amortization of software is calculated using the straight-line method, based upon an estimated useful life of 5 years.

## **H. Power Rights**

Net power rights represent the original cost less the accumulated amortization of the right or privilege to use the facilities of others or the right to future power generation or power revenues when such rights are not subject to early liquidation. Amortization is calculated by using the straight-line method over the contract life of the agreement.

## **I. Liabilities**

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

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



financial responsibility, the event is considered to be “Government-acknowledged.” Government-acknowledged events are those of financial consequence to the Federal Government because it chooses to respond to the event. When the Government accepts financial responsibility for cleanup, has an appropriation, and has begun incurring cleanup costs, any unpaid amounts for work performed are included in accounts payable. Changes in cleanup cost estimates are developed in accordance with Interior policy, which addresses systematic processes for cost estimating and will place added emphasis on development and retention of progress made in, and revision of, the cleanup plans, assuming current technology, laws, and regulations. There is not broad application of any particular inflation or deflation factors to prior estimates.

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

## **J. Accrued Leave**

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

## **K. Retirement and Other Benefits**

Reclamation employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Reclamation and its employees contribute to these systems. Both are contributory pension plans. Although Reclamation funds a portion of pension benefits under CSRS and FERS relating to its employees and makes the necessary payroll withholdings from them, it does not report assets associated with these benefit plans. Such amounts are maintained and reported by the Office of Personnel Management (OPM). In accordance with the *Statement of Federal Financial Accounting Standards* (SFFAS) No. 5, “Accounting for Liabilities of the Federal Government,” Reclamation recorded the FY 2005 and 2004 estimated cost of pension and other retirement benefits and the associated imputed financing sources which are paid by OPM on its behalf. Reclamation funds are not used to pay

the cost of these benefits but are a Reclamation operating expense that is reflected as part of the cost of doing business. The estimated cost of pension and other retirement benefits computation rates are provided by OPM actuaries to the employer agencies.

The Department of Labor (DOL) administers the Workers' Compensation Program on behalf of the Federal Government, and all payments to Workers' Compensation Program beneficiaries are made by DOL. Reclamation has two types of liabilities related to workers' compensation. First, Reclamation records a liability to DOL for the amount of actual payments made by DOL but not yet reimbursed by Reclamation. Reclamation reimburses DOL for these payments as funds are appropriated for this purpose. There is generally a 2- to 3-year time period between payment by DOL and receipt of appropriations by Reclamation. Second, Reclamation records an actuarial liability for the estimated amount of future payments for workers' compensation benefits. This actuarial liability represents the present value of the total expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines this component on an annual basis using historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. Posting of this unfunded liability is in accordance with SFFAS No. 4, "Managerial Cost Accounting: Concepts and Standards for the Federal Government."

## **L. Revenues and Financing Sources**

### ***Exchange Revenues***

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

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

To repay a portion of the Federal investment allocated to the construction of reimbursable irrigation and M&I water facilities, Reclamation enters into long-term repayment contracts and water service contracts with non-Federal (public) water users who receive benefits from these facilities in exchange for annual payments. Also, power marketing agencies enter into agreements with power users, on Reclamation's behalf, to recover capital investment costs allocated to power. Costs associated with multipurpose plants are allocated to the various purposes (principally, power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control) through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as

fish and wildlife enhancement, recreation, and flood control can be non-reimbursable. The typical repayment contract term is up to 40 years but may extend to 50 years or more if authorized by the Congress.

Unmatured repayment contracts are not reflected on the Consolidated Balance Sheet. When the annual amount becomes due each year, a current accounts receivable and a current period exchange revenue are recorded. The amounts owed to Reclamation under unmatured repayment contracts were \$2.5 billion and \$2.7 billion as of September 30, 2005, and 2004, respectively. Unmatured repayment contracts were reduced by \$48 million in FY 2005 for present value credit on a prepayment received for a portion of the Central Utah Project, Bonneville Unit. This reduction correspondingly reduced the Resources Payable to Treasury as discussed in Note 1.N.

Under water service contracts and power sales, reimbursable capital costs are recovered through water and power ratesetting processes. Such rates include capital cost factors, among other components, for recovering the reimbursable capital cost over the applicable future payment period. For sales of water and power, a receivable and corresponding exchange revenue is recognized when the water or power has been delivered and billed to the customer.

#### ***Recovery of Costs Allocated to the Municipal and Industrial Function - Central Valley Project***

Reclamation originally entered into water service contracts with local governments, water districts, and others for the recovery of M&I costs of the Central Valley Project (CVP). Revenues generated from these contracts were insufficient to recover annual O&M and M&I capital costs. As of September 30, 2002, the CVP had accumulated an O&M deficit approximating \$260 million, with a capital cost of \$430.3 million, for a total estimated net repayment obligation of \$690.3 million.

In 2004, Reclamation transferred title of the Sly Park and Sugar Pine Dam facilities, components of the CVP, to local districts. The public laws authorizing the transfers declared all costs, including interest, associated with the project to be nonreimbursable. As a result, Reclamation will collect less interest on both investment and deficit than the cumulative amount that had been imputed by Reclamation. This reduced the total recoverable interest on investment and deficit for the CVP by \$81 million.

In 2005, the Secretary of Interior (Secretary) settled a lawsuit (*City of Fresno, et al. v. United States*) for interest charged on CVP M&I capital and deficit obligations. Under the terms of the settlement, the Secretary agreed to adjust interest rates and, as a result, collect less interest on investment and deficit than the cumulative amount that had been imputed by Reclamation. As a result, the total recoverable interest on investment and deficit for the CVP has been reduced by \$144 million.

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

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

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

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

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

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

### **M. Use of Estimates**

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

## **N. Change in Accounting Principle**

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

Congressional appropriation and other legislative acts have authorized funds to be appropriated from the Reclamation Fund to the Western Area Power Administration (Western), a component entity of the U.S. Department of Energy (DOE) responsible for the transmission and marketing of hydropower generated at Reclamation's facilities. Western's appropriations from the Reclamation Fund are used for capital investment and O&M activities related to these functions. Western recovers these capital investments, associated interest, and O&M costs through user fees collected from the sale of power and subsequently deposits amounts recovered into the Reclamation Fund. Prior to FY 2005, these appropriations and subsequent recoveries were recorded in the Reclamation Fund as transfers in/out without reimbursement on the Consolidated Statement of Changes in Net Position, in accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," and using Treasury Standard General Ledger guidance.

OMB initiated an effort to review the accounting and reporting of the foregoing transactions and in FY 2003 requested interpretation and guidance from the Accounting and Auditing Policy Committee (AAPC) of the FASAB. In August 2004, the AAPC released a Federal Financial Accounting and Auditing Technical Release exposure draft for comment, entitled *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities, and SFFAS 5, Accounting for Liabilities of the Federal Government*. The AAPC was unable to proceed with the issuance of this technical release due to a lack of assenting votes as required by their operating procedures.

In March 2005, subsequent to the failed vote at the AAPC, OMB issued a guidance memorandum that instructed Reclamation to prospectively record a receivable from Western for the appropriations that are required to be returned to the Reclamation Fund by Western through collections from power sales. The cumulative effect of this change through FY 2004 resulted in a FY 2005 increase to intragovernmental receivables on the Consolidated Balance Sheet and corresponding increase to the beginning equity balance (Cumulative Results of Operations) on the Consolidated Statement of Changes in Net Position of \$1,724 million. This intragovernmental receivable is increased when appropriations are made to Western from the Reclamation Fund and decreased when power transmission receipts are returned.

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

The Bonneville Power Administration (BPA), a component of DOE, is responsible for the transmission and marketing of hydropower generated at Reclamation's facilities in the Pacific Northwest Region. Unlike Western, BPA does not receive appropriations from the Reclamation Fund, but they have legislatively assumed the repayment obligation for the appropriations used to construct Reclamation's hydropower generation facilities. This legislation, part of the BPA Appropriations Refinancing Act (16 United States Code 8381), requires BPA to recover Reclamation's appropriations related to hydropower generation facilities, plus interest, and to deposit these recoveries into the Reclamation Fund. The amount due to the Reclamation Fund from BPA is recognized for the first time in FY 2005 due to the aforementioned guidance from OMB. Although the OMB guidance was specific to the transactions between Western and the Reclamation Fund, the underlying concepts documented in the AAPC technical release are also applicable to the transactions between BPA and the Reclamation Fund.

The cumulative effect of this change through FY 2004 resulted in a FY 2005 increase to intragovernmental receivables on the Consolidated Balance Sheet and corresponding increase to the beginning equity balance (Cumulative Results of Operations) on the Consolidated Statement of Changes in Net Position of \$617 million. This intragovernmental receivable is increased when BPA assumes the repayment obligation for new power generation assets of the Pacific Northwest Region and decreased when deposits are made to the Reclamation Fund.

***Resources Payable to Treasury***

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

Reclamation has analyzed the aforementioned guidance from OMB and the underlying concepts documented in the AAPC technical release. Although the OMB guidance was specific to the transactions between Western and the Reclamation Fund, the legal and factual context occurring between Reclamation and the Treasury General Fund is akin to that of transactions between Western and the Reclamation Fund. Therefore, Reclamation has applied the OMB guidance to those situations where the appropriations from the General Fund are required to be recovered through the sale of water and power. The cumulative effect of this change through FY 2004 resulted in a FY 2005 increase to intragovernmental liabilities on the Consolidated



Balance Sheet and corresponding decrease to the beginning equity balance (Cumulative Results of Operations) on the Consolidated Statement of Changes in Net Position of \$1,936 million. This intragovernmental liability is increased when appropriations are expended on reimbursable components of a project and decreased when reimbursements are received from Reclamation's customers and such funds are transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY2005 ranged from 2.63 percent to 8.47 percent. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Repayment to Treasury's General Fund is contingent upon actual water and power delivered to customers; as such, there is no structured repayment schedule. Actual repayment to Treasury's General Fund in FY 2005 was \$128 million, resulting in an ending liability of \$1,781 million as of September 30, 2005.

## **Note 2. Asset Analysis**

Assets of Reclamation include entity, restricted (component of entity assets), and non-entity assets. Entity assets are those available for use by Reclamation in its operations. Restricted assets consist of the Reclamation Fund and other unavailable receipt accounts. Restricted assets cannot be used until appropriated by the Congress. Non-entity assets are not available to finance Reclamation's operations. These items consist of various receivables due from the public that, when collected, are deposited into Treasury's General Fund. Reclamation's assets as of September 30, 2005, and 2004 are summarized in the following tables.

**Asset Analysis**  
**As of September 30, 2005**  
(In Thousands)

	Entity			Total
	Unrestricted	Restricted	Non-Entity	
<b>ASSETS</b>				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,432,747	\$ 4,657,984	\$ -	\$ 6,090,731
Accounts Receivable	7,735	818,239	-	825,974
Amounts Due from the U.S. Department of Energy, Net	-	2,458,075	-	2,458,075
Other:				
Advances and Prepayments	1,423	-	-	1,423
Total Intragovernmental Assets	1,441,905	7,934,298	-	9,376,203
Cash	100	-	-	100
Accounts and Interest Receivable, Net	26,592	4,860	7	31,459
Loans and Interest Receivable, Net	92,870	33,900	19,698	146,468
General Property, Plant, and Equipment, Net	13,015,525	-	-	13,015,525
Other:				
Advances and Prepayments	37,736	-	-	37,736
Power Rights, Net	160,579	-	-	160,579
Total Other Assets	198,315	-	-	198,315
<b>Total Assets</b>	<b>\$ 14,775,307</b>	<b>\$ 7,973,058</b>	<b>\$ 19,705</b>	<b>\$ 22,768,070</b>

**Asset Analysis**  
**As of September 30, 2004**  
(In Thousands)

	Entity			Total
	Unrestricted	Restricted	Non-Entity	
<b>ASSETS</b>				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,319,617	\$ 3,913,990	\$ -	\$ 5,233,607
Accounts Receivable	9,471	342,294	-	351,765
Amounts Due from the U.S. Department of Energy, Net	-	-	-	-
Other:				
Advances and Prepayments	1,236	-	-	1,236
Total Intragovernmental Assets	1,330,324	4,256,284	-	5,586,608
Cash	91	-	-	91
Accounts and Interest Receivable, Net	28,312	3,780	87	32,179
Loans and Interest Receivable, Net	110,147	35,804	20,949	166,900
General Property, Plant, and Equipment, Net	13,065,549	-	-	13,065,549
Other:				
Advances and Prepayments	21,612	-	-	21,612
Power Rights, Net	170,371	-	-	170,371
Total Other Assets	191,983	-	-	191,983
<b>Total Assets</b>	<b>\$ 14,726,406</b>	<b>\$ 4,295,868</b>	<b>\$ 21,036</b>	<b>\$ 19,043,310</b>

### Note 3. Fund Balance with Treasury

Reclamation's Fund Balance with Treasury and the Status of Fund Balance with Treasury as of September 30, 2005, and 2004 are shown in the following table.

