



The collage consists of four distinct images. The top image shows a solar farm with rows of photovoltaic panels under a bright sun with lens flare, and several tall sunflowers in the foreground. The middle image depicts a space station or satellite in orbit, with a bright green laser beam extending from it across a deep blue sky. The bottom-left image is a close-up of a complex, circular metallic structure with a grid of small, glowing blue components, likely a fusion reactor's tokamak. The bottom-right image shows a detailed view of a nuclear reactor's internal components, including copper-colored coils and a central assembly.

# Fiscal Year 2014 Agency Financial Report

DOE/CF-0106



U.S. DEPARTMENT OF  
**ENERGY**

## Foreword

**T**he Reports Consolidation Act of 2000 authorizes Federal agencies, with the Office of Management and Budget's (OMB) concurrence, to consolidate various reports to provide performance, financial and related information in a more meaningful and useful format. For Fiscal Year (FY) 2014, the Department of Energy (Department or DOE), has produced an *Agency*

*Financial Report*, and will provide an *Annual Performance Report* and a *Summary of Performance and Financial Information*, pursuant to OMB Circular A-136. They will be available at the website below, as each report is completed. This reporting approach simplifies and streamlines the performance presentations.

**Agency Financial Report (AFR)** - The AFR is organized by three major sections.

- **Management's Discussion and Analysis** provides executive-level information on the Department's history, mission, organization, Secretarial priorities, analysis of financial statements, systems, controls and legal compliance and other management priorities facing the Department.
- **Financial Results** provides a Message from the Deputy Chief Financial Officer, the Department's consolidated and combined financial statements and the Auditors' Report.
- **Other Information** provides the Inspector General's Statement of Management Challenges and other statutory reporting.

**Annual Performance Report (APR)** [will be available March 2015] The APR will provide the detailed performance information and descriptions of results by each performance measure.

**Summary of Performance & Financial Information** [will be available March 2015] This document will highlight the most important performance and financial information from the APR and AFR.

### These three reports meet the following reporting requirements:

- Reports Consolidation Act of 2000 requires the consolidated reporting of performance, financial and related information in a Performance and Accountability Report (PAR).
- Federal Financial Management Improvement Act (FFMIA) of 1996 requires an assessment of the agency's financial systems for adherence to Government-wide requirements.
- Government Management Reform Act (GMRA) of 1994 requires agency audited financial statements.
- Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires a report on the status of internal controls and the agency's most serious problems.
- Inspector General (IG) Act of 1978 (Amended) requires information on management actions in response to IG audits.
- Department of Energy Organization Act of 1977 requires an annual report on agency activities.

All three reports will be available at [www.energy.gov/about-us/budget-performance](http://www.energy.gov/about-us/budget-performance)

# Table of Contents

Message from the Secretary .....	i
Management's Discussion and Analysis .....	1
Agency Highlights .....	2
Strategic Plan and Program Performance .....	10
Goal 1: Science and Energy .....	10
Goal 2: Nuclear Security .....	13
Goal 3: Management and Performance .....	16
Management's Analysis, Assurances and Priorities .....	18
Analysis of Financial Statements .....	18
Analysis of Systems, Controls, and Legal Compliance .....	25
Management Priorities .....	27
Financial Results .....	39
Consolidated and Combined Financial Statements .....	42
Introduction to Principal Statements .....	42
Principal Statements .....	43
Notes to the Consolidated and Combined Financial Statements .....	48
Consolidating Schedules .....	90
Required Supplementary Stewardship Information (RSSI) .....	100
Required Supplementary Information (RSI) .....	103
Memorandum from the Inspector General .....	106
Independent Auditors' Report .....	108
Other Information .....	117
Combining Schedules of Spending .....	118
Inspector General's Management Challenges .....	120
Summary of Financial Statement Audit and Management Assurances .....	122
Financial Management Systems Plan .....	123
Improper Payments Information and Reporting .....	124
Freeze the Footprint .....	127
Other Statutory Reporting – Management's Response to Audit Reports .....	128
Glossary of Acronyms .....	129







# Message from the Secretary



I am pleased to present the U.S. Department of Energy's (DOE) *Fiscal Year 2014 Agency Financial Report*. It provides key financial and performance information that demonstrates our commitment to enhance America's security and economic growth through transformative science, technology innovation, and market solutions to meet our energy, nuclear security, and environmental challenges. Our *Fiscal Year 2014 Annual Performance Report* will be released as a complement to this report in 2015.

Our [DOE Strategic Plan](#) released in April 2014 provides a roadmap for our work by establishing three broad strategic goals: (1) *Science and Energy* – advance foundational science, innovate energy technologies, and inform data driven policies that enhance U.S. economic growth and job creation, energy security, and environmental quality, with emphasis on implementation of the President's Climate Action Plan to mitigate the risks of and enhance resilience against climate change; (2) *Nuclear Security* – strengthen national security by maintaining and modernizing the nuclear stockpile and nuclear security infrastructure, reducing global nuclear threats, providing for nuclear propulsion, improving physical and cybersecurity, and strengthening key science, technology, and engineering capabilities; and (3) *Management and Performance* – position the Department of Energy to meet the challenges of the 21st century and the nation's Manhattan Project and Cold War legacy responsibilities by employing effective management and refining operational and support capabilities to pursue departmental missions.

Progress was made in achieving each of these goals in FY 2014 through continued investments in scientific research, renewable energy, energy efficiency, nuclear security, and environmental cleanup. For example, DOE is supporting implementation of the President's Climate Action Plan to cut carbon pollution through work in mitigation, adaptation, and international engagement. A major milestone was reached through the successful capture of more than one million metric tons of carbon dioxide at the hydrogen-production facility in Port Arthur, Texas. In addition, seven new efficiency standards were issued in 2014. These new rules, along with the full set of "building and equipment" standards to be issued by 2016 under the Climate Action Plan, will reduce carbon pollution by at least 3 billion metric tons by 2030. Another Climate Action Plan initiative is the Quadrennial Energy Review (QER) that will focus on energy infrastructure and will identify the threats, risks, and opportunities for U.S. energy and climate security. We have held 13 QER meetings across the country and one in Canada.

The Department also took important steps in FY 2014 to make up to \$40 billion in loans and loan guarantees available to accelerate deployment of innovative clean energy projects and advanced vehicle manufacturing in the U.S. Specifically, we issued two new solicitations and are currently accepting applications for up to \$8 billion in loan guarantees for Advanced Fossil Energy Projects and as much as \$4 billion in loan guarantees for Renewable Energy and

Efficient Energy Projects. In addition, we announced key improvements to help deploy \$16 billion in remaining loan authority to support domestic manufacturing of fuel-efficient vehicles and components. Finally, a draft solicitation was issued that if finalized, would provide up to \$12.6 billion in loan guarantees to support Advanced Nuclear Energy Projects. On the energy technology front, DOE laboratories created a new class of highly efficient fuel cell catalysts; and advances were achieved in the efficiency of solar technology, vehicle batteries, and energy use in buildings.

Efforts to enhance nuclear security around the world include the last shipment of enriched uranium converted from Russian nuclear warheads to the United States to fuel nuclear power plants; development of a new method for analyzing airborne radiological monitoring data in coordination with the Japanese government; and deployment of a Global Positioning System IIF navigation satellite and a Global Burst Detector designed to detect, identify, and precisely locate nuclear explosions. Significant environmental cleanup achievements include the cleanout and demolition of the last reactor support facility at the Hanford site in Washington State; the demolition of the K-25 gaseous diffusion building in Oak Ridge, Tennessee; and the demolition of the last inactive facility at the Paducah Gaseous Diffusion Plant in Kentucky.

The independent public accounting firm KPMG LLP conducted an audit of the FY 2014 DOE financial statements contained in this report and issued an unmodified audit opinion. Based on internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete and reliable and accurately describes FY 2014 DOE results.

A handwritten signature in black ink, appearing to be 'Ernest J. Moniz', with a stylized, flowing script.

Ernest J. Moniz  
November 14, 2014



# Management's Discussion and Analysis



Researchers at Los Alamos National Laboratory are investigating the details of an astronomical simulation in the cave automatic virtual environment (CAVE) - a cube-shaped room with high-resolution projections on all six surfaces. (Photo courtesy of Leroy Sanchez, LANL)



# Agency Highlights

(Unaudited)

## MISSION

*To enhance U.S. security and economic growth through transformative science, technology innovation, and market solutions to meet our energy, nuclear security, and environmental challenges.*

### STRATEGIC GOALS ESTABLISHED IN THE APRIL 2014 STRATEGIC PLAN

#### Goal 1: Science and Energy

- Advance the goals and objectives in the President's Climate Action Plan by supporting prudent development, deployment, and efficient use of "all of the above" energy resources that also create new jobs and industries
- Support a more economically competitive, environmentally responsible, secure and resilient U.S. energy infrastructure
- Deliver the scientific discoveries and major scientific tools that transform our understanding of nature and strengthen the connection between advances in fundamental science and technology innovation

#### Goal 2: Nuclear Security

- Maintain the safety, security and effectiveness of the nation's nuclear deterrent without nuclear testing
- Strengthen key science, technology, and engineering capabilities and modernize the national security infrastructure
- Reduce global nuclear security threats
- Provide safe and effective integrated nuclear propulsion systems for the U.S. Navy

#### Goal 3: Management and Performance

- Continue cleanup of radioactive and chemical waste resulting from the Manhattan Project and Cold War activities
- Manage assets in a sustainable manner that supports the DOE mission
- Effectively manage projects, financial assistance agreements, contracts, and contractor performance
- Operate the DOE enterprise safely, securely, and efficiently
- Attract, manage, train, and retain the best federal workforce to meet future mission needs



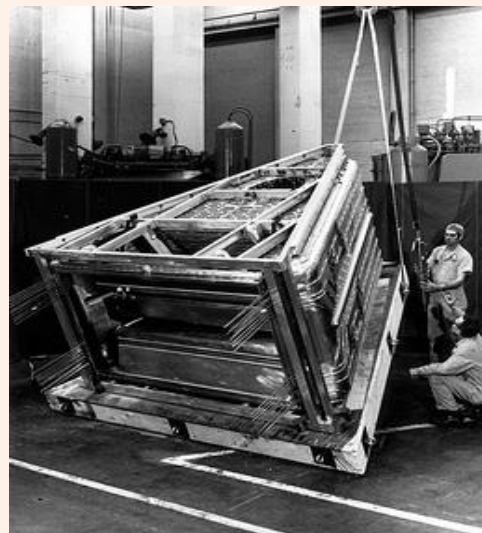


## History

**T**he Department of Energy has one of the richest and most diverse histories in the Federal Government, with its lineage tracing back to the Manhattan Project and the race to develop the atomic bomb during World War II. Following that war, Congress created the Atomic Energy Commission (Commission) in 1946 to oversee the sprawling nuclear scientific and industrial complex supporting the Manhattan Project and to maintain civilian government control over atomic research and development (R&D). During the early Cold War years, the Commission focused on designing and producing nuclear weapons and developing nuclear reactors for naval propulsion. The creation of the Commission ended the exclusive Government use of the atom and began the growth of the commercial nuclear power industry, with the Commission having authority to regulate the new industry.

In response to changing needs and an extended energy crisis, the Congress passed the Department of Energy Organization Act in 1977, creating the Department of Energy. That legislation brought together for the first time, not only most of the Government's energy programs, but also science and technology programs and defense responsibilities that included the design, construction and testing of nuclear weapons. The Department provided the framework for a comprehensive and balanced national energy plan by coordinating and administering the energy functions of the federal Government. The Department undertook responsibility for long-term, high-risk R&D of energy technology, federal power marketing, some energy conservation activities, the nuclear weapons programs, some energy regulatory programs, and a central energy data collection and analysis program.

Over its history, the Department has shifted its emphasis and focus as the energy and security needs of the nation have changed.



