

# RECLAMATION

*Managing Water in the West*

## 2005 Annual Report



U.S. Department of the Interior  
Bureau of Reclamation

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

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

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

**Fiscal Year 2005 Annual Report**

U.S. Department of the Interior  
Bureau of Reclamation

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# Mission and History

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

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

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

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

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

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

# FY 2005 Accomplishments

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

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

# Letter from the Commissioner



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

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

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

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

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

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

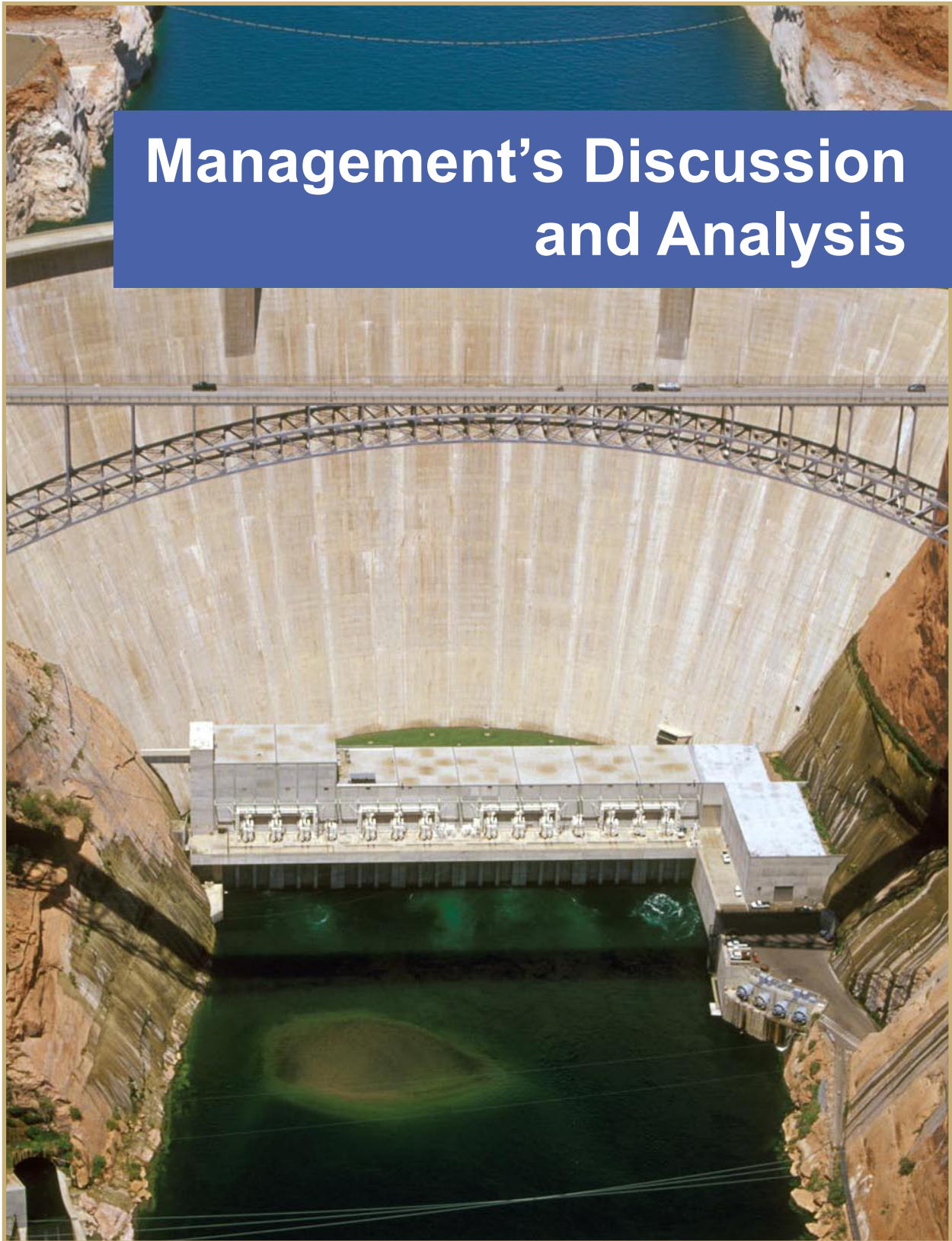
*Safety continues to be emphasized for our employees and the public at our facilities.*

