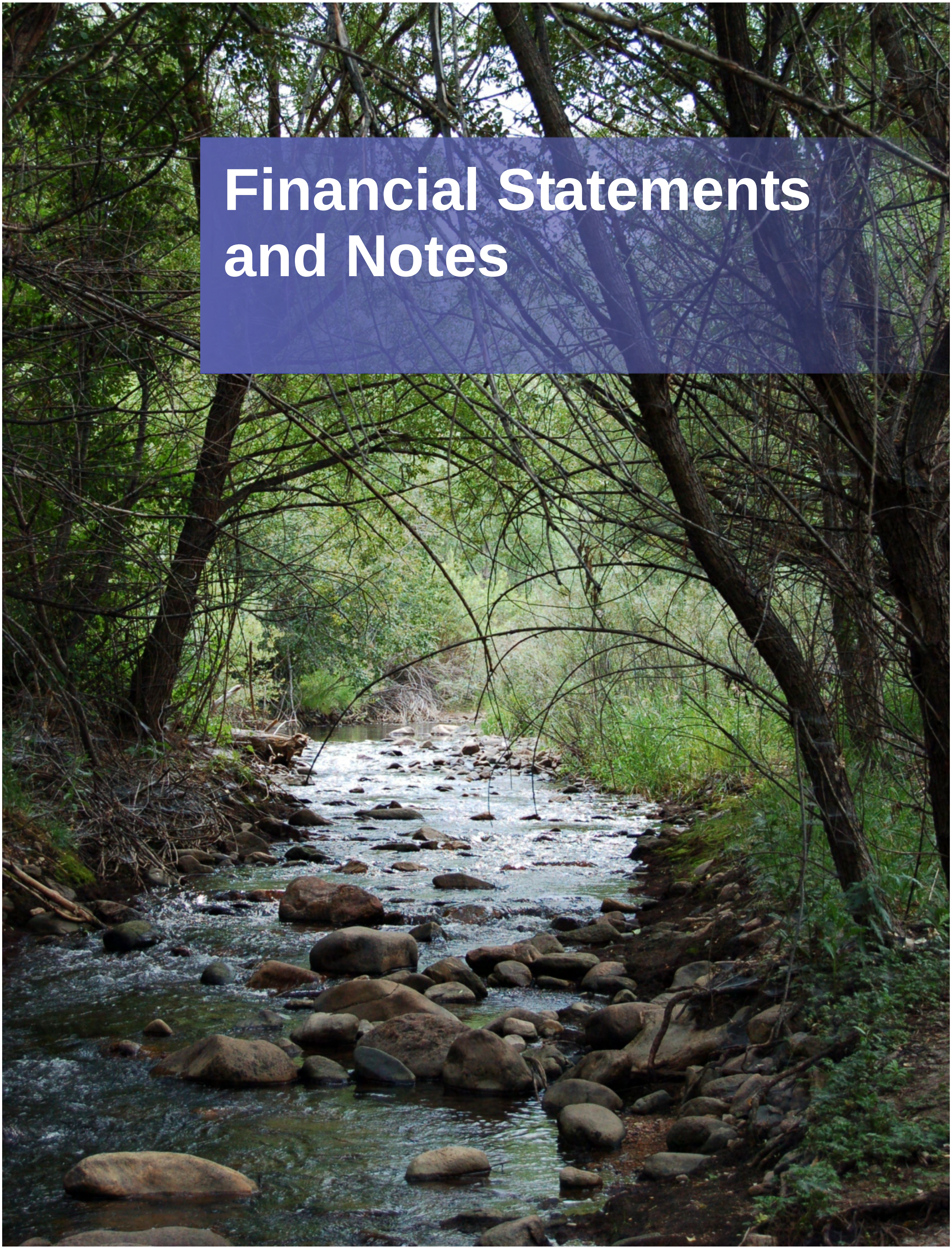
Financial Statements and Notes



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

Memorandum

FEB 12 2007

To: Commissioner, Bureau of Reclamation

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

Subject: Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2006 and 2005 (Report No. X-IN-BOR-0023-2006)

INTRODUCTION

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Bureau of Reclamation (Reclamation) financial statements for fiscal years 2006 and 2005 (Attachment 1). The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Inspector General or an independent auditor, as determined by the Inspector General, to audit the Department of the Interior (DOI) financial statements. Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), the independent public accounting firm KPMG performed an audit of the Reclamation fiscal years 2006 and 2005 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and with Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

RESULTS OF INDEPENDENT AUDIT

In its audit report dated November 9, 2006, KPMG issued an unqualified opinion on the Reclamation financial statements. However, KPMG identified a reportable condition in internal controls over financial reporting, which was not considered to be a material weakness. KPMG also found one deficiency in Reclamation internal controls over Required Supplementary Information. In addition, KPMG identified one instance where Reclamation did not comply with laws and regulations, specifically the Federal Financial Management Improvement Act of 1996 (FFMIA). The report contains five recommendations that, if implemented, should resolve the findings.

STATUS OF RECOMMENDATIONS

In its December 20, 2006 response (Attachment 2) to the draft report, Reclamation partially agreed with one of the three findings and disagreed with the other two findings. Reclamation also addressed each recommendation, stating that it partially agreed with one recommendation and disagreed with four of the recommendations (see Attachment 3, "Status of Audit Report Recommendations").

Two of the five recommendations are repeat recommendations that were made in last year's Report No. X-IN-BOR-0013-2005. In its response, Reclamation disagreed with the two repeat recommendations. We will refer these two repeat recommendations to the Assistant Secretary for Policy, Management and Budget for resolution. We will also refer the three new recommendations to the Assistant Secretary for resolution.

EVALUATION OF KPMG AUDIT PERFORMANCE

To fulfill our monitoring responsibilities, the OIG:

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

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

REPORT DISTRIBUTION

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

We appreciate the courtesies and cooperation extended to KPMG and OIG staff during the audit. If you have any questions regarding the report, please contact me at 202-208-5512.

Attachments (3)

cc: Assistant Secretary, Water and Science
Audit Liaison Officer, Water and Science
Chief Financial Officer, Bureau of Reclamation
Audit Liaison Officer, Bureau of Reclamation
Acting Focus Leader, Management Control and Audit Follow-up, Office of Financial

Management
Focus Leader, Financial Reporting, Office of Financial Management

ATTACHMENT 1

KPMG

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Bureau of Reclamation (Reclamation) as of September 30, 2006 and 2005; the related consolidated statements of net cost, changes in net position, and financing; and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2006 audit, we also considered Reclamation's internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures and tested Reclamation's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that Reclamation's consolidated financial statements as of and for the years ended September 30, 2006 and 2005 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion on the consolidated financial statements, Reclamation changed its method of accounting for and reporting of earmarked funds and heritage assets to adopt changes in accounting standards.

Our consideration of internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures resulted in the following condition being identified as a reportable condition:

A. Controls over Design, Documentation, and Operating Effectiveness of Internal Controls

However, the reportable condition is not believed to be a material weakness.

We also noted the following deficiency in internal control over Required Supplementary Information that, in our judgment, could adversely affect Reclamation's ability to collect, process, record, and summarize this information.

B. Reporting the Condition of Heritage Assets

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

C. Federal Financial Management Improvement Act of 1996

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Bureau of Reclamation as of September 30, 2006 and 2005; the related consolidated statements of net cost, changes in net position, and financing; and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Bureau of Reclamation as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 16 to the consolidated financial statements, Reclamation changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*. Also as discussed in Note 1(k) to the consolidated financial statements, Reclamation changed its method of reporting for heritage assets and stewardship land in fiscal year 2006 to adopt the applicable provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 29, *Heritage Assets and Stewardship Land*.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the Required Supplementary Information for heritage asset collections is not presented in conformity with U.S. generally accepted accounting principles because the Required Supplementary Information disclosures for heritage asset collections disclose the condition of the facility housing the collection rather than the condition of the underlying collection.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

In our fiscal year 2006 audit, we noted a certain matter, discussed below, involving the internal control over financial reporting and its operation that we consider to be a reportable condition. However, the reportable condition is not believed to be a material weakness. Exhibit I presents the status of prior year audit findings.

A. Controls over Design, Documentation, and Operating Effectiveness of Internal Controls

As part of the financial statement audit, we tested controls over various business processes throughout Reclamation. Most of the business processes of Reclamation are executed at the regional offices, so it is important to have clearly defined standards, policies, and procedures Reclamation-wide related not only to the business processes, but also to the internal controls and documentation evidencing the controls are in place and operating effectively. In certain cases, we were unable to identify any internal control that was designed and placed in operation. In other cases, we noted instances whereby it was represented and corroborated that the management review of various procedures took place; however, these reviews were not always documented or dated as to their timeliness. Finally, in certain cases, we were unable to determine whether the internal control was in place and operating effectively. The following are the areas where we noted weaknesses in the design, documentation, and operating effectiveness of internal controls over business processes:

1. Deficiencies in the Design of Internal Controls

a. Completeness of Environmental Liabilities

Agencies are required to consider various factors in determining whether a future outflow of resources from a federal agency for environmental cleanup is probable in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government* and the Federal Financial Accounting and Auditing Technical Release No. 2, *Determine Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.*

Reclamation does not have sufficient annual control procedures in place specifically to ensure that environmental liabilities are complete and fully disclosed in the consolidated financial statements, particularly as it relates to liabilities associated with tracts of land held by Reclamation over a period of time.