**Fund Balance with Treasury  
As of September 30, 2005, and 2004  
(In Thousands)**

	2005	2004
<b>Fund Balance with Treasury by Fund Type</b>		
General Funds	\$ 725,354	\$ 709,493
Special Funds	4,779,510	4,014,045
Revolving Funds	491,021	445,098
Trust Funds	48,376	43,524
Other Fund Types	46,470	21,447
Total Fund Balance with Treasury by Fund Type	<u>\$ 6,090,731</u>	<u>\$ 5,233,607</u>
<b>Status of Fund Balance with Treasury</b>		
Unobligated:		
Available	\$ 675,316	\$ 605,352
Unavailable	238	3,479
Obligated Balance Not Yet Disbursed	721,584	689,338
Subtotal	<u>1,397,138</u>	<u>1,298,169</u>
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	\$ 4,657,984	\$ 3,913,990
Deposit Funds, Clearing, and Suspense Accounts	35,609	21,448
Subtotal	<u>4,693,593</u>	<u>3,935,438</u>
Total Status of Fund Balance with Treasury	<u>\$ 6,090,731</u>	<u>\$ 5,233,607</u>

Reclamation's fund types and purposes are described below:

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

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

**Revolving funds.** These funds account for cash flows to and from the Government resulting from operations of public enterprise and working capital funds. The revolving funds are restricted to the purposes set forth in the legislation that established the funds and are not used to finance normal operating expenses of Reclamation.

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

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

Obligated and unobligated balances reported for the Status of Fund Balance with Treasury do not agree with the obligated and unobligated balances reported on the Combined Statement of Budgetary Resources because the Fund Balance with Treasury amounts include allocation transfer accounts, for which budgetary resources are not recorded. The unavailable receipt accounts category includes the Reclamation Fund, which had a balance of \$4.6 billion and \$3.9 billion as of September 30, 2005, and 2004, respectively.

## Note 4. Accounts and Interest Receivable, Net

The following table shows the status of accounts receivable due from the public as of September 30, 2005, and 2004.

**Accounts and Interest Receivable, Net, Due from the Public  
As of September 30, 2005, and 2004  
(In Thousands)**

	<b>2005</b>	<b>2004</b>
Current	\$ 4,578	\$ 9,316
1-180 Days Past Due	2,376	699
181-365 Days Past Due	370	243
1 to 2 Years Past Due	307	6,103
Over 2 Years Past Due	6,901	359
Total Billed Accounts and Interest Receivable	14,532	16,720
Unbilled Accounts and Interest Receivable	25,744	22,727
Total Accounts and Interest Receivable	40,276	39,447
Allowance for Doubtful Accounts	(8,817)	(7,268)
<b>Total Accounts and Interest Receivable - Net of Allowance</b>	<b>\$ 31,459</b>	<b>\$ 32,179</b>
<b>Change in Allowance for Doubtful Accounts</b>		
Allowance for Doubtful Accounts - Beginning Balance	\$ 7,268	\$ 8,752
Additions	13,023	6,805
Deletions	(11,474)	(8,289)
<b>Allowance for Doubtful Accounts - Ending Balance</b>	<b>\$ 8,817</b>	<b>\$ 7,268</b>

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

As of September 30, 2005, the net amounts due from the Western Area Power Administration and the Bonneville Power Administration were \$1,835 million and \$623 million, respectively, as shown in the following table.

### Amounts Due from the U.S. Department of Energy, Net As of September 30, 2005 (In Thousands)

Principal	\$ 6,166,710
Interest	1,928,373
Cumulative Repayments	(5,615,306)
Allowance for Non-Reimbursable Costs	(21,702)
<b>Total Amounts Due from the U.S. Department of Energy, Net</b>	<b>\$ 2,458,075</b>

Interest rates vary by project and pertinent legislation and range from 1.25 percent to 12.4 percent for the year ended September 30, 2005. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Cash repayments received during FY 2005 were \$162 million.

## Note 6. Loans and Interest Receivable, Net

Entity and non-entity loan balances are combined and presented together here and in the consolidated financial statements. Non-entity loans are disclosed in Note 2, Asset Analysis. The following tables show the status of the non-Federal loans receivable and associated interest receivable as of September 30, 2005, and 2004.

### Loans and Interest Receivable, Net As of September 30, 2005 (In Thousands)

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Loans and Interest Receivable, Net
<b>Direct Loans Obligated Prior to FY 1992:</b>					
Small Reclamation Projects Act	\$ 37,963	\$ -	\$ (7,255)	\$ -	\$ 30,708
Distribution System Loans Act	3,741	-	-	-	3,741
Rural Development Policy Act	18,730	78	-	-	18,808
Rehabilitation and Betterment Act	14	-	-	-	14
Drought Relief	327	-	-	-	327
<b>Total Direct Loans Obligated Prior to FY 1992</b>	<b>60,775</b>	<b>78</b>	<b>(7,255)</b>	<b>-</b>	<b>53,598</b>
<b>Direct Loans Obligated After FY 1991:</b>					
Small Reclamation Projects Act	117,881	-	-	(25,011)	92,870
<b>Total Direct Loans</b>	<b>\$ 178,656</b>	<b>\$ 78</b>	<b>\$ (7,255)</b>	<b>\$ (25,011)</b>	<b>\$ 146,468</b>

**Loans and Interest Receivable, Net**  
**As of September 30, 2004**  
(In Thousands)

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Loans and Interest Receivable, Net
<b>Direct Loans Obligated Prior to FY 1992:</b>					
Small Reclamation Projects Act	\$ 40,417	\$ -	\$ (7,255)	\$ -	\$ 33,162
Distribution System Loans Act	3,953	-	-	-	3,953
Rural Development Policy Act	19,073	79	-	-	19,152
Rehabilitation and Betterment Act	47	-	-	-	47
Drought Relief	439	-	-	-	439
<b>Total Direct Loans Obligated Prior to FY 1992</b>	<b>63,929</b>	<b>79</b>	<b>(7,255)</b>	<b>-</b>	<b>56,753</b>
<b>Direct Loans Obligated After FY 1991:</b>					
Small Reclamation Projects Act	119,624	-	-	(9,477)	110,147
<b>Total Direct Loans</b>	<b>\$ 183,553</b>	<b>\$ 79</b>	<b>\$ (7,255)</b>	<b>\$ (9,477)</b>	<b>\$ 166,900</b>

All Credit Reform loans are categorized under the Small Reclamation Projects Act Loan Program. Reclamation had seven Credit Reform loans outstanding totaling \$118 million and \$120 million as of September 30, 2005, and 2004, respectively. Loan disbursements in FY 2005 and FY 2004 were \$10 thousand and \$4 million, respectively. Administrative expenses for the years ended September 30, 2005, and 2004, were \$78 thousand and \$113 thousand, respectively. For FY 2005 and 2004, there are no additional loan appropriations; therefore, there is no budget subsidy rate.

The subsidy expense reported for FY 2005 includes interest and technical re-estimates. These re-estimates resulted in a net increase to the subsidy cost allowance of \$20.3 million for the year ended September 30, 2005. The technical re-estimate adjusted for differences between the projected cash flows that were expected versus actual cash flows. The interest re-estimate adjusted the subsidy allowance to provide for the prevailing interest rate at the time the loans were disbursed versus the interest rates assumed in the budget preparation process. Reconciliation of the subsidy cost allowance as of September 30, 2005, and 2004 is shown in the following table.

**Schedule for Reconciling Subsidy Cost Allowance Balances**  
**(Post-1991 Direct Loans)**  
**As of and for the Years Ended September 30, 2005, and 2004**  
(In Thousands)

	2005	2004
Beginning Balance of the Subsidy Cost Allowance	\$ 9,477	\$ 14,359
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component - Interest Rate Differential Costs	-	2
Adjustments: Subsidy Allowance Amortization	(4,810)	(4,884)
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	4,667	9,477
Add or (Subtract) Subsidy Re-estimates by Component:		
Technical/Default Re-estimate	17,224	-
Interest Rate Re-estimate	3,120	-
Ending Balance of the Subsidy Cost Allowance	\$ 25,011	\$ 9,477



## Note 7. General Property, Plant, and Equipment, Net

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2005, and 2004 are shown in the following tables.

### General Property, Plant, and Equipment, Net As of September 30, 2005 (In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
Structures and Facilities	\$ 17,441,271	\$ (7,841,056)	\$ 9,600,215
Land	1,851,536	-	1,851,536
Construction in Progress:			
Construction in Progress - General	915,584	-	915,584
Construction in Abeyance	557,554	-	557,554
Equipment, Vehicles, and Aircraft	118,655	(66,730)	51,925
Buildings	59,877	(26,568)	33,309
Internal Use Software:			
In Use	24,311	(23,323)	988
In Development	4,414	-	4,414
<b>Total General PP&amp;E</b>	<b>\$ 20,973,202</b>	<b>\$ (7,957,677)</b>	<b>\$ 13,015,525</b>

### General Property, Plant, and Equipment, Net As of September 30, 2004 (In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
Structures and Facilities	\$ 17,384,232	\$ (7,681,929)	\$ 9,702,303
Land	1,852,791	-	1,852,791
Construction in Progress:			
Construction in Progress - General	862,869	-	862,869
Construction in Abeyance	557,054	-	557,054
Equipment, Vehicles, and Aircraft	114,051	(65,177)	48,874
Buildings	59,709	(25,626)	34,083
Internal Use Software:			
In Use	24,440	(22,788)	1,652
In Development	5,923	-	5,923
<b>Total General PP&amp;E</b>	<b>\$ 20,861,069</b>	<b>\$ (7,795,520)</b>	<b>\$ 13,065,549</b>

## A. Construction in Progress – General

Construction in Progress – General includes capitalized costs of assets being constructed for other Federal entities. Amounts of \$139.7 million and \$132.6 million as of September 30, 2005, and 2004, respectively, represent capitalized construction costs associated with the Navajo Indian Irrigation Project (NIIP). This project was authorized by P.L. 87-483 (June 13, 1962), and construction began in 1964. Project facilities are being constructed in 11 blocks of approximately 10,000 acres each. As of September 30, 2005, the project is estimated to be 64 percent complete, based on a recalculation of developed irrigation acreage, with block nine under construction. Completion may require an additional 18 to 31 years of construction and development. Under this law, the Congress appropriated funding for the project to the Bureau of Indian Affairs (BIA), which transferred funding to Reclamation for construction and cost accounting of the facilities. Subsequently, Reclamation and BIA entered into a formal memorandum of agreement that provides for the transfer of the book value costs of the project facilities to BIA upon completion. As such, upon substantial completion of construction of designated segments of project facilities, agreed upon by both bureaus, the book value costs of the completed facilities will be transferred to BIA by formal document. Reclamation transferred \$14.3 million in capitalized costs associated with completed segments of the project in the year ended September 30, 2005, and \$816 thousand in residual costs in the year ended September 30, 2004. The residual costs are associated with completed transfers as of September 30, 2002.

IDC is included in Construction in Progress – General. The authority for charging IDC is in the authorizing legislation for a particular project or administrative policy established pursuant to the law. Generally, the costs allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law. The interest rates used in computing IDC are specified in the authorizing legislation or, if rates are not specified, the rates established by Reclamation laws or administrative policy, and are based on the fiscal year in which construction began. The interest rates applied during FY 2005 range from 2.125 percent to 11.07 percent and during FY 2004 ranged from 1.75 percent to 11.07 percent. For the years ended September 30, 2005, and 2004, \$8 million and \$16 million, respectively, of IDC were capitalized. IDC was also adjusted in FY 2005 for the reallocation of project use and costs for the Bonneville project in Utah, as authorized by P.L. 102-575 and 107-366. Costs were reallocated from M&I water functions, which are interest-bearing, to irrigation functions, resulting in a reduction to previously capitalized IDC of \$102 million.

Construction in Progress – General also includes investigations and development costs of \$77 million and \$75 million as of September 30, 2005, and 2004, respectively.

## **B. Construction in Abeyance**

The investment in projects held in abeyance as of September 30, 2005, and 2004 ranges from \$59.1 thousand to \$285.7 million and \$59.1 thousand to \$285.4 million per project, respectively. The investment covers a period from 1965 to the present. Continued planning or construction on these assets has been held in abeyance for various reasons, including such concerns as the execution of cost-share agreements with non-Federal entities, and environmental, economic, and international treaty issues. The Congress and local interests continue to pursue acceptable alternatives for the completion of those projects in which there has been a substantial investment. As it is uncertain when construction will resume on or benefits will be provided by these assets, classification into construction in abeyance provides the most meaningful and accurate status of their disposition. The Congress has not yet deauthorized any of these assets, nor should it be inferred from this classification that the future viability of them is necessarily in doubt.

