FY 2007 Performance Measure Highlights

The GPRA of 1993 requires that Federal bureaus establish performance goals, set annual accomplishment targets, and report annual accomplishments. Reclamation's facility reliability measure—*Water Infrastructure is in fair to good condition as measured by the Facilities Reliability Rating* (FRR)—assesses the integrity of all high and significant hazard storage dams and reserved works associated water facilities. It gauges the soundness of structures that support Reclamation's core mission of delivering water and generating power. These structures enable Reclamation to achieve its goal: to deliver water, consistent with applicable State and Federal law, in an environmentally responsible and cost-efficient manner.

The FRR is a score derived from a set of weighted criteria that cover maintenance, operations, and management factors. The criteria in the FRR systems provide a good representation of the overall condition of facilities based resources typically expended to meet this reliability objective.

Reclamation has achieved its accomplishment target for water infrastructure and related facilities since 2004, the year of its inception. The target for FY 2007 is 91 percent; the accomplishment is 99 percent.

Goal: Facilities Reliability	Annual Target	Annual Accomplishment
Percent of dams and associated facilities with a good to fair reliability rating	91%	99%

Reclamation's staff works to maintain and extend the useful life of its facilities. Approximately 50 percent of Reclamation's dams were built between 1900 and 1950, and approximately 90 percent of the dams were built before current state-of-the-art design and construction practices.

The following measures are related to Reclamation's end outcome water goal.

Deliver Water

The *Deliver Water* performance goal measures the amount of water releases or diversions from Reclamation owned and operated facilities. Water uses include agriculture, municipal and industrial, fish and wildlife, and other contracted and authorized purposes. This goal does not include water delivered from district operated works or facilities where Reclamation does not have substantial operational control. In FY 2007, Reclamation delivered more than 30.1 million acre-feet of water to meet contract obligations and other water resource needs.

Goal: Deliver Water	Annual Target	Annual Accomplishment
Acre-feet of water delivered in million acre-feet	28	30.1

Control Colorado River Salt

The *Control Colorado River Salt* performance goal measures the tons of salt controlled or prevented from loading into the Colorado River each year. The Colorado River Salinity Control Program's goals are to maintain salinity by adhering to the water quality standards set for the Colorado River Basin and to reduce the economic damages of more than $300 million that occur each year in the Lower Basin. This year, additional salinity control measures funding by Reclamation will prevent about 21,000 tons of salt from entering the Colorado River. Reducing the amount of water applied to saline soils is the single most cost-effective salinity control measure. Reclamation has been able to reduce Colorado River salt removal project costs from an average of $70 per ton removed in the 1980s to an average of $30 per ton today.

Goal: Control Colorado River Salt	Annual Target	Annual Accomplishment
Tons of salt loading eliminated	21,000	21,000

Increase Water Availability

The *Increase Water Availability* performance goal measures the amount of water made available by Reclamation-funded projects with cost share. Reclamation increased the amount of water available for use by 37,047 acre-feet through completing major phases of rural water distribution projects, water reuse and recycling, and aquifer ground water investigations. Projects were funded through grants, reimbursable agreements, direct pay contracts, and other financial arrangements.

This goal does not measure the actual acre-feet of water delivered by the project each year. Instead, it measures the potential acre-feet of water that could be delivered by the project based on estimated averages found in modeling and project construction agreements.

Goal: Increase Water Availability	Annual Target	Actual Accomplishment
Increase in acre-feet of water availability	24,839	37,047

Reclamation's performance information is incorporated into Interior's FY 2007-2012 GPRA Strategic Plan and related documents.

