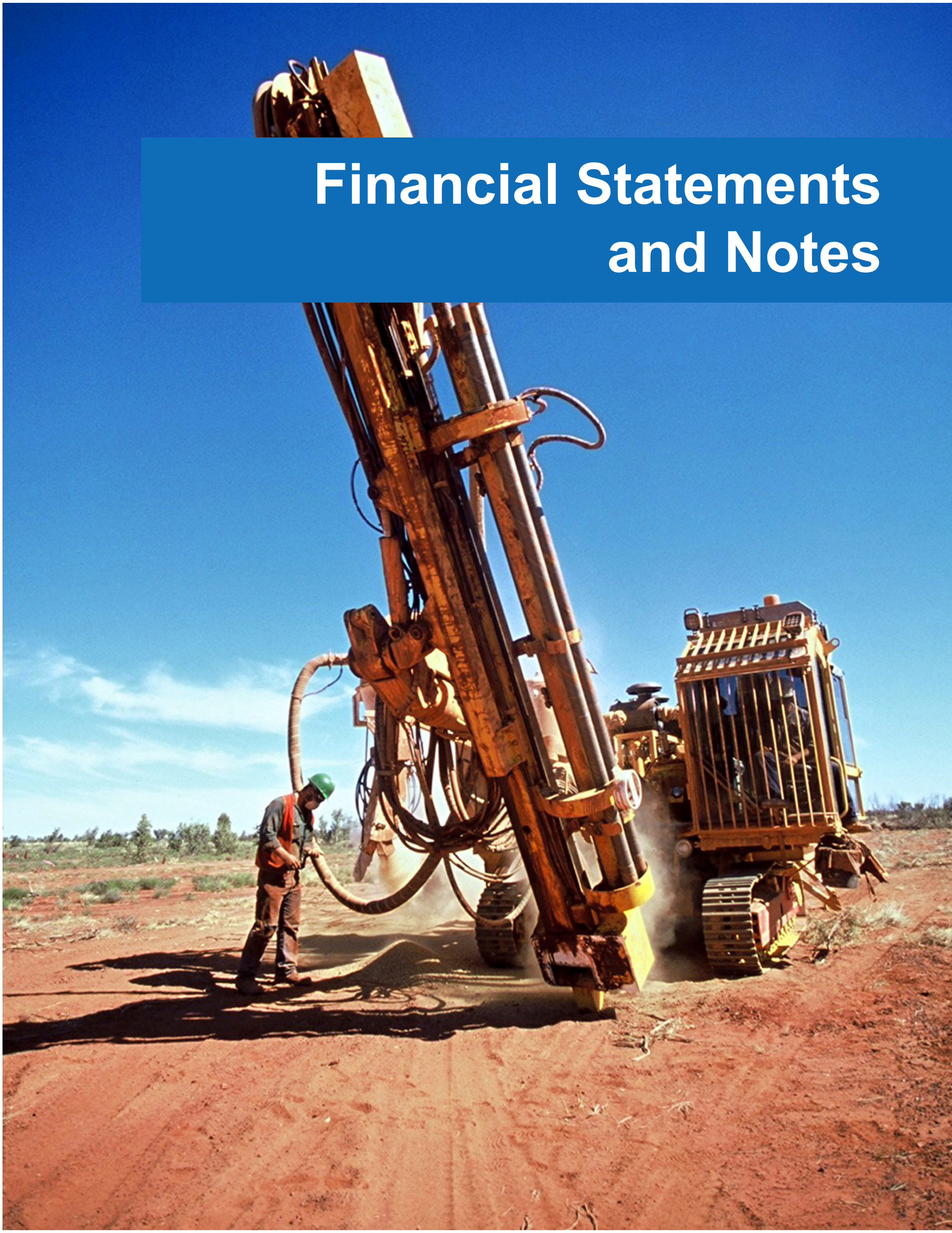
Financial Statements and Notes



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

Memorandum

JAN 16 2008

To: Commissioner, U.S. Bureau of Reclamation

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

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

INTRODUCTION

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

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

RESULTS OF INDEPENDENT AUDIT

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

STATUS OF RECOMMENDATIONS

In its December 12, 2007 response (Attachment 2) to the draft report, Reclamation agreed with five of the six findings. Reclamation also stated that it was in the process of implementing seven of the eight recommendations and disagreed with one recommendation. We will refer the unresolved recommendation to the Assistant Secretary for Policy, Management and Budget for resolution and the remaining seven recommendations for tracking of implementation (see Attachment 3, "Status of Audit Report Recommendations").