**Oak Ridge Y-12 Plant craftsmen pose with one of two reactor units made by the plant for Indiana University's cyclotron facility. (circa 1975)**

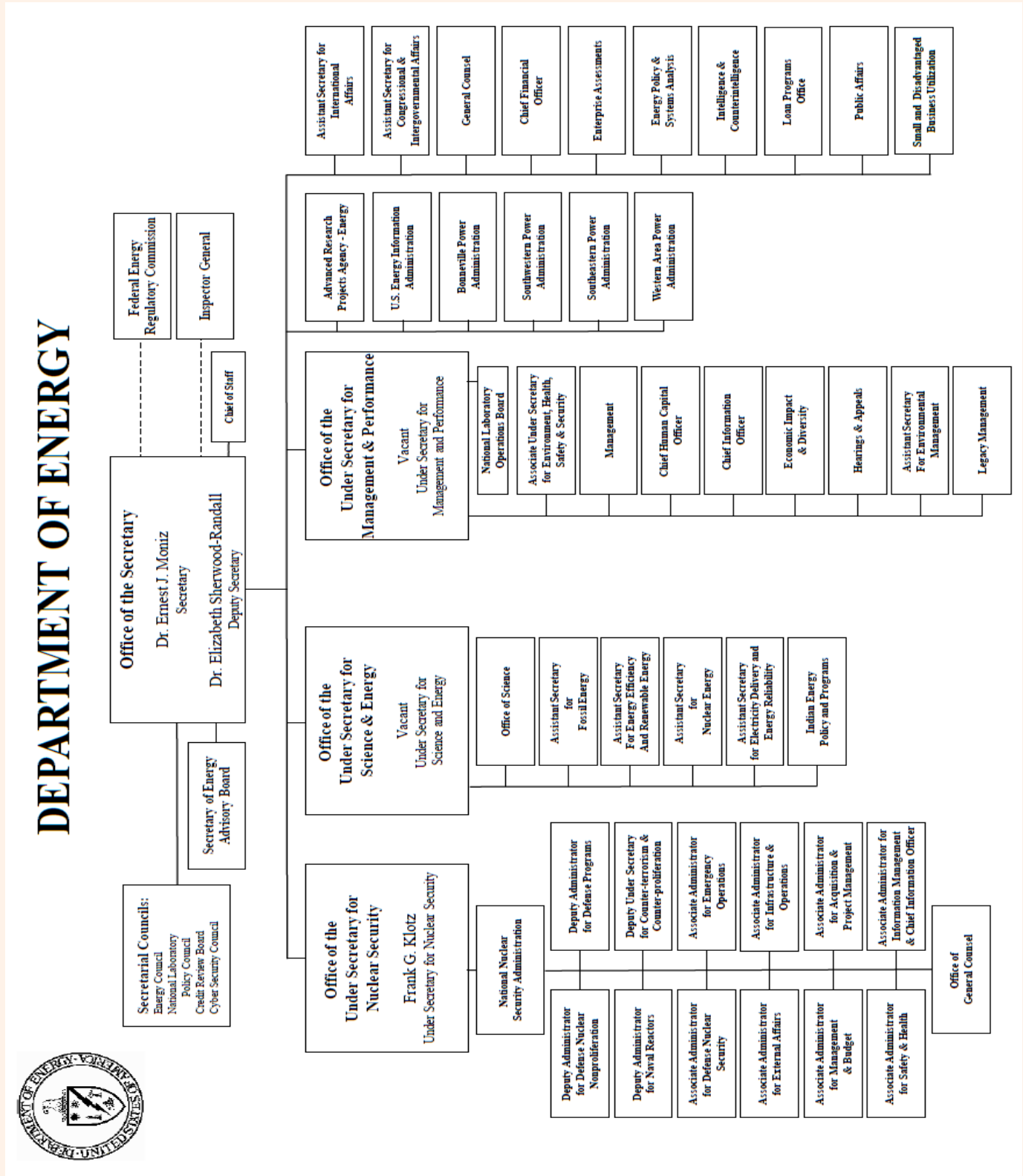


**The Ivanpah Solar Energy Generating System, located in the Mojave Desert, is the largest solar thermal energy facility in the world. DOE provided a \$1.6 billion loan guarantee to the project. (Photo courtesy of Gilles Mingasson/Getty Images for Bechtel)**



**The Dunlite turbine, with 3 blades and a 12 foot rotor diameter, was tested at Rocky Flats. (circa 1977)**

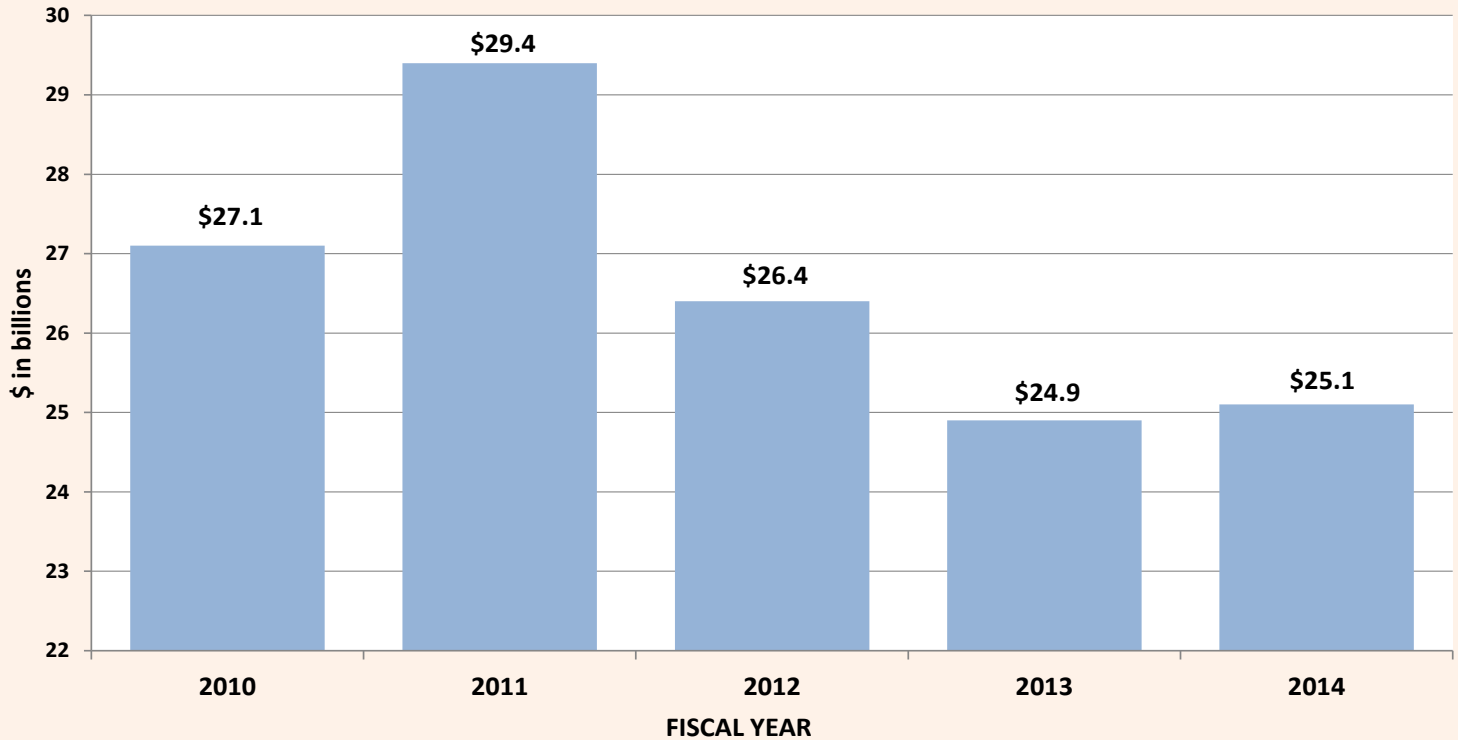
# Organizational Structure



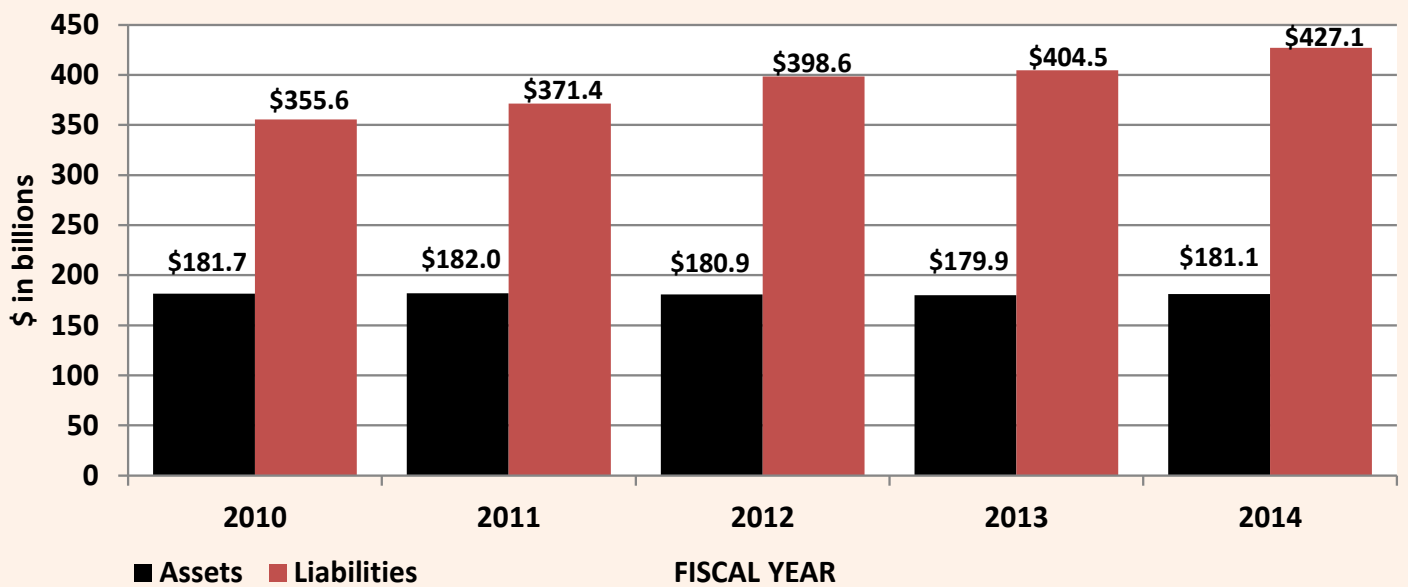
## Financial Resources

### Appropriations

(Appropriations are defined per the FY 2014 *Combined Statements of Budgetary Resources*)



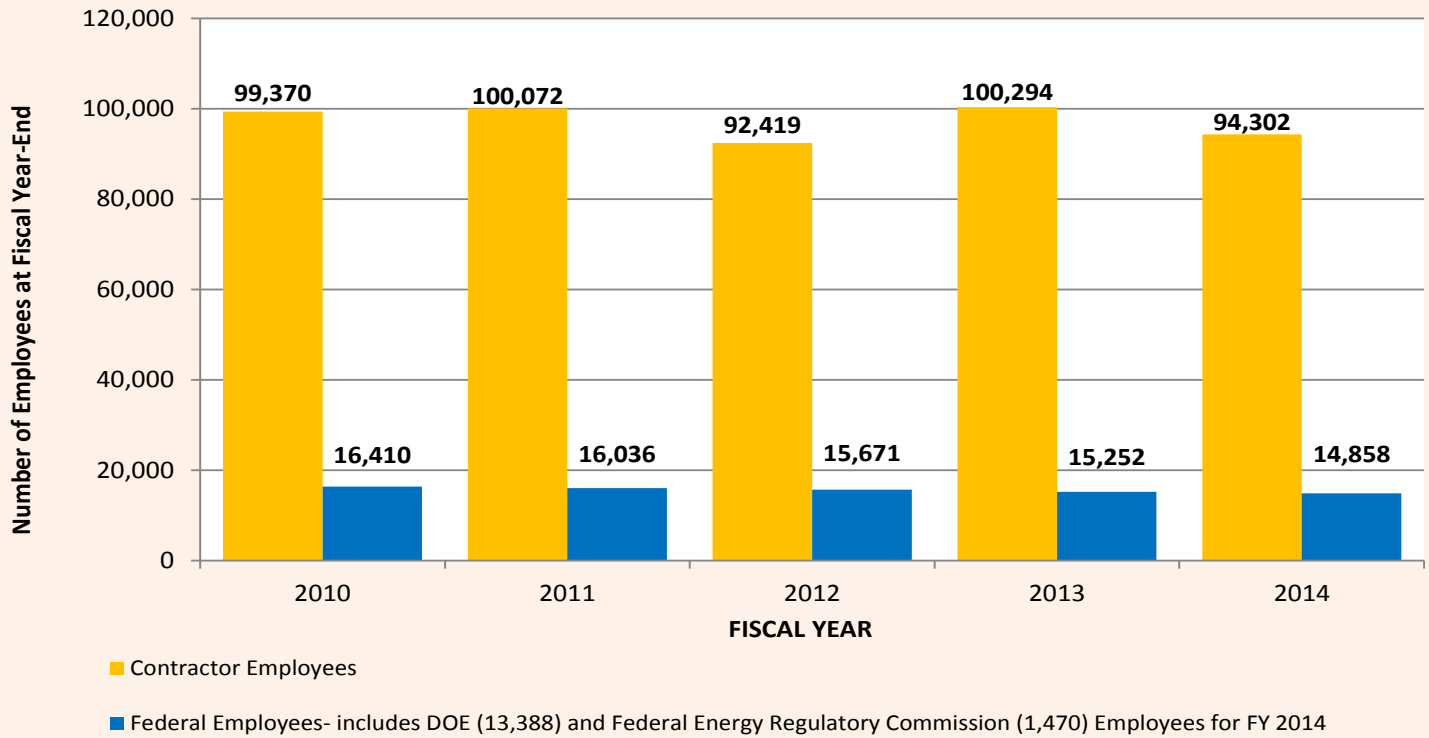
### Assets and Liabilities





# Human Capital Resources

## Federal and Contractor Employees



# Financial Management Report Card

COMPLIANCE		REQUIREMENT OR INITIATIVE	SUPPORTING INDICATORS (see page references for more detail)
YES	NO		
<input checked="" type="checkbox"/>		Government Management Reform Act –Financial Statement Audit	Unmodified Audit Opinion (see pages 106-116)
<input checked="" type="checkbox"/>		Federal Managers’ Financial Integrity Act – Internal Controls (Section II) Financial Systems (Section IV)	No Material Weaknesses (Section II) (see pages 25-26 and 122) Financial Systems generally conform to (Section IV) requirements and no FISMA significant deficiencies identified (see pages 25-26 and 122)
<input checked="" type="checkbox"/>		OMB Circular A-123, Appendix A	No Material Weaknesses (see pages 25-26 and 122)
<input checked="" type="checkbox"/>		Federal Financial Management Improvement Act	Substantially comply with federal financial management system requirements (see pages 25-26 and 122)
<input checked="" type="checkbox"/>		Federal Information Security Management Act (FISMA)	Substantially comply with FISMA requirements as evidenced by annual FISMA reporting data (see pages 25-26 and 122)
<input checked="" type="checkbox"/>		Improper Payments Information Act, as amended by the Improper Payments Elimination & Recovery Act and the Improper Payments Elimination and Recovery Improvement Act	<1% overall Erroneous Payment Rate and not susceptible to significant improper payments (see pages 124-125)

# AGENCY HIGHLIGHTS

## Performance Summary

The tables in this section will be updated with FY 2014 data in the Department's *FY 2014 Annual Performance Report* available in 2015. Additional performance results can be obtained at [http://archive-goals.performance.gov/goal\\_detail/doe/363](http://archive-goals.performance.gov/goal_detail/doe/363).