Fiscal Year 2007 Annual Assurance Statement on Internal Control

The Bureau of Reclamation (Reclamation) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Reclamation has conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's (OMB) Circular A-123, Management's Responsibility for Internal Control, dated December 21, 2004. The objectives of this assessment were to ensure that:

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

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

Based on the results of the FY 2007 evaluation, Reclamation can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, to include FMFIA, as of September 30, 2007, were operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, Reclamation conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123, and the Chief Financial Officer Council's Implementation Guide dated July 31, 2005, as implemented by the Department. The assessment focused on the specific financial reports and the related financial statement line items identified by the Department as material to the consolidated Department of the Interior financial reports. Based on the results of this assessment, Reclamation can provide reasonable assurance that its internal control over the specific financial reports and related line items identified by the Department as material to the consolidated Department of the Interior financial reports were suitably designed and operating effectively as of June 30, 2007, and no material weaknesses were found in the design or operation of the internal control over financial reporting. Further, subsequent testing through September 30, 2007, did not identify any reportable changes in key financial reporting internal controls.

I also conclude that Reclamation's information technology systems generally comply with the requirements of the Federal Information Security Management Act (FISMA), and Appendix III of OMB Circular A-130, Management of Federal Information Resources.

Further, I conclude that Reclamation substantially complies with the three components of the Federal Financial Management Improvement Act (FFMIA): Financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

Robert W. Johnson

Financial Analysis

This section provides additional information about the Financial Statements and Notes, including how we have improved financial accountability.

Financial Statements

Reclamation's management is responsible for ensuring the integrity and objectivity of financial information in our financial statements. The financial statements and supplemental schedules in this year's annual report reflect the financial position and results of our operations and comply with the Chief Financial Officers Act of 1990, Government Management Reform Act of 1994 and 31 U.S.C. 3515(b). While the statements have been prepared from Reclamation's books and records in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the OMB-prescribed formats, the statements requirements are for a component of the United States Government (OMB Circular A-136, p. 118, section 11.1J). Reclamation uses these statements not only for financial reports but also to monitor and control budgetary resources.

The integrity of these statements is supported by our audit results, which an independent, certified public accounting firm conducted under contract with the Interior's Office of the Inspector General (OIG). Reclamation achieved an unqualified audit opinion again this year. Unqualified means financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. To ensure that future financial statements continue to achieve unqualified audit opinions, we use internal control efforts, which comply with Federal Financial Management Improvement Act requirements. We continually improve these efforts. Moreover, we have the discipline and staffing required to produce these audited financial statements, demonstrating that management is dedicated to improving financial management and complying with applicable laws and regulations. These financial statements allow the Congress, external partners, and the general public to monitor how Reclamation uses the resources the Congress and our partners provide.