EVALUATION OF KPMG AUDIT PERFORMANCE

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

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

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

REPORT DISTRIBUTION

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

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

Attachments

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

ATTACHMENT 1

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

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

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

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that Reclamation's consolidated financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

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

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

Significant Deficiency Considered to be a Material Weakness

A. Revenue Recognition

Other Significant Deficiencies

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

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

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

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

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Bureau of Reclamation as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 15 to the consolidated financial statements, Reclamation changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007. Also, as discussed in Notes 1 and 15 to the consolidated financial statements, Reclamation changed its method of accounting for and reporting allocation transfers in fiscal year 2007.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Reclamation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Reclamation's consolidated financial statements that is more than inconsequential will not be prevented or detected by Reclamation's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Reclamation's internal control.

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

A. **Revenue Recognition**

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

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

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

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

Recommendations

We recommend that Reclamation:

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

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

Management Response

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

B. **Cost Structures**

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

Office of Management and Budget (OMB) Circular A-123 (revised December 21, 2004), *Management's Responsibility for Internal Control,* Section 3A, Developing Internal Control, requires that management develop and maintain effective internal control. In addition to the exception noted above, during our test work over the approval of new or modified cost structures, we identified one instance in which the cost structure form was not properly approved; two instances in which the cost structure form was not approved prior to the cost structure being effective in the accounting system; and two instances in which there was no cost structure form completed for the modification of the cost structure.

Recommendations

We recommend that Reclamation:

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

Management Response

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

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

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

1. *Entitywide Security Program and Planning*

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

2. *Access Controls*

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

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

3. *Service Continuity*

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

Recommendation

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

Management Response

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

D. **Grant Monitoring**

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

Recommendation

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

Management Response

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

INTERNAL CONTROL OVER PERFORMANCE MEASURES

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

COMPLIANCE AND OTHER MATTERS

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

E. **Compliance with Grant Agreements**

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

Recommendation

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

Management Response

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

Auditors' Response to Management's Response

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

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

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

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

Recommendation

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

Management Response

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

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

* * * * * * *

RESPONSIBILITIES

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

Management is responsible for the consolidated financial statements, including:

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

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2007 and 2006 consolidated financial statements of Reclamation based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Reclamation's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements

- Assessing the accounting principles used and significant estimates made by management

- Evaluating the overall consolidated financial statement presentation.

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

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

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures, and accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Reclamation's fiscal year 2007 consolidated financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Reclamation. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether financial management systems for executive departments and agencies subject to the *Chief Financial Office Act of 1990* substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government

Standard General Ledger at the transaction level. Although Reclamation is not required to report on FFMIA, Reclamation has elected to report on FFMIA. Therefore, we performed tests of compliance with FFMIA Section 803(a) requirements.

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

KPMG LLP

December 6, 2007

Exhibit I

U.S. BUREAU OF RECLAMATION

Status of Prior Year Findings

September 30, 2007

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

ATTACHMENT 2

United States Department of the Interior

BUREAU OF RECLAMATION
Washington, D.C. 20240

IN REPLY REFER TO:

84-27430
ADM-1.00

MEMORANDUM

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

Through: Kameran L. Onley
Assistant Deputy Secretary Timothy R. Petty (acting for) 12/12/07

From: Robert W. Johnson
Commissioner

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

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

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

Attachment

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

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

Attachment

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

A. Revenue Recognition

Recommendation A.1

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

Response:

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

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

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

Recommendation A.2

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

Response:

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

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

B. Cost Structures

Recommendation B.1:

Ensure that cost structures are appropriately assigned to individual transactions.