## **Note 8. Liabilities**

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which congressional action is needed before budgetary resources can be provided. These liabilities as of September 30, 2005, and 2004 are combined and presented together in the Consolidated Balance Sheet and are detailed in the following tables.

**Liabilities**  
**As of September 30, 2005**  
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
	Current	Non-current	Current	Non-current	
<b>Intragovernmental Liabilities:</b>					
Accounts Payable	\$ 24,651	\$ -	\$ -	\$ -	\$ 24,651
Debt	-	96,811	-	-	96,811
Other:					
Accrued Employee Benefits	8,850	-	4,466	8,041	21,357
Advances, Deferred Revenue, and Deposit Funds	8,743	-	38	-	8,781
Judgment Fund Liability	-	-	-	47,950	47,950
Resources Payable to Treasury	-	-	44,525	1,736,445	1,780,970
Other Liabilities	-	-	-	19,689	19,689
Total Other Liabilities	17,593	-	49,029	1,812,125	1,878,747
<b>Total Intragovernmental Liabilities</b>	<b>42,244</b>	<b>96,811</b>	<b>49,029</b>	<b>1,812,125</b>	<b>2,000,209</b>
<b>Public Liabilities:</b>					
Accounts Payable	127,696	77,172	-	-	204,868
Federal Employee Benefits, Actuarial	-	-	-	88,702	88,702
Environmental and Disposal Liabilities	-	-	-	35,360	35,360
Other:					
Accrued Payroll and Benefits	21,632	-	-	27,354	48,986
Advances, Deferred Revenue, and Deposit Funds	105,578	-	42,379	307,332	455,289
Contingent Liabilities	-	-	-	9,515	9,515
Other Liabilities	-	-	-	115	115
Total Other Liabilities	127,210	-	42,379	344,316	513,905
Total Public Liabilities	254,906	77,172	42,379	468,378	842,835
<b>Total Liabilities</b>	<b>\$ 297,150</b>	<b>\$ 173,983</b>	<b>\$ 91,408</b>	<b>\$ 2,280,503</b>	<b>\$ 2,843,044</b>

**Liabilities**  
**As of September 30, 2004**  
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
	Current	Non-current	Current	Non-current	
<b>Intragovernmental Liabilities:</b>					
Accounts Payable	\$ 25,712	\$ -	\$ -	\$ -	\$ 25,712
Debt	-	114,098	-	-	114,098
Other:					
Accrued Employee Benefits	6,502	-	5,320	9,278	21,100
Advances, Deferred Revenue, and Deposit Funds	10,360	-	21	-	10,381
Judgment Fund Liability	-	-	-	46,959	46,959
Other Liabilities	-	-	-	21,028	21,028
Total Other Liabilities	16,862	-	5,341	77,265	99,468
<b>Total Intragovernmental Liabilities</b>	<b>42,574</b>	<b>114,098</b>	<b>5,341</b>	<b>77,265</b>	<b>239,278</b>
<b>Public Liabilities:</b>					
Accounts Payable	196,000	-	-	-	196,000
Federal Employee Benefits, Actuarial	-	-	-	85,815	85,815
Environmental and Disposal Liabilities	-	-	-	5,629	5,629
Other:					
Accrued Payroll and Benefits	17,584	-	-	27,234	44,818
Advances, Deferred Revenue, and Deposit Funds	91,240	-	25,579	154,481	271,300
Contingent Liabilities	-	-	-	62,625	62,625
Other Liabilities	-	-	-	115	115
Total Other Liabilities	108,824	-	25,579	244,455	378,858
Total Public Liabilities	304,824	-	25,579	335,899	666,302
<b>Total Liabilities</b>	<b>\$ 347,398</b>	<b>\$ 114,098</b>	<b>\$ 30,920</b>	<b>\$ 413,164</b>	<b>\$ 905,580</b>

## Note 9. Debt

Reclamation makes loans which are subject to the provisions of Credit Reform. Under Credit Reform, loans consist of two components—the part borrowed from Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans as of September 30, 2005, range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury as of September 30, 2005, ranges from 6.01 percent to 6.82 percent. As annual installments are received from loan recipients, any funds in excess of interest are applied against the outstanding principal owed Treasury. The liabilities shown in the following table represent amounts borrowed from Treasury to fund Credit Reform loans as of and for the years ended September 30, 2005, and 2004.

**Debt**  
**As of and for the Years Ended September 30, 2005, and 2004**  
**(In Thousands)**

<b>Intragovernmental Debt:</b>		
<b>Credit Reform Borrowings</b>	<b>2005</b>	<b>2004</b>
Beginning Balance	\$ 114,098	\$ 114,826
New Borrowing	995	4,125
Repayments	(18,282)	(4,853)
Ending Balance	\$ 96,811	\$ 114,098

## Note 10. Environmental and Disposal Liabilities and Other Contingent Liabilities

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

The accrued and potential environmental and disposal liabilities and contingent liabilities as of September 30, 2005, and 2004 are summarized in the following tables.

**Contingent Liabilities and Environmental and Disposal Liabilities**  
**As of September 30, 2005**  
(In Thousands)

	Accrued Liabilities	Total Estimated Range of Loss Including Accrued Amounts	
		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	\$ 9,515	\$ 9,515	\$ 12,814
Reasonably Possible		201,000	234,300
Environmental and Disposal Liabilities			
Probable	35,360	35,360	65,255
Reasonably Possible		380	2,530
<b>Total Contingent Liabilities and Environmental and Disposal Liabilities</b>	<b>\$ 44,875</b>	<b>\$ 246,255</b>	<b>\$ 314,899</b>

**Contingent Liabilities and Environmental and Disposal Liabilities**  
**As of September 30, 2004**  
(In Thousands)

	Accrued Liabilities	Total Estimated Range of Loss Including Accrued Amounts	
		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	\$ 62,625	\$ 62,625	\$ 62,625
Reasonably Possible		222,100	246,500
Environmental and Disposal Liabilities			
Probable	5,629	5,629	21,711
Reasonably Possible		331	331
<b>Total Contingent Liabilities and Environmental and Disposal Liabilities</b>	<b>\$ 68,254</b>	<b>\$ 290,685</b>	<b>\$ 331,167</b>

## A. Environmental and Disposal Liabilities

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



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

## **B. Other Contingent Liabilities – Legal Claims and Assertions**

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

## **Note 11. Operating Leases**

Most of Reclamation's facilities are leased through the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. For federally owned property leased through GSA, Reclamation generally does not execute an agreement with GSA, nor is there a formal expiration date. Reclamation, however, is normally required to give a 120- to 180-day notice to vacate, and the amount of these leases remains constant from year to year. For the years ended September 30, 2005, and 2004, the amount of lease expense was \$20.5 million and \$21.7 million, respectively. For non-federally owned property leased through GSA, an occupancy agreement is executed; and, again, Reclamation may normally cancel these agreements with a 120-day notice.

In addition to leases with GSA, Reclamation had for the years ended September 30, 2005, and 2004, operating lease payments to non-Federal entities in the amount of \$2.8 million and \$1.9 million, respectively. These leases were primarily for office space and office equipment. Reclamation has an option to renew many of its operating leases at terms similar to the initial terms.

The following is a schedule by year of future minimum lease payments as of September 30, 2005.

**Operating Lease Commitments**  
**As of September 30, 2005**  
(In Thousands)

Fiscal Year	GSA Real Property	Other Real Property	Personal Property	Total
2006	\$ 20,774	\$ 2,059	\$ 636	\$ 23,469
2007	21,273	2,057	453	23,783
2008	21,592	2,008	420	24,020
2009	21,916	1,829	218	23,963
2010	22,244	1,267	1	23,512
Thereafter	22,578	2,369	-	24,947
Total Future Operating Lease Payments	\$ 130,377	\$ 11,589	\$ 1,728	\$ 143,694

## Note 12. Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost is presented according to the strategic plan in place for that fiscal year, as required under the Government Performance and Results Act. OMB Circular A-136 has changed the disclosure requirement for reporting costs. Under the revised guidance, costs paid or accrued to Federal entities are distinguished from those paid or accrued to the public. This presentation is different from how costs were previously reported. In prior years, costs were presented according to whether revenue generated was from Federal versus public customers, regardless of whom the costs were paid or accrued to. Due to the change in the presentation of intragovernmental and public costs, Reclamation's FY 2004 Consolidated Statement of Net Cost has been reclassified to correspond to the new presentation. Total costs presented remain unchanged. Consolidating Statements of Net Cost, shown by regional organization and reporting segment, for the years ended September 30, 2005, and 2004 are presented at the end of Note 15.

## Note 13. Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget. The FY 2004 amounts shown have been reconciled to the President's Budget without exception; however, the actual amounts for FY 2005 in the President's Budget have not been published at the time these financial statements were prepared. The President's Budget with the actual FY 2005 amounts is estimated to be released in February 2006 and can be located at the OMB website: (<[www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)>).

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

Reclamation's borrowing authority is provided under the Credit Reform Act of 1990 (refer to Note 6 for additional information on Credit Reform loans). The repayment terms and provisions of these loans are not more than 40 years from the date when the principal benefits of the projects first become available. The collections on these loans in excess of the interest due Treasury are applied to the outstanding principal owed Treasury.

Reclamation has two major budget accounts that are classified as permanent indefinite appropriations, which are available until expended. The Colorado River Dam Fund – Boulder Canyon Project is an available receipt fund into which various operating revenues of the Hoover Dam are covered, mainly from the sale of power generated at the dam. Reclamation Trust Funds include amounts received from public benefactors that are used to finance restoration and other activities. These permanent indefinite appropriation accounts are classified as exempt from apportionment. Other Reclamation funds, including those not specifically mentioned here, are subject to annual apportionment by OMB and classified as Category B apportionments. Detailed amounts for each of Reclamation's major budget accounts are included in the Combining Statements of Budgetary Resources located in the "Supplemental Section" of this report. All unobligated balances presented are available until expended.

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

**Obligations Incurred by Budget Category  
For the Year Ended September 30, 2005  
(In Thousands)**

	<b>Apportioned Category B</b>	<b>Exempt From Apportionment</b>	<b>Total</b>
Direct	\$ 951,317	\$ 74,481	\$ 1,025,798
Reimbursable	805,909	-	805,909
<b>Total Obligations Incurred</b>	<b>\$ 1,757,226</b>	<b>\$ 74,481</b>	<b>\$ 1,831,707</b>

**Obligations Incurred by Budget Category  
For the Year Ended September 30, 2004  
(In Thousands)**

	<b>Apportioned Category B</b>	<b>Exempt From Apportionment</b>	<b>Total</b>
Direct	\$ 926,161	\$ 72,039	\$ 998,200
Reimbursable	832,902	-	832,902
<b>Total Obligations Incurred</b>	<b>\$ 1,759,063</b>	<b>\$ 72,039</b>	<b>\$ 1,831,102</b>

## Note 14. Consolidated Statement of Financing

### A. Allocation Transfer Reconciling Items

Reclamation receives budget resources from other Federal entities in the form of “allocation transfers.” The recipient agency (Child) reports the proprietary activity in their Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Changes in Net Position. However, the budgetary activity for these allocation transfers is reported by the providing agency (Parent) in their Combined Statement of Budgetary Resources, as required by OMB Circular A-11, “Preparation, Submission, and Execution of the Budget.” This treatment creates a reconciling difference between the proprietary statements and the Combined Statement of Budgetary Resources, which is shown in the Consolidated Statement of Financing.

The following table summarizes the allocation transfers and related amounts that are reported as reconciling differences in the Consolidated Statement of Financing:

**Allocation Transfer Reconciling Items**  
**As of and for the Years Ended September 30, 2005, and 2004**  
**(In Thousands)**

<b>Trading Partner</b>	<b>Nature of Transfer</b>	<b>FY 2005</b>	<b>FY 2004</b>
Reclamation as the Recipient Agency (Child):			
Department of Labor - Job Corps	Employment and Training Services	\$ 29,335	\$ 29,447
Department of Interior - Bureau of Land Management	Central Hazardous Materials Fund Programs	576	-
Department of Interior - Bureau of Indian Affairs	Construction of Distribution Systems of the Navajo Indian Irrigation Project	7,410	13,843
Department of Interior - Office of the Secretary	Natural Resources and Damage Assessment and Restoration Activities	91	103
Department of Transportation - Highway Trust Fund	Maintenance of Highways on Reclamation Lands	511	402
Net Allocation Transfer Reconciling Items		<u>\$ 37,923</u>	<u>\$ 43,795</u>

## **B. Change in Unfunded Liabilities**

The Consolidated Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in Note 8, Liabilities Analysis. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities which are reported on the Consolidated Statement of Financing. These requirements are dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Consolidated Statement of Financing.