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

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

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





# Management's Discussion and Analysis

# Management's Discussion and Analysis



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

## Fiscal Year 2005 Accomplishments and Future Challenges

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

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

### Developing and Managing Water

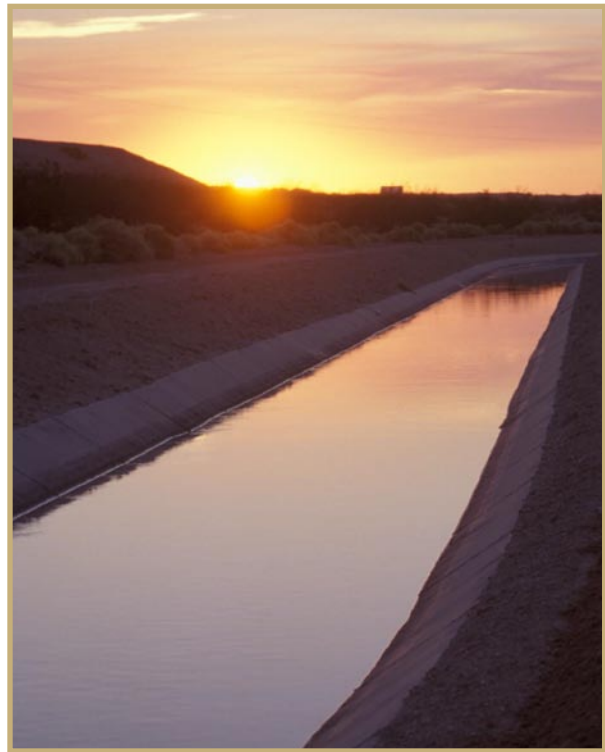
One of Reclamation's primary missions is storing and delivering water throughout the 17 Western States. Ongoing droughts and burgeoning Western populations have made

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

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

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

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



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

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

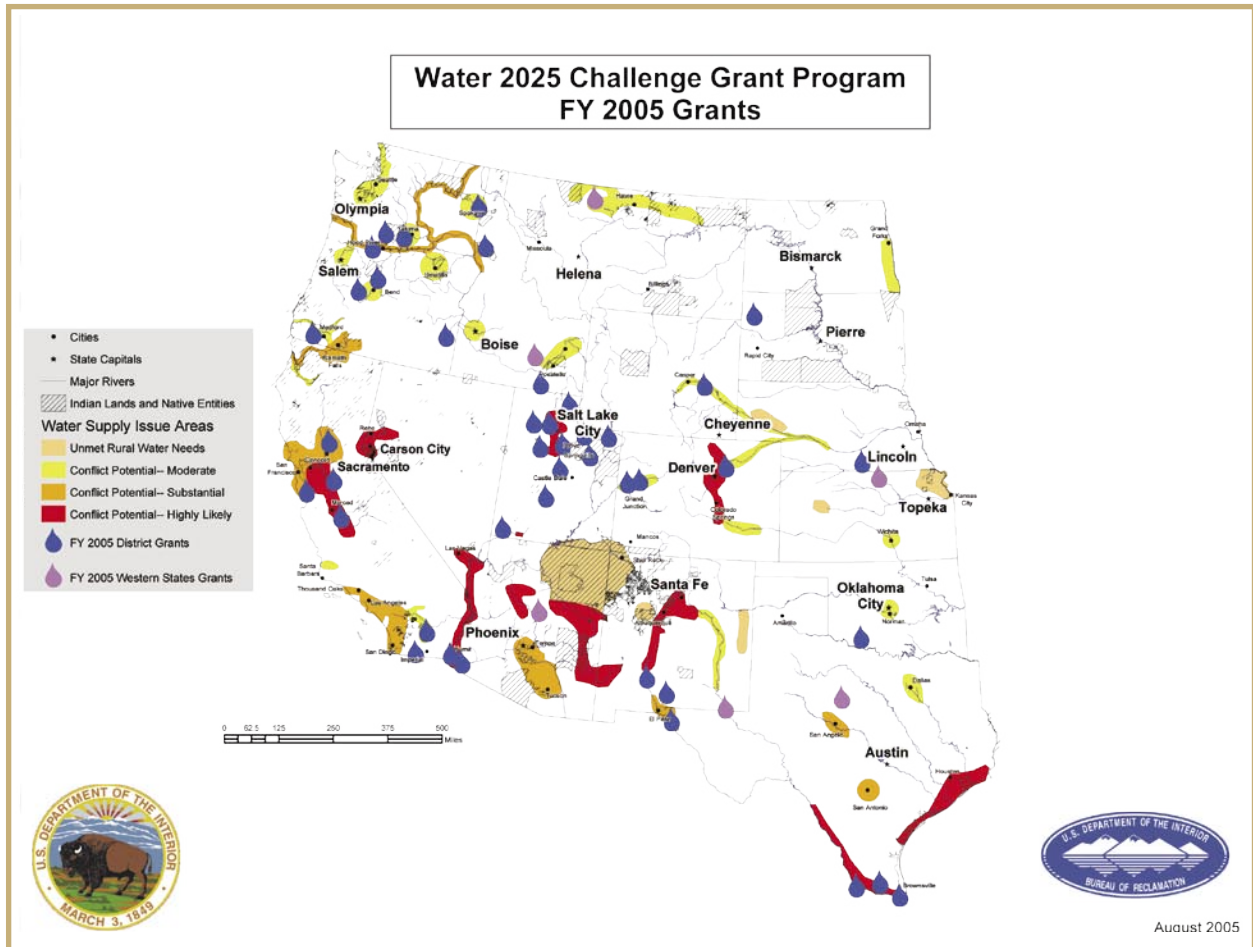
An important aspect of Water 2025 is the Challenge Grant Program. Challenge Grant funding is provided on a 50/50 cost-share basis to irrigation and water districts, Western States, and other entities with water delivery authority, for projects that stretch existing water resources. Challenge Grant projects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