Region(s) with Control Exceptions Identified: All

b. Review of Cost Structures

At the onset of a project, the cost structures established are designed to capture the associated costs of the project and is approved by multiple individuals within the program, accounting, and budget offices to ensure compliance with applicable (1) program goals; (2) accounting standards, including SFFAS No. 6, *Accounting for Property, Plant, and Equipment*; and (3) budget compliance. However, Reclamation does not have sufficient controls in place to monitor that costs being charged to the cost structures remain appropriate and that the costs remain appropriately accounted for. During the current fiscal year, management identified several instances where costs were initially capitalized that management later determined were capitalized in error. All of the significant instances were also detected in our sampling testwork.

In particular, one project in Region 2 was established in 1998 to track research and development costs for a potential construction project. Although the costs were not capital in nature, the project was established as a capital asset and capitalized into construction in progress (CIP). In 2000, when the project was approved for construction, an additional cost structure was established to accrue actual construction costs. Meanwhile, costs continued to be charged to the original cost structure; some charges represented capital costs and others represented noncapital costs. By 2006, accumulated charges in the original cost structure totaled approximately $14 million, resulting in an overstatement of CIP. Management identified the exception and expensed the $14 million in costs in the current year.

Also within Region 2, environmental study costs totaling approximately $30 million from the 1990s were inappropriately capitalized into other assets. Management identified the exception and expensed the unamortized balance (approximately $28 million) in the current year.

Further, within Region 1, management identified approximately $49 million in assets that they did not have sufficient title claim. During the 1990s, Reclamation was awarded appropriations to perform Safety of Dams work on assets owned by other beneficiaries; the appropriation was awarded to prevent dam failure. Typically, Safety of Dams work is only performed by the entity with title to the asset. At the time the funds were spent, Reclamation should have recorded the costs as stewardship acquisition costs. However, Reclamation mistakenly capitalized costs into CIP and transferred the costs to completed plant upon completion.

Region(s) with Control Exceptions Identified: Regions 1 and 2

2. Deficiencies in the Documentation of Internal Controls

a. Monthly Fund Status Reports

Regional budget officers are provided monthly fund status reports (BOR 610) from the Washington Budget Office that provide regional management the ability to review budgeted amounts to actual expenditures. Although evidence exists that the reports are prepared and made available to regional management, there is no evidence that a review is being performed, who is performing the review, or the date the review is being performed.

Region(s) with Control Exceptions Identified: All

b. Charge Card Reviews

Reclamation, through the U.S. Department of the Interior (DOI), has provided charge cards to its employees in order to streamline acquisition and payment procedures and to reduce the administrative burden associated with traditional purchasing of travel items, supplies, and services. In conjunction with the issuance of charge cards, DOI has published guidance and instructions on charge card utilization through the Integrated Charge Card Programs Guide. This policy sets further restrictions on the use of the charge cards as well as certain internal control procedures, including timely and complete reconciliation of the billing statements by the cardholders and approving officials.

Our audit identified internal control exceptions in 5 of 38 statements tested, resulting in a total of 6 exceptions. Two statements were not dated by the approving official; one statement was not reviewed by the approving official in a timely manner; two statements did not include receipts to support all of the charges on the statement at the time the review was performed; and one statement revealed two transactions for one purchase (one for $2,499.99 and one for $2,500.00), indicating a charge card was used to split purchases to circumvent the individual card limit.

Region(s) with Control Exceptions Identified: Regions 1, 2, and 8

3. Deficiencies in the Effectiveness of Internal Controls

a. Quarterly Review of Open Obligations

Regional finance representatives are required to certify, on a quarterly basis, the status of all open obligations greater than nine months old to ensure the validity of open obligations. Despite frequent requests by the oversight group in the Denver office, two regions did not respond with justifications for outstanding obligations during the third quarter certification process.

Region(s) with Control Exceptions Identified: Regions 8 and 9

b. Quarterly Review of Open Accruals

Reclamation has not fully implemented policies to ensure that control activities are performed, properly documented, and sufficiently reviewed by management. Regional finance representatives are required to certify, on a quarterly basis, the status of open payables to ensure the validity of open payables. As part of the certification process, Regions 3 and 4 requested that the Financial Policy Division (FPD) reverse specific accruals; however, the de-accrual was not performed in a timely manner.

Region(s) with Control Exceptions Identified: FPD

c. Completeness of Interest During Construction and Interest on Investment

Reclamation does not have adequate documented control procedures in place to ensure that interest during construction (IDC) and interest on investment (IOI) are being calculated and recorded in the Federal Financial System (FFS) at least annually for every applicable project.

In the prior year, we issued a finding stating Reclamation did not have a means for accurately identifying all projects requiring IDC and/or IOI calculations. In response to that finding, Reclamation implemented various controls at the regional level to help mitigate the risk of incomplete IDC and IOI. In an effort to test management's enhanced procedures, we requested a list of all projects where IDC and/or IOI are required. We noted that two projects initially selected for testing from the list provided did not have respective IDC and/or IOI components. Management asserts that the list provided represented projects that potentially required IDC and IOI; however, the request of management was to provide a complete list of projects requiring IDC and/or IOI. Since the list provided included projects where IDC and/or IOI were not applicable, we concluded that management had not implemented sufficient procedures and controls to ensure IDC and/or IOI was calculated on all applicable projects.

In addition to the procedure performed above, we requested that management provide evidence that a thorough review of projects requiring IDC and/or IOI was performed. Region 1 was not able to generate sufficient evidence that a review of projects was performed for IDC and IOI. Region 2 was able to provide sufficient evidence for IDC, but not for projects requiring IOI. Regions 3 and 6 provided evidence that sufficient procedures were in place but, at the time of our request, were not able to provide evidence that the procedures were being performed or being performed in a timely manner.

In order to assess the accuracy of IDC calculations, we reperformed a sample of program calculations. As a result of this testwork, we noted that Region 1, Region 2, and Region 4 were calculating IDC using different methodologies. Region 1 calculates IDC using the most recent applicable interest rate; Region 2 uses the applicable rate in the year the program was initiated; and Region 4 uses the applicable rate in each year, applied only to the disbursements during that year. Each region commented that their method of calculation was based upon the Reclamation Manual FIN 07-20 and did not relate to differing legislation requirements. Accordingly, the Reclamation Manual FIN 07-20 is not specific to ensure consistency between regions.

Region(s) with Control Exceptions Identified: Regions 1, 2, 3, and 6

Weaknesses in the design, documentation, and operating effectiveness of internal controls over business processes increase the risk that errors or irregularities may not be detected and corrected in a timely manner. In addition, internal control weaknesses increase the risk that Reclamation will not be able to provide support to DOI in their annual assurance statement related to the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular No. A-123, Appendix A. Leading practices in today's business environment require that internal controls be clearly understood, implemented consistently, and documented appropriately to evidence their effectiveness.

Recommendation

We recommend that the Commissioner, U.S. Bureau of Reclamation, perform a management assessment to ensure that internal controls are properly designed, documented, and operating effectively for the business processes noted above. Management should implement appropriate training and monitoring processes to ensure adherence to its internal control policies and procedures. Although the findings above identify specific regions where exceptions were identified, we recommend the assessment be performed across all regions to ensure consistency Reclamation-wide.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our recommendation to ensure that internal controls are properly designed, documented, and operating effectively for the business processes noted throughout finding A. While Reclamation agrees that it is important to have clearly defined standards, policies, and procedures Reclamation-wide, Reclamation believes certain procedures and controls are sufficiently documented. Reclamation management responded to each element of reportable condition A, as summarized below.

1. Deficiencies in the Design of Internal Controls

   In summary, management disagreed with our finding regarding the completeness of environmental liabilities and partially agreed with our finding regarding cost structures. Reclamation's disagreement with the completeness of environmental liabilities portion of the finding is based on management's belief that adequate policies and training are in place to ensure significant exposures are both limited and identified specifically through the conduct of environmental audits and the existence of Reclamation Manual Directives and Standards.

Reclamation partially agreed with our finding regarding the review of cost structures. Reclamation contends that the exceptions identified in the current year audit date back to the 1990s and were first identified by Reclamation management through its existing internal control structure.

Auditors' Response to Management's Response

Environmental liabilities represent a unique risk that all contaminations and the associated cleanup costs are not properly accounted for by Reclamation. Although Reclamation has policies and procedures documented in the Reclamation Manual Directives and Standards and other sources, there are not sufficient controls in place to ensure the policies and procedures are properly followed. Although environmental audits are performed, the audits are not performed consistently and routinely throughout the organization.

The key element of the cost structure finding is that material errors were identified in the current year representing inappropriately capitalized costs. The exceptions identified by management were not identified as a part of a systematic review of cost structures; rather, they were indirectly revealed as a result of reviews of other account activity. Although controls have been implemented and improved since the 1990s, Reclamation does not have sufficient controls in place to ensure existing cost structures continue to meet the definition and criteria under which the cost structures were initially established. Consequently, Reclamation does not have sufficient controls in place to ensure there are not additional costs inappropriately capitalized.

2. Deficiencies in the Documentation of Internal Controls

In summary, management disagreed with our finding regarding the consistent review of monthly fund status reports and agreed with our finding over charge card reviews. Reclamation's disagreement over the consistent review of monthly fund status reports is based on Reclamation's position that compensating evidence was available and provided by management and that not all documents must be evidenced by a signature and date to be in accordance with the provisions of OMB Circular A-123, Appendix A.