## **Note 15. Dedicated Collections**

### **A. Reclamation Trust Funds**

The Reclamation Trust Funds receive monies from the State of California per P.L. 102-575, Title XXXIV, Central Valley Project Improvement Act, to accomplish the following purposes:

- To protect, restore, and enhance fish, wildlife, and associated habitats in the Central Valley and Trinity River basins of California;
- To address impacts of the Central Valley Project on fish, wildlife, and associated habitats;

- To improve the operational flexibility of the Central Valley Project;
- To increase water-related benefits provided by the Central Valley Project to the State of California through expanded use of voluntary water transfers and improved water conservation;
- To contribute to the State of California's interim and long-term efforts to protect the San Francisco Bay/Sacramento-San Joaquin Delta Estuary; and
- To achieve a reasonable balance among competing demands for use of the Central Valley Project water, including the requirements of fish and wildlife, agricultural, municipal and industrial, and power contractors.

Reclamation has established unique cost centers within the accounting system for each of the specified activities under the Central Valley Project Improvement Act. Once the activity is completed, a report is prepared for the State of California showing the monies collected and the costs incurred.

Condensed financial information for Reclamation Trust Funds is presented in the following table as of and for the years ended September 30, 2005, and 2004.

#### **Dedicated Collections**

#### **Reclamation Trust Funds**

**As of and for the Years Ended September 30, 2005, and 2004**

**(In Thousands)**

	<b>2005</b>	<b>2004</b>
<b>Assets:</b>		
Fund Balance with Treasury	\$ 48,374	\$ 43,426
General Property, Plant, and Equipment, Net	38,234	37,623
<b>Total Assets</b>	<b>\$ 86,608</b>	<b>\$ 81,049</b>
<b>Liabilities:</b>		
Accounts Payable	\$ 299	\$ 634
Other Liabilities	48,081	42,864
<b>Total Liabilities</b>	<b>48,380</b>	<b>43,498</b>
<b>Total Net Position</b>	<b>38,228</b>	<b>37,551</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 86,608</b>	<b>\$ 81,049</b>
<b>Change in Net Position</b>		
Net Position, Beginning of Fiscal Year	\$ 37,551	\$ 33,477
Exchange Revenue - Services Provided and Other	7,704	9,844
Program Expenses	(7,027)	(5,770)
<b>Net Position, End of Fiscal Year</b>	<b>\$ 38,228</b>	<b>\$ 37,551</b>



**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidating Statement of Net Cost  
For the Year Ended September 30, 2005**

(In Thousands)	<b>Pacific Northwest Region</b>	<b>Mid-Pacific Region</b>
<b>RESOURCE USE</b>		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	\$ 34,345	\$ 99,464
Public Costs	77,318	141,114
Total Costs	<u>111,663</u>	<u>240,578</u>
Intragovernmental Earned Revenues	(691)	(117)
Public Earned Revenues	(20,310)	(149,828)
Total Earned Revenues	<u>(21,001)</u>	<u>(149,945)</u>
Net Cost	<u>90,662</u>	<u>90,633</u>
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	22,864	14,443
Public Costs	40,746	28,728
Total Costs	<u>63,610</u>	<u>43,171</u>
Intragovernmental Earned Revenues	(99,564)	(700)
Public Earned Revenues	(11,659)	(76,061)
Total Earned Revenues	<u>(111,223)</u>	<u>(76,761)</u>
Net Cost	<u>(47,613)</u>	<u>(33,590)</u>
<b>RESOURCE PROTECTION</b>		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Intragovernmental Costs	131	39
Public Costs	364	33
Total Costs	<u>495</u>	<u>72</u>
Intragovernmental Earned Revenues	(2)	-
Public Earned Revenues	(26)	(8)
Total Earned Revenues	<u>(28)</u>	<u>(8)</u>
Net Cost	<u>467</u>	<u>64</u>
<b>RECREATION</b>		
Provide Quality and Fair Value in Recreation:		
Intragovernmental Costs	1,753	3,627
Public Costs	4,344	4,724
Total Costs	<u>6,097</u>	<u>8,351</u>
Intragovernmental Earned Revenues	(35)	(72)
Public Earned Revenues	(392)	(707)
Total Earned Revenues	<u>(427)</u>	<u>(779)</u>
Net Cost	<u>5,670</u>	<u>7,572</u>
<b>CENTRALIZED PROGRAM SUPPORT AND OTHER</b>		
Working Capital Fund, Policy and Administration, and Other:		
Intragovernmental Costs	12,825	18,213
Public Costs	38,759	45,756
Total Costs	<u>51,584</u>	<u>63,969</u>
Intragovernmental Earned Revenues	(40,215)	(54,381)
Public Earned Revenues	(8,930)	(6,453)
Total Earned Revenues	<u>(49,145)</u>	<u>(60,834)</u>
Net Cost	<u>2,439</u>	<u>3,135</u>
<b>Total Intragovernmental Costs</b>	<u>71,918</u>	<u>135,786</u>
<b>Total Public Costs</b>	<u>161,531</u>	<u>220,355</u>
<b>Total Costs</b>	<u>233,449</u>	<u>356,141</u>
<b>Total Intragovernmental Earned Revenues</b>	<u>(140,507)</u>	<u>(55,270)</u>
<b>Total Public Earned Revenues</b>	<u>(41,317)</u>	<u>(233,057)</u>
<b>Total Earned Revenues</b>	<u>(181,824)</u>	<u>(288,327)</u>
<b>Net Cost of Operations</b>	<u>\$ 51,625</u>	<u>\$ 67,814</u>

Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
\$ 45,558	\$ 48,882	\$ 44,124	\$ 49,697	\$ 322,070	\$ -	\$ 322,070
242,810	66,968	143,160	71,725	743,095	-	743,095
288,368	115,850	187,284	121,422	1,065,165	-	1,065,165
(47,561)	(23,706)	(29,425)	(85)	(101,585)	-	(101,585)
(163,744)	(25,961)	(55,592)	(242)	(415,677)	-	(415,677)
(211,305)	(49,667)	(85,017)	(327)	(517,262)	-	(517,262)
77,063	66,183	102,267	121,095	547,903	-	547,903
28,838	18,647	17,441	1,878	104,111	-	104,111
22,599	27,232	33,689	268	153,262	-	153,262
51,437	45,879	51,130	2,146	257,373	-	257,373
(20,528)	(11,684)	(28,349)	(4)	(160,829)	-	(160,829)
(59,203)	(30,863)	(12,305)	(11)	(190,102)	-	(190,102)
(79,731)	(42,547)	(40,654)	(15)	(350,931)	-	(350,931)
(28,294)	3,332	10,476	2,131	(93,558)	-	(93,558)
10,005	4,453	191	1,211	16,030	(6,581)	9,449
10,213	14,136	381	331	25,458	-	25,458
20,218	18,589	572	1,542	41,488	(6,581)	34,907
(1,171)	(6,283)	-	-	(7,456)	6,581	(875)
(889)	(111)	-	(1)	(1,035)	-	(1,035)
(2,060)	(6,394)	-	(1)	(8,491)	6,581	(1,910)
18,158	12,195	572	1,541	32,997	-	32,997
2,639	242	285	2	8,548	-	8,548
8,770	984	331	19	19,172	-	19,172
11,409	1,226	616	21	27,720	-	27,720
(898)	(47)	(65)	-	(1,117)	-	(1,117)
(11,301)	(67)	(70)	-	(12,537)	-	(12,537)
(12,199)	(114)	(135)	-	(13,654)	-	(13,654)
(790)	1,112	481	21	14,066	-	14,066
15,189	15,092	14,163	123,412	198,894	(332,894)	(134,000)
39,088	33,935	25,376	115,162	298,076	-	298,076
54,277	49,027	39,539	238,574	496,970	(332,894)	164,076
(43,808)	(39,701)	(36,608)	(158,451)	(373,164)	332,894	(40,270)
(6,008)	(7,583)	(1,728)	(8,267)	(38,969)	-	(38,969)
(49,816)	(47,284)	(38,336)	(166,718)	(412,133)	332,894	(79,239)
4,461	1,743	1,203	71,856	84,837	-	84,837
102,229	87,316	76,204	176,200	649,653	(339,475)	310,178
323,480	143,255	202,937	187,505	1,239,063	-	1,239,063
425,709	230,571	279,141	363,705	1,888,716	(339,475)	1,549,241
(113,966)	(81,421)	(94,447)	(158,540)	(644,151)	339,475	(304,676)
(241,145)	(64,585)	(69,695)	(8,521)	(658,320)	-	(658,320)
(355,111)	(146,006)	(164,142)	(167,061)	(1,302,471)	339,475	(962,996)
\$ 70,598	\$ 84,565	\$ 114,999	\$ 196,644	\$ 586,245	\$ -	\$ 586,245

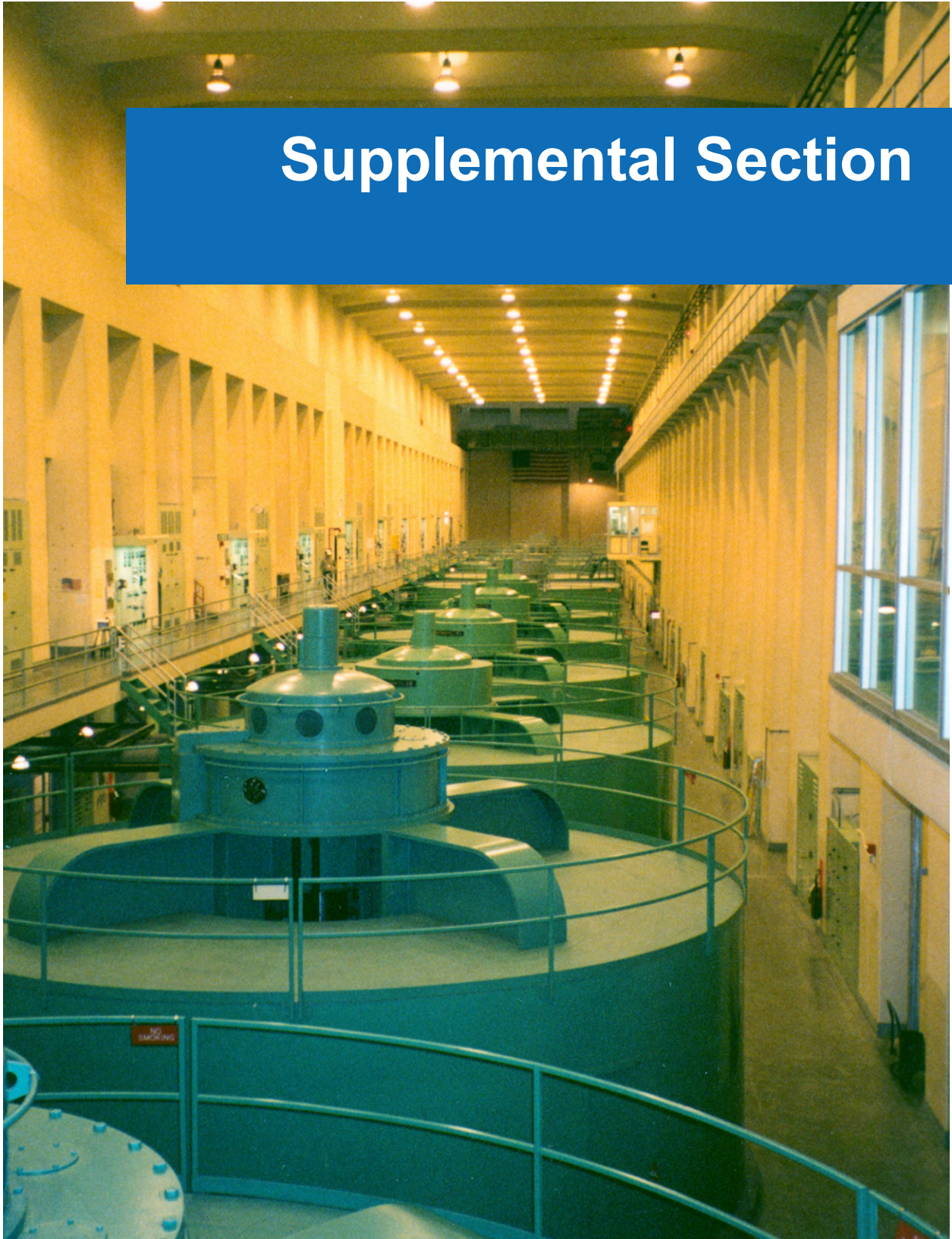
**U.S. Department of the Interior  
Bureau of Reclamation  
Consolidating Statement of Net Cost  
For the Year Ended September 30, 2004**