**FY 2005 Highlights**

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

### **Construction**

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

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

### **FY 2005 Highlights**

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

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



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

**Future Challenges and Goals**

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

**Research and Development Programs**

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

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

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



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

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

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

#### **FY 2005 Highlights**

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

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

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

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

*Cooperative Agreement for Desalination Pilot*

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



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

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

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

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

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

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

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

### **FY 2005 Highlights**

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

### **Drought**

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

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

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

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

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

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

### ***Flood Control***

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



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

### **Contract Renewals**

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

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

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

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

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

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

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

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

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

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

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

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

## **Generating Power**

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

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



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

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

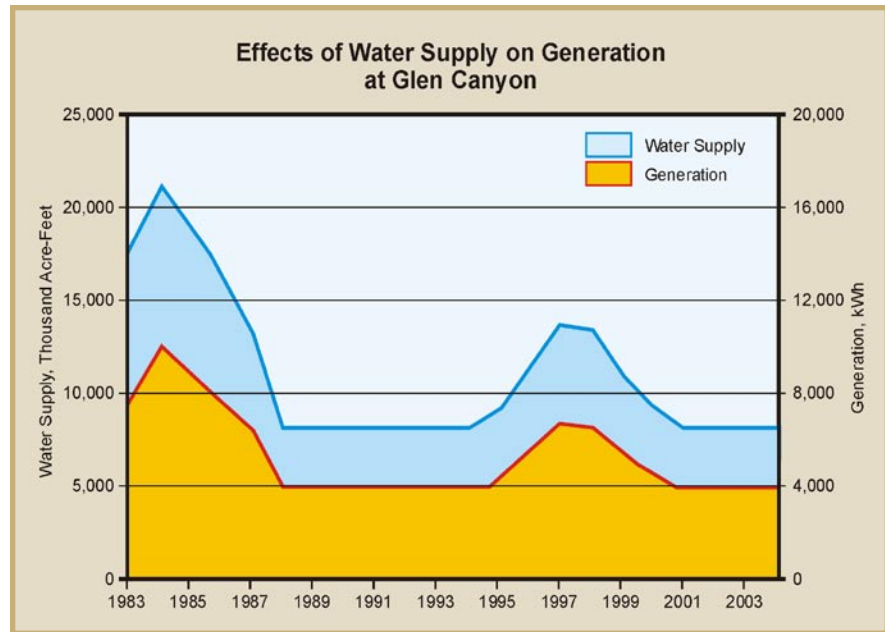
Western markets power generated at Reclamation facilities across 11 ratesetting systems. Throughout these ratesetting systems, O&M expenses are funded through revenue-generated funding, customer funding, and appropriations. For example, the Parker-Davis Project is entirely advance-funded by power customers,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