Response:

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

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

Recommendation B.2:

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

Response:

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

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

C. General and Application Controls over Financial Management Systems

Recommendation C

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

Response:

Concur. Reclamation will develop and implement a formal action plan to improve controls over the procurement sub-system. The plan will address the access control and audit logging issues discussed in the draft audit report. As part of the planning process, Reclamation will determine if a risk assessment, contingency plan, and system security plan are needed for sub-systems or components operating within the Reclamation. These documents, however, are normally completed for the entire system, including sub-systems or components, and by the organization that owns the system, the National Business Center (NBC). Reclamation will work with the NBC to clarify security document requirements for the procurement sub-system and to complete required documents and waiver forms, as needed. Departmental guidance also requires the NBC to provide a Plan of Action and Milestone report for the procurement system, including remediation tasks associated with sub-systems. To ensure coordination, Reclamation tracks identified or known financial management control weaknesses and remediation tasks for sub-systems in its program-level Plan of Action and Milestone report. This report will continue to be used to track the target milestones for the procurement sub-system, along with any remediation tasks resulting from the action plan.

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

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

D. Grant Monitoring

Recommendation D

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

Response:

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

E. Compliance with Grant Agreements

Recommendation E

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

Response:

Non-concur. Although Reclamation agrees that more effective internal controls need to be established in order to effectively monitor grant agreements, Reclamation disagrees with the auditors' citation of 43 CFR 12 and the terms and conditions of the grant agreement as reason for Reclamation non-compliance. Reclamation does not concur with the auditor's characterization of this finding as non-compliance with laws and regulations because 43 CFR 12 .80 (a) or .951 (a) as applicable assign recipients of Federal awards with the responsibility for monitoring. Specifically:

> For State and local government entities, 43 CFR 12.80 (a) states, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."
>
> For institutions of higher education, hospitals, and other non-profit entities, 12 CFR 12.951 (a) states, "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

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

F. Federal Financial Management Improvement Act of 1996

Recommendation F

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

Response:

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

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

ATTACHMENT 3

STATUS OF AUDIT REPORT RECOMMENDATIONS

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

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

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

The accompanying notes are an integral part of these statements.

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

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

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, 2007, and 2006
(In Thousands)

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting and Presentation

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

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

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

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to the legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with the legal constraints and controls over the use of Federal funds.

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

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

C. Fund Balance with Treasury

All Reclamation receipts and disbursements are processed by Treasury. The balance in Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. Also included in this balance are the Reclamation Fund and other unavailable (restricted) receipt funds. See Note 16 for further information on the Reclamation Fund.

D. Investments

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

E. Accounts Receivable

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

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

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

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

Congressional appropriation and other legislative acts have authorized funds to be appropriated from the Reclamation Fund to the Western Area Power Administration (Western), a component entity of the U.S. Department of Energy (DOE) responsible for the transmission and marketing of hydropower generated at Reclamation's facilities. Western's appropriations from the Reclamation Fund are used for capital investment and operation and maintenance (O&M) activities related to these functions. Western recovers these capital investments, associated interest, and O&M costs through user fees collected from the sale of power and, subsequently, deposits these amounts into the Reclamation Fund. Reclamation records an intragovernmental receivable when appropriations are made to Western from the Reclamation Fund. The receivable is decreased when power transmission receipts are returned.

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

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

G. Loans Receivable

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

Pre-Credit Reform Loans

These loans were made prior to FY 1992, and the balances shown represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance is determined by management for loan balances where collectibility is considered to be uncertain based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

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

Credit Reform Loans

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

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

H. General Property, Plant, and Equipment

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

Structures and facilities, comprised primarily of Reclamation's investment in its multipurpose water facilities, are recorded at acquisition cost, net of accumulated depreciation. Costs include direct labor and materials, payments to contractors, and indirect charges for engineering, supervision, and overhead.

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

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

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

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

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

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

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

In past years, Reclamation began the planning of, and construction on, various features included in 12 projects located in Arizona, California, Colorado, North and South Dakota, and Washington for which activities have either been placed in abeyance or intended benefits have never been provided. These capitalized costs are included in Construction in Abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been, and will continue to be, budgeted and expended to minimize the erosive effects of weather and time and to keep the assets ready for potential completion. The calculation and recording of IDC is suspended after an asset is transferred to abeyance. If the asset is later transferred back to Construction in Progress-General, IDC will be retroactively computed.