(In Thousands)	<b>Pacific Northwest Region</b>	<b>Mid-Pacific Region</b>
<b>RESOURCE USE</b>		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	\$ 34,381	\$ 123,419
Public Costs	60,332	159,303
Total Costs	<u>94,713</u>	<u>282,722</u>
Intragovernmental Earned Revenues	(870)	(5,073)
Public Earned Revenues	<u>(16,023)</u>	<u>(183,578)</u>
Total Earned Revenues	<u>(16,893)</u>	<u>(188,651)</u>
Net Cost	<u>77,820</u>	<u>94,071</u>
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	23,326	18,156
Public Costs	39,775	15,810
Total Costs	<u>63,101</u>	<u>33,966</u>
Intragovernmental Earned Revenues	(61,531)	(1)
Public Earned Revenues	<u>(10,818)</u>	<u>(61,325)</u>
Total Earned Revenues	<u>(72,349)</u>	<u>(61,326)</u>
Net Cost	<u>(9,248)</u>	<u>(27,360)</u>
<b>RESOURCE PROTECTION</b>		
Improve Health of Watersheds, Landscapes, and Biological Communities:		
Intragovernmental Costs	84	72
Public Costs	239	50
Total Costs	<u>323</u>	<u>122</u>
Intragovernmental Earned Revenues	(3)	-
Public Earned Revenues	<u>(13)</u>	<u>(4)</u>
Total Earned Revenues	<u>(16)</u>	<u>(4)</u>
Net Cost	<u>307</u>	<u>118</u>
<b>RECREATION</b>		
Provide Quality and Fair Value in Recreation:		
Intragovernmental Costs	1,583	1,503
Public Costs	3,377	4,033
Total Costs	<u>4,960</u>	<u>5,536</u>
Intragovernmental Earned Revenues	(41)	(79)
Public Earned Revenues	10	(661)
Total Earned Revenues	<u>(31)</u>	<u>(740)</u>
Net Cost	<u>4,929</u>	<u>4,796</u>
<b>CENTRALIZED PROGRAM SUPPORT AND OTHER</b>		
Working Capital Fund, Policy and Administration, and Other:		
Intragovernmental Costs	15,437	21,538
Public Costs	31,642	52,699
Total Costs	<u>47,079</u>	<u>74,237</u>
Intragovernmental Earned Revenues	(43,707)	(56,991)
Public Earned Revenues	<u>(4,891)</u>	<u>(15,906)</u>
Total Earned Revenues	<u>(48,598)</u>	<u>(72,897)</u>
Net Cost	<u>(1,519)</u>	<u>1,340</u>
<b>Total Intragovernmental Costs</b>	<b>74,811</b>	<b>164,688</b>
<b>Total Public Costs</b>	<b>135,365</b>	<b>231,895</b>
<b>Total Costs</b>	<b><u>210,176</u></b>	<b><u>396,583</u></b>
<b>Total Intragovernmental Earned Revenues</b>	<b>(106,152)</b>	<b>(62,144)</b>
<b>Total Public Earned Revenues</b>	<b><u>(31,735)</u></b>	<b><u>(261,474)</u></b>
<b>Total Earned Revenues</b>	<b><u>(137,887)</u></b>	<b><u>(323,618)</u></b>
<b>Net Cost of Operations (Note 12)</b>	<b>\$ 72,289</b>	<b>\$ 72,965</b>

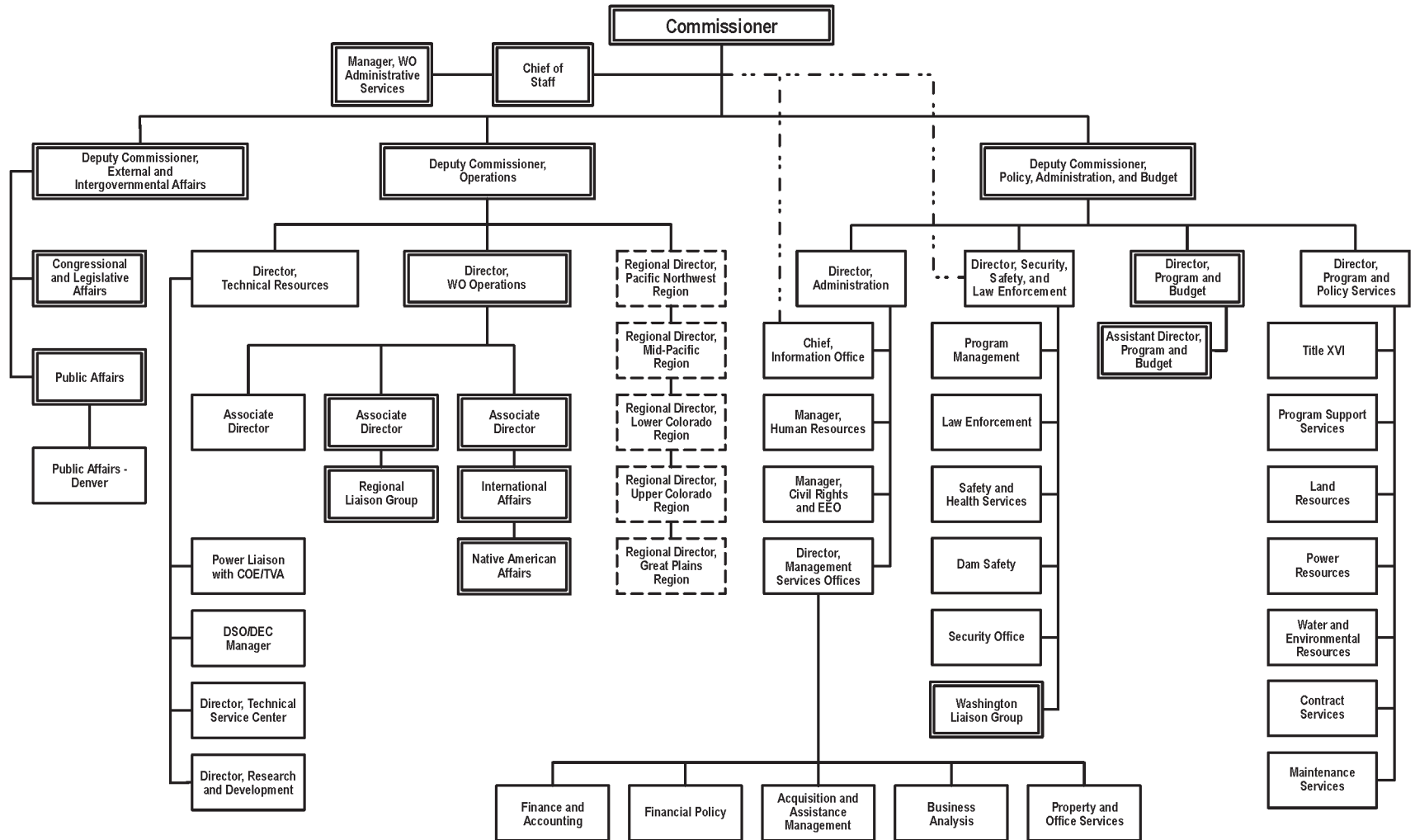
Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
\$ 80,170	\$ 44,637	\$ 46,347	\$ 55,785	\$ 384,739	\$ -	\$ 384,739
263,360	86,303	133,705	40,662	743,665	-	743,665
343,530	130,940	180,052	96,447	1,128,404	-	1,128,404
(674)	(4,173)	(39,785)	-	(50,575)	-	(50,575)
(194,772)	(19,803)	(32,001)	(307)	(446,484)	-	(446,484)
(195,446)	(23,976)	(71,786)	(307)	(497,059)	-	(497,059)
148,084	106,964	108,266	96,140	631,345	-	631,345
14,376	17,782	17,642	2,454	93,736	-	93,736
5,973	31,773	25,036	758	119,125	-	119,125
20,349	49,555	42,678	3,212	212,861	-	212,861
(11,350)	20	(11,619)	-	(84,481)	-	(84,481)
(56,890)	(51,819)	(1,796)	(14)	(182,662)	-	(182,662)
(68,240)	(51,799)	(13,415)	(14)	(267,143)	-	(267,143)
(47,891)	(2,244)	29,263	3,198	(54,282)	-	(54,282)
3,974	2,325	-	639	7,094	(11,104)	(4,010)
10,862	9,147	-	184	20,482	-	20,482
14,836	11,472	-	823	27,576	(11,104)	16,472
(21)	(11,098)	-	-	(11,122)	11,104	(18)
(630)	857	-	(1)	209	-	209
(651)	(10,241)	-	(1)	(10,913)	11,104	191
14,185	1,231	-	822	16,663	-	16,663
2,625	241	191	14	6,157	-	6,157
8,483	218	210	62	16,383	-	16,383
11,108	459	401	76	22,540	-	22,540
(61)	-	(83)	-	(264)	-	(264)
(12,072)	(131)	(11,361)	-	(24,215)	-	(24,215)
(12,133)	(131)	(11,444)	-	(24,479)	-	(24,479)
(1,025)	328	(11,043)	76	(1,939)	-	(1,939)
15,631	13,511	15,479	118,740	200,336	(333,032)	(132,696)
37,842	34,473	24,612	112,279	293,547	-	293,547
53,473	47,984	40,091	231,019	493,883	(333,032)	160,851
(42,362)	(39,291)	(35,178)	(155,553)	(373,082)	333,032	(40,050)
(8,699)	(16,126)	(2,965)	(7,541)	(56,128)	-	(56,128)
(51,061)	(55,417)	(38,143)	(163,094)	(429,210)	333,032	(96,178)
2,412	(7,433)	1,948	67,925	64,673	-	64,673
116,776	78,496	79,659	177,632	692,062	(344,136)	347,926
326,520	161,914	183,563	153,945	1,193,202	-	1,193,202
443,296	240,410	263,222	331,577	1,885,264	(344,136)	1,541,128
(54,468)	(54,542)	(86,665)	(155,553)	(519,524)	344,136	(175,388)
(273,063)	(87,022)	(48,123)	(7,863)	(709,280)	-	(709,280)
(327,531)	(141,564)	(134,788)	(163,416)	(1,228,804)	344,136	(884,668)
\$ 115,765	\$ 98,846	\$ 128,434	\$ 168,161	\$ 656,460	\$ -	\$ 656,460



# Supplemental Section



# Bureau of Reclamation Proposed Reorganization September 15, 2005



Note: Border denotes office location  
 ===== Washington, D.C.  
 ----- Denver, CO  
 ----- Regions





**Bureau of Reclamation  
Regional Boundaries and Offices**

# Required Supplementary Information

## Financial Resources

Funding for the Bureau of Reclamation's major program activities is provided from appropriations, revolving fund revenues, transfers from other Federal agencies, and contributions from non-Federal entities. A summary of Reclamation's major sources of fiscal year (FY) 2005 and 2004 new budget authority is provided.

**Budget Authority  
For the Years Ended June 30, 2005, and 2004  
(in Millions)**

	<b>2005</b>	<b>2004</b>
Water and Related Resources	\$ 781.3	\$ 766.2
Lower Colorado River Basin Development Fund	27.0	27.5
Upper Colorado River Basin Fund	54.3	52.8
Colorado River Dam Fund	69.4	67.8
Central Valley Project Restoration Fund	54.7	39.6
Reclamation Trust Funds	12.9	5.5
Policy and Administration	58.2	55.5
Other Budget Accounts	25.0	10.3
<b>Total</b>	<b>\$ 1,082.8</b>	<b>\$ 1,025.2</b>

The Combining Statement of Budgetary Resources, which is included as a principal financial statement, presents information about Reclamation's total budgetary resources, including carry forward of unused, prior year funding, and spending authority created by reimbursements from other Federal agencies and non-Federal entities. The Combining Statement of Budgetary Resources presents this information by major budget account.

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

The Working Capital Fund (WCF), the Lower Colorado River Basin Development Fund (LCRBDF), and the Upper Colorado River Basin Fund (UCRBF) are revolving funds that operate on a cost recovery basis. The WCF provides support services

and equipment for Reclamation programs and activities, as well as for other Federal entities. The LCRBDF and the UCRBF are revolving funds that operate on a cost recovery basis.

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

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

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

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

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

The Other Budget Accounts balance includes several smaller activities within Reclamation, including the San Gabriel Restoration Fund and loan programs. The increase in Other Budgetary Resources in FY 2005 was due to credit reform loan upward subsidy re-estimates in the amount of approximately \$20.7 million.