**Drought Impacts on Hydropower Generation**

The ongoing 5-year drought (2000-2005) has significantly impacted hydropower production and may impact the rates that customers pay for power. As of July 8, 2005, Lake Powell was 115 feet below full surface elevation of 3700 feet. Because of the lower lake level, Glen Canyon Powerplant's generation capacity has been reduced

by about 25 percent, from 1,320 megawatts (MW) to approximately 990 MW. Meanwhile, Western finalized a rate increase to raise the composite firm power rate from 20.28 mills/kilowatthour (mills/kWh) to 25.77 mills/kWh, in part to accommodate increased purchase power costs to replace the generation shortfall. Glen Canyon Dam accounts for slightly more than 75 percent of the generation for the total Colorado River Storage Project, which also includes five other dams and associated facilities.



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

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

**FY 2005 Highlights**

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

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

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

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

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

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

**Future Challenges and Goals**

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

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

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

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

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

## Maintaining and Protecting Infrastructure

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

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

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

### **FY 2005 Highlights**

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

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

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



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

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

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

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

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

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

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

### **Dam Safety**

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

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

### **FY 2005 Highlights**

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

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





### **Disaster Relief**

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

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

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

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

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

### **Future Challenges and Goals**

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

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

### **Other Programs and Benefits**

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

## **Serving Native American Communities**

### **FY 2005 Highlights**

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

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

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



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

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

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

### **Future Challenges and Goals**

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

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

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

### **Information Technology Security Program**

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

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

### **FY 2005 Highlights**

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

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



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

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



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

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

### **Future Challenges and Goals**

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

### **Recreation**

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

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

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



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

### **FY 2005 Highlights**

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

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

### **Future Challenges and Goals**

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



### **CAST for Kids**

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



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

### **Fish and Wildlife**

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

### **FY 2005 Highlights**

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

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

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

### **Future Challenges and Goals**

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

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

## **Management Excellence**

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



### **Budget and Performance Integration**

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

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

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

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

### **Improving Financial Performance**

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2005 Performance Measure Highlights

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

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

## Delivering Water

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

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

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

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

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

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

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

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

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

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

## **Delivering Power**

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

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

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

## 2005 Assurance Statement

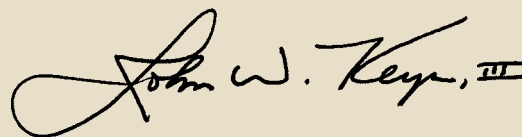
Reclamation has completed an assessment of its systems of management, administrative, and financial controls in accordance with the standards and guidelines established by the Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget. The objectives of this assessment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