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

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

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

I. Power Rights

Net power rights represent the original cost less the accumulated amortization of the right or privilege to use the facilities of others or the right to future power generation or power revenues when such rights are not subject to early liquidation. Amortization is calculated by using the straight-line method over the contract life of the agreement. These power rights expire in the year 2017.

J. Stewardship Assets

Heritage Assets

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

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

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

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

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

Stewardship Land

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

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

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

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

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

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

K. Liabilities

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

Reclamation has accrued environmental and disposal liabilities where losses are determined to be probable and the amounts can be estimated. In accordance with Federal accounting guidance, the liability for future cleanup of environmental hazards is probable when the Government is legally responsible by having created the hazard or is otherwise related to it in such a way that it is legally liable to clean up the contamination. When the Government is not legally liable, but chooses to accept financial responsibility, the event is considered to be "Government-acknowledged." Government-acknowledged events are those of financial consequence to the Government because it chooses to respond to the event. When the Government accepts financial responsibility for cleanup, has an appropriation, and has begun incurring cleanup costs, any unpaid amounts for work performed are included in accounts payable. Changes in cleanup cost estimates are developed in accordance with Interior policy, which addresses systematic processes for cost estimating and will place added emphasis on development and retention of progress made in, and revision of, the cleanup plans, assuming current technology, laws, and regulations.

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

L. Resources Payable to Treasury

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

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

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

M. Accrued Leave

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

N. Retirement and Other Benefits

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

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

O. Revenues and Financing Sources

Exchange Revenues

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

Revenue from Recovery of Reimbursable Capital Costs

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

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

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

Non-exchange Revenues and Other Financing Sources

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

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

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

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

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

P. Use of Estimates

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

Q. Change in Accounting Principle - Allocation Transfers

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

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

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

Note 2. Asset Analysis

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

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

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

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

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

Note 3. Fund Balance with Treasury

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

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

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

Reclamation's fund types and purposes are described below:

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

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

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

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

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

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

Note 4. Investments, Net

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

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

	2007	2006
Cost	$ 401,370	$ 322,000
Accrued Interest	89	45
Investments, Net	**$ 401,459**	**$ 322,045**

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

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

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

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

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

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

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

Note 6. Accounts and Interest Receivable, Net

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

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

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

Note 7. Loans and Interest Receivable, Net

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The investment in projects held in abeyance as of September 30, 2007, and 2006 ranged from $59.1 thousand to $287 million per project, respectively. The investment covers a period from 1965 to the present. Continued planning or construction on these assets has been held in abeyance for various reasons, including such concerns as the execution of cost-share agreements with non-Federal entities and environmental, economic, and international treaty issues. The Congress and local interests continue to pursue acceptable alternatives for the completion of those projects in which there has been a substantial investment. As it is uncertain when construction will resume 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 9. Liabilities

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

Liabilities
As of September 30, 2007
(In Thousands)

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

Liabilities
As of September 30, 2006
(In Thousands)

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

Note 10. Debt

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

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

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

Note 11. Contingent Liabilities and Environmental and Disposal Liabilities

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

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

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

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

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

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

A. Contingent Liabilities – Legal Claims and Assertions

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

B. Environmental and Disposal Liabilities

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

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

Note 12. Operating Leases

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

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

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

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

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

Note 13. Consolidated Statement of Net Cost

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

Note 14. Combined Statement of Budgetary Resources

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

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

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

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

Other Reclamation funds, including those not specifically mentioned here, are subject to annual apportionment by OMB and classified as Category B apportionments. Detailed amounts for each of Reclamation's major budget accounts are included in the Combining Statements of Budgetary Resources located in the "Supplemental Section" of this report. All unobligated balances presented are available until expended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 16. Earmarked Funds

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

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

Reclamation Fund

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

Water and Related Resources Fund

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

Lower Colorado River Basin Fund

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

Other Earmarked Funds

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

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

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

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

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

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

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

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

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

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

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

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

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