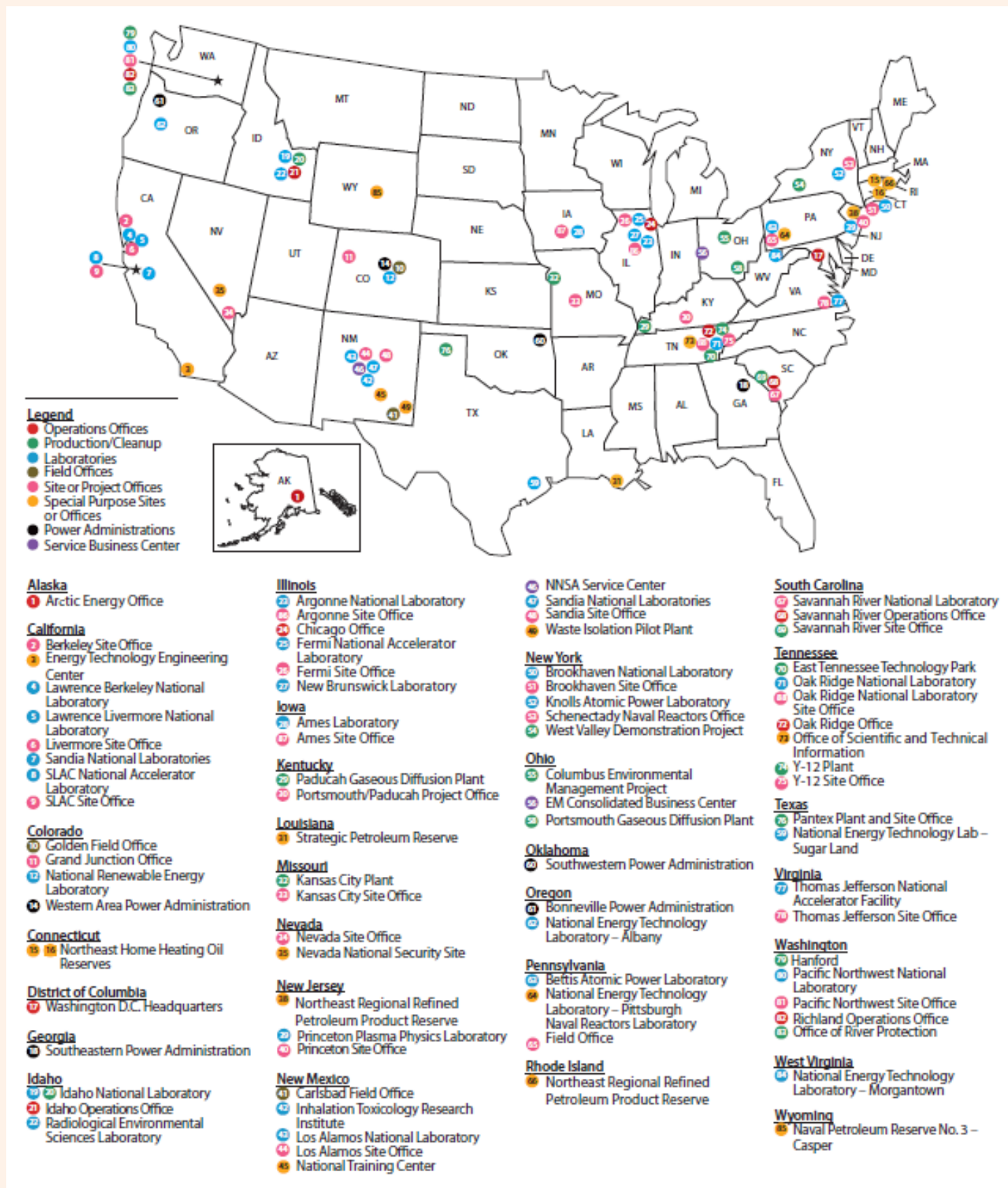
Strategic Goal	Activity	Fiscal Year 2012 Performance			Fiscal Year 2013 Performance		
		Targets Met	Targets Not Met	Results Unknown	Targets Met	Targets Not Met	Results Unknown
Strategic Goal 1: Science and Energy							
	Electricity Delivery & Energy Reliability	7	1		6		
	Western Area Power Administration	3			3		
	Bonneville Power Administration	3			3		
	Southeastern Power Administration	2			2		
	Southwestern Power Administration	4			3		
	Solar Energy	4			3		
	Wind Energy	4			3		
	Geothermal Technologies	1			1		
	Water Power	1	1		1		
	Biomass & Biorefinery Systems R&D	4			3		
	Hydrogen & Fuel Cell Technologies	2			2		
	Vehicle Technologies	7			6	1	
	Advanced Manufacturing	3	1		5		
	Building Technologies	8	1		7	2	
	Federal Energy Management		1			1	
	Weatherization & Intergovernmental	5			4		
	Fossil Energy R&D	4			3		
	Petroleum Reserves	2	1		3		
	New Nuclear Generation Technologies	4			5		
	Nuclear Infrastructure	2	1		1	2	
	Energy Information Administration	2			2		
	Loan Guarantees	4	1		2		
	Advanced Research Projects Agency-Energy	2			2		
	Advanced Scientific Computing Research	1	1		2		
	Basic Energy Sciences	3			3		
	Biological & Environmental Research	3			3		
	Fusion Energy Sciences	4			4		
	High Energy Physics	3			2	1	
	Nuclear Physics	3			3		
	Total Goal 1	95	9	0	87	7	0
Strategic Goal 2: Nuclear Security							
	NNSA Office of the Administrator	1			1		
	Directed Stockpile Work	3	1		1	3	
	Science Campaign	1			1		
	Engineering Campaign	1			1		
	Inertial Confinement Fusion Ignition & High Yield Campaign		1		2	1	
	Advanced Simulation & Computing Campaign		1			1	
	Readiness Campaign	2			3		
	Readiness in Technical Base & Facilities	2			1		
	Secure Transportation Asset	1			1		
	Nuclear Counterterrorism Incident Response	1			1		
	Facilities & Infrastructure Recapitalization	1					
	Site Stewardship	2			1		
	Defense Nuclear Security	3			1		
	NNSA CIO Activities		1		1		
	Counterterrorism & Counterproliferation				2		
	National Security Applications	2					
	Nonproliferation & Verification R&D	4			4		
	Nonproliferation & International Security	3			3		
	International Material Protection & Cooperation		2		1	1	
	Fissile Materials Disposition	2	2		1	3	
	Global Threat Reduction Initiative	2	1		3		
	Naval Reactors	2			2		
	Total Goal 2	33	9	0	31	9	0

## AGENCY HIGHLIGHTS

Strategic Goal	Activity	Fiscal Year 2012 Performance			Fiscal Year 2013 Performance		
		Targets Met	Targets Not Met	Results Unknown	Targets Met	Targets Not Met	Results Unknown
Strategic Goal 3: Management and Performance							
	Environmental Management	9	8		6	3	
	Legacy Management	2			2		
	Information Management (CIO)	1				3	
	Departmental Management	1				1	
	Human Capital	1	1		1	1	
	Workforce Development for Teachers & Scientists				1		
	Total Goal 3	14	9	0	10	8	0
	DOE Total	142	27	0	128	24	0
	Share of Targets Met	84%			84%		



# Major Laboratories and Field Facilities



# Strategic Plan and Program Performance

(Unaudited)

The narrative below discusses FY 2014 results and outcomes for DOE programs as aligned with the strategic goals presented in the [2014-18 DOE Strategic Plan](#). A detailed discussion of results for the Department's FY 2014 performance goals, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the *FY 2014 DOE Annual Performance Report* to be released in 2015. Additional performance information is available at <http://energy.gov/about-us/budget-performance>.

## Goal 1: Science and Energy

*Advance foundational science, innovate energy technologies, and inform data driven policies that enhance U.S. economic growth and job creation, energy security, and environmental quality, with emphasis on implementation of the President's Climate Action Plan to mitigate the risks of and enhance resilience against climate change*

### Objective 1

Advance the goals and objectives in the President's Climate Action Plan by supporting prudent development, deployment, and efficient use of "all of the above" energy resources that also create new jobs and industries

### Objective 2

Support a more economically competitive, environmentally responsible, secure and resilient U.S. energy infrastructure

### Objective 3

Deliver the scientific discoveries and major scientific tools that transform our understanding of nature and strengthen the connection between advances in fundamental science and technology innovation

### Contributing Programs

Advanced Research Projects Agency-Energy, Electricity Delivery and Energy Reliability, Energy Efficiency and Renewable Energy, Energy Information Administration, Energy Policy and Systems Analysis, Fossil Energy, Indian Energy Policy and Programs, International Affairs, Loan Programs, Nuclear Energy, Power Marketing Administrations, Science, Strategic Petroleum Reserve

DOE leads the nation in the transformational research, development, demonstration, and deployment of an extensive range of clean energy and efficiency technologies, supporting the President's Climate Action Plan and an "all of the above" energy strategy. DOE identifies and promotes advances in fundamental and applied sciences; translates cutting-edge inventions into technological innovations; and accelerates transformational technological advances in energy areas that industry by itself is not likely to undertake because of technical or financial risk. DOE also leads national efforts to develop technologies to modernize the electricity grid, enhance the security and resilience of energy infrastructure, and expedite recovery from energy supply disruptions. DOE also conducts robust, integrated policy analysis and regional engagement to support the nation's energy agenda. DOE is the largest federal sponsor of basic research in the physical sciences. Below are examples of FY 2014 program results and outcomes from DOE investments in Science and Energy.

**Carbon Capture Technology:** In partnership with Air Products and Chemicals, Inc., DOE reached a major milestone, successfully capturing more than 1 million metric tons of carbon dioxide (CO<sub>2</sub>) at the hydrogen-production facility in Port Arthur, Texas. Using an innovative technology called vacuum swing adsorption, the project captures more than 90% of the CO<sub>2</sub> from the

product stream of two commercial-scale steam methane reformers that would otherwise be emitted into the atmosphere. In addition to the secure storage, captured carbon from the project will be used to increase oil production from nearby fields that were once thought to be exhausted.

**Climate Model:** A DOE scientist at Lawrence Berkeley National Laboratory developed a simple model for vegetation carbon response that predicts how a given climate for a region would evolve over time. This "climate analogue" method tracks the change in the most statistically similar climate at every location in an Earth System Model over an interval of time and recalculates the carbon flux within the models participating in the project.

**Pantex Wind Farm Completion:** Building on President Obama's Climate Action Plan, which calls for steady, responsible steps to reduce carbon pollution, DOE completed the nation's largest federally owned wind farm at the Pantex Plant near Amarillo, Texas. Pantex will now be powered largely by the Pantex Renewable Energy Project, an 11.5 megawatt, five-turbine wind farm that is on 1,500 acres of DOE-owned land adjacent to the Pantex Plant. Construction of the wind farm was completed in June 2014 under an Energy Savings Performance Contract, which resulted in no upfront cost to the taxpayers. The

## STRATEGIC PLAN AND PROGRAM PERFORMANCE (Unaudited)

contractor will be paid directly from the value of guaranteed energy savings generated by the turbines, an amount expected to average \$2.8 million annually. This wind farm will generate approximately 47 million kilowatthours of electricity annually, which is enough to power nearly 3,500 homes. It will reduce CO<sub>2</sub> emissions by over 35,000 metric tons per year, the equivalent of removing 7,200 cars from the road each year or planting 850,000 trees.

**Water-Energy Nexus:** A report was released in July 2014 that frames an integrated challenge and opportunity around the water-energy nexus. Present day water and energy systems are tightly intertwined. Water is used in all phases of energy production and electricity generation. Energy is required to extract, convey, and deliver water of appropriate quality for diverse human uses. Recent developments have focused national attention on these connections. When severe drought affected more than a third of the United States in 2012, limited water availability constrained the operation of some power plants and other energy production activities. Hurricane Sandy demonstrated the compounding ramifications of vital water infrastructure losing power. The recent boom in domestic unconventional oil and gas development has added complexity to the national dialogue on the relationship between energy and water resources.