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

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

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

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



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

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

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

## Financial Analysis

### Change in Accounting Principle

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

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

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

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

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

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

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

### **Accelerated Reporting Due Dates**

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

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



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

## **Financial Statements**

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

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

### **Consolidated Balance Sheet**

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

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

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

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

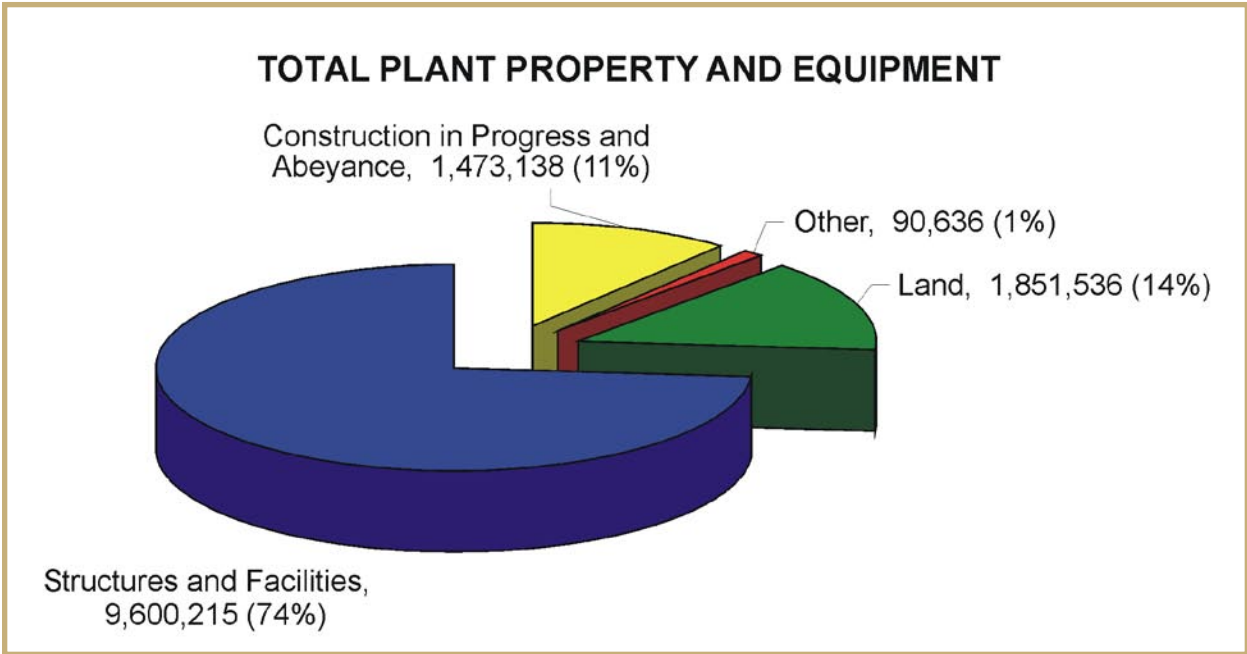
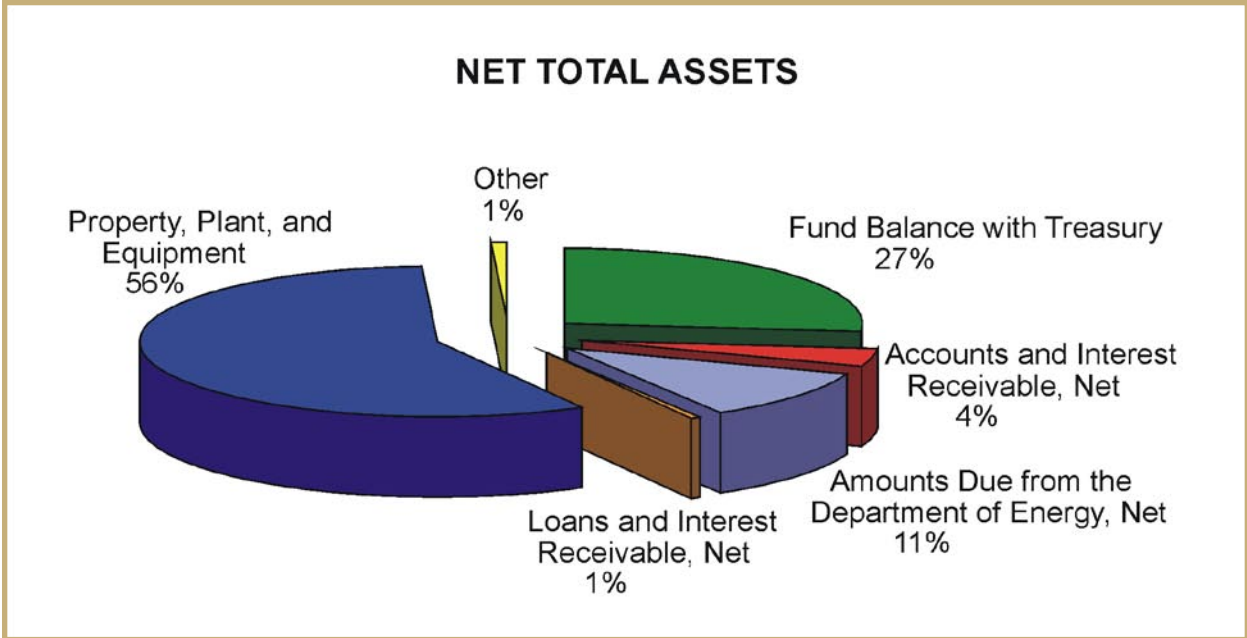
**Fund Balance with Treasury** The Fund Balance with Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. The Reclamation Fund (\$4.6 billion) Fund Balance and other unavailable (restricted) receipt fund balances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