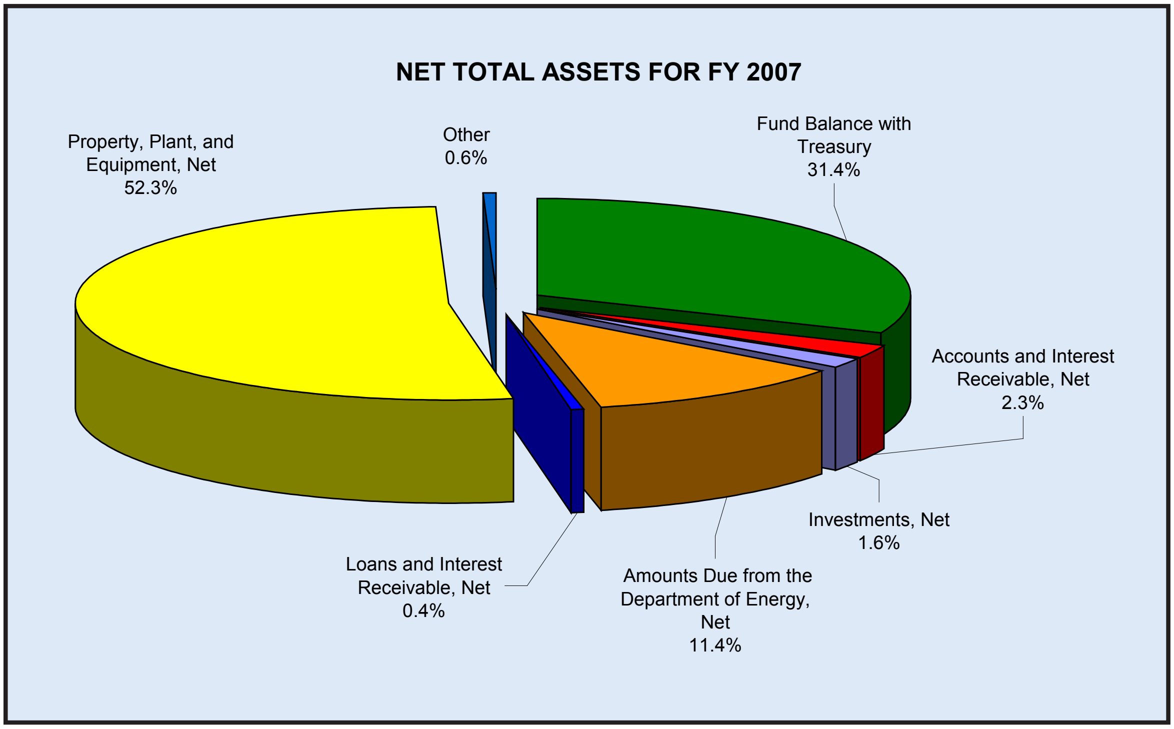
Consolidated Balance Sheet

Net Position: The Consolidated Balance Sheet displays Assets, Liabilities, and Net Position. Our Net Position increased by $925 million in FY2007. This increase is $257 million less than the Net Position increase in FY 2006. The FY 2006 change was greater due to the adoption of a change in accounting principle in FY 2007. Prior to FY 2007, proprietary activity and balances were included in the child agency's financial statements. Effective FY 2007, the child agency no longer reports the proprietary activity of the child allocation accounts; all proprietary activity and balances are now reported by the parent agency.

Total Assets FY 2007: Total Asset value is $25 billion, an increase of $812 million over the FY 2006 Total Asset value. The table below shows the change by asset type.

Net Change in Assets (In Thousands)			
Type of Asset	**FY 2007**	**FY 2006**	**Net Change**
Fund Balance with Treasury	7,813,695	7,030,401	783,294
Accounts and Interest Receivable, Net	565,401	693,325	(127,924)
Investments, Net	401,459	322,045	79,414
Amounts Due from the Department of Energy, Net	2,827,301	2,631,887	195,414
Loans and Interest Receivable, Net	102,929	157,286	(54,357)
Property, Plant, and Equipment, Net	13,012,013	13,071,874	(59,861)
Other	138,464	142,359	(3,895)
Total	24,861,262	24,049,177	812,085

Fund Balance with Treasury: The Fund Balance with Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. The Reclamation Fund ($6.7 billion) Fund Balance and other unavailable (restricted) receipt fund balances are included in this asset category. The Congress allocates most of our annual appropriations out of the Reclamation Fund, and many of the revenues received from our beneficiaries are returned to the Reclamation Fund. In contrast to most other Federal public works programs, beneficiaries, including irrigation districts, municipalities, and power customers repay most of Reclamation's project costs.



Changes in Balances: The change in Fund Balance with Treasury is primarily the result of increased royalties received and deposited into the Reclamation Fund in FY 2007.

The increase of $195 million to the Receivable Due from the Department of Energy is attributed to an increase in the Western Area Power Administration payable due to Reclamation. The cause of the increase is their commitment of appropriated funds, from the Reclamation Fund, for the construction of capital assets that are not repaid in the current year.