**U.S. Department of the Interior  
Bureau of Reclamation  
Combining Statement of Budgetary Resources  
For the Year Ended September 30, 2005**

(In Thousands)	Water and Related Resources	Working Capital Fund	Lower Colorado River Basin Development Fund	Upper Colorado River Basin Development Fund
<b>BUDGETARY RESOURCES:</b>				
Budget Authority:				
Appropriations Received	\$ 864,637	\$ -	\$ -	\$ -
Borrowing Authority	-	-	-	-
Net Transfers, Current Year Authority	(83,323)	-	27,052	54,280
Unobligated Balance:				
Beginning of Fiscal Year	268,836	28,231	210,729	22,102
Net Transfers, Unobligated Balance, Actual	(157)	-	-	157
Spending Authority From Offsetting Collections:				
Earned				
Collected	195,253	345,124	154,440	86,161
Receivable From Federal Sources	(1,945)	(64)	2,105	(92)
Change in Unfilled Customer Orders				
Advance Received	7,578	(140)	855	159,608
Without Advance From Federal Sources	6,279	-	-	-
Subtotal: Spending Authority From Offsetting Collections	207,165	344,920	157,400	245,677
Recoveries of Prior Year Obligations	22,558	1,616	1,001	1,244
Temporarily Not Available Pursuant to Public Law	(5,534)	-	-	-
Permanently Not Available	(1,342)	-	(1,033)	(173,925)
<b>Total Budgetary Resources</b>	<b>\$ 1,272,840</b>	<b>\$ 374,767</b>	<b>\$ 395,149</b>	<b>\$ 149,535</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>				
Obligations Incurred:				
Direct	\$ 797,128	\$ -	\$ -	\$ -
Reimbursable	199,559	346,885	128,197	131,268
Total Obligations Incurred	996,687	346,885	128,197	131,268
Unobligated Balance:				
Apportioned	276,110	27,882	266,952	18,267
Exempt From Apportionment	43	-	-	-
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,272,840</b>	<b>\$ 374,767</b>	<b>\$ 395,149</b>	<b>\$ 149,535</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>				
Obligations Incurred	\$ 996,687	\$ 346,885	\$ 128,197	\$ 131,268
Obligated Balance, Net, Beginning of Fiscal Year	366,255	21,226	22,052	136,805
Obligated Balance, Net, End of Fiscal Year:				
Accounts Receivable	17,732	9,946	9,493	163
Unfilled Customer Orders From Federal Sources	36,138	-	-	-
Undelivered Orders	(342,203)	(5,269)	(10,865)	(39,690)
Accounts Payable	(99,768)	(26,770)	(17,389)	(97,539)
Total Obligated Balance, Net, End of Fiscal Year	(388,101)	(22,093)	(18,761)	(137,066)
Less: Spending Authority Adjustments	(26,892)	(1,552)	(3,106)	(1,152)
Outlays:				
Disbursements	947,949	344,466	128,382	129,855
Collections	(202,831)	(344,984)	(155,295)	(245,769)
Net Outlays Before Offsetting Receipts	745,118	(518)	(26,913)	(115,914)
Less: Offsetting Receipts	(354)	-	-	-
<b>Net Outlays (Receipts)</b>	<b>\$ 744,764</b>	<b>\$ (518)</b>	<b>\$ (26,913)</b>	<b>\$ (115,914)</b>

Colorado River Dam Fund	Central Valley Project Restoration Fund	Reclamation Trust Fund	Policy and Administration	California Bay-Delta Ecosystem Restoration Fund	Other Budgetary Accounts	Total Budgetary Accounts
\$ 69,380	\$ 54,695	\$ 12,913	\$ 58,153	\$ -	\$ 20,977	\$ 1,080,755
-	-	-	-	-	-	-
-	-	-	-	-	3,991	2,000
11,479	456	39,444	1,135	18,784	1,045	602,241
-	-	-	-	-	-	-
-	-	-	-	-	-	780,978
-	-	-	-	-	-	4
-	-	-	-	-	-	167,901
-	-	-	-	-	-	6,279
-	-	-	-	-	-	955,162
280	3,726	197	296	3,063	-	33,981
-	(67)	-	(465)	-	-	(6,066)
(1,498)	-	-	-	-	-	(177,798)
<u>\$ 79,641</u>	<u>\$ 58,810</u>	<u>\$ 52,554</u>	<u>\$ 59,119</u>	<u>\$ 21,847</u>	<u>\$ 26,013</u>	<u>\$ 2,490,275</u>
\$ 64,247	\$ 58,700	\$ 10,109	\$ 57,067	\$ 6,058	\$ 25,049	\$ 1,018,358
-	-	-	-	-	-	805,909
64,247	58,700	10,109	57,067	6,058	25,049	1,824,267
12,938	110	-	2,052	15,789	964	621,064
2,456	-	42,445	-	-	-	44,944
<u>\$ 79,641</u>	<u>\$ 58,810</u>	<u>\$ 52,554</u>	<u>\$ 59,119</u>	<u>\$ 21,847</u>	<u>\$ 26,013</u>	<u>\$ 2,490,275</u>
\$ 64,247	\$ 58,700	\$ 10,109	\$ 57,067	\$ 6,058	\$ 25,049	\$ 1,824,267
4,029	49,093	3,982	8,960	31,759	30,782	674,943
-	-	-	-	-	-	37,334
-	-	-	-	-	-	36,138
(1,547)	(54,748)	(5,602)	(6,726)	(23,326)	(23,272)	(513,248)
(4,331)	(8,891)	(328)	(2,914)	(2,226)	(7,369)	(267,525)
(5,878)	(63,639)	(5,930)	(9,640)	(25,552)	(30,641)	(707,301)
(280)	(3,726)	(197)	(296)	(3,063)	-	(40,264)
62,118	40,428	7,964	56,091	9,202	25,190	1,751,645
-	-	-	-	-	-	(948,879)
62,118	40,428	7,964	56,091	9,202	25,190	802,766
(69,380)	(57,575)	(12,913)	-	-	(1,647,215)	(1,787,437)
<u>\$ (7,262)</u>	<u>\$ (17,147)</u>	<u>\$ (4,949)</u>	<u>\$ 56,091</u>	<u>\$ 9,202</u>	<u>\$ (1,622,025)</u>	<u>\$ (984,671)</u>

**U.S. Department of the Interior**  
**Bureau of Reclamation**  
**Combining Statement of Budgetary Resources**  
**For the Year Ended September 30, 2004**

(In Thousands)	Water and Related Resources	Working Capital Fund	Lower Colorado River Basin Development Fund	Upper Colorado River Basin Development Fund
<b>BUDGETARY RESOURCES:</b>				
Budget Authority:				
Appropriations Received	\$ 851,803	\$ -	\$ -	\$ -
Borrowing Authority	-	-	-	-
Net Transfers, Current Year Authority	(85,601)	-	27,529	52,795
Other	-	-	-	-
Unobligated Balance:				
Beginning of Fiscal Year	266,627	24,970	161,974	22,403
Net Transfers, Unobligated Balance, Actual	1,346	-	(41)	41
Anticipated Transfers of Unobligated Balance	-	-	-	-
Spending Authority From Offsetting Collections:				
Earned				
Collected	215,667	337,708	168,794	73,549
Receivable From Federal Sources	9,757	5,086	(234)	186
Change in Unfilled Customer Orders				
Advance Received	4,934	(285)	(5)	(790)
Without Advance From Federal Sources	1,493	-	-	-
Anticipated for Rest of Year, Without Advances	-	-	-	-
Previously Unavailable	-	-	-	-
Transfers From Trust Funds	-	-	-	-
Subtotal: Spending Authority From Offsetting Collections	231,851	342,509	168,555	72,945
Recoveries of Prior Year Obligations	25,901	1,523	72	9,348
Temporarily Not Available Pursuant to Public Law	-	-	-	-
Permanently Not Available	(5,059)	(4,525)	(1,032)	(4,227)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 1,286,868</b>	<b>\$ 364,477</b>	<b>\$ 357,057</b>	<b>\$ 153,305</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>				
Obligations Incurred:				
Direct	\$ 798,907	\$ -	\$ -	\$ -
Reimbursable	219,125	336,246	146,328	131,203
Total Obligations Incurred	1,018,032	336,246	146,328	131,203
Unobligated Balance:				
Apportioned	268,836	28,231	210,729	22,102
Exempt From Apportionment	-	-	-	-
Unobligated Balance not Available	-	-	-	-
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$ 1,286,868</b>	<b>\$ 364,477</b>	<b>\$ 357,057</b>	<b>\$ 153,305</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>				
Obligations Incurred	\$ 1,018,032	\$ 336,246	\$ 146,328	\$ 131,203
Obligated Balance, Net, Beginning of Fiscal Year	339,184	18,176	6,930	129,109
Obligated Balance Transferred, Net	-	-	-	-
Obligated Balance, Net, End of Fiscal Year:				
Accounts Receivable	19,677	10,011	7,388	254
Unfilled Customer Orders From Federal Sources	29,859	-	-	-
Undelivered Orders	(308,706)	(5,063)	(15,823)	(44,562)
Accounts Payable	(107,085)	(26,174)	(13,617)	(92,497)
Total Obligated Balance, Net, End of Fiscal Year	(366,255)	(21,226)	(22,052)	(136,805)
Less: Spending Authority Adjustments	(37,150)	(6,610)	162	(9,534)
Outlays:				
Disbursements	953,811	326,586	131,368	113,973
Collections	(220,601)	(337,423)	(168,788)	(72,760)
Net Outlays Before Offsetting Receipts	733,210	(10,837)	(37,420)	41,213
Less: Offsetting Receipts	(120)	-	-	-
<b>NET OUTLAYS (RECEIPTS)</b>	<b>\$ 733,090</b>	<b>\$ (10,837)</b>	<b>\$ (37,420)</b>	<b>\$ 41,213</b>



Colorado River Dam Fund	Central Valley Project Restoration Fund	Reclamation Trust Fund	Policy and Administration	California Bay-Delta Ecosystem Restoration Fund	Other Budgetary Accounts	Total Budgetary Accounts
\$ 67,771	\$ 39,600	\$ 5,542	\$ 55,525	\$ -	\$ 361	\$ 1,020,602
-	-	-	-	-	-	-
-	-	-	-	-	9,941	4,664
-	-	-	-	-	-	-
8,755	820	41,349	1,167	29,682	996	558,743
-	-	-	-	-	-	1,346
-	-	-	-	-	-	-
-	-	-	-	-	-	795,718
-	-	-	-	-	-	14,795
-	-	-	-	-	-	3,854
-	-	-	-	-	-	1,493
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	815,860
312	2,743	322	626	629	2	41,478
-	-	-	-	-	-	-
(1,435)	(52)	-	(328)	-	(1)	(16,659)
<u>\$ 75,403</u>	<u>\$ 43,111</u>	<u>\$ 47,213</u>	<u>\$ 56,990</u>	<u>\$ 30,311</u>	<u>\$ 11,299</u>	<u>\$ 2,426,034</u>
\$ 63,924	\$ 42,655	\$ 7,769	\$ 55,855	\$ 11,527	\$ 10,254	\$ 990,891
-	-	-	-	-	-	832,902
63,924	42,655	7,769	55,855	11,527	10,254	1,823,793
11,479	456	-	1,135	18,784	1,045	562,797
-	-	39,444	-	-	-	39,444
-	-	-	-	-	-	-
<u>\$ 75,403</u>	<u>\$ 43,111</u>	<u>\$ 47,213</u>	<u>\$ 56,990</u>	<u>\$ 30,311</u>	<u>\$ 11,299</u>	<u>\$ 2,426,034</u>
\$ 63,924	\$ 42,655	\$ 7,769	\$ 55,855	\$ 11,527	\$ 10,254	\$ 1,823,793
2,959	50,456	6,516	7,768	32,008	34,280	627,386
-	-	-	-	-	-	-
-	-	-	-	-	-	37,330
-	-	-	-	-	-	29,859
(1,019)	(43,375)	(3,327)	(6,597)	(29,210)	(30,519)	(488,201)
(3,010)	(5,718)	(655)	(2,363)	(2,549)	(263)	(253,931)
(4,029)	(49,093)	(3,982)	(8,960)	(31,759)	(30,782)	(674,943)
(312)	(2,743)	(322)	(626)	(629)	(2)	(57,766)
62,542	41,275	9,981	54,037	11,147	13,750	1,718,470
-	-	-	-	-	-	(799,572)
62,542	41,275	9,981	54,037	11,147	13,750	918,898
(67,771)	(38,282)	(5,542)	-	-	(1,348,473)	(1,460,188)
<u>\$ (5,229)</u>	<u>\$ 2,993</u>	<u>\$ 4,439</u>	<u>\$ 54,037</u>	<u>\$ 11,147</u>	<u>\$ (1,334,723)</u>	<u>\$ (541,290)</u>

## Working Capital Fund

Reclamation operates a Working Capital Fund to efficiently finance support services and equipment for Reclamation programs and other Federal and non-Federal agencies. Balance sheet information on the financial position of the WCF as of September 30, 2005, and 2004 is presented on the following page.