**Fuel Cell Catalysts:** Researchers from DOE's Berkeley and Argonne National Laboratories developed a new class of fuel cell catalysts that use roughly 85% less platinum and have more than 30 times the catalytic activity than conventional catalysts. Scientists created a dodecahedron nanoframe – a 3-dimensional, 12-sided hollow structure smaller in diameter than a human hair. In addition to lowering catalyst costs – and thereby the overall cost of fuel cells – the new nanoframe catalyst produces power more efficiently by extracting more electrical energy during the electrochemical reaction. This means that manufacturers could reduce the size and weight of fuel cells while achieving the same – or better – performance, potentially making fuel cells even cheaper for consumers. While still in the very early stages of research, these new catalysts hold strong promise for fuel cell vehicles – not to mention other fuel cell applications like stationary and portable power.

**Solar Power Efficiency:** A new approach to harvesting solar energy could improve efficiency by using sunlight to heat a high-temperature material whose infrared radiation would then be collected by a conventional photovoltaic cell. This technique could also make it easier to store the energy for later use. This work was performed as part of the MIT-led Solid-State Solar-Thermal Energy Conversion Center, one of 46 Energy Frontier Research Centers led by DOE. A conventional silicon-based solar cell does not take advantage of all the photons. That's because converting the energy of a photon into electricity requires that the photon's energy level match that of a characteristic of the photovoltaic material called a bandgap. Silicon's bandgap

responds to many wavelengths of light, but misses many others.

**New Solar Capacity:** The Department provided a \$967 million loan guarantee to the Agua Caliente solar project, owned by NRG Energy in 2011. The project came online in early 2014 and is now the world's largest photovoltaic power plant. This facility has the capacity to generate 290 megawatts of solar electricity in Yuma County, Arizona. The completion of Agua Caliente represents a series of recent achievements in bringing large-scale solar energy to Americans. In October 2013, supported in part by a \$1.4 billion loan guarantee, the Solana concentrating solar power plant started delivering "night-time solar" to Arizona homes and businesses as the world's largest solar facility with thermal storage. In February 2014, the Secretary of Energy attended the dedication of Ivanpah, the world's largest concentrating solar power (CSP) plant, which was built with the help of a \$1.6 billion DOE loan guarantee. In early 2014, the 250-megawatt Genesis CSP project, which received an \$852 million loan guarantee by DOE, came online in Riverside County, California.

**Advanced Energy Projects:** Through DOE's Advanced Research Projects Agency – Energy (ARPA-E) innovative projects are being developed that will transform the way Americans use and produce energy. Over the past 5 years, 22 ARPA-E projects have attracted more than \$625 million in private-sector follow-on funding after an initial investment of approximately \$95 million. At least 24 ARPA-E project teams have formed new companies to advance their technologies and more than 16 ARPA-E projects have partnered with other Government agencies for further development. During 2014, ARPA-E launched focused programs to develop transformational electrochemical technologies to enable low-cost distributed power generation; low-cost highly sensitive systems to detect and measure methane; localized heating and cooling devices to expand temperature ranges within buildings; low-cost tools to aid in the future development of fusion power; highly efficient and scalable dry-cooling technologies for thermoelectric power plants; and technologies to rapidly accelerate biomass yield gains through automated, predictive and systems-level approaches to biofuel crop breeding.

**Energy Efficiency Standards:** New energy efficiency standards for furnace fans were issued in June 2014. These new standards will help reduce harmful carbon pollution by up to 34 million metric tons – equivalent to the annual electricity use of 4.7 million homes – and save over \$9 billion in home electricity bills through 2030.

New energy efficiency standards were also issued during 2014 for electric motors and walk-in coolers and freezers. These standards combined will help reduce harmful carbon pollution by up to 158 million metric tons – equivalent to the annual electricity use of more than 21 million homes – and save businesses \$26 billion on utility bills through 2030.



## STRATEGIC PLAN AND PROGRAM PERFORMANCE (Unaudited)

**Building Upgrades:** The Department's Better Buildings Neighborhood Program has helped more than 40 state and local governments upgrade more than 100,000 buildings and save families and businesses over \$730 million on utility bills. Over the last 4 years, these state and local governments have partnered with utilities, nonprofit organizations, financial institutions and building efficiency experts to upgrade homes and other buildings. The \$508 million federal investment leveraged another \$1 billion in other public and private sector funding and supported more than \$740 million in direct invoices to local workers for energy assessments and upgrades they performed. Local direct investments and savings will continue to grow as leveraged funds are used to finance future energy efficiency project upgrades. More than 1,400 home improvement contractors completed upgrades for homeowners. Approximately 30 programs out of the original 40 are continuing without federal support, including programs in Oregon, Maine, Virginia, and Florida.

**Vehicle Battery Research:** Researchers at DOE's Lawrence Berkeley National Laboratory have demonstrated in the laboratory a lithium-sulfur battery that has more than twice the "specific energy"—or energy density per weight—of lithium-ion batteries, and that lasts for more than 1,500 cycles of charge-discharge with minimal decay of the battery's capacity. This is the longest cycle life reported so far for any lithium-sulfur battery. These cells may provide a substantial opportunity for the development of zero-emission vehicles with a driving range similar to that of gasoline vehicles.

**Biofuels Research:** Scientists at DOE's Brookhaven National Laboratory have identified the key genes required for oil production and accumulation in plant leaves and other vegetative plant tissues. Enhancing expression of these genes resulted in vastly increased oil content in leaves, the most abundant sources of plant biomass. The research is described in two recent publications in *The Plant Journal* and *Plant Cell*. Plants do not normally store much oil in their leaves and other vegetative tissues. In nature, oil storage is the job of seeds, where the energy-dense compounds provide nourishment for developing plant embryos. The idea behind these studies was to find a way to "reprogram" plants to store oil in their more abundant forms of biomass.

**New Biorefinery Facility:** Scientists at Project LIBERTY, the nation's first commercial-scale cellulosic ethanol plant to use corn waste as a feedstock, began production in

September 2014. Once operating at full, commercial-scale, the biorefinery in Emmetsburg, Iowa, will produce 25 million gallons of cellulosic ethanol per year – enough to avoid approximately 210,000 tons of CO<sub>2</sub> emissions annually. Developed with the support of approximately \$100 million in investments and research from DOE, the facility uses biochemical conversion technologies such as yeast and enzymes to convert cellulosic biomass into transportation fuels. Project LIBERTY will produce cellulosic ethanol from corn cobs, leaves, husks, and corn stalk harvested by local farmers located within a 30 to 40 mile radius of the plant, producing 2,600,000 million Btu per year from the anaerobic digester and solid fuel boiler to power the entire facility as well as a co-located existing corn ethanol plant. This is enough to power about 70,000 American homes for a year.

**Energy Information:** The Department initiated a new monthly Drilling Productivity Report, which takes into account technological changes that have led to rapid increases in U.S. oil and gas production and contains metrics intended to be more informative than traditional indicators of future production. First released in October 2013, the report provides region-specific insights into oil and natural gas drilling rig efficiency, new well productivity, existing well decline rates, and overall oil and natural gas production trends. The six regions covered account for 90% of domestic oil production growth in 2011-12 and virtually all domestic natural gas production growth.

Preliminary data from the 2012 Commercial Buildings Energy Consumption Survey (CBECS) was released in June 2014. This survey, which is collected on a quadrennial basis, provides the only statistically reliable source of information on energy consumption, expenditures, and end uses in U.S. commercial buildings and serves as a basis for benchmarking and performance measurement for energy efficiency programs. The 2012 survey was the largest active field collection in CBECS history, with more than 200 trained interviewers visiting about 7,000 commercial buildings to collect building characteristics and consumption data through in-person interviews. This initial release is the first of many reports that will be published for the 2012 CBECS. The preliminary data provide a first look at the building stock and the attributes that drive commercial energy use, while subsequent releases will show more detailed characteristics and cross-tabulations among key energy categories.

## Goal 2: Nuclear Security

*Strengthen national security by maintaining and modernizing the nuclear stockpile and nuclear security infrastructure, reducing global nuclear threats, providing for nuclear propulsion, improving physical and cybersecurity, and strengthening key science, technology, and engineering capabilities*

### **Objective 4**

Maintain the safety, security, and effectiveness of the nation's nuclear deterrent without nuclear testing

### **Objective 5**

Strengthen key science, technology, and engineering capabilities and modernize the national security infrastructure

### **Objective 6**

Reduce global nuclear security threats

### **Objective 7**

Provide safe and effective integrated nuclear propulsion systems for the U.S. Navy

### **Contributing Programs**

National Nuclear Security Administration, Intelligence and Counterintelligence, International Affairs

The DOE national security mission supports nuclear security, intelligence and counterintelligence operations, and related national security needs. The President's 2010 National Security Strategy, the Nuclear Posture Review (NPR), and the ratification of the New Strategic Arms Reduction Treaty underscored the importance of the DOE's nuclear mission, and renewed the mandate for DOE to maintain a safe, secure, and reliable stockpile for as long as nuclear weapons exist. The NPR presented a path to reduce global nuclear security threats while permitting access to peaceful nuclear power for nations that respect the international nonproliferation regime. DOE advances the President's vision to move toward a world free of nuclear weapons by both dismantling retired weapons and improving global stability through increased transparency and confidence building measures.

Through the National Nuclear Security Administration's (NNSA) nuclear security enterprise, DOE plays a central role in sustaining a safe, secure, and effective nuclear deterrent and combating proliferation and nuclear terrorism. The science, technology, engineering and manufacturing capabilities resident in the nuclear security enterprise underpin our ability to conduct stockpile stewardship and solve the technical challenges of verifying treaty compliance, combating nuclear terrorism and proliferation, and guarding against the threat posed by nuclear technological surprise. For example, the unique knowledge gained in nuclear weapons design developed to support the U.S. stockpile plays a critical role in the nation's ability to understand strategic threats worldwide. DOE is responsible for providing the design, development, and operational support required to provide militarily effective naval nuclear propulsion plants and ensure their safe, reliable and long-lived operations.

By providing a modernized, responsive infrastructure, DOE prepares the nation for a range of potential future nuclear deterrence challenges. With its extensive science

and technology capabilities and nuclear expertise, DOE provides support to defense, homeland security, and intelligence missions, primarily through DOE's system of national laboratories and sites. DOE also provides expert knowledge and operational capabilities for physical security, classification, emergency preparedness and response, nuclear forensics and cybersecurity. Below are examples of FY 2014 program results and outcomes from DOE investments in national security.

**Reducing Global Nuclear Dangers:** NNSA efforts to reduce global nuclear dangers include removing all HEU from Hungary. In November 2013, NNSA's Global Threat Reduction Initiative (GTRI) and Hungary's Atomic Energy Research Institute, in a joint operation with the Russian Federation, announced the successful removal of 49.2 kilograms of HEU from the Hungary's Budapest Research Reactor. Shipments also occurred from Poland, Kazakhstan, Italy, Belgium, and Canada. As of September 30, 2014, GTRI has removed or confirmed the disposition of a cumulative total of 5,210 kilograms of nuclear material and eliminated all HEU from 26 countries and Taiwan. In July 2014, the NNSA's Global Threat Reduction Initiative completed the conversion of Russia's Argus research reactor in cooperation with Rosatom and the Kurchatov Institute. This was the first conversion of a Russian research reactor from HEU to LEU fuel.

**Training on Insider Threats:** NNSA supported the third International Atomic Energy Agency (IAEA) International Training Course held in Tokai, Japan, on the Preventive and Protective Measures Against Insider Threats. This course was held in April 2014 and included case studies of actual insider events and multiple practical exercises that teach measures that can be taken to prevent and mitigate the threat of the insider at nuclear facilities. The course was attended by 37 participants from 20 countries including Brazil, Bulgaria, Egypt, Ghana, Hungary, India, Indonesia, Japan, Jordan, Lithuania, Malaysia, Mexico,

## STRATEGIC PLAN AND PROGRAM PERFORMANCE (Unaudited)

Pakistan, Romania, Serbia, South Africa, Thailand, Turkey, Ukraine, and Vietnam. Six instructors representing Finland, Japan, Pakistan, the United Kingdom, and the United States conducted the course for the IAEA. The participants consisted of regulators, operators, physicists, and engineers, representing many disciplines such as Physical Security Systems; Cyber Security; and Material Control and Accounting.

**Preventing Illicit Trafficking:** NNSA and the government of Argentina recently completed the transition of the radiation detection systems located at the Port of Buenos Aires and Port of Dock Sud. This event was commemorated at an official signing in Argentina's capital of Buenos Aires in April 2014. The transition reflects the strong commitment of Argentina's government to deter, detect, and interdict illicit or smuggled nuclear and other radioactive materials in cargo containers shipped through the ports. Argentina's Administracion Federal de Ingresos Publicos International Affairs and Customs Divisions worked with NNSA's Second Line of Defense (SLD) program to implement and operate a tailored detection system designed to scan nearly 99% of cargo containers for dangerous nuclear and radiological materials at its seaport. Buenos Aires Customs has operated the system since late 2012 with support from the SLD program. During the 18-month transition period, SLD provided maintenance, spare parts, technical assistance, training, and advanced workshop opportunities in order to support Argentina's capacity to sustain the system. This work is an important part of NNSA's growing nuclear security cooperation within Latin America. NNSA is expanding its collaboration within the region to advance shared nuclear nonproliferation, safety, and security goals in areas such as nuclear security, border and port security, radioactive waste, and environmental management.