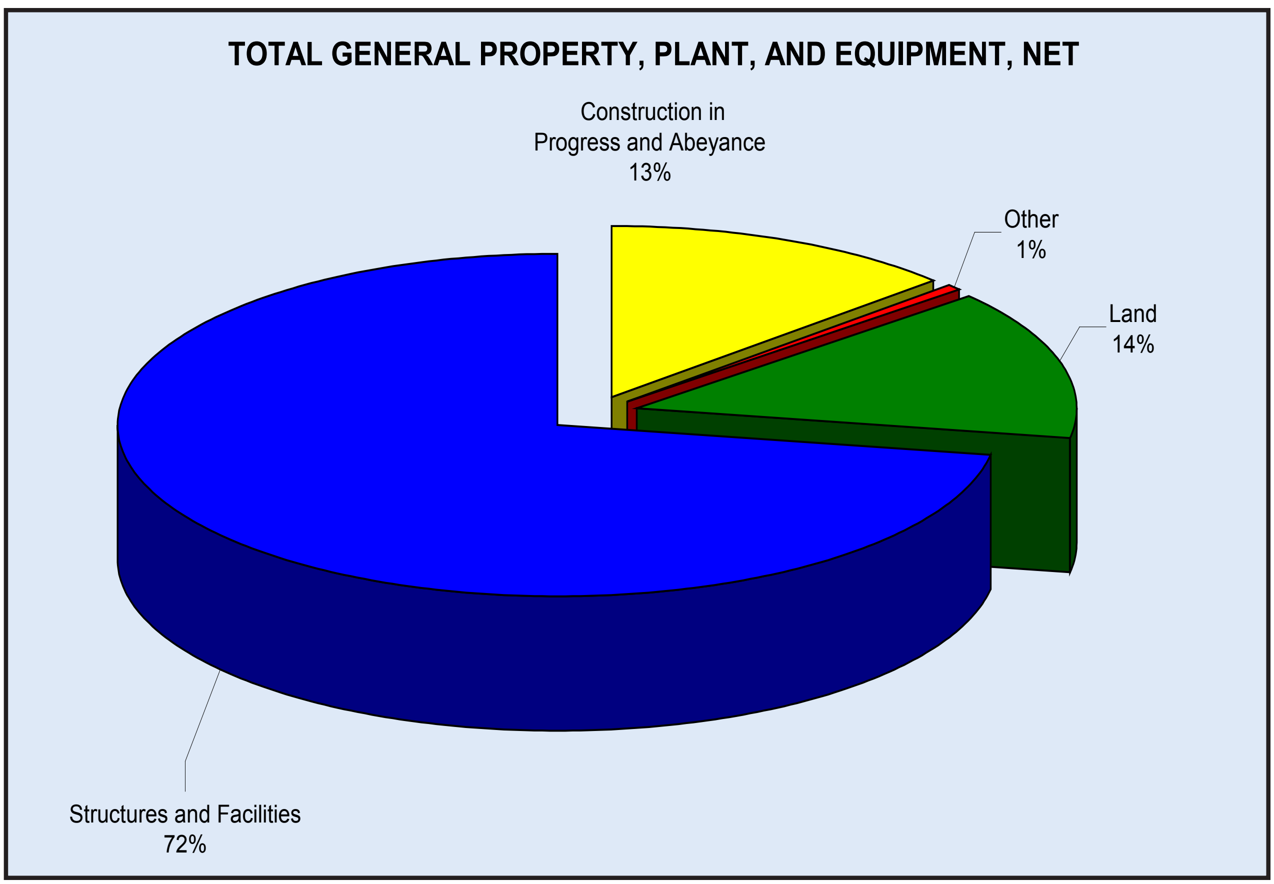
The Accounts Receivable balance decreased in FY 2007 due to a reduction of coal lease accrual bonuses by Minerals Management Service, thus reducing the undistributed amount of royalties due to Reclamation.

The change in Investments is due to the corpus growth of the Lower Colorado River Basin Fund and San Gabriel Restoration Fund. The Investments consist of nonmarketable, market-based securities issued by the Federal Investment Branch of the Bureau of Public Debt. These securities are not traded on any security exchange, but mirror the prices of marketable securities with similar terms. Interest on Investments is accrued as it is earned.

In FY 2007, OMB released a new Credit Subsidy Calculator, which uses the balances approach for the subsidy calculation. The resulting re-estimate, combined with principal balance payoffs, decreased the Loan and Interest Receivable balance.