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

The WCF is an intragovernmental revolving fund and recovers the full cost of doing business. The types of services provided by the WCF fall into three broad categories: (1) Engineering and Technical Services, (2) Administrative Services, and (3) Information Technology (IT) Services. The WCF Statement of Net Cost for the years ended September 30, 2005, and 2004 is presented on page 132. The presentation by major category of services is intended to provide information on the relative composition of the WCF.

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

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

## Deferred Maintenance

Reclamation owns a water resources management infrastructure which consists of diversion and storage dams; hydroelectric powerplants; water conveyance facilities (canals, pipelines, siphons, tunnels, and pumps); recreational facilities; and associated buildings, bridges, and roads, as well as an inventory of related construction, maintenance, laboratory, and scientific equipment. The operation and maintenance of some of these assets is performed by Reclamation using annual or permanent appropriations or other available funding sources. The operation and maintenance of the remaining assets is performed by Reclamation's water and power customers or by contractors at their expense pursuant to contracts with Reclamation.

**U.S. Department of the Interior  
Bureau of Reclamation  
Working Capital Fund Balance Sheet  
As of September 30, 2005, and 2004**

(In Thousands)	2005	2004
<b>ASSETS</b>		
<b>Intragovernmental Assets:</b>		
Fund Balance with Treasury	\$ 49,974	\$ 49,459
Accounts Receivable	9,919	9,992
Loans and Interest Receivable	1,900	3,100
Other:		
Advances and Prepayments	126	401
<b>Total Intragovernmental Assets</b>	<b>61,919</b>	<b>62,952</b>
Accounts and Interest Receivable, Net	91	70
General Property, Plant and Equipment, Net	34,823	36,193
Other:		
Advances and Prepayments	217	225
<b>Total Assets</b>	<b>\$ 97,050</b>	<b>\$ 99,440</b>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities:</b>		
Accounts Payable	\$ 4,712	\$ 7,961
Debt	1,900	3,100
Other:		
Accrued Employee Benefits	7,185	6,939
Advances, Deferred Revenue, and Deposit Funds	1,709	1,735
Total Other Liabilities	8,894	8,674
<b>Total Intragovernmental Liabilities</b>	<b>15,506</b>	<b>19,735</b>
Accounts Payable	5,312	4,185
Other:		
Accrued Payroll and Benefits	17,707	15,231
Advances, Deferred Revenue, and Deposit Funds	667	782
Total Other Liabilities	18,374	16,013
<b>Total Liabilities</b>	<b>39,192</b>	<b>39,933</b>
<b>NET POSITION</b>		
Cumulative Results of Operations	57,858	59,507
<b>Total Net Position</b>	<b>57,858</b>	<b>59,507</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 97,050</b>	<b>\$ 99,440</b>

**Supplemental Statement of Net Cost  
Working Capital Fund  
For the Year Ended September 30, 2005**

(In Thousands)	Engineering and Technical Services	Administrative Services	Information Technology Services	Total
Costs	\$ 103,179	\$ 223,945	\$ 18,232	\$ 345,356
Earned Revenues	(103,936)	(223,888)	(16,036)	(343,860)
<b>Net Cost</b>	<b>\$ (757)</b>	<b>\$ 57</b>	<b>\$ 2,196</b>	<b>\$ 1,496</b>

**Supplemental Statement of Net Cost  
Working Capital Fund  
For the Year Ended September 30, 2004**

(In Thousands)	Engineering and Technical Services	Administrative Services	Information Technology Services	Total
Costs	\$ 98,213	\$ 220,218	\$ 15,974	\$ 334,405
Earned Revenues	(101,547)	(226,405)	(13,532)	(341,484)
<b>Net Cost</b>	<b>\$ (3,334)</b>	<b>\$ (6,187)</b>	<b>\$ 2,442</b>	<b>\$ (7,079)</b>

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

Many factors influence whether maintenance is performed as scheduled or deferred. These factors may include limitations on access to facilities (e.g., due to water levels); intervening technological innovations or developments; seasonal or climatological considerations; reassessment of priorities; delays in the contract-award process; availability of or delays caused by the contractor; and changes in funding priorities resulting from, in some cases, emergencies or unforeseen critical maintenance requirements. It is Reclamation's policy to give critical maintenance—that which addresses a threat to life, property, and safety—the highest priority in attention and resources.

The table below identifies Reclamation's estimate of deferred maintenance as of September 30, 2005, on those facilities (reserved works) operated and maintained by it. The reserved works facilities currently in operation and maintenance status include general and stewardship (multi-use heritage assets) that are components of Reclamation projects.<sup>1</sup> The precision attributable to these estimates for the assets involved is based on current, available data.

Reclamation continues to refine its estimates by improving the documentation procedures and systems for tracking condition assessments and for reporting the scheduling and deferral of maintenance work. Reclamation uses budget estimates, the Dam Safety/Power Resources Information System, Accessibility and Data Management System, and Maintenance Management System (MAXIMO) as sources for potential deferred maintenance. Variations in the reporting of deferred maintenance are expected from year to year because of the types of maintenance work on Reclamation facilities.

**FY 2005 Reclamation Deferred Maintenance Estimates**  
(in thousands)

	Item(s) Covered Note (1)	Condition Category Note (2)	Estimated Range of Deferred Maintenance for 2005					
			General PP&E		Stewardship PP&E		Total	
			Low	High	Low	High	Low	High
Roads Bridges and Trails	D	G,F,P	\$ 15	\$ 2,834	-	\$ 139	\$ 15	\$ 2,973
Irrigation, Dams, and Other Water Structures Other Structures (e.g., Recreation Sites, Hatcheries, etc.)	D	G,F,P	\$ 232	\$ 26,552	\$ 835	\$ 8,222	\$ 1,067	\$ 34,774
	D	G,F,P	\$ 129	\$ 2,429	\$ 2	\$ 1,127	\$ 131	\$ 3,556
<b>Total</b>			<b>\$ 376</b>	<b>\$ 31,815</b>	<b>\$ 837</b>	<b>\$ 9,488</b>	<b>\$ 1,213</b>	<b>\$ 41,303</b>

Note (1) Category

- A - Critical Health and Safety Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to public or employee safety.
- B - Critical Resource Protection Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to natural or cultural resources.
- C - Critical Mission Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to a bureau's ability to carry out its assigned mission.
- D - Compliance and Other Deferred Maintenance: A facility deferred maintenance need that will improve public or employee safety, health, or accessibility; compliance with codes, standards, laws, complete unmet programmatic needs and mandated programs; protection of natural or cultural resources to a bureau's ability to carry out its assigned mission.

Note (2) Condition Assessment:

Good (G) - Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life expectancy.

Scheduled maintenance should be sufficient to maintain the current condition.

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

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

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

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

# Required Supplemental Stewardship Information

## Federal Stewardship Assets

### Stewardship Lands

Federal stewardship land is defined as land owned by the Federal Government that was not acquired for or in connection with other property, plant, and equipment. Reclamation has basically two types of lands. There are lands that were acquired at a cost to Reclamation projects and those that were withdrawn from the public domain lands, previously managed by the Bureau of Land Management (BLM) and the U.S. Department of Agriculture (USDA) Forest Service, at no cost to the projects. Both types of land support Reclamation's authorized project purposes of providing water for agricultural, municipal and industrial uses; maintaining flood control; and generating power. Under Federal accounting standards, Reclamation withdrawn lands represent this agency's Stewardship Lands.

Reclamation has just completed the fifth year of a 5-year land reconciliation effort, focusing on the reconciliation of the initial acquisition costs of acquired lands with those same costs contained in the Federal Financial System. Although the focus of the reconciliation was on acquired project lands, adjustments were also made to withdrawn lands when discrepancies were identified during the reconciliation effort. Adjustments to withdrawn lands also were made when a revocation of project withdrawn lands was implemented by the BLM. As a result of this reconciliation and the withdrawal revocation, Reclamation ended the FY 2005 with approximately 8,200,000 acres of acquired and withdrawn project lands of which 5,479,485 acres are withdrawn lands (see the Stewardship Lands table on the following page).

Reclamation safeguards its withdrawn lands to protect them against waste, loss, and misuse. Reclamation certifies that the condition of this agency's withdrawn stewardship lands meets the U.S. Department of the Interior's (Department's) criteria of "acceptable condition." This means that the lands are managed and protected in a manner sufficient to support the mission of the agency consistent with the statutory purposes for which the lands were withdrawn or otherwise acquired. There are methods, procedures, and internal controls utilized by Reclamation to assess the condition of these stewardship lands and to take action should the condition deteriorate.



## Stewardship Lands as of September 30, 2005

Category by Type	Federal Acres				Total Non-Federal Acres	Combined Total Acres	Condition - Acceptable or Needs Intervention <sup>2</sup>	Number of Units <sup>3</sup>
	2005 Beginning Balance	Additions <sup>1</sup>	Withdrawals <sup>1</sup>	2005 Ending Balance				
Reclamation and Irrigation Acres	5,724,998	1,799	-247,312	5,479,485	0	5,479,485	Acceptable	146
<b>Total</b>	<b>5,724,998</b>	<b>1,799</b>	<b>-247,312</b>	<b>5,479,485</b>	<b>0</b>	<b>5,479,485</b>	<b>Acceptable</b>	<b>146</b>

<sup>1</sup> The difference between the beginning and ending stewardship land acres is a net decrease of 245,513 acres. The net change is a result of three major actions: (a) the completion of the fifth year of a 5-year land reconciliation effort in which changes to withdrawn lands were identified during the research, correction, and reconciliation of Reclamation's project acquired lands and land rights with the agency's project financial records; (b) successful revocation by the BLM of a portion of the Owyhee Project lands identified as no longer needed for project purposes; and (c) a reduction in withdrawn acres due to prior year BLM revocations which were not previously captured in the real property inventory system.

<sup>2</sup> The condition of Reclamation stewardship lands (withdrawn project lands) are categorized as "acceptable," and they adequately meet the operating needs of this agency's programs. There are methods, procedures, and internal controls utilized by Reclamation to assess the condition of these stewardship lands and to take action should the condition deteriorate. Additional details may be found in Reclamation's memorandum dated July 11, 2005, from Commissioner Keys through Acting Assistant Secretary - Water and Science Weimer to Associate Director Fletcher, Office of Financial Management, Subject: Condition Assessment of the Bureau of Reclamation Stewardship Lands.

<sup>3</sup> From Reclamation's perspective, the "Number of Units" means number of water and related projects. This number represents Reclamation's major projects, and many of those projects are comprised of numerous related divisions, units, features, or facilities. The 180 projects reported in the 3<sup>rd</sup> quarter FY 2005 report decreased to 146 projects in the 4<sup>th</sup> quarter report is due to a miscalculation.

## Non-Collectible Cultural Heritage Assets

The types of non-collectible cultural heritage assets reported in the Non-Collectible Heritage Assets table on the following page include buildings, structures, archaeological and historic sites, traditional cultural properties, monuments, and districts. Definitions of these various property types are derived from the National Park Service. The table identifies the total number of Reclamation non-collectible cultural heritage assets that are National Historic Landmarks (NHL), listed in the *National Register of Historic Places* (NRHP), or have been determined eligible for listing in the NRHP, either individually or as a district, in consultation with the State Historic Preservation Office (SHPO).

For the first time, numbers of contributing properties to districts are being tracked separately and are not included in the totals presented to avoid double counting. Non-collectible cultural heritage assets that fall into the category of "eligible" are represented in the "Archaeological and Historic Sites" row. Recorded but unevaluated cultural resources, and those that have been determined NRHP ineligible, are not included in the Non-Collectible Heritage Assets table because they do not meet the Federal Accounting Standard Advisory Board (FASAB) definition of "heritage assets."

Information on non-collectible heritage assets continues to improve as regional databases are implemented and updated. This is an ongoing activity and, once again, a number of offices hired summer interns through the National Council of Preservation Education program to create and update databases for tracking non-collectible heritage assets. Archaeological sites continue to make up the largest percentage of Reclamation non-collectible cultural heritage assets, representing over 75 percent of the total reported. The second highest percentage consists of structures, which represent about 10 percent of the total.