**Nuclear Detonation Detection:** In May 2014, with the support of the NNSA, a U.S. Air Force Delta IV rocket lifted off from Cape Canaveral. Hosted onboard was a GPS IIF navigation satellite and a Global Burst Detector (GBD) payload designed to detect, identify, and precisely locate nuclear explosions. The 300-pound GBD payload, supported by NNSA's Defense Nuclear Nonproliferation Research and Development Program and built by Sandia and Los Alamos National Laboratories, is the latest space-based sensor addition to the U.S. Nuclear Detonation Detection System, which monitors compliance with the international Limited Test Ban Treaty. The treaty, signed by 108 countries, prohibits nuclear testing in the atmosphere, outer space, and underwater. The launch is another milestone in the successful, 50-year partnership between the U.S. Air Force, the NNSA, and the national laboratories, which will continue to work together to employ advanced technologies for nuclear detonation detection instruments that improve system performance while reducing overall cost. Future systems will collect more data, process information faster, and improve discrimination, requiring fewer platforms to monitor the globe for nuclear events.

**Nonproliferation and Arms Control Verification:** In 2014, NNSA established two new university-led consortia to advance technologies for nonproliferation and nuclear arms control verification. The consortia are funded as 5-year grants and are viewed as sizeable, long-term investments. The Consortium for Nonproliferation Enabling Capabilities is led by North Carolina State University and focuses on simulation capabilities, algorithms, and modeling. The Consortium for Verification Technology is led by the University of Michigan and focuses on technologies that can support nuclear arms control commitments. These two new consortia join the Nuclear Science and Security Consortium, which was established in 2011 and is led by University of California, Berkeley, to round out an R&D university program that advances technologies in nuclear nonproliferation that is linked with, and complementary to, R&D in the national laboratories.

**Nuclear Forensics Workshop:** NNSA completed a nuclear forensics workshop at the Pacific Northwest National Laboratory in Richland, Washington. Twenty-six participants from 10 countries participated in the event, which was jointly sponsored with the International Atomic Energy Agency and focused on tools to help law enforcement investigations of incidents in which nuclear or other radioactive material is found outside of regulatory control. Nuclear scientists, law enforcements officials, and forensic specialists from around the world came together for the international workshop. The participating countries were Algeria, Bulgaria, the Czech Republic, Indonesia, Malaysia, Mexico, Pakistan, Singapore, Thailand, and Vietnam.

**National Security Campus:** In August 2014, DOE and NNSA formally dedicated the new National Security Campus (NSC) in Kansas City, Missouri. The Kansas City Plant (KCP) was relocated from its home of 64 years, Bannister Federal Complex, a 70-year-old facility, to the NSC. The relocation safely and securely moved a wide range of equipment including tools weighing as little as six ounces to a milling machine weighing 87,000 pounds. Despite this major effort, the move was completed one month ahead of the original schedule and \$10 million under budget. The KCP manufactures or purchases 85% of the non-nuclear components that make up our nuclear weapons, and thus plays a huge role in keeping the nation's stockpile safe, secure, and effective. This dedication represents not only the successful execution of a major project, but also the replacement of badly aging infrastructure. One of NNSA's highest priorities is to provide safe and modern facilities for the highly skilled and dedicated workforce to accomplish the work that remains critical to the security of the United States.

**Strategic Nuclear Deterrent:** The W76-1 Life Extension Program (LEP) reached the 50% total-production mark and is ahead of schedule to complete production in 2019. Savannah River Site received 704 Tritium Producing Burnable Absorber Rods irradiated at Watts Bar nuclear



## STRATEGIC PLAN AND PROGRAM PERFORMANCE (Unaudited)

power plant to produce tritium critical for the readiness of the stockpile. NNSA production sites completed dismantlement and component disposition necessary to be on track to meet the goal of dismantling all weapons retired prior to 2009 by 2022.

Los Alamos and Sandia national laboratories successfully completed the first full-system mechanical environment test of the B61-12 as part of the NNSA's ongoing effort to refurbish the B61 nuclear bomb. This first full-system mechanical environment test is one of several critical milestones for the B61-12 LEP. The B61-12 LEP is an essential element of the U.S. strategic nuclear deterrent and of the United States' commitments to extended deterrence.

**Radiological Dose Assessment:** The NNSA and the Japan Atomic Energy Agency (JAEA) have developed a novel method for analyzing airborne radiological monitoring data. This new method has been used to perform a detailed study of survey data taken by the NNSA and JAEA in the months following the March 2011 radiological incident in Japan. Aerial surveys were employed in the region surrounding the stricken Fukushima Daiichi Nuclear Power Plant to cover the area impacted by the accident

quickly, thoroughly, and safely. This new analysis provides a complete map of Iodine-131 deposition – an important contributor to radiological dose.

**R&D Awards:** Three NNSA sites – Lawrence Livermore, Los Alamos, and Sandia National Laboratories – have received a total of nine R&D Magazine's 2014 R&D 100 Awards. The awards recognize a variety of technologies created by researchers, scientists, and engineers from throughout the nuclear security enterprise. Examples of discoveries include a noninvasive, real-time and accurate estimate of oil production for a given well, achieving measurement rates as high as 100 readings per second; and an anthrax detector cartridge, about the size of a credit card, that can detect anthrax through a microculture chamber.

## Goal 3: Management and Performance

*Position the Department of Energy to meet the challenges of the 21st century and the nation's Manhattan Project and Cold War legacy responsibilities by employing effective management and refining operational and support capabilities to pursue departmental missions*

### **Objective 8**

Continue cleanup of radioactive and chemical waste resulting from the Manhattan Project and Cold War activities

### **Objective 9**

Manage assets in a sustainable manner that supports the DOE mission

### **Objective 10**

Effectively manage projects, financial assistance agreements, contracts, and contractor performance

### **Objective 11**

Operate the DOE enterprise safely, securely, and efficiently

### **Objective 12**

Attract, manage, train, and retain the best federal workforce to meet future mission needs

### **Contributing Programs**

Congressional and Intergovernmental Affairs, Economic Impact and Diversity, EERE Sustainability, Enterprise Assessments, Environmental Management, Financial Management (CFO), General Counsel, Environment, Health, Safety and Security, Hearings and Appeals, Human Capital, Information Technology (CIO), Inspector General, Legacy Management, Management, Public Affairs

Attaining mission success requires a sustained commitment to performance-based management and expectations of excellence from DOE headquarters to every site office, service center, laboratory, and production facility. At the center of this goal is a highly qualified, capable, and flexible federal workforce that can execute the mission in a safe, secure, efficient, and sustainable manner. DOE cultivates a performance-based system that links work to meeting agency and Administration goals and achieves results. Management of research and development involves prioritization of those activities with the greatest potential and likelihood for impact. Research decisions are informed by rigorous peer reviews at the portfolio level and solicitation levels. A top priority has been to improve contract and project management across the DOE enterprise, along with vigilant protection of DOE's cyber networks. Below are examples of FY 2014 program results and outcomes from management investments.

**Hanford Site:** The Richland Operations Office recently completed the cleanout and demolition of the last reactor support facility as part of the River Corridor Closure Contract. Workers demolished the last structure at Hanford's 100 Area under its contract. The building was the 183-B Clearwell, an old water treatment facility for the B Reactor. Hanford's 100 Area is located along the banks of the Columbia River in Washington State, where nine former plutonium production reactors are located. They were built from 1943 through 1965 and were constructed next to the river because of an abundance of cooling water needed by the reactors during operation.

**K-25 Building:** The demolition of the K-25 gaseous diffusion building was completed in December 2013. The

contractor that took over the project in 2011 completed the demolition over one year ahead of schedule and approximately \$300 million under budget while maintaining strong safety standards. The K-25 building, located at the East Tennessee Technology Park formerly known as the Oak Ridge Gaseous Diffusion Plant, was built in 1943 as part of the Manhattan Project. At the time of the Manhattan Project, K-25 was the world's largest building under one roof. This building operated until 1964, producing enriched uranium for defense and commercial purposes. During the past decades, as the facility deteriorated, its demolition was considered among the highest priorities for the environmental cleanup program in Oak Ridge. With the demolition of the K-25 building, only two of the five original gaseous diffusion buildings remain.

**Property Transfer:** In May 2014, DOE transferred its 12th property, approximately 25 acres at the Heritage Center, to the Community Reuse Organization of East Tennessee (Community) for private sector use. Through 2014, eight of the properties which have been transferred to Community have been sold or optioned to private industry, saving DOE nearly \$6.5 million. Additionally, more than 200 acres of underutilized DOE property has been transferred to the Community and re-developed with more than 100,000-square-feet of new construction.

**Paducah Site:** Heavy equipment operators demolished the last of 32 inactive facilities at the Paducah Gaseous Diffusion Plant in Kentucky, the C-410 Feed Plant, ridding the site of a structure contaminated with asbestos and a low-level radioactive chemical compound called uranium hexafluoride (UF<sub>6</sub>). With an original footprint of almost five acres — roughly equivalent to four football fields —

## STRATEGIC PLAN AND PROGRAM PERFORMANCE (Unaudited)

the feed plant operated from 1957 to 1977 to produce UF<sub>6</sub> and fluorine.

**Mill Tailings:** DOE safely moved another million tons of uranium mill tailings from the Moab site in Utah under the Uranium Mill Tailings Remedial Action Project. This brings the total tailings shipped to an engineered disposal cell near Crescent Junction, Utah, to 7 million tons. The project is nearly 45% complete in relocating the 16-million-ton uranium mill tailings pile away from the Colorado River. In addition to tailings removal operations, the project is beginning the process of segregating and sizing debris from the former ore mill buildings that were buried in the southern corner of the pile.

**Information Technology:** As part of the administration's IT modernization effort, DOE's National Nuclear Security Administration (NNSA) has successfully built, tested, and installed a new enterprise-wide network connecting its Washington, D.C., headquarters, Albuquerque Site Office, and eight NNSA labs/sites to one another. This new network, aptly named the ONE NNSA Network, will enable improved communication, collaboration, and information sharing among the geographically dispersed Nuclear Security Enterprise. The new network lays the foundation and infrastructure necessary to implement more sophisticated application hosting capabilities, information sharing opportunities, and shared services.

# Management's Analysis, Assurances and Priorities

## Analysis of Financial Statements

The Department's financial statements report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b) (United States Code). The Department's management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The statements have been prepared from the Department's books and records in accordance with

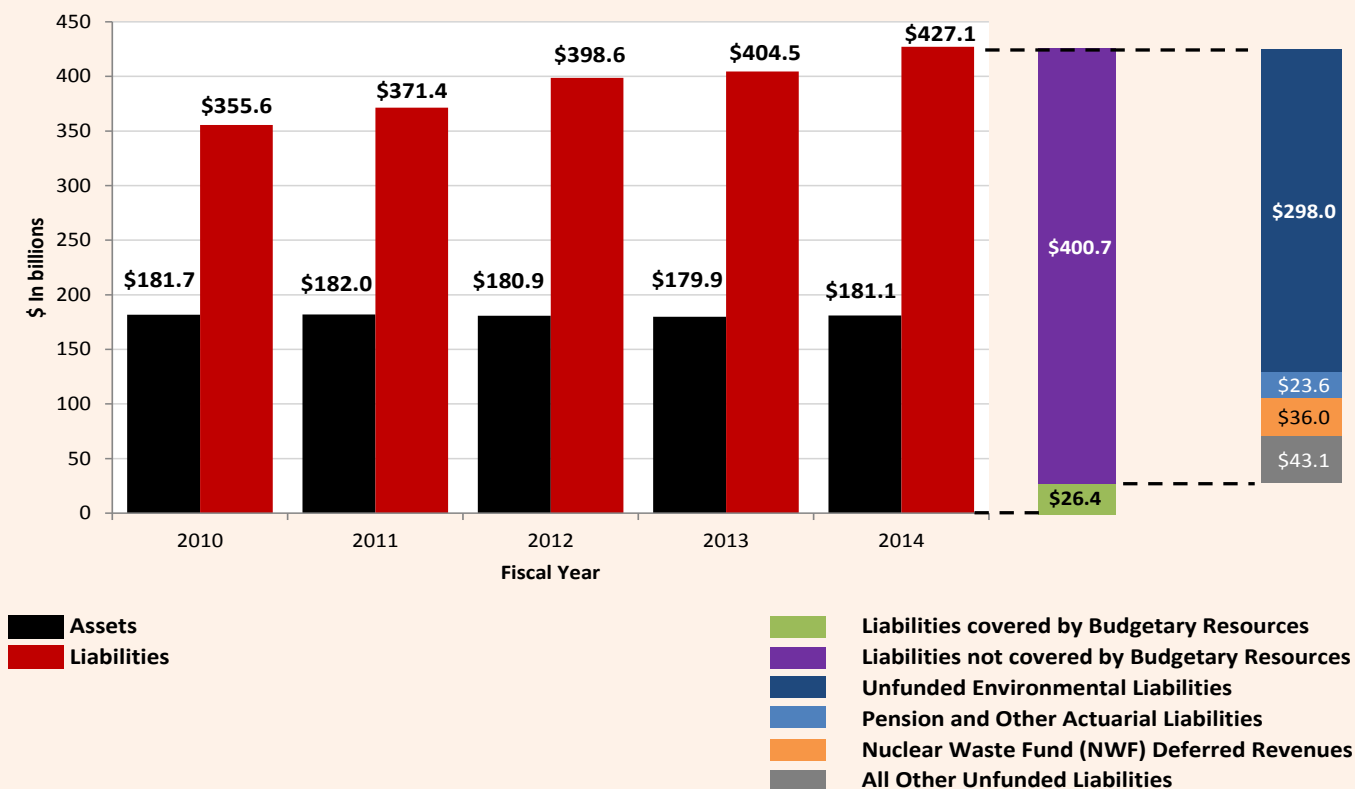
generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). The financial statements are prepared in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

### Balance Sheet

As shown in Chart 1, the Department's total liabilities exceed total assets. Significant balance changes are detailed in Charts 2 and 3. Chart 4 provides a detailed trend analysis of the changes in the Department's environmental liability balances over the past 5 years. The largest component of the Department's environmental liability is managed by the Environmental Management (EM) program which addresses the legacy of contamination from the nuclear weapons complex and includes managing thousands of contaminated facilities formerly used in the nuclear weapons program, overseeing the safe management of large quantities of radioactive waste and nuclear materials, and cleanup of large volumes of contaminated soil and water. The active facilities

liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. Other legacy liabilities are divided between environmental liabilities for active sites, including estimated cleanup; and the Office of Legacy Management (LM) for post-closure responsibilities, including surveillance and monitoring activities; soil and groundwater remediation; and disposition of excess material from sites after the EM program activities have been completed. The other legacy liabilities also include the Department's share of the estimated future costs of dispositioning its inventory of high-level waste and spent nuclear fuel (SNF).