General Property, Plant, and Equipment: Reclamation's PP&E consists of an extensive infrastructure of dams, powerplants, pumping stations, canals, and other water delivery systems used in Reclamation's day-to-day operations. These assets are reported as General PP&E in accordance with Federal GAAP. Our major PP&E asset categories are: Structures and Facilities, Land, Construction in Progress and Abeyance, and Other (i.e., equipment, vehicles, buildings, and internal use software).

Reclamation's PP&E $13 billion balance accounts for approximately 73 percent of Interior's PP&E total reported in its annual report.



Total Liabilities: FY 2007 total liabilities are $2.8 billion, a $113 million decrease from FY 2006. As Reclamation is a bureau of the executive branch of the United States Government, Reclamation is a sovereign entity. Federal agencies, by law, cannot make any payments unless the Congress has appropriated funds. Accordingly, unfunded liabilities reported in the statements cannot be liquidated until the Congress enacts an appropriation, and ongoing operations are subject to appropriate appropriations. Reclamation's funded liabilities are paid out of funds currently available to Reclamation. Unfunded liabilities consist primarily of environmental and legal liabilities to be paid out of funds made available to Reclamation in future years. Funded and unfunded liabilities are discussed in Notes to the Financial Statements.

The Accounts Payable decrease from FY 2006 was partially due to the activity from Hurricane Katrina subsiding.

The decrease in Advances, Deferred Revenue, and Deposit Funds is a result of decreased advances from customers to construct irrigation facilities.

The Resources Payable to Treasury decrease is due to the FY 2007 net upward Credit Reform loan subsidy re-estimate that resulted in the reversal of the downward re-estimate accrued for in FY 2006.

The decrease in debt results from scheduled repayments and one prepayment of loan balances.

The Environmental and Disposal Liabilities increased due to changes in cost estimates and the addition of a new site.

Net Change in Liabilities (In Thousands)

Type of Liability	FY 2007	FY 2006	Net Change
Accounts Payable	223,046	242,877	(19,831)
Debt	73,259	95,141	(21,882)
Accrued Employee Benefits and Payroll	67,597	69,130	(1,533)
Advances, Deferred Revenue, and Deposit Funds	482,404	502,335	(19,931)
Judgment Fund Liability to Treasury	47,950	47,950	-
Resources Payable to Treasury	1,791,694	1,844,710	(53,016)
Federal Employee Benefits, Actuarial	85,990	88,353	(2,363)
Environmental and Disposal Liabilities	51,597	46,871	4,726
Contingent Liabilities	962	962	-
Other	4,640	3,835	805
Total	2,829,139	2,942,164	(113,025)

Consolidated Statement of Net Costs

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

In FY 2007, Reclamation reported $1.3 billion of Cost and $804 million of Earned Revenues under the Resource Use mission goal. Our key mission activities are reported under this mission goal. This goal includes the costs for providing water and hydropower to our customers. It also includes hydropower and water sales revenue, which recover the Government's costs to produce and deliver water and hydropower to our customers.