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

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

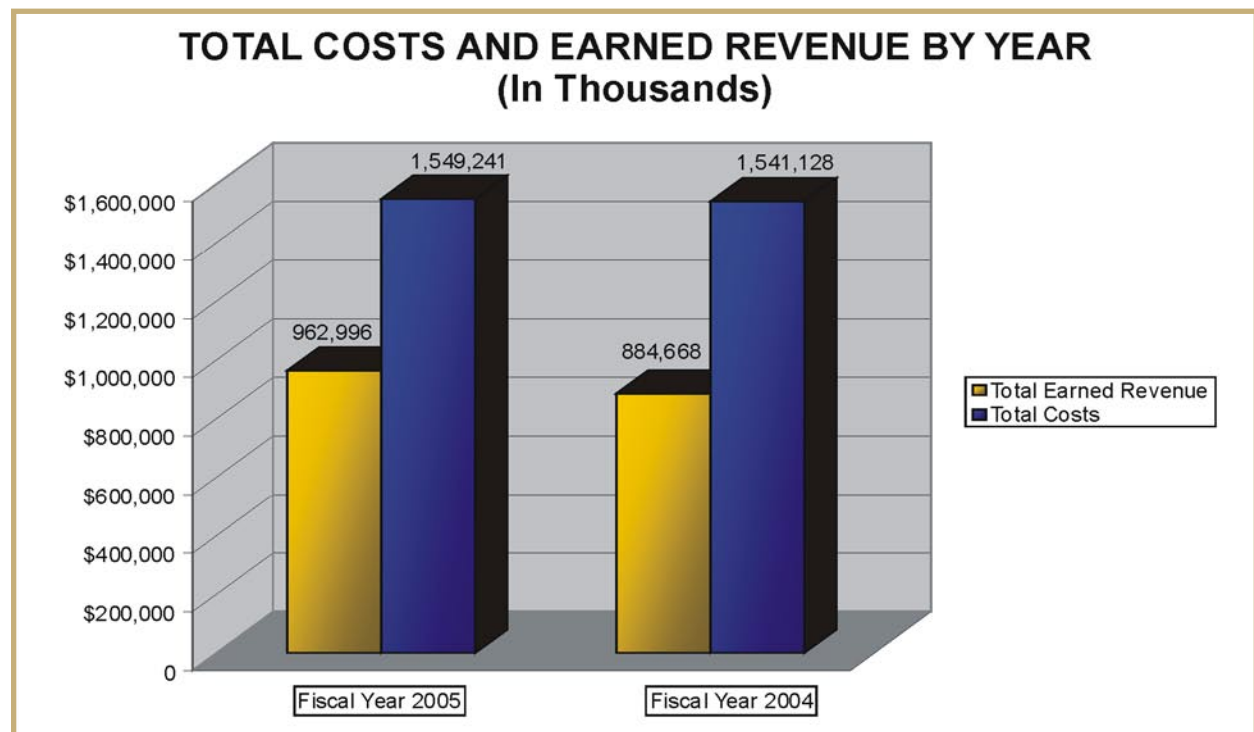
**Total Liabilities** FY 2005 Total Liabilities are \$2.8 billion, a \$1.9 billion increase from FY 2004. The majority of the \$1.9 billion increase is the result of Reclamation recording a liability to the General Fund to implement a change in accounting principle applied to appropriations Reclamation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

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



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

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



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

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

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

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

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

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

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

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

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

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

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

### **Improper Payments**

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