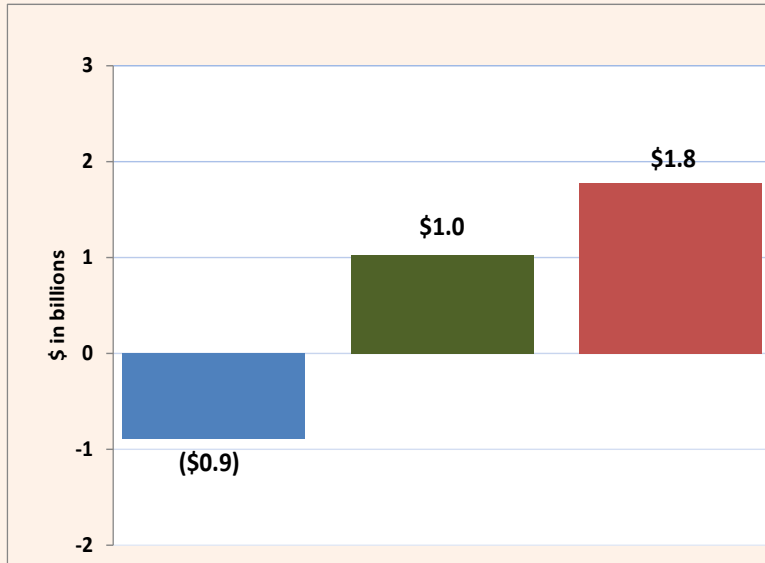
**Chart 1: Total Assets and Liabilities with Breakdown of FY 2014 Liabilities**





# MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES

**Chart 2: FY 2014 Significant Changes in Assets**



## **Fund Balance with Treasury**

The decrease is primarily due to an FY 2014 rescission of proceeds from an FY 2012 oil sale. This decrease is offset by an increase in FBWT due to the September 30, 2014 MOU that transferred the financial reporting for two receipt accounts in the Reclamation Fund from the Department of Interior (DOI) to DOE.

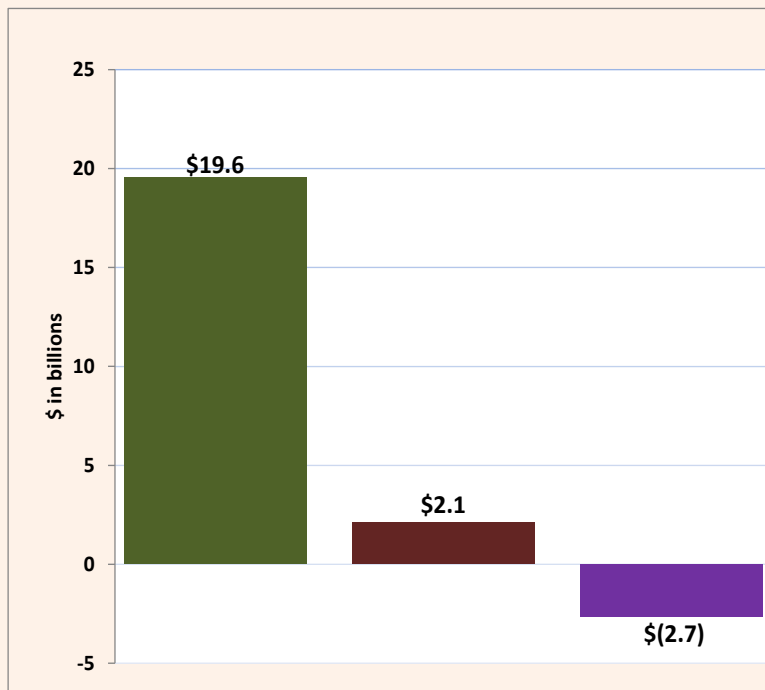
## **Loans and Loan Guarantees**

Changes are primarily due to loan activity which includes disbursements, principal repayments, capitalized interest and change in present value.

## **Investments**

The increase is primarily from NWF fees collected and investment income received by the NWF in excess of current expenses, which are invested in U.S. Treasury securities.

**Chart 3: FY 2014 Significant Changes in Liabilities**



## **Environmental Cleanup**

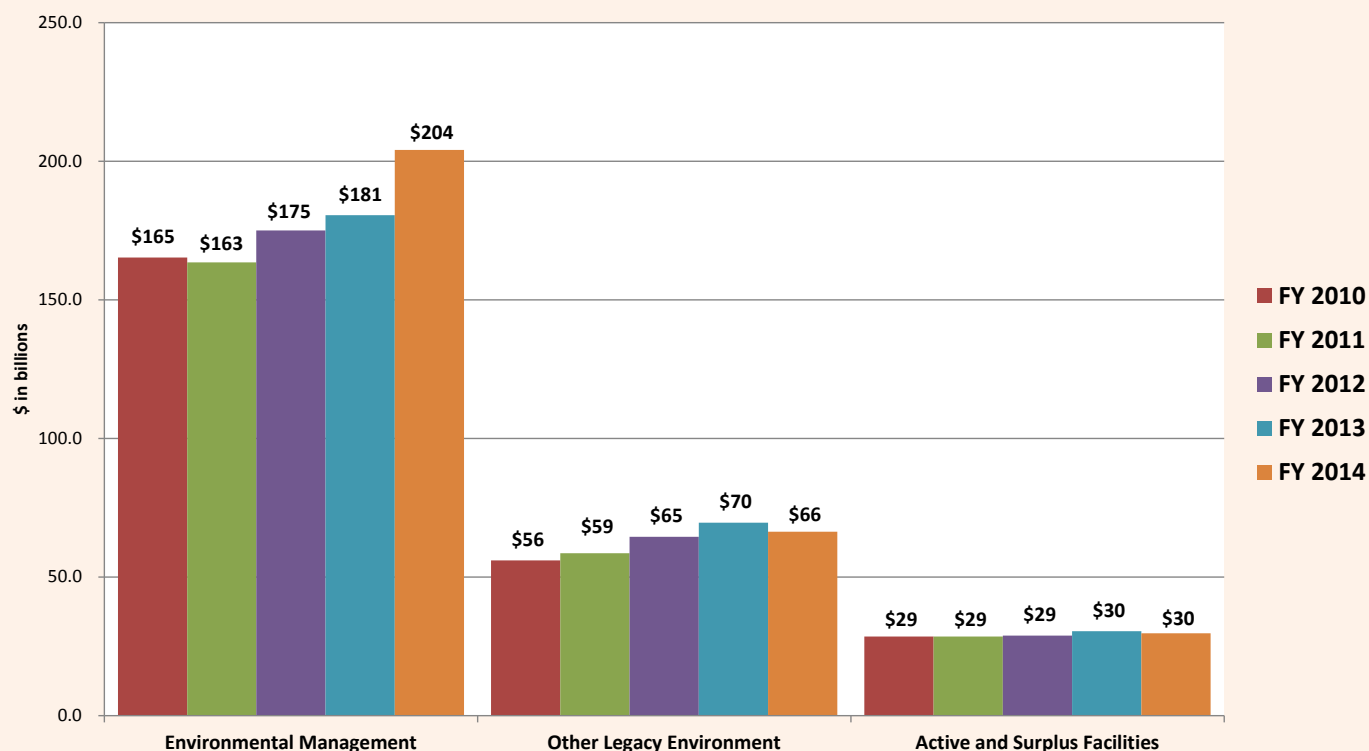
The increase is primarily due to modifications of liability estimates driven by changes in technical approach, scope of activities, regulatory changes, and inflation adjustments.

## **Pension and Other Actuarial Liabilities**

Contractor pension plan liabilities increased by \$2.5 billion and other postretirement benefits plan liabilities decreased by \$.4 billion. The most significant component of the pension plan liabilities increase resulted from a decrease in the rate used to discount the liabilities to present value (See Chart 8).

## **Intragovernmental Debt**

A Memorandum of Understanding between DOI and DOE transferred the financial reporting for two receipt accounts in the Reclamation Fund from DOI to DOE as of September 30, 2014. As a result, the debt for appropriated capital previously reported as being due to DOI will no longer be reflected in DOE's financial statements and footnotes as it is being eliminated against the corresponding loan receivable that was transferred from DOI.

**Chart 4: Composition of Environmental Cleanup and Disposal Liability**


## Net Cost of Operations

The major elements of net cost are shown in Chart 5. A breakdown of program costs (gross) by the Department's three programmatic goals, reimbursable work and other programs is provided in Chart 6.

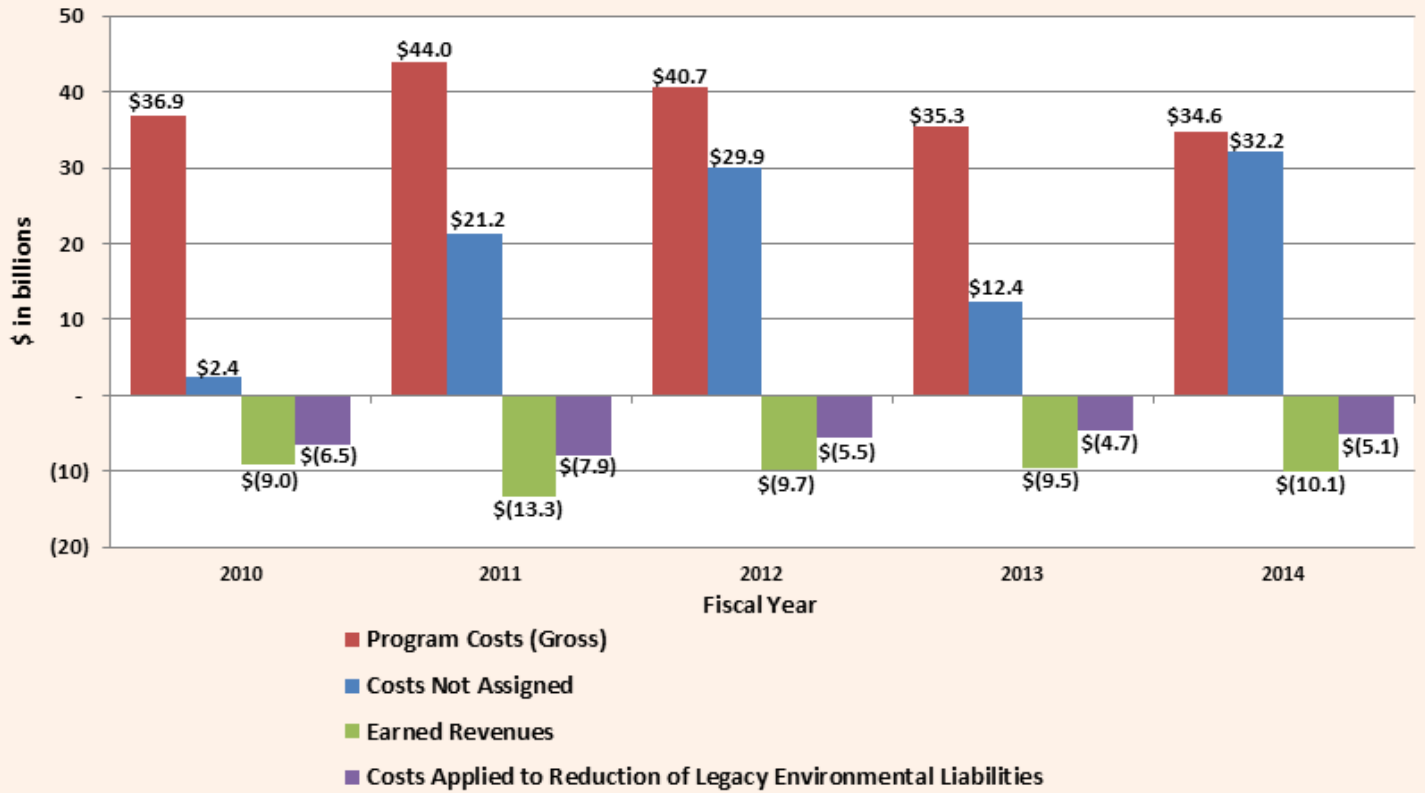
The Department's overall net costs are primarily affected by changes in environmental and other unfunded liability estimates. Since these estimates mostly relate to past years of operations, they are not included as current year program costs, but rather reported as "Costs Not Assigned" on the *Consolidated Statements of Net Cost*. Components of the FY 2014 unfunded liability estimate changes are shown in Chart 7.