**Non-Collectible Heritage Assets as of September 30, 2005**

Category by Type	2005 Beginning Balance (units)	Additions (units)	Withdrawals (units)	2005 Ending Balance (units)	Condition (%) <sup>1</sup>				
					Good	Fair	Poor	Unknown	Total
Archeological and Historic Sites <sup>2</sup>	1,687	41	132	<sup>3</sup> 1,596	9	1	8	82	100
National Historic Landmarks	5	0	0	<sup>4</sup> 5	60	0	20	20	100
<i>National Register of Historic Places</i>	58	1	0	<sup>5</sup> 59	15	10	5	70	100
Paleontological Sites	175	1	0	176	0	1	0	99	100
<b>Total</b>	<b>1,925</b>	<b>43</b>	<b>132</b>	<b>1,836</b>	-	-	-	-	-

<sup>1</sup> "Good" condition means a site shows no clear evidence of negative disturbance or deterioration by natural forces or human activities. "Fair" means that a site shows clear evidence of negative disturbances or deterioration by natural forces and/or human activities. "Poor" means that a site shows clear evidence of human activities, and no corrective actions have been taken to protect and preserve the integrity of the site. "Unknown" may mean that, due to the nature of the site, such as sites underwater, the condition cannot be determined or that, due to financial constraints, the condition of a site cannot be determined.

<sup>2</sup> Since heritage assets are defined by FASAB as having "significance," this category includes only properties that have been officially determined eligible for listing in the *National Register of Historic Places*.

<sup>3</sup> This number includes 51 districts, 1,544 individual properties, and 1 traditional cultural property.

<sup>4</sup> This number includes two districts and three individual properties.

<sup>5</sup> This number includes 16 districts, 42 individual properties, and 1 traditional cultural property.

The withdrawals reported for Archaeological and Historic Sites represent eligibility determinations made without formal consultation with a SHPO, or contributing properties that are no longer included in the count. The additions shown on the table are due to ongoing identification and evaluation of cultural resources. Although not called for on the Non-Collectible Heritage Asset table, contributing properties to NHL, NRHP, and NRHP eligible districts represent an additional 563 non-collectible cultural heritage assets owned by Reclamation. This number will probably change as information on contributing properties continues to improve.

Condition information on non-collectible cultural heritage assets varies depending on the type of asset. Reclamation has long-established policies and procedures for conducting comprehensive and rigorous condition assessments of all of its high and significant hazard dams, powerplants, and associated facilities at intervals of no more than 6 years. This includes multi-use heritage assets such as Hoover Dam, which is a NHL.

Reclamation's reserved buildings are now also subject to scheduled condition assessments. In FY 2004, Reclamation completed a preliminary condition assessment of all its reserved buildings that have a current replacement value of greater than \$50,000. Over the next 5 years, comprehensive condition assessments of those properties will be scheduled and completed. Deferred maintenance needs will be identified and reported. Included among these properties are heritage assets.

The vast majority of properties for which condition is unknown are archaeological. The Federal Government has not issued any standards or guidance for assessing their

condition. It is documented at the time of original site recordation, and, in general, changes are noted only if a site is revisited during a subsequent Federal undertaking. The development of resource management plans in some regions has provided the opportunity to review the condition of heritage assets, including archaeological sites.

Some non-collectible cultural heritage assets are used by Reclamation to carry out its mission. These meet the FASAB definition of multiuse heritage assets (“heritage assets whose predominant use is general government operations”). Of the 64 non-collectible cultural heritage assets listed as NHLs and in the NRHP, 24 are multiuse heritage assets. These include dams, water distribution systems, a bridge, and office buildings.

## Non-Collectible Natural Heritage Assets

Non-collectible natural heritage assets also are reported in the Non-Collectible Heritage Assets table and consist of paleontological resources. Reclamation has identified 176 paleontological resources on its lands, an increase of 1 since the end of FY 2004. Since the Federal Government has no laws, regulations, or guidance in place for evaluating the significance or condition of paleontological resources, their condition remains largely undocumented.

## Collectible Heritage Assets

Collectible heritage assets are reported on the following page in the Collectible Heritage Assets table. Reclamation generally refers to its collectible heritage assets as museum property and endeavors to manage these assets to the standards set in the *Departmental Manual 411, Policy and Responsibilities for Managing Museum Property*, and other Federal authorities. During this reporting cycle, Reclamation issued an updated bureau level Scope of Collection Statement. In addition, Reclamation has a policy statement and directives and standards pertaining to museum property management under review as well as a revised Museum Property Management Plan. Reclamation also assembled a Museum Property Working Subgroup with members from each of its five regions. The subgroup’s purpose is to advise and assist the Office of Program and Policy Services on issues related to museum property.

Reclamation is in the final stages of acquiring an automated system for collection management. Currently, Reclamation reports museum property information to the Department through the Government Performance and Results Act; Activity Based Costing; *Federal Archaeology Program Report to Congress*; and its *Museum Property Summary Report*.

## Collectible Heritage Assets as of September 30, 2005

Interior Museum Collections	Beginning Collections	Additions <sup>2</sup>	Withdrawals <sup>3</sup>	Ending Collections	Condition of Facility Housing Collection <sup>1</sup>			
					Good	Fair	Poor	Not Yet Assessed
Reclamation Facility	20	0	1	19	6	2	2	9
Non-Reclamation Facility	81	5	4	82	32	5	7	38
<b>Total</b>	<b>101</b>	<b>5</b>	<b>5</b>	<b>101</b>	<b>38</b>	<b>7</b>	<b>9</b>	<b>47</b>

<sup>1</sup> "Good" condition means meeting more than 70 percent of standards in *Departmental Manual Chapter 411, Museum Property*; "Fair" means meeting 50-70 percent of Departmental standards; "Poor" means meeting less than 50 percent of Departmental standards.

<sup>2</sup> Five facilities were added because Reclamation found, based upon improved information, that items under Reclamation ownership, control, or administration resided at the facilities.

<sup>3</sup> Five facilities were withdrawn because Reclamation no longer had collections stored or exhibited at them. Removal included: (a) items were relocated to a facility having a better condition score, (b) items were relocated because a loan expired, or (c) items with ambiguous ownership were determined not to be owned, controlled, or administered by Reclamation.

Overall, Reclamation units (i.e., an administrative, regional, area, operations, field, power, facilities, or construction offices that manage museum property) are working with their non-Reclamation partners to update curatorial service agreements. In addition, the units are updating and/or developing new museum property management documents. For example, units have entered into, or are negotiating for, agreements for the following type of activities: (1) evaluating and resolving accession, catalog, and ownership information/issues, (2) performing annual inventories, (3) stabilizing collections, (4) repackaging collections, and (5) labeling. Reclamation once again utilized the National Council of Preservation Education intern program and employed six interns to perform museum property related activities.

The total number of museum property items under Reclamation's control increased during this reporting cycle to an estimated 8.7 million. The increase was the result of new accessions and improved catalog information. The item-level withdrawals were the result of items being determined to be: (1) outside Reclamation's control, (2) previously misidentified as museum property, or (3) better identified under a different discipline heading (i.e., Historic Objects reclassified as Archaeology Documents).

## Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. The FASAB requires reporting for three categories of stewardship investments—Research and Development, Investment in Human Capital, and Investment in Non-Federal Physical Property. Reclamation identified stewardship investments in all three categories.

## Research and Development

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

In FY 2005, research and development expenses incurred under the Water and Energy Management and Development Program activity produced benefits under Reclamation's intermediate outcome measure of effective water management to optimize supply. Expenses also support the end outcome measure of water delivery.

In addition, research and development expenses incurred under the Facility Maintenance and Rehabilitation Program activity provided benefits which enabled Reclamation to support the intermediate outcome measure to operate and maintain a safe and reliable water infrastructure. Expenses also support the end outcome measures of reliability and maximizing cost efficiency and value. A summary of Reclamation's investments in Research and Development through September 30, 2005, are in the chart below.

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

Category	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
Water and Energy Management and Development	15.9	17.6	17.2	18.6	24.5	93.8
Facility Maintenance and Rehabilitation	1.5	1.4	1.1	1.2	1.4	6.6
<b>Total</b>	<b>\$17.4</b>	<b>\$19.0</b>	<b>\$18.3</b>	<b>\$19.8</b>	<b>\$25.9</b>	<b>\$100.4</b>

## Investment in Human Capital

Reclamation operates five Job Corps Centers (Centers), based on an interagency agreement with the Department of Labor for the purpose of educating and training disadvantaged youth. As of September 30, 2005, Reclamation expended \$29.8 million

### Investment in Human Capital (In Millions)

Category	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
Job Corps Program	\$27.1	\$28.6	\$29.9	\$30.0	\$29.8	\$145.4
<b>Total</b>	<b>\$27.1</b>	<b>\$28.6</b>	<b>\$29.9</b>	<b>\$30.0</b>	<b>\$29.8</b>	<b>\$145.4</b>

in residential education and job training for these youth, including courses in computer technology, painting, woodworking, welding, culinary arts, and social and leadership development.

Post-program job placement services are available to Job Corps students. The table below shows the number of Reclamation Center graduates as a percentage of the total Center enrollment and the number of graduates placed into jobs within 1 year of graduation as a percentage of the graduates in the placement pool.

Center	Graduates	Center Enrollment	%	Graduates Placed	Graduate Placement Pool	%
Centennial	272	300	90.67	276	299	92.31
Columbia Basin	215	250	86.00	186	200	93.00
Ft. Simcoe	230	224	102.68	227	250	90.80
Weber Basin	173	224	77.23	165	181	91.16
Collbran	171	200	85.50	177	187	94.65

The Ft. Simcoe center has an enrollment capacity of 224 students. Job Corps is a self-paced, open entry/exit program. That means it takes some students longer than others to graduate. Depending on incoming educational levels, it can take a student between 8 months to 2 years to complete the program and graduate. Therefore, the number of graduates does not always equal the number of enrollees. In fact, the number of graduates can exceed the number of enrollees if the average length of stay is less than 1 year.

## Investment in Non-Federal Physical Property

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

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



**Investment in Non-Federal Physical Property as of September 30, 2005**  
(In Millions)

Category	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
Dams and Other Water Structures	\$105.1	\$118.9	\$124.4	\$106.6	\$138.1	\$593.1
<b>Total</b>	<b>\$105.1</b>	<b>\$118.9</b>	<b>\$124.4</b>	<b>\$106.6</b>	<b>\$138.1</b>	<b>\$593.1</b>

## Title Transfers to State and Local Governments

Assets constructed with Federal funding meet the criteria for non-Federal physical property at the time of transfer under Reclamation's title transfer program. The following tables present the status of transfer facilities for the period ending September 30, 2005, and completed transfers for the preceding 5 years.

**Transfer of Facilities**  
**For the Period Ended September 30, 2005**  
(In Thousands)

Project Name	Value Including Land Costs
<b>Pending Transfers</b>	
Carpinteria and Montecito Water Distribution Systems, California	\$ 911
Carson Lake and Pasture	66
Gila Project, Wellton-Mohawk Division, Arizona	2,568
Fallon Rail Freight Loading Facility Property, Newlands Project, Nevada	5
Provo River Project, Utah	3,082
Rye Patch Dam and Reservoir, Humboldt Project, Nevada	7,000

**Completed Transfers of Facilities to State and Local Government**  
(In Thousands)

Project Name	Year Ending of Transfer	Net Book Value Including Land Costs
<b>Completed Transfers</b>		
<i>No Completed Transfers for 2005 as of September 30, 2005</i>		
Harquahala Valley Irrigation District, Central Arizona Project, Arizona	2004	\$29,348
Minidoka and Teton Basin Projects, Idaho	2004	235
Sugar Pine Dam and Reservoir, Central Valley Project, California	2004	31,520
Sly Park Dam and Research, Central Valley Project, California	2004	1,911
Middle Loup Division, Pick-Sloan Missouri Basin Project, Nebraska	2003	7,457
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado	2003	287
La Feria Division, Lower Rio Grande Rehabilitation Project, Texas	2002	1,751
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado	2002	2,121
Carlsbad Project, New Mexico	2001	173
Clear Creek Distribution System, California	2001	423
Nampa and Meridian Conveyance, Boise Project, Idaho	2001	-
Palmetto Bend Reclamation Project, Texas	2001	59,991
Robert B. Griffith Water Projects, Southern Clark County, Nevada	2001	97,983

## Audits of Reclamation Programs

During FY 2005, the Office of Inspector General (OIG) and Government Accountability Office (GAO) audit activity included Reclamation-specific audits, Departmental, or Government-wide audits which included Reclamation issues. The OIG completed 12 audits, and the GAO completed 5 audits. The Department's FY 2005 GPRA Performance Goal for the Management Control and Audit Follow-up Programs (MCAF) was to implement 85 percent of the OIG/GAO recommendations in the MCAF GPRA goal database. Reclamation exceeded the Department's goal by implementing 100 percent of the recommendations scheduled for FY 2005. The following table is a summary of the status of audit recommendations.

	FY 2005 Recommendations	Recommendations Implemented/Closed/ Complied in FY 2005 <sup>1</sup>	Outstanding Recommendations <sup>2</sup>
OIG	13	14	0
GAO	1	3	1

<sup>1</sup> Recommendations may have resulted from audits in previous years.

<sup>2</sup> This outstanding recommendation is from a prior year audit.