Auditors' Response to Management's Response

Although OMB Circular A-123, Appendix A, states that documentation may be in multiple forms, without a signature or other indicator, there is no mechanism in place for management to ensure review controls are being performed and being performed consistently. Although our preliminary focus was on the BOR 610 reports, Reclamation was not able to provide evidence that the BOR 610 or similar reports were being reviewed by management on a consistent basis Reclamation-wide.

3. Deficiencies in the Effectiveness of Internal Controls

In summary, management partially agreed with our findings regarding the quarterly review of open obligations and accruals and partially agreed with our finding regarding the completeness of IDC and IOI. The partial disagreement relating to the quarterly review of open obligations and payables is based on Reclamation's position that supporting documentation was available for the $5 million payroll accrual. The partial disagreement relating to IDC and IOI is based on Reclamation's position that it may not be feasible or appropriate to establish a uniform calculation methodology.

Auditors' Response to Management's Response

Subsequent to our draft finding regarding insufficient documentation supporting the $5 million payroll accrual, management provided appropriate and sufficient audit evidence supporting the accrual amount. Accordingly, we do not consider the $5 million payroll accrual to be an exception nor a failure of internal controls. Further, we acknowledge that the Finance and Accounting Division (FAD) is responsible for reversing accruals, not FPD.

Regarding management's partial disagreement over the completeness of IDC and IOI, we acknowledge that it may not be feasible to have an established template that is appropriate in all cases. Nonetheless, management should consider the appropriateness of a standard template and at a minimum, document the rationale and legal basis for the calculation of IDC and IOI for each relevant project. Further, management should establish consistent policies and procedures across all regions for ensuring that IDC and IOI is recorded at least annually for all applicable projects.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weakness is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to performance measures reported in the Management's Discussion and Analysis section would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the internal control and its operation related to Required Supplementary Stewardship Information that we considered to be material weaknesses as defined above.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION

We noted certain deficiencies in internal control over Required Supplementary Information described in the following paragraphs that, in our judgment, could adversely affect Reclamation's ability to collect, process, record and summarize Required Supplementary Information.

B. Reporting the Condition of Heritage Assets

Reclamation considers heritage asset collections to be in stable condition if the facility housing the collection is in stable condition. If a collection is housed in a poor facility, the condition of the collection would be considered "poor," regardless of the actual condition of the collection itself. If that same collection is moved to a new facility that is in good condition, the collection would then be considered in "good" condition because the surrounding environment is in "good" condition, and any environmental problems contributing to the deterioration of the collection would improve because of the condition of the new facility.

Note 11 to paragraph 26 within SFFAS No. 29, *Heritage Assets & Stewardship Land*, states the following: "Condition is the physical state of an asset. The condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectations for its continued performance. The condition of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors, including: accidents (an unforeseen and unplanned or unexpected event or circumstance), catastrophes (a tragic event), disasters (a sudden calamitous event bringing great damage, loss, or destruction) and obsolescence."

Reclamation did not disclose the condition of heritage asset collections in accordance with SFFAS No. 29 as Reclamation disclosed the condition of the facility housing the collection rather than the condition of the underlying collection. As a result, Reclamation did not substantially comply with the federal accounting standard requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA) as discussed in deficiency C.

Recommendations

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

1. Assess and disclose the condition of heritage asset collections rather than the facility housing the collection. Although the condition of the facility may be an important criterion in determining the condition of the underlying collection, we recommend that Reclamation consider other factors, such as whether or not Reclamation intends to improve the collection, in defining the acceptable condition.
2. Improve procedures and internal controls to ensure that the financial reporting disclosures are prepared in accordance with federal accounting standards.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendations to assess and disclose the condition of heritage asset collections rather than the facility housing the collections and to improve procedures and internal controls to ensure that the financial reporting disclosures are prepared in accordance with federal accounting standards. Management indicated they believe reporting the condition of museum collections at the facility level is in accordance with SFFAS No. 29 and established industry practices.

Auditors' Response to Management's Response

Reclamation did not disclose the condition of heritage asset collections in accordance with federal accounting standards as Reclamation disclosed the condition of the facility housing the collection rather than the condition of the underlying collection, as required in Note 11 to paragraph 26 within SFFAS No. 29.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

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

C. Federal Financial Management Improvement Act of 1996

Reclamation did not disclose the condition of heritage asset collections in accordance with federal accounting standards, as Reclamation disclosed the condition of the facility housing the collection rather than the condition of the underlying museum collection.

Recommendation

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

1. Assess and disclose the condition of heritage asset collections rather than the facility housing the collection. Although the condition of the facility may be an important criterion in determining the condition of the underlying collection, we recommend that Reclamation consider other factors, such as whether or not Reclamation intends to improve the collection, in defining the acceptable condition.
2. Improve procedures and internal controls to ensure that the financial reporting disclosures are prepared in accordance with the federal accounting standards.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendations to assess and disclose the condition of heritage asset collections rather than the facility housing the collections and to improve procedures and internal controls to ensure that the financial reporting disclosures are prepared in accordance with federal accounting standards. Management indicated they do not believe heritage asset condition assessments are required under federal accounting standards at the collection level and, accordingly, does not believe this finding to be a substantial noncompliance with FFMIA.

Auditors' Response to Management's Response

FFMIA requires an entity's financial management system to comply with all relevant federal accounting standards. As discussed in deficiency B, Reclamation did not disclose the condition of heritage asset collections in accordance with federal accounting standards as Reclamation disclosed the condition of the facility housing the collection rather than the condition of the underlying collection, as required in Note 11 to paragraph 26 within SFFAS No. 29.

* * * * * * *

RESPONSIBILITIES

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

Management is responsible for the consolidated financial statements, including:

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

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated financial statements of Reclamation based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Reclamation's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2006 audit, we considered Reclamation's internal control over financial reporting by obtaining an understanding of Reclamation's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on Reclamation's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, we considered Reclamation's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of Reclamation's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over Required Supplementary Stewardship Information in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Reclamation's fiscal year 2006 consolidated financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts and grant agreements applicable to Reclamation. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, auditors are required to report whether certain federal entities' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To assist the auditors of the U.S. Department of the Interior meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

We noted certain additional matters that we have reported to management of Reclamation in a separate letter dated November 9, 2006.

RESTRICTED USE

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

KPMG LLP

November 9, 2006

Exhibit I

U.S. BUREAU OF RECLAMATION

Status of Prior Year Findings

September 30, 2006

Ref	Condition	Status
A	Controls over Implementation of New Accounting Principle	This condition has been partially corrected in fiscal year 2006. See management letter comment 2.
B	Security and Internal Control over Information Technology Systems	This condition has been partially corrected in fiscal year 2006. See management letter comment 1.
C	Controls over Charge Card Reviews	This condition has not been corrected and is repeated in fiscal year 2006. See reportable condition A.
D	Controls over Management Review and Approval of Process-level Activities	This condition has been partially corrected. See reportable condition A.
E	Controls over Credit Reform Loans	This condition has been partially corrected. See management letter comment 3.
F	Reporting the Condition of Heritage Assets and Related Deferred Maintenance	This condition has not been corrected and is repeated in fiscal year 2006. See deficiency B.
G	Federal Accounting Standards	This condition has been partially corrected in fiscal year 2006. See deficiency C.

ATTACHMENT 2

United States Department of the Interior

BUREAU OF RECLAMATION
Washington, DC 20240

IN REPLY REFER TO:
84-27400
ADM-1.00

MEMORANDUM

To: Office of Inspector General
Attn: Assistant Inspector General for Audits

Through: Mark Limbaugh
Assistant Secretary – Water and Science

DEC 20 2006

From: Robert W. Johnson
Commissioner

Subject: The Bureau of Reclamation's Response to the Draft *Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2006 and 2005* (Assignment No. X-IN-BOR-0023-2006)

We appreciate the opportunity to review and comment on the draft audit report titled *Independent Auditors' Report on the Bureau of Reclamation Financial Statements for Fiscal Years 2006 and 2005*. Attached for your consideration is Reclamation's response to the recommendations as stated in the subject report.

If you have any questions or require additional information, please contact Reclamation's Acting Audit Liaison Officer, Ed Abreo, at 303-445-3423.

Attachment

cc: Associate Director - Financial Policy and Operations
Attn: Gordon Horwitz
(w/copy of incoming and att)

U. S. Bureau of Reclamation
KPMG, LLP Draft Audit Report
Response to Draft Audit Report Recommendations
December 2006

A. Controls over Design, Documentation and Operating Effectiveness of Internal Controls

Recommendation A

We recommend that the Commissioner, U.S. Bureau of Reclamation perform a management assessment to ensure that internal controls are properly designed, documented, and operating effectively for the business processes noted above. Management should implement appropriate training and monitoring processes to ensure adherence to its internal control policies and procedures. Although the findings above identify specific regions where exceptions were identified, we recommend the assessment be performed across all regions to ensure consistency Reclamation-wide.

Response

Partially concur. Reclamation agrees with KPMG that "it is important to have clearly defined standards, policies and procedures Reclamation-wide related to not only the business processes, but the internal controls and documentation evidencing the controls are in place and operating effectively." Reclamation is committed to ensuring that internal controls over financial reporting are sufficient in terms of design and operation. Reclamation will continue to enhance our internal control environment through our efforts to support the Department's compliance with the Office of Management and Budget's Circular No. A-123, Management's Responsibility for Internal Control, and our established audit follow-up process. Reclamation will perform management assessments to ensure that internal controls are properly designed, documented, and operating effectively, as necessary, for the individual areas discussed under this recommendation.