A net increase to the Department's environmental liability estimates during FY 2014 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work, including changes resulting from deferral or acceleration of work; revisions in technical approach or scope; and regulatory changes. The most significant increases were in the Department's estimates associated with disposition of high-level waste and SNF given the delayed availability of a disposal path (see Chart 4).

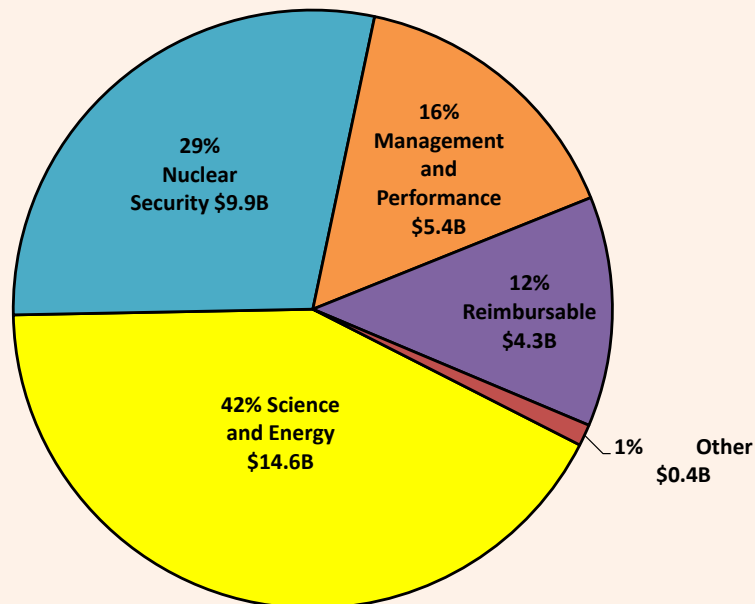
The Department's FY 2014 unfunded liability estimates increased by \$2.5 billion for contractor pension plans and decreased by \$0.4 billion for contractor postretirement benefits other than pensions (PRB) plans. The major components of these estimate changes are shown in Chart 8. The most significant component of the change in the contractor pension plan liabilities resulted from a decrease in the rate used to discount the liabilities to present value. The discount rate is based on the yields of high-quality fixed income securities as of September 30, 2014 and 2013. The most significant component of the change in contractor PRB liabilities resulted from changes made by contractors during the year in an effort to control the future cost growth associated with these benefits; this change more than offset the increase to the liability due to the change in the discount rate. There were also changes in both pension and PRB liabilities because of differences in actual plan experience for the year compared to the actuarial assumptions for rates of retirement, termination of employment, compensation increases, health care inflation, and other demographic factors, including changes made to those assumptions to better reflect anticipated future experience.

# MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES

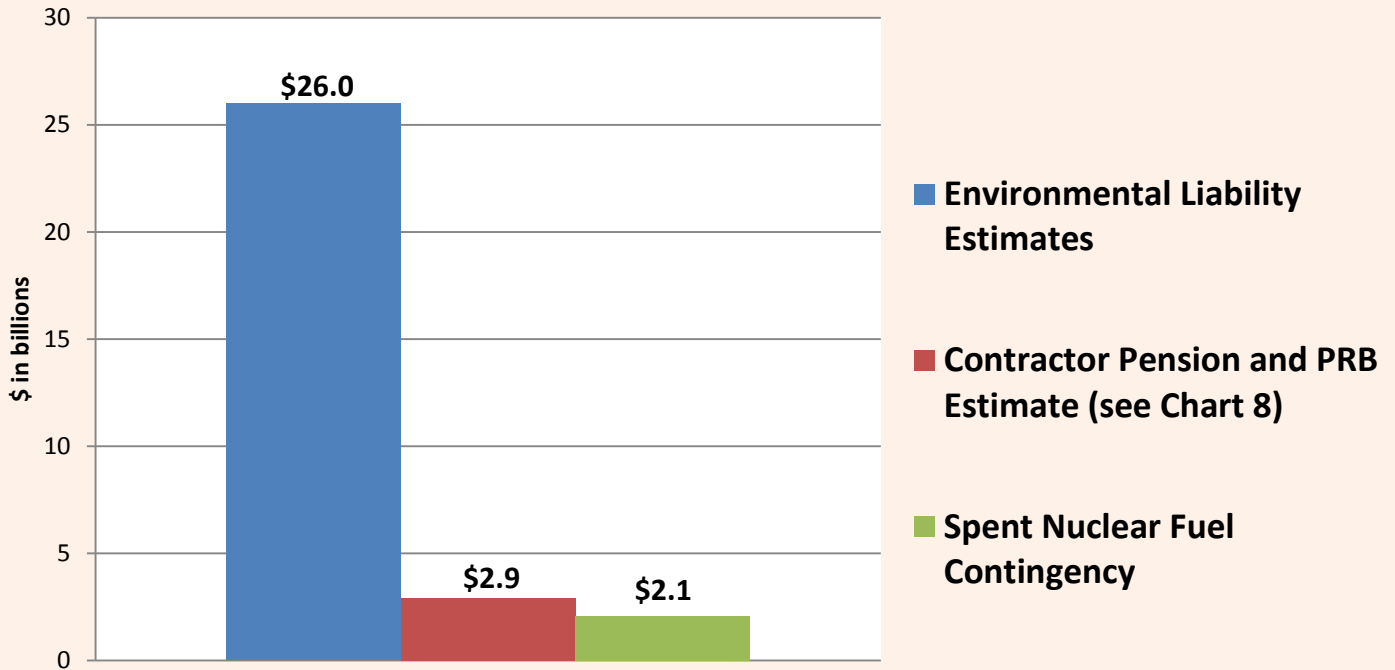
**Chart 5: Elements of Net Cost**



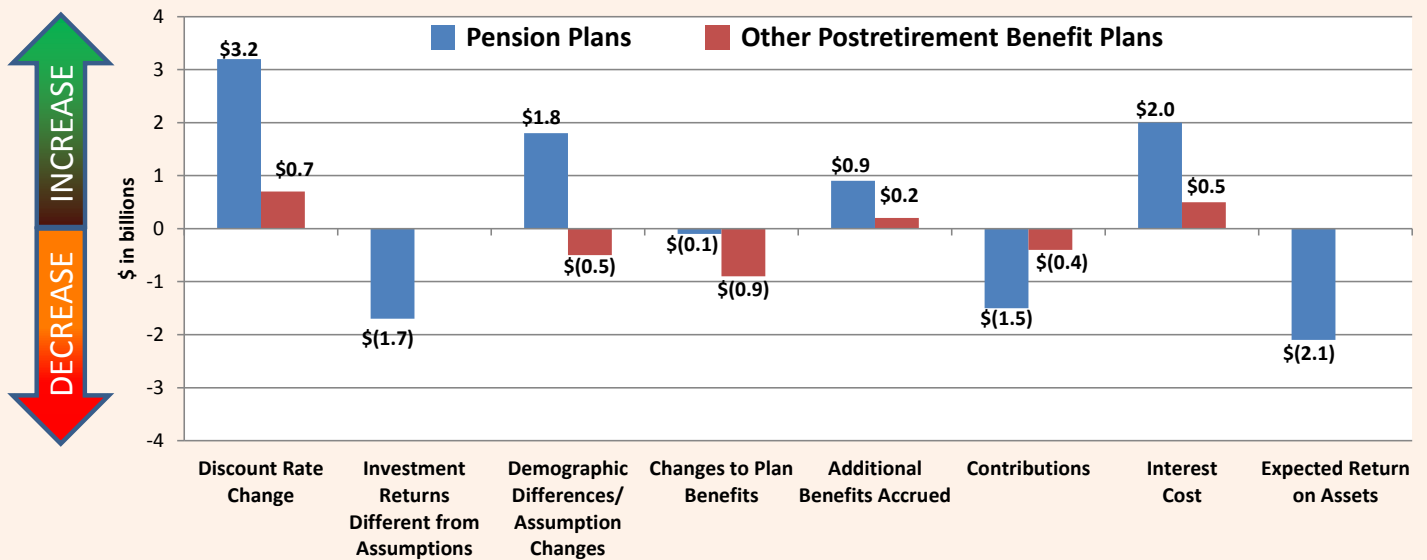
**Chart 6: FY 2014 Program Costs (Gross)**



**Chart 7: Major Elements of Costs Not Assigned**



**Chart 8: FY 2014 Contractor Employee Pension and Other Postretirement Benefit Plans Liability Estimate Changes**





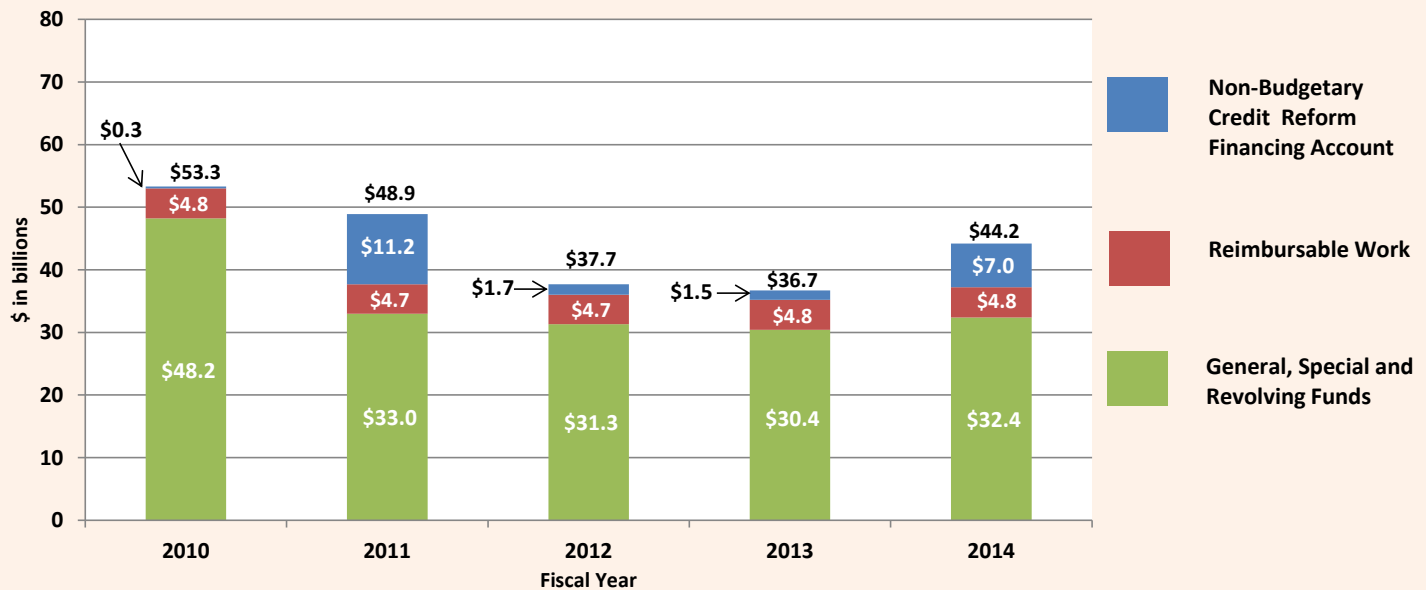
## Budgetary Resources

The *Combined Statements of Budgetary Resources* provides information on the budgetary resources available to the Department for the year and the status of those resources at the end of the fiscal year. The Department receives most of its funding from general Government funds administered by the Department of the Treasury (Treasury) and appropriated for Energy's use by Congress. Since budgetary accounting rules and financial accounting rules recognize certain transactions at different points in time, Appropriations Used on the *Consolidated Statements*

*of Changes in Net Position* will not match costs for that period. The primary difference results from recognition of costs related to changes in unfunded liability estimates. Budget authority from appropriations on the *Combined Statements of Budgetary Resources* increased in FY 2014 by \$0.2 billion from FY 2013.

As shown in Chart 9, the Department's Obligations Incurred increased by \$7.5 billion from FY 2013.