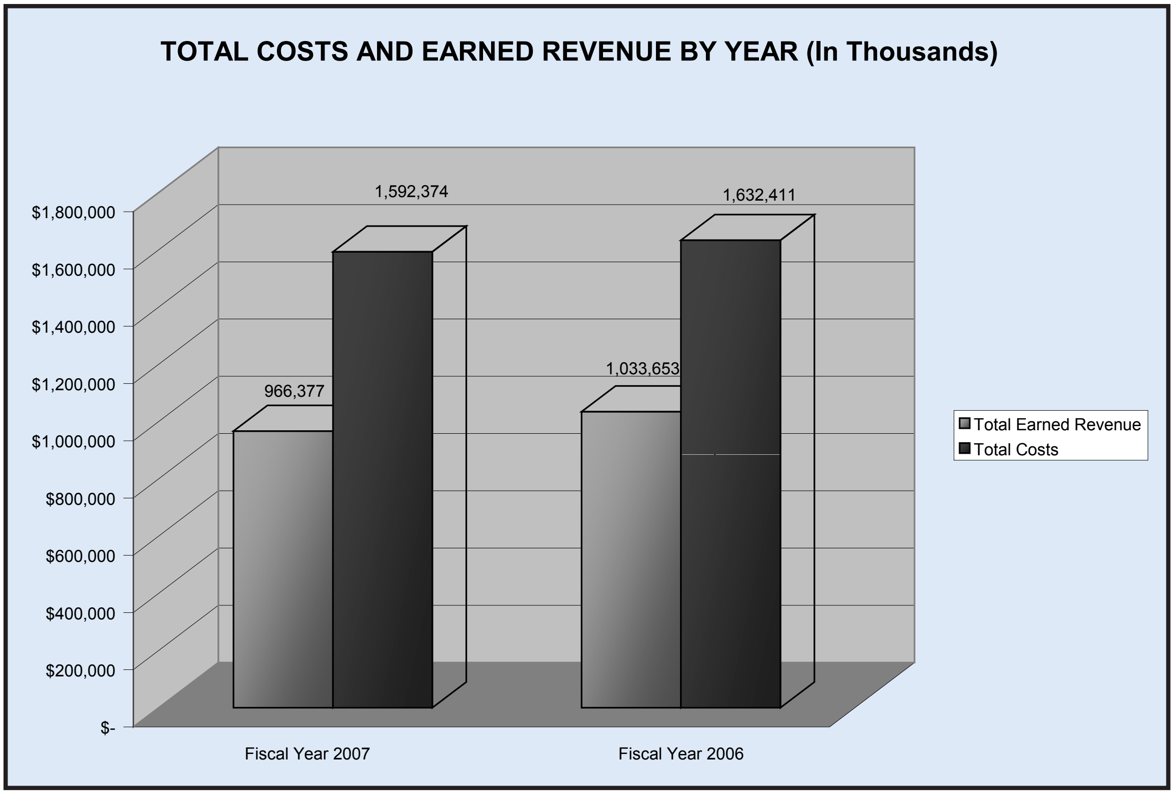
Centralized Program Support and Other's cost and revenues reflect administrative costs, working capital, and other incurred costs and revenues earned to support Reclamation's mission goals.

The Consolidated Statement of Net Cost displays the Net Cost of Operations, which is the difference between revenues and expenses. Reclamation's total FY 2007 Net Cost of Operations was $626 million, an increase of $27 million from the FY 2006 Net Cost of Operations. This change is primarily due to an increase in unfunded expenses related to Credit Reform Loans.

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

Revenues and Costs: Reclamation's Earned Revenues from providing goods or services are reported in the Consolidated Statement of Net Cost.

Total FY 2007 Earned Revenue was $966 million, which is $67 million or 7 percent less than was reported in FY 2006. Costs were $1.6 billion in FY 2007 and FY 2006.



Combined Statement of Budgetary Resources

Budgetary Resources: The Combined Statement of Budgetary Resources and related disclosures provide information about budgetary resources and their end of the year status. Reclamation's Total Budgetary Resources were $2.7 billion in FY 2007 and FY 2006. Reclamation's major budget accounts are broken down into five categories. Our funding is derived predominantly from three of the five categories: Total Budgetary Authority, Unobligated Balances (i.e., prior year carryforward balances), and Offsetting Collections. Refer to the Combined Statement of Budgetary Resources and the detailed budgetary information in the Supplemental Section for more information.

Improper Payments

Interior has been conducting annual risk assessments of programs exceeding $100 million in annual outlays. These risk assessments have shown that Interior is at low risk for improper payments. Therefore, Interior's annual risk assessment requirement has been converted to a 3-year risk assessment. The next risk assessment will be for FY 2009 and every 3 years following. Reclamation will complete a risk assessment in FY 2009 for this program as prescribed by Interior.