However, in our opinion, in some cases procedures and controls are sufficiently documented and further assessments are not required. Notwithstanding this position, as necessary, Reclamation will implement appropriate training and monitoring of processes to ensure adherence to internal control policies and procedures. Under each of the individual areas under this recommendation, Reclamation briefly addresses the specific conditions, as discussed in the draft audit report, and our response to the recommendations.

1. Deficiencies in the Design of Internal Controls

a. Completeness of Environmental Liabilities

Nonconcur. Reclamation considers existing procedures to be sufficient for identifying environmental liabilities on Reclamation land. Environmental liabilities result from hazardous substance releases from current operations, or from unknown past or current activities (such as past operations on lands acquired prior to the requirement to conduct Environmental Site Assessments, illegal dumping, etc.). The risk that Reclamation's lands may have environmental liabilities is mitigated through the conduct of environmental audits and several Reclamation Manual Directives and Standards (D&S) that require environmental management of Reclamation's land. These D&S also require that all Reclamation employees report releases or evidence of releases on Reclamation land. Reclamation employees specifically include power plant operators, surveyors, hazmat coordinators, land managers, realty specialists, natural resource specialists, cultural resource specialists, recreation specialists, and outdoor recreation planners, among others.

The risk of environmental liabilities associated with unknown past or current activities are mitigated through the implementation of several policies and D&S, such as Reclamation's Policy ENV P-05 and D&S ENV 05-01, *Environmental Management Systems.* This Policy and D&S requires continual improvement in managing Reclamation's environmental liability and that management address all potential environmental impacts associated with the use of hazardous substances, oils, and generation of solid or hazardous waste associated with an appropriate facility's activities.

Reclamation's control to ensure that hazardous waste releases do not occur on Reclamation land is the Environmental Audit Program, D&S ENV 02-08, *Hazardous Materials and Hazardous Waste Auditing and Review Program Implementation.* In the unlikely event of a release, this D&S also ensures that such releases are quickly dealt with.

Additionally, D&S LND 12-01, *Identification and Reporting of Potential Hazardous Substances on Reclamation Acquired or Withdrawn Lands (Reclamation Lands)*, facilitates efficiency in identifying and reporting potential hazardous substances release sites by requiring all staff involved in any periodic or planned land review and inspection to be aware of the possible presence of potential hazardous material and site contamination on Reclamation lands and report such a condition using the required procedures.

Hazmat training for these employees is mandatory under D&S ENV 02-06, *Required Training and Medical Surveillance for Hazardous Waste Operations and Emergency Response.* All appropriate personnel are required to receive training on recognition of hazardous waste in the field, including wastes discovered incidentally to the performance of other duties.

b. Review of Cost Structures

Response

Partially concur. Reclamation does not agree with KPMG's contention that Reclamation does not have sufficient review controls in place to ensure that existing capitalized structures represent capital projects and that costs that are not capitalizable, within each cost structure, are expensed in the year incurred.

The three instances in the condition are isolated incidents that date back to the 1990s, and that the condition is limited to these instances and adjusting entries only. Internal controls have been added and improved to reduce the risk of incorrectly capitalizing costs.

It should also be emphasized that it was management's internal controls that detected the misclassifications in Fiscal Year (FY) 2006, and it was Reclamation that made the adjusting entries that were subsequently included in KPMG's sample of transactions.

There are adequate review and approval controls at the budget, payroll, property, procurement, obligations and disbursement, program/project management, project operation and maintenance, and accounting process levels to reasonably ensure that costs are appropriately classified as capital or expense.

As part of its OMB Circular A-123 internal control assessments, Reclamation will conduct reviews of cost structures, as considered necessary.

2. Deficiencies in the Documentation of Internal Controls

a. Monthly Fund Status Reports

Response

Nonconcur. KPMG limited their review of the monthly fund status monitoring process to one aspect of the budget monitoring process. As a point of clarification, they reviewed the process and documentation pertaining to the Program and Budget System Monthly Progress of Funds (B21) report, not the Federal Financial System Fund Detail Report (BOR 610), as indicated in the draft audit report.

KPMG did not consider compensating control evidence provided by Reclamation. Reclamation provided monthly surplus and shortage reports prepared by the Washington Budget Office that track obligations and expenditures of all appropriations that clearly demonstrate management information on performance. Moreover, KPMG did not consult with Reclamation's Budget Officers to obtain an understanding of our practices as requested by Reclamation.

Reclamation intends to follow departmental guidance and continue to improve our internal control evaluation, training and procedures, as necessary. However, Reclamation believes KPMG has taken an unreasonable position requiring all documents reviewed by management be evidenced by a signature and date. Reclamation does not believe the issues identified correlate to this recommendation.

OMB Circular A-123, Appendix A, states that documentation might take many forms, such as paper, electronic files, or other media, and can include a variety of information, including policy manuals, process models, desk procedures, flowcharts, job descriptions, documents, and forms. The form and extent of documentation will vary depending on the size, nature, and complexity of the entity or financial report.

b. Charge Card Reviews

Response

Concur. Reclamation will continue to implement procedures to ensure compliance with its established charge card procedures. During FY 2007, Reclamation will issue its Charge Card Management Plan, which is required by OMB Circular A-123, *Management's Responsibility for Internal Controls*. Furthermore, Reclamation has implemented reviews to ensure full compliance with these procedures.

Prior to the issuance of draft BOR-NFR 2006-1, *Charge Card Reviews*, Reclamation identified charge card control weaknesses during its FY 2006 implementation of OMB's Revised A-123 Internal Control Review. Consequently, Reclamation has been working on a corrective action plan to address the control weaknesses.

As part of these corrective actions, the Finance and Accounting Division, Acquisition and Assistance Management Services Division, and the Property and Office Services Division perform routine charge card reviews as part of Reclamation's ongoing charge card program oversight efforts. These reviews are identifying areas where cardholders and approving officials need to strengthen the internal controls. And finally, Reclamation continues to educate cardholders and approving officials to improve compliance with cardholder program requirements.

3. Deficiencies in the Effectiveness of Internal Controls

   a. Quarterly Review of Open Obligations
   b. Quarterly Review of Open Accruals

Response

Partially concur. Reclamation will continue to fully implement procedures to ensure that all obligations and accruals are valid. As a point of clarification, the Finance and Accounting Division is responsible for reversing accruals, not the Financial Policy Division, as stated in the draft audit report.

Reclamation does not concur with the lack of supporting documentation for approximately $5 million in payroll accruals. Supporting documentation for the payroll accrual, $22,515,185, and actual payroll expense, $23,120,130, was provided. Since accruals are estimates, the difference of $604,945, or 2.6 percent, was considered immaterial.

   c. Completeness of Interest During Construction and Interest on Investment

Response

Partially concur. Reclamation will implement a process and procedures to ensure that Interest During Construction (IDC) and Interest on Investment is accurately computed on all projects, as applicable. Further, Reclamation will assess the feasibility of developing a uniform methodology for calculating IDC. In some cases, there may be certain circumstances, e.g., project authorizing legislation or other legislative requirements, which would preclude the use of a standardized methodology. Reclamation FIN 07-20, *Interest During Construction*, is intentionally non-specific in certain areas to accommodate the different requirements.

The responsible official is the Deputy Commissioner, Policy, Administration and Budget. The target date for performing necessary management assessments to ensure that internal controls are properly designed, documented, and operating effectively is June 30, 2007.

B. Reporting the Condition of Heritage Assets

Recommendation B.1

Assess and disclose the condition of heritage asset collections rather than the facility housing the collection. Although the condition of the facility may be an important criterion in determining the condition of the underlying collection, we recommend that Reclamation consider other factors, such as whether or not Reclamation intends to improve the collection, in defining the acceptable condition.

Response

Nonconcur. This is a repeat recommendation from the prior *Independent Auditor's Report on Bureau of Reclamation Financial Statement for Fiscal Year 2005 and 2004*, to which Reclamation provided a detailed response. Reclamation notes that the Department of the Interior, in an October 21, 2005, memorandum from the Assistant Secretary, Policy, Management and Budget, to the Office of Inspector General, has resolved this issue:

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

Reclamation's approach to accounting for the condition of museum collections is in accordance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard No. 29, *Heritage Assets and Stewardship Lands*, and established industry practices. Reclamation's approach is consistent with the direction of the Government-wide task force developing implementation guidance for this standard, and with policy and instruction provided by the Department in reporting the condition of museum collections based on the condition of the facilities that house collections. Reclamation's response is in concurrence with, and mirrors that of the Assistant Secretary, Policy, Management and Budget, in his November 15, 2006, response to the *Independent Auditor's Report for Fiscal Year 2006.*

Recommendation B.2

Improve procedures and internal controls to ensure that the financial reporting disclosures are prepared in accordance with the federal accounting standards.

Response

Nonconcur. Reclamation is not aware of specific questions or analyses from the auditors to support this recommendation. The recommendation implies that Reclamation does not have sufficient procedures and internal controls to ensure that the financial reporting disclosures are prepared in accordance with Federal accounting standards. Reclamation believes its internal controls are sufficient, and as implemented, will continue to ensure that its financial reporting disclosures are prepared in accordance with the Federal accounting standards.

C. Federal Financial Management Improvement Act of 1996

Recommendation C.1:

Assess and disclose the condition of heritage asset collections rather than the facility housing the collection. Although the condition of the facility may be an important criterion in determining the condition of the underlying collection, we recommend that Reclamation consider other factors, such as whether or not Reclamation intends to improve the collection, in defining the acceptable condition.