**Chart 9: Obligations Incurred**



# MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES

**Chart 10: Linking Strategic Goals, Objectives, Budget and Cost**

STRATEGIC GOALS	STRATEGIC OBJECTIVE	BUDGETARY EXPENDITURES INCURRED <sup>a c</sup> (\$ IN BILLIONS)		PROGRAM COST <sup>b c</sup> (GROSS IN BILLIONS)	
		FY 2014	FY 2013	FY 2014	FY 2013
Science and Energy	Advance the goals and objectives in the President's Climate Action Plan by supporting prudent development, deployment, and efficient use of "all of the above" energy resources that also create new jobs and industries	\$ 12.5	\$ 15.3	\$ 8.6	\$ 10.1
	Support a more economically competitive, environmentally responsible, secure and resilient U.S. energy infrastructure	0.8	1.1	0.7	1.1
	Deliver the scientific discoveries and major scientific tools that transform our understanding of nature and strengthen the connection between advances in fundamental science and technology innovation	4.8	4.9	5.2	4.7
Nuclear Security	Maintain the safety, security and effectiveness of the nation's nuclear deterrent without nuclear testing	3.8	3.7	3.9	3.4
	Strengthen key science, technology, and engineering capabilities and modernize the national security infrastructure	3.5	3.3	3.2	3.1
	Reduce global nuclear security threats	2.0	2.5	1.7	1.9
	Provide safe and effective integrated nuclear propulsion systems for the U.S. Navy	1.1	1.1	1.1	1.0
Management and Performance	Continue cleanup of radioactive and chemical waste resulting from the Manhattan Project and Cold War activities	5.5	5.3	4.5	4.6
	Manage assets in a sustainable manner that supports the DOE mission	0.2	0.2	0.1	0.1
	Effectively manage projects, financial assistance agreements, contracts, and contractor performance	0.1	0.1	0.1	0.1
	Operate the DOE enterprise safely, securely, and efficiently	0.6	0.6	0.6	0.6
	Attract, manage, train, and retain the best federal workforce to meet future mission needs	-	-	-	-

- Budgetary Expenditures Incurred are amounts accrued or paid for services performed, goods and tangible property received. Budgetary Expenditures are obtained from the Budgetary Standard General Ledger and are reported/recorded based on budgetary accounting rules. Includes capital expenditures but excludes such items as depreciation, changes in unfunded liability estimates, and certain other non-fund costs and activities.
- Program Costs (Gross) are taken from the Department's Consolidated Statements of Net Cost.
- Budgetary Expenditures and Program Cost include Recovery Act amounts.

## Analysis of Systems, Controls, and Legal Compliance

*(Unaudited)*

### Management Assurances

The Department's management is responsible for establishing and maintaining an effective system of internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). To support management's responsibilities, the Department is required to perform an evaluation of management and financial system internal controls as required by Sections II and IV, respectively, of FMFIA, OMB Circular A-123, Management's Responsibility for Internal Control, and internal controls over financial reporting as required by Appendix A of the Circular. The following assurances are made based on the results of these evaluations, which are reflected in reports and representations completed by senior accountable managers within the Department.

The Department has completed its evaluation of management and financial system internal controls. Based on that assessment, as of September 30, 2014, the Department can provide reasonable assurance that management internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations were operating effectively with no material weaknesses found in their design or operation. Evaluation results also indicated that the Department's financial systems generally conform to governmental financial system requirements and substantially comply with requirements of the Federal Financial Management Improvement Act (FFMIA).

In addition, the Department is providing reasonable assurance that internal controls over financial reporting as of June 30, 2014, were working effectively and no material weaknesses were identified in the design or operation of the specific controls over financial reporting. This assessment and evaluation of internal controls over financial reporting includes safeguarding assets and compliance with applicable laws and regulations, as required by Appendix A of OMB Circular A-123 and Departmental requirements. The evaluation required an assessment of both entity and process controls.

The Department is responsible for establishing and maintaining adequate internal controls (including safeguarding of assets and compliance with applicable laws and regulations) over all of the Department's American Recovery and Reinvestment Act (ARRA) funding. Controls have been established to ensure that the following critical objectives are met: (1) ARRA funding has been expended for the intended purposes and in accordance with internal and external guidance; (2) reported results regarding the expenditures of funds and the outcomes achieved are accurate and verifiable; and (3) key processes affecting the execution of ARRA funding have been evaluated and are deemed effective.

While the Department has no material weaknesses to report as a result of the above internal control evaluations, the Department continues its work to address Management Priorities. These Management Priorities represent the most important strategic management issues facing the Department in accomplishing its mission now and in the coming years.



Ernest J. Moniz  
November 14, 2014

### **Federal Managers' Financial Integrity Act**

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires that agencies establish internal controls and financial systems to provide reasonable assurance that the integrity of federal programs and operations is protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the Department developed an internal control program which holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. Annually, senior managers at the Department are responsible for evaluating the adequacy of the internal controls surrounding their activities and determining whether they conform to the principles and standards established by the Office of Management and Budget (OMB) and the Government Accountability Office (GAO). The results of these evaluations and other senior management information are used to determine whether there are any internal control problems to be reported as material weaknesses. The Departmental Internal Control and Audit Review Council, the organization responsible for oversight of the Internal Control Program, advises the Secretary on the Statement of Assurance.

### **OMB Circular A-123, Appendix A**

Appendix A of OMB Circular A-123 provides specific requirements to agencies for conducting management's assessment of internal control over financial reporting. The Department's evaluation for FY 2014 did not identify any material weaknesses in financial controls as of, or subsequent to, June 30, 2014.

### **Federal Financial Management Improvement Act**

The Federal Financial Management Improvement Act of 1996 was designed to improve federal financial

management and reporting by requiring that financial management systems comply substantially with three requirements: (1) federal financial management system requirements; (2) applicable federal accounting standards; and (3) the United States Government Standard General Ledger at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports.

The Department has evaluated its financial management systems and has determined that they substantially comply with federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger at the transaction level.

### **American Recovery and Reinvestment Act**

The American Recovery and Reinvestment Act (Recovery Act) was enacted to jumpstart our economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges so our country can thrive in the 21st century. The Recovery Act included measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

The Department has established and maintained adequate internal controls to ensure that: (1) Recovery Act funding has been expended for the intended purposes and in accordance with internal and external guidance; (2) reported results regarding the expenditure of Recovery Act funds and the outcomes achieved are accurate and verifiable; and (3) key processes impacting the execution of Recovery Act funding have been evaluated and are deemed effective.



# Management Priorities

(Unaudited)

The Department carries out multiple complex and highly diverse missions. Although the Department is continually striving to improve the efficiency and effectiveness of its programs and operations, there are some specific areas that merit a higher level of focus and attention. These areas often require long-term strategies for ensuring stable operations and represent the most daunting management priorities the Department faces in accomplishing its mission.

The Reports Consolidation Act of 2000 requires that, annually, the Inspector General (IG) prepare a statement summarizing what they consider to be the most serious management and performance challenges facing the Department. These challenges are included in the Other Information section of this report. Similarly, in FY 2013 the GAO issued its biennial "High Risk Series" update which included one DOE specific high risk issue.

The Department, after considering all critical activities within the agency and those areas identified by the IG and GAO, has identified seven management priorities that represent the most important strategic management issues facing the Department now and in the coming years. The IG identified challenges, GAO identified high risk issue, and DOE management priorities are identified in the table at the end of this section.

## ACQUISITION AND PROJECT MANAGEMENT

**Key Challenges:** The Department of Energy is the largest civilian contracting agency in the federal Government and spends approximately 90% of its annual budget on contracts to operate its scientific laboratories, engineering and production facilities, and environmental restoration sites and acquire capital assets. The Department has been challenged, both externally and internally, to improve the efficiency and effectiveness of its acquisition management processes. Since 1990, the Department has been on the GAO High-Risk List for inadequate contract and project oversight and management. A July 2009 report by the National Academy of Public Administration identified systemic challenges and other areas where improvements could be made to facilitate DOE's acquisition processes. In addition, the DOE Inspector General has identified acquisition and project management as a management challenge. During the past several years, the Department has launched and completed several initiatives to address its challenges in acquisition and project management, including a Root Cause Analysis (RCA) and associated Corrective Action Plan (CAP), Contract and Project Management Summit-related corrective actions, and issuance of several Deputy Secretary policy directives. Vulnerabilities will be eliminated or mitigated by the initiatives implemented.

**Departmental Initiatives:** Significant progress has been made in addressing this management priority. The major enhancements in DOE's acquisition and project management practices resulting from the RCA/CAP efforts include: improving front-end planning by requiring sufficient design maturity prior to establishing performance baselines; defining required project staff size and required skill set across the project lifecycle and enhancing training and qualifications of project and contract management personnel; stabilizing project funding and affordability by adhering to baseline funding profiles for incrementally funded projects in annual budget requests; strengthening DOE Order 413.3B by adding new independent cost estimating requirements at critical decision gateways; deploying a new and more robust Project Assessment and Reporting System which allows for direct upload of contractor project performance data; and implementing project peer reviews, a best practice successfully employed by the Office of Science, across the Department to better monitor project development and execution and foster sharing of design, procurement, and construction lessons learned.

The major enhancements in DOE's acquisition management practices resulting from the Contract and Project Management Summit include the issuance of new policies such as the Change Control Management Guide (DOE Guide 413.3-20); a revised DOE Acquisition Guide Chapter 42.5, Contract Management Planning; and more in-depth guidance on the development of Performance Evaluation Management Plans (PEMPs).

To further emphasize the importance of Project and Contract Alignment and Change Control, the Department issued an update to Acquisition Guide Chapter 43.3, Maintaining Alignment of Project Management with Contract Management of Non-M&O Cost Reimbursement Contracts for Capital Asset Projects, Environmental Remediation, Decontamination and Decommissioning, Facility Operations, and Other Major Projects, in March 2013. This chapter provides guidance on how Contracting Officers (COs) should manage contract changes and how COs and Federal Project Directors (FPDs) should maintain alignment between project and contract management decisions. This was followed by a memorandum from the Deputy Secretary on April 22, 2013, which reinforced the responsibility of FPDs, COs, and Program Managers to produce complete, up-to-date, and auditable contract and project documents.

Additionally, the Office of Acquisition and Project Management (OAPM) and the Office of Environmental Management (EM) collaborated in the development of a stand-alone course for managing contract/project changes which has improved the Department's post-

## MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES (Unaudited)

award management of contracts. Nine sessions were delivered in FY 2013 at various DOE sites and eleven sessions were delivered in FY 2014. Feedback on the course from attendees has been consistently positive.

Based on the Department's progress, GAO narrowed the scope of the high-risk designation in 2009, removing the Office of Science and focusing on the NNSA and EM. GAO issued a scorecard with five criteria for removing all DOE programs from the High-Risk List: (1) Demonstrate strong commitment and leadership; (2) Demonstrate progress in implementing corrective measures; (3) Develop a corrective action plan that identifies root causes, effective solutions, and a near-term plan for implementing the solutions; (4) Have the capacity (people and resources) to resolve problems; and (5) Monitor and independently validate the effectiveness and sustainability of corrective measures. GAO acknowledged the Department met three of these criteria in its February 2011 High-Risk List update. In its February 2013 High-Risk List update, GAO acknowledged the Department's continuing improvement in contract and project management by shifting the focus of DOE's high-risk designation to major contracts and projects executed by NNSA and EM with values of \$750 million or greater.

The Department will conduct staffing reviews of projects at critical decision points. Mobility agreements, Army Corps of Engineers and Naval Facility Engineering Command staffs, and support service contracts are viable ways for the Department to increase project staffing levels, when necessary.

OAPM continues to monitor RCA/CAP corrective measures to ensure their sustainability and project success performance metrics are reported to departmental leadership, OMB, and GAO, annually. The Department's project success metric is to deliver projects to completion at the original scope with no greater than a 10% cost increase. During the most recent reporting period covering FYs 2012 thru 2014, 75% of DOE's projects were completed successfully. DOE continues to explore strategies for improving performance.

Reinforcing the critical importance of continuing to improve acquisition planning and contract management, the Deputy Secretary issued a memorandum dated December 13, 2012, to Heads of Departmental Elements. It recognized that while the Department has made substantial efforts to improve project management, it is still experiencing significant delays and cost overruns in major capital projects. The memorandum centers around two principles – aligning contractor interest with the taxpayer's interest and structuring contracts so that each party to a contract bears responsibility for its own actions. The memorandum provides specific guidance and direction on implementing the principles.

OAPM is actively promoting the Deputy Secretary's charge to align contract incentives through a multi-pronged approach. It is working closely with program offices to facilitate robust upfront planning and requirements definitions, and promoting close collaboration between program officials and COs. They are identifying candidate projects that have historically been contracted on a cost-reimbursement basis to determine if they can be segregated into smaller, more defined elements to facilitate acquisition on a firm fixed-price basis. Coupled with promoting greater use of fixed-price contracts, OAPM is reinforcing the importance of using objective performance measures to incentivize optimal performance and reduce costs, in cases where a fixed-price contract is not deemed the most suitable instrument for the requirement. Finally, OAPM is strongly promoting the use of fee strategies that ensure each party in a contract bears responsibility for its own actions, including use of provisional fees, hard cost caps, and a cost share approach. These efforts are being accomplished through OAPM's early involvement with programs as they develop acquisition strategies.

During FY 2014, the Department undertook several initiatives to strengthen its ability to successfully deliver projects. DOE is enhancing its work classification policy and guidance for defining capital asset projects to ensure proper project management discipline is applied to critical work activities. Also, DOE updated its guidance for identifying and establishing the key performance parameters the project is intended to deliver. This enables all stakeholders to properly determine whether the Department completed the scope of work it committed to accomplish when a project's Performance Baseline was approved. Additionally, guidance for the preparation of life-cycle cost analyses for capital assets to determine the total cost of owning, operating, maintaining, and disposing those assets was strengthened to incorporate industry best practices. Finally, targeted training modules in the core areas of earned value management were created that address common deficiencies identified as a result of independent reviews across the complex.

In addition, OAPM is continuing to support multiple Department-wide initiatives aimed