Response

Recommendation C.1 is the same as Recommendation B.1. See response to B.1 above.

Recommendation C.2

Improve procedures and internal controls to ensure that the financial reporting disclosures are prepared in accordance with the federal accounting standards.

Response

Recommendation C.2 is the same as Recommendation B.2. See response to B.2 above.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Recommendation	Status	Action Required
A., B.2., and C.2.	Unresolved.	Recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution.
B.1. and C.1.	Repeated; unresolved.	Recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Balance Sheet
As of September 30, 2006

(In Thousands)	**2006**
ASSETS (Note 2)	
Intragovernmental Assets:	
Fund Balance with Treasury (Note 3)	$ 7,030,401
Accounts Receivable	663,573
Investments, Net (Note 4)	322,045
Amounts Due from the U.S. Department of Energy, Net (Note 5)	2,631,887
Other:	
Advances and Prepayments	1,007
Total Intragovernmental Assets	10,648,913
Cash	117
Accounts and Interest Receivable, Net (Note 6)	29,752
Loans and Interest Receivable, Net (Note 7)	157,286
General Property, Plant, and Equipment, Net (Note 8)	13,071,874
Other:	
Advances and Prepayments	19,202
Power Rights, Net	122,033
Total Other Assets	141,235
Stewardship PP&E (Note 1.K)	
Total Assets	$ 24,049,177
LIABILITIES (Note 9)	
Intragovernmental Liabilities:	
Accounts Payable	$ 29,142
Debt (Note 10)	95,141
Other :	
Accrued Employee Benefits	22,033
Advances, Deferred Revenue, and Deposit Funds	5,285
Judgment Fund Liability	47,950
Resources Payable to Treasury	1,844,710
Other Liabilities	73
Total Other Liabilities	1,920,051
Total Intragovernmental Liabilities	2,044,334
Accounts Payable	213,735
Federal Employee Benefits, Actuarial	88,353
Environmental and Disposal Liabilities (Note 11)	46,871
Other:	
Accrued Payroll and Benefits	47,097
Advances, Deferred Revenue, and Deposit Funds	497,050
Contingent Liabilities (Note 11)	962
Other Liabilities	3,762
Total Other Liabilities	548,871
Commitments and Contingencies (Notes 11 and 12)	
Total Liabilities	2,942,164
NET POSITION	
Unexpended Appropriations - Earmarked Funds (Note 16)	249,501
Unexpended Appropriations - Other Funds	96,590
Cumulative Results of Operations - Earmarked Funds (Note 16)	20,550,111
Cumulative Results of Operations - Other Funds	210,811
Total Net Position	21,107,013
Total Liabilities and Net Position	$ 24,049,177

The accompanying notes are an integral part of these statements.

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

(In Thousands)	**2005**
ASSETS (Note 2)	
Intragovernmental Assets:	
Fund Balance with Treasury (Note 3)	$ 6,090,731
Accounts Receivable	825,974
Amounts Due from the U.S. Department of Energy, Net (Note 5)	2,458,075
Other:	
Advances and Prepayments	1,423
Total Intragovernmental Assets	9,376,203
Cash	100
Accounts and Interest Receivable, Net (Note 6)	31,459
Loans and Interest Receivable, Net (Note 7)	146,468
General Property, Plant, and Equipment, Net (Note 8)	13,015,525
Other:	
Advances and Prepayments	37,736
Power Rights, Net	160,579
Total Other Assets	198,315
Stewardship PP&E (Note 1.K)	
Total Assets	$ 22,768,070
LIABILITIES (Note 9)	
Intragovernmental Liabilities:	
Accounts Payable	$ 24,651
Debt (Note 10)	96,811
Other:	
Accrued Employee Benefits	21,357
Advances, Deferred Revenue, and Deposit Funds	8,781
Judgment Fund Liability	47,950
Resources Payable to Treasury	1,780,970
Other Liabilities	19,689
Total Other Liabilities	1,878,747
Total Intragovernmental Liabilities	2,000,209
Accounts Payable	201,542
Federal Employee Benefits, Actuarial	88,702
Environmental and Disposal Liabilities (Note 11)	35,360
Other:	
Accrued Payroll and Benefits	48,986
Advances, Deferred Revenue, and Deposit Funds	455,289
Contingent Liabilities (Note 11)	9,515
Other Liabilities	3,441
Total Other Liabilities	517,231
Commitments and Contingencies (Notes 11 and 12)	
Total Liabilities	2,843,044
NET POSITION	
Unexpended Appropriations	350,519
Cumulative Results of Operations	19,574,507
Total Net Position	19,925,026
Total Liabilities and Net Position	$ 22,768,070

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Net Cost
For the Years Ended September 30, 2006, and 2005

(In Thousands)	2006	2005
RESOURCE USE		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	$ 1,089,295	$ 1,065,165
Earned Revenues	(585,466)	(517,262)
Net Cost	503,829	547,903
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	242,354	257,373
Earned Revenues	(279,442)	(350,931)
Net Cost	(37,088)	(93,558)
RESOURCE PROTECTION		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Costs	66,949	34,907
Earned Revenues	(27,279)	(1,910)
Net Cost	39,670	32,997
RECREATION		
Provide Quality and Fair Value in Recreation:		
Costs	33,065	27,720
Earned Revenues	(27,808)	(13,654)
Net Cost	5,257	14,066
CENTRALIZED PROGRAM SUPPORT AND OTHER		
Working Capital Fund, Policy and Administration, and Other:		
Costs	200,748	164,076
Earned Revenues	(113,658)	(79,239)
Net Cost	87,090	84,837
TOTAL		
Costs	1,632,411	1,549,241
Earned Revenues	(1,033,653)	(962,996)
Net Cost of Operations (Note 13)	$ 598,758	$ 586,245

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2006, and 2005

(In Thousands)	Earmarked	All Other	2006 Consolidated	2005 Consolidated
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$ 286,742	$ 63,777	$ 350,519	$ 325,934
Budgetary Financing Sources:				
Appropriations Received, General Funds	198,030	39,058	237,088	190,227
Appropriations Transferred In/(Out)	(6,980)	48,342	41,362	41,639
Appropriations Used	(226,473)	(54,217)	(280,690)	(205,939)
Other Adjustments	(1,818)	(370)	(2,188)	(1,342)
Total Budgetary Financing Sources	(37,241)	32,813	(4,428)	24,585
Ending Balance - Unexpended Appropriations	$ 249,501	$ 96,590	$ 346,091	$ 350,519
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	$ 19,350,254	$ 224,253	$ 19,574,507	$ 18,217,213
Budgetary Financing Sources:				
Appropriations Used	226,473	54,217	280,690	205,939
Royalties Retained	1,487,423	-	1,487,423	1,763,969
Non-exchange Revenue	4	-	4	17
Transfers In/(Out) Without Reimbursement	50,816	(54,356)	(3,540)	(78,763)
Other Budgetary Financing Sources	-	-	-	33,958
Other Financing Sources:				
Donations of Property	505	-	505	2,177
Transfers In/(Out) Without Reimbursement	(100,742)	13,257	(87,485)	(51,621)
Imputed Financing from Costs Absorbed by Others	107,556	20	107,576	67,863
Total Financing Sources	1,772,035	13,138	1,785,173	1,943,539
Net Cost of Operations	(572,178)	(26,580)	(598,758)	(586,245)
Net Change in Cumulative Results of Operations	1,199,857	(13,442)	1,186,415	1,357,294
Ending Balance - Cumulative Results of Operations	$ 20,550,111	$ 210,811	$ 20,760,922	$ 19,574,507

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2006, and 2005

(In Thousands)	Total Budgetary Accounts 2006	Total Budgetary Accounts 2005	Non-budgetary Credit Program Financing Account 2006	Non-budgetary Credit Program Financing Account 2005
BUDGETARY RESOURCES				
Unobligated Balance, Beginning of Fiscal Year	$ 666,008	$ 602,241	$ -	$ -
Recoveries of Prior Year Unpaid Obligations	39,171	33,981	8	9
Budget Authority:				
Appropriations	1,154,951	1,080,755	-	-
Borrowing Authority	-	-	1,584	995
Spending Authority from Offsetting Collections:				
Earned:				
Collected	865,383	780,978	7,708	24,718
Change in Receivables from Federal Sources	(4,692)	4	-	-
Change in Unfilled Customer Orders:				
Advance Received	2,746	167,901	-	-
Without Advance from Federal Sources	(6,761)	6,279	-	-
Subtotal	2,011,627	2,035,917	9,292	25,713
Nonexpenditure Transfers, Net	(7,480)	2,000	-	-
Temporarily Not Available Pursuant to Public Law	(7,679)	(6,066)	-	-
Permanently Not Available	(16,766)	(177,798)	(3,255)	(18,282)
Total Budgetary Resources	$ 2,684,881	$ 2,490,275	$ 6,045	$ 7,440
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred (Note 14):				
Direct	$ 1,164,041	$ 1,018,358	$ 6,036	$ 7,440
Reimbursable	868,061	805,909	-	-
Total Obligations Incurred	2,032,102	1,824,267	6,036	7,440
Unobligated Balance Available:				
Apportioned	599,265	621,064	9	-
Exempt from Apportionment	53,514	44,944	-	-
Total Unobligated Balance Available	652,779	666,008	9	-
Total Status of Budgetary Resources	$ 2,684,881	$ 2,490,275	$ 6,045	$ 7,440
OBLIGATED BALANCE				
Obligated Balance, Net, Beginning of Fiscal Year:				
Unpaid Obligations	$ 780,773	$ 742,132	$ 3,942	$ 3,951
Less: Uncollected Receivables and Orders from Federal Sources	(73,472)	(67,189)	-	-
Total Unpaid Obligated Balances, Net, Beginning of Fiscal Year	707,301	674,943	3,942	3,951
Obligations Incurred	2,032,102	1,824,267	6,036	7,440
Less: Gross Outlays	(1,809,352)	(1,751,645)	(6,036)	(7,440)
Less: Recoveries of Prior Year Unpaid Obligations	(39,171)	(33,981)	(8)	(9)
Change in Uncollected Receivables and Orders from Federal Sources	11,453	(6,283)	-	-
Total Unpaid Obligated Balance, Net, End of Fiscal Year	$ 902,333	$ 707,301	$ 3,934	$ 3,942
OBLIGATED BALANCE, NET, END OF FISCAL YEAR - BY COMPONENT				
Obligated Balance, Net, End of Fiscal Year:				
Unpaid Obligations	$ 964,352	$ 780,773	$ 3,934	$ 3,942
Less: Uncollected Receivables and Orders from Federal Sources	(62,019)	(73,472)	-	-
Total Unpaid Obligated Balance, Net, End of Fiscal Year	$ 902,333	$ 707,301	$ 3,934	$ 3,942
NET OUTLAYS				
Gross Outlays	$ 1,809,352	$ 1,751,645	$ 6,036	$ 7,440
Less: Offsetting Collections	(868,129)	(948,879)	(7,708)	(24,718)
Less: Distributed Offsetting Receipts	(2,257,865)	(1,787,437)	-	-
Net Outlays (Receipts)	$ (1,316,642)	$ (984,671)	$ (1,672)	$ (17,278)

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Financing
For the Years Ended September 30, 2006, and 2005

(In Thousands)	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 2,038,138	$ 1,831,707
Less: Spending Authority from Offsetting Collections and Recoveries	(903,563)	(1,013,870)
Obligations Net of Offsetting Collections and Recoveries	1,134,575	817,837
Less: Offsetting Receipts	(2,257,865)	(1,787,437)
Net Obligations	(1,123,290)	(969,600)
Other Resources:		
Donations of Property	505	2,177
Transfers In/(Out) Without Reimbursement	(87,485)	(51,621)
Imputed Financing from Costs Absorbed by Others	107,576	67,863
Net Other Resources Used to Finance Activities	20,596	18,419
Total Resources Used to Finance Activities	(1,102,694)	(951,181)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(149,885)	(41,464)
Change in Unfilled Customer Orders	(4,015)	174,179
Resources That Fund Expenses Recognized in Prior Periods	(17,016)	(39,650)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections That Increase Liabilities for Allowances for Subsidy	9,775	24,717
Offsetting Receipts Not Part of the Net Cost of Operations	1,721,867	1,263,916
Resources That Finance the Acquisition of Assets	(188,555)	(265,129)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	101,679	153,511
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,473,850	1,270,080
Total Resources Used to Finance the Net Cost of Operations	371,156	318,899
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	27	121
Increase in Environmental and Disposal Liabilities	11,511	29,731
Upward (Downward) Re-estimates of Credit Subsidy Expense	(3)	(323)
(Increase) in Exchange Revenue Receivable from the Public	(43)	-
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	11,492	29,529
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	178,967	189,438
Revaluation of Assets	6,248	2,602
Allocation Transfer Reconciling Items (Note 15)	28,591	37,923
Other	2,304	7,854
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	216,110	237,817
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	227,602	267,346
Net Cost of Operations	$ 598,758	$ 586,245

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Notes to the Financial Statements
for the Years Ended
September 30, 2006, and 2005

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations of Reclamation as required of Interior by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements have been prepared from Reclamation's books and records in accordance with the Office of Management and Budget's (OMB) Circular A-136, "Financial Reporting Requirements," dated July 24, 2006. Furthermore, the financial statements have been prepared in accordance with Interior's and Reclamation's accounting policies that are summarized herein.

Reclamation's accounting records are kept, and these financial statements have been prepared, in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Federal Accounting Standards Advisory Board (FASAB), recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal Government. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accounts are maintained in accordance with the U.S. Department of Treasury's (Treasury) United States Standard General Ledger. Reclamation's fiscal year (FY) covers the period which begins on October 1 and ends on September 30 of the following year. Certain prior year balances have been reclassified to conform to the current year financial statement presentation.

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

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

C. Budgets and Budgetary Accounting

Reclamation receives the majority of its required funding to support its programs through appropriations authorized by the Congress, which are derived from special receipt funds or Treasury's General Fund. Additional budgetary resources are provided by permanent authority, contributed funds, revolving funds, operation and maintenance (O&M) reimbursements from water and power users, and transfers from other Federal agencies.

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

D. Fund Balance with Treasury

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

E. Investments

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

F. Accounts Receivable

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

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

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

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

Congressional appropriation and other legislative acts have authorized funds to be appropriated from the Reclamation Fund to the Western Area Power Administration (Western), a component entity of the U.S. Department of Energy (DOE) responsible for the transmission and marketing of hydropower generated at Reclamation's facilities. Western's appropriations from the Reclamation Fund are used for capital investment and

O&M activities related to these functions. Western recovers these capital investments, associated interest, and O&M costs through user fees collected from the sale of power and, subsequently, deposits amounts recovered into the Reclamation Fund. Reclamation records an intragovernmental receivable when appropriations are made to Western from the Reclamation Fund. The receivable is decreased when power transmission receipts are returned.

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

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

H. Loans Receivable

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

Pre-Credit Reform Loans

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

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

Credit Reform Loans

These loans were made after FY 1991, when the Credit Reform Act of 1990 (Credit Reform) (P.L. 101-508) required extensive changes in accounting for loans to the public. Prior to Credit Reform, funding for loans was provided by congressional appropriation from the general or special funds. Under Credit Reform, loans contain two components, the first of which is borrowed from Treasury. These Treasury borrowings, which will be repaid from loan repayments, are authorized by Credit Reform.

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

I. General Property, Plant, and Equipment

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

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

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

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

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

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

Investigations and development costs represent expended funds for such activities as general engineering studies and surveys that are directly related to project construction. Reclamation capitalizes investigation and development costs that are incurred after the decision is made to pursue construction or after construction authorization. These capitalized costs of $82 million and $77 million as of September 30, 2006, and 2005, respectively, are included in construction in progress. Reclamation's accounting treatment for investigation and development costs not related to project construction, incurred prior to the decision to pursue construction, or incurred before construction authorization, results in these costs being expensed as incurred.

During the construction phase, Reclamation records imputed financing costs, referred to as IDC. IDC is the assessment of interest using a percentage rate stated in the statutory regulation which authorized the construction project for the Government borrowings to fund the project. These IDC costs are reflected in construction in progress and as imputed financing from costs absorbed by others.

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

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

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

Buildings consist of houses, garages, and shops owned by Reclamation and used in power, irrigation, M&I, or multipurpose operations that are not included in structures and facilities of a specific project. Buildings are valued at acquisition cost and are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives for calculating depreciation on buildings range from 15 to 75 years.

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

J. Power Rights

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

K. Stewardship Assets

Heritage Assets

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

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

Reclamation's *Cultural Resources Management Policy* (LND PO1) affirms Reclamation's commitment to administering its collectible and non-collectible heritage assets in a spirit of stewardship and in compliance with Federal cultural resources laws and regulations. Tied to the policy statement are a number of Directives and Standards (D&S) that describe mandatory requirements of the cultural resources management program, clarify Reclamation's roles and responsibilities related to cultural resources, and provide direction for consistent implementation of Reclamation's cultural resources program throughout Reclamation. These D&S include *Cultural Resources Management* (LND 02 01); *Inadvertent Discovery of Human Remains on Reclamation Lands* (LND 07 01); and *Inadvertent Discovery of Native American Graves Protection and Repatriation Act (NAGPRA) Cultural Items on Tribal Lands* (LND 10 01).

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

Stewardship Land

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

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

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

The Reclamation D&S, entitled *Land Withdrawals, Withdrawal Reviews, and Withdrawal Revocations* (LND 03-01), sets forth the basic standards and gives references to the location of applicable procedures for making new land withdrawals, reviewing existing withdrawals, and revoking withdrawals. This D&S references procedures and processes for these three land management functions using the Federal Land Policy and Management Act and associated regulations found at 43 Code of Federal Regulations Part 2300.

Because of the depth of applicable information required by the field to successfully implement the mandatory D&S LND 03-01, the *Reclamation Land Withdrawal Handbook* was developed to provide detailed information and guidelines that complement the D&S. This handbook needs revision as it does contain some inaccurate discretionary guidance, especially relating to reconciliation of Reclamation withdrawn land records with the master plats held by Bureau of Land Management.

In addition, there is the D&S on *Land Disposal* (LND 08-02) that prescribes the procedures, methods, and criteria for disposing of Reclamation lands (excluding title transfer of project facilities under specific authorizing legislation) when Reclamation needs to dispose of or relinquish lands or land interests no longer needed for project purposes. With regard to withdrawn (stewardship) lands, this D&S prescribes general disposal requirements (which include, among other requirements environmental, cultural resources, and hazardous materials compliance reviews), as well as details about various specific statutes which authorize the sale of withdrawn lands.

L. Liabilities

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

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

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

M. Resources Payable to Treasury

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

Reclamation records an intragovernmental liability for appropriations determined to be recoverable from project beneficiaries and decreases the liability when payments are received from these beneficiaries and, subsequently, transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2006 and 2005 ranged from 2.63 percent to 8.47 percent. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Repayment to Treasury's General Fund is dependent upon actual water and power delivered to customers; as such, there is no structured repayment schedule. Actual repayments to Treasury's General Fund in FY 2006 and 2005 were $10 million and $128 million, respectively.

Reclamation also received appropriations for the disbursement of loans prior to the enactment of Credit Reform (see Note 1.H). This legislation requires collections of balances for loans obligated prior to FY 1992 be transferred to Treasury's General Fund on an annual basis.

Reclamation has recorded an intragovernmental liability for the net pre-Credit Reform loans receivable balance and total current year collections in the direct loan liquidating account. This liability is reduced when the collections for a given fiscal year are transferred to Treasury's General Fund. Repayments of pre-Credit Reform loan appropriations and interest to Treasury's General Fund totaled $4 million in FY 2006. There were no transfers made in FY 2005.

N. Accrued Leave

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

O. Retirement and Other Benefits

Reclamation employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Reclamation and its employees contribute to these systems. Both are contributory pension plans. Although Reclamation funds a portion of pension benefits under CSRS and FERS relating to its employees and makes the necessary payroll withholdings from them, it does not report assets associated with these benefit plans. Such amounts are maintained and reported by the Office of Personnel Management (OPM). In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Reclamation recorded the FY 2006 and 2005 estimated cost of pension and other retirement benefits and the associated imputed financing sources which are paid by OPM on its behalf. Reclamation funds are not used to pay the cost of these benefits but are a Reclamation operating expense that is reflected as part of the cost of doing business. The estimated cost of pension and other retirement benefits computation rates are provided by OPM actuaries to the employer agencies.

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

P. Revenues and Financing Sources

Exchange Revenues

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

Revenue from Recovery of Reimbursable Capital Costs

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

Unmatured repayment contracts are recognized on the Consolidated Balance Sheets when the annual repayment amount is earned, at which time current accounts receivable and current period exchange revenue are recorded. As of September 30, 2006, and 2005, amounts not yet earned under unmatured repayment contracts were $2.4 billion and $2.5 billion, respectively.

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

Non-exchange Revenues and Other Financing Sources

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

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

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

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

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

Q. Use of Estimates

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

Note 2. Asset Analysis

Assets of Reclamation include entity, restricted (component of entity assets), and non-entity assets. Entity assets are those available for Reclamation to use in its operations. Restricted assets consist of the Reclamation Fund and other unavailable receipt accounts. Restricted assets cannot be used until appropriated by the Congress. Non-entity assets are not available to finance Reclamation's operations. These items consist of various receivables due from the public that, when collected, are deposited into Treasury's General Fund. Reclamation's assets as of September 30, 2006, and 2005 are summarized in the following tables.

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

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

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

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

Note 3. Fund Balance with Treasury

Reclamation's Fund Balance with Treasury and the Status of Fund Balance with Treasury as of September 30, 2006, and 2005, are shown in the following table.

Fund Balance with Treasury
As of September 30, 2006, and 2005
(In Thousands)

	2006	2005
Fund Balance with Treasury by Fund Type		
General Funds	$ 824,678	$ 725,354
Special Funds	5,829,949	4,779,510
Revolving Funds	242,230	491,021
Trust Funds	81,601	48,376
Other Fund Types	51,943	46,470
Total Fund Balance with Treasury by Fund Type	**$ 7,030,401**	**$ 6,090,731**
Status of Fund Balance with Treasury		
Unobligated:		
Available	$ 352,129	$ 675,316
Unavailable	271	238
Obligated Balance Not Yet Disbursed	915,814	721,584
Subtotal	1,268,214	1,397,138
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	5,721,219	4,657,984
Deposit and Clearing Accounts	40,968	35,609
Subtotal	5,762,187	4,693,593
Total Status of Fund Balance with Treasury	**$ 7,030,401**	**$ 6,090,731**

Reclamation's fund types and purposes are described below:

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

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

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

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

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

Obligated and unobligated balances reported for the Status of Fund Balance with Treasury do not agree with the obligated and unobligated balances reported on the Combined Statement of Budgetary Resources because the Fund Balance with Treasury amounts include allocation transfer accounts, for which budgetary resources are not recorded. The unavailable receipt accounts category includes the Reclamation Fund, which had a balance of $5.7 billion and $4.6 billion as of September 30, 2006, and 2005, respectively.

Note 4. Investments, Net

Reclamation has investment authority authorized in the Lower Colorado River Basin Development Fund and the San Gabriel Basin Restoration Fund, both of which are classified as earmarked funds (see Note 16 for a further discussion of earmarked funds). The investments balance as of September 30, 2006, consists of the cost of non-marketable market-based securities purchased through the Federal Investments Branch of the Bureau of Public Debt ($322 million), as well as accrued interest earned ($45 thousand). The market value of these securities is equal to the cost.

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

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

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

The following table shows the amounts due from the U.S. Department of Energy as of September 30, 2006, and 2005.

Amounts Due from the U.S. Department of Energy, Net
As of September 30, 2006, and 2005
(In Thousands)

	2006	**2005**
Principal	$ 6,378,188	$ 6,166,710
Interest	2,053,503	1,928,373
Cumulative Repayments	(5,778,102)	(5,615,306)
Allowance for Non-Reimbursable Costs	(21,702)	(21,702)
Total Amounts Due from the U.S. Department of Energy, Net	**$ 2,631,887**	**$ 2,458,075**

Interest rates vary by project and pertinent legislation and ranged from 2.5 to 12.4 percent and 1.25 to 12.4 percent for the years ended September 30, 2006, and 2005, respectively. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

Note 6. Accounts and Interest Receivable, Net

The following table shows the status of accounts receivable due from the public as of September 30, 2006, and 2005.

Accounts and Interest Receivable, Net, Due from the Public
As of September 30, 2006, and 2005
(In Thousands)

	2006	2005
Current	$ 7,583	$ 4,578
1-180 Days Past Due	1,994	2,376
181-365 Days Past Due	88	370
1 to 2 Years Past Due	575	307
Over 2 Years Past Due	7,499	6,901
Total Billed Accounts and Interest Receivable	17,739	14,532
Unbilled Accounts and Interest Receivable	23,049	25,744
Total Accounts and Interest Receivable	40,788	40,276
Allowance for Doubtful Accounts	(11,036)	(8,817)
Total Accounts and Interest Receivable - Net of Allowance	**$ 29,752**	**$ 31,459**

Note 7. Loans and Interest Receivable, Net

Entity and non-entity loan balances are combined and presented together here and in the consolidated financial statements. Non-entity loans are disclosed in Note 2, Asset Analysis. The following tables show the status of the non-Federal loans receivable and associated interest receivable as of September 30, 2006, and 2005.

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

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

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

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

Reclamation had seven Credit Reform loans outstanding as of September 30, 2006, and 2005. Loan disbursements during FY 2006 and 2005 were $8 thousand and $10 thousand, respectively. Administrative expenses for the years ended September 30, 2006, and 2005, were $54 thousand and $78 thousand, respectively. In FY 2006, there were no changes in economic conditions, other risk factors, legislation, credit policies, and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy re-estimates. For FY 2006 and 2005, there are no additional loan appropriations; therefore, there is no budget subsidy rate.

Re-estimates of the subsidy cost allowance are performed annually. Technical re-estimates adjust the allowance for differences between the projected cash flows that were expected versus actual cash flows. Interest re-estimates adjust the subsidy allowance to provide for the prevailing interest rate at the time the loans were disbursed versus the interest rates assumed in the budget preparation process. These re-estimates resulted in a net downward re-estimate, which resulted in a net decrease to the subsidy cost allowance of $13.6 million for the year ended September 30, 2006, and a net upward re-estimate of $20.3 million for the year ended September 30, 2005.

Reconciliation of the subsidy cost allowance as of September 30, 2006, and 2005 is shown in the following table.

Schedule for Reconciling Subsidy Cost Allowance Balances
(Post-1991 Direct Loans)
As of and for the Years Ended September 30, 2006, and 2005
(In Thousands)

	2006	2005
Beginning Balance of the Subsidy Cost Allowance	$ 25,011	$ 9,477
Adjustments: Subsidy Allowance Amortization	(3,943)	(4,810)
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	21,068	4,667
Add or (Subtract) Subsidy Re-estimates by Component:		
Technical/Default Re-estimate	(4,570)	17,224
Interest Rate Re-estimate	(8,989)	3,120
Ending Balance of the Subsidy Cost Allowance	$ 7,509	$ 25,011

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

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2006, and 2005 are shown in the following tables.

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

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

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

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

IDC is included in construction in progress. The authority for charging IDC is in the authorizing legislation for a particular project or administrative policy established pursuant to the law. Generally, the costs allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law. The interest rates used in computing IDC are specified in the authorizing legislation; or if rates are not specified, the rates are established by Reclamation laws or administrative policy and are based on the fiscal year in which construction began. The interest rates applied during FY 2006 ranged from 3.22 percent to 8.70 percent and during FY 2005 ranged from 2.125 percent to 11.07 percent. For the years ended September 30, 2006, and 2005, $9 million and $8 million, respectively, of IDC costs were capitalized. IDC was also adjusted in FY 2005 for the reallocation of project use and costs for the Bonneville Project in Utah, as authorized by P.L. 102-575 and 107-366. Costs were reallocated from M&I water functions, which are interest-bearing, to irrigation functions, resulting in a reduction to previously capitalized IDC of $102 million.

The investment in projects held in abeyance as of September 30, 2006, and 2005 ranged from $59.1 thousand to $287 million per project, respectively. The investment covers a period from 1965 to the present. Continued planning or construction on these assets has been held in abeyance for various reasons, including such concerns as the execution of cost-share agreements with non-Federal entities and environmental, economic, and international treaty issues. The Congress and local interests continue to pursue acceptable alternatives for the completion of those projects in which there has been a substantial investment. As it is uncertain when construction will resume on or benefits will be provided by these assets, classification into construction in abeyance provides the most meaningful and accurate status of their disposition. The Congress has not yet deauthorized any of these assets, nor should it be inferred from this classification that the future viability of them is necessarily in doubt.

Note 9. Liabilities

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which congressional action is needed before budgetary resources can be provided. These liabilities as of September 30, 2006, and 2005 are combined and presented together in the Consolidated Balance Sheets and are detailed in the following tables.

Liabilities
As of September 30, 2006
(In Thousands)

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

Liabilities
As of September 30, 2005
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
	Current	Non-Current	Current	Non-Current	Total
Intragovernmental Liabilities:					
Accounts Payable	$ 24,651	$ -	$ -	$ -	**$ 24,651**
Debt	-	96,811	-	-	**96,811**
Other:					
Accrued Employee Benefits	8,850	-	4,466	8,041	**21,357**
Advances, Deferred Revenue, and Deposit Funds	8,743	-	38	-	**8,781**
Judgment Fund Liability	-	-	-	47,950	**47,950**
Resources Payable to Treasury	-	-	44,525	1,736,445	**1,780,970**
Other Liabilities	-	-	-	19,689	**19,689**
Total Other Liabilities	17,593	-	49,029	1,812,125	**1,878,747**
Total Intragovernmental Liabilities	42,244	96,811	49,029	1,812,125	**2,000,209**
Public Liabilities:					
Accounts Payable	124,370	77,172	-	-	**201,542**
Federal Employee Benefits, Actuarial	-	-	-	88,702	**88,702**
Environmental and Disposal Liabilities	-	-	-	35,360	**35,360**
Other:					
Accrued Payroll and Benefits	21,632	-	-	27,354	**48,986**
Advances, Deferred Revenue, and Deposit Funds	105,578	-	42,379	307,332	**455,289**
Contingent Liabilities	-	-	-	9,515	**9,515**
Other Liabilities	3,326	-	-	115	**3,441**
Total Other Liabilities	130,536	-	42,379	344,316	**517,231**
Total Public Liabilities	254,906	77,172	42,379	468,378	842,835
Total Liabilities	$ 297,150	$ 173,983	$ 91,408	$ 2,280,503	**$ 2,843,044**

Note 10. Debt

Reclamation makes loans which are subject to the provisions of Credit Reform. Under Credit Reform, loans consist of two components—the part borrowed from Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans as of September 30, 2006, range from 2012 to 2047. The interest rate used to calculate interest owed to Treasury as of September 30, 2006, and 2005 ranged from 4.67 percent to 7.59 percent and 6.01 to 6.82, respectively. As annual installments are received from loan recipients, any funds in excess of interest are applied against the outstanding principal owed to Treasury. The liabilities shown in the following table represent amounts borrowed from Treasury to fund Credit Reform loans as of and for the years ended September 30, 2006, and 2005.

Debt
As of and for the Years Ended September 30, 2006, and 2005
(In Thousands)

Intragovernmental Debt: Credit Reform Borrowings	**2006**	**2005**
Beginning Balance	$ 96,811	$ 114,098
New Borrowing	1,584	995
Repayments	(3,254)	(18,282)
Ending Balance	**$ 95,141**	**$ 96,811**

Note 11. Contingent Liabilities and Environmental and Disposal Liabilities

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

The accrued and potential environmental and disposal liabilities and contingent liabilities as of September 30, 2006, and 2005 are summarized in the following tables.

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

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

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

		Total Estimated Range of Loss Including Accrued Amounts	
	Accrued Liabilities	Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	**$ 9,515**	$ 9,515	$ 12,814
Reasonably Possible		201,000	234,300
Environmental and Disposal Liabilities			
Probable	**35,360**	35,360	65,255
Reasonably Possible		380	2,530

A. Contingent Liabilities – Legal Claims and Assertions

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

B. Environmental and Disposal Liabilities

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

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

Note 12. Operating Leases

Most of Reclamation's facilities are leased through the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. For property leased through GSA, Reclamation does not always execute an occupancy agreement; however, a 120- to 180-day notice to vacate is normally required. For the years ended

September 30, 2006, and 2005, the amount of lease expense for federally owned and non-federally owned property leased through GSA was $20.1 million and $20.5 million, respectively.

In addition to leases with GSA, Reclamation had, for the years ended September 30, 2006, and 2005, operating lease payments to non-Federal entities in the amount of $3.0 million and $2.8 million, respectively. These leases were primarily for office space and office equipment. Reclamation has an option to renew many of its operating leases at terms similar to the initial terms.

The following is a schedule by year of future minimum lease payments as of September 30, 2006. Future operating leases payments are calculated based on the terms of the lease or, if the lease is silent, an inflationary factor of 2.4 percent is applied for FY 2007 and beyond.

Operating Lease Commitments
As of September 30, 2006
(In Thousands)

Fiscal Year	GSA Real Property	Other Real Property	Personal Property	Total
2007	$ 20,623	$ 2,098	$ 533	$ 23,254
2008	21,118	2,017	487	23,622
2009	21,625	1,826	269	23,720
2010	22,144	1,488	4	23,636
2011	22,675	1,390	-	24,065
Thereafter	23,219	1,703	-	24,922
Total Future Operating Lease Payments	$ 131,404	$ 10,522	$ 1,293	$ 143,219

Note 13. Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost is presented in accordance with the strategic plan in place for that fiscal year, as required under the Goverment Performance and Results Act. Consolidating Statements of Net Cost, shown by regional organization and reporting segment for the years ended September 30, 2006, and 2005, are presented at the end of Note 16.

Note 14. Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget. The FY 2005 amounts shown have been reconciled to the President's Budget without exception; however, the actual amounts for FY 2006 in the President's Budget have not been published at the time these financial statements were prepared. The President's Budget with the actual FY 2006 amounts is estimated to be released in February 2007 and can be located at the OMB Web site: (<www.whitehouse.gov/omb>).

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

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

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

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

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

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

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

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

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

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

For the years ended September 30, 2006, and 2005, undelivered orders were $706 million and $556 million, respectively.

Note 15. Consolidated Statement of Financing

A. Allocation Transfer Reconciling Items

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

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

Allocation Transfer Reconciling Items
As of and for the Years Ended September 30, 2006, and 2005
(In Thousands)

Trading Partner	Nature of Transfer	FY 2006	FY 2005
Reclamation as the Recipient Agency (Child):			
Department of Labor - Job Corps	Employment and Training Services	$ 31,131	$ 29,335
Department of the Interior - Office of the Secreatry	Central Hazardous Materials Fund Programs	1,202	576
Department of the Interior - Bureau of Indian Affairs	Construction of Distribution Systems of the Navajo Indian Irrigation Project	(3,804)	7,410
Department of the Interior - Office of the Secretary	Natural Resources and Damage Assessment and Restoration Activities	62	91
Department of Transportation - Highway Trust Fund	Maintenance of Highways on Reclamation Lands	-	511
Net Allocation Transfer Reconciling Items		**$ 28,591**	**$ 37,923**

B. Change in Unfunded Liabilities

The Consolidated Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in Note 9, Liabilities Analysis. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities which are reported on the Consolidated Statement of Financing. These requirements are dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Consolidated Statement of Financing.

Note 16. Earmarked Funds

Reclamation receives revenues and financing sources from earmarked funds. In accordance with SFFAS No. 27, “Identifying and Reporting Earmarked Funds,” effective October 1, 2005, these specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and are accounted for separately from the Government’s general revenues. Activity for earmarked funds in FY 2005 has not been restated in accordance with the provisions of SFFAS No. 27.

In FY 2006, there has been no change in legislation that significantly changes the purpose of Reclamation’s earmarked funds or redirects a material portion of the accumulated balance. Reclamation has established unique cost centers within the accounting system for each of the specified activities under each earmarked fund.

Reclamation Fund

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

Water and Related Resources Fund

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

Lower Colorado River Basin Fund

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

Other Earmarked Funds

The Reclamation Fund, Water and Related Resources Fund, and the Lower Colorado River Basin Fund comprise 88 percent of Reclamation's total earmarked net position. Other earmarked funds are presented on an aggregated basis in the following table and include:

- Upper Colorado River Basin Fund
- Colorado River Dam Fund – Boulder Canyon Project
- San Gabriel Restoration Fund
- Central Valley Project Restoration Fund

- Reclamation Trust Funds
- Klamath – Water and Energy
- North Platte Project – Facility Operations
- North Platte – Farmers Irrigation District – Facility Operations
- Reclamation Recreation, Entrance and Use Fees
- Reclamation Fund General Administration Expenses
- Job Corps Quarters Operation and Maintenance

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

Earmarked Funds
As of and for the Year Ended September 30, 2006
(In Thousands)

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

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

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

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

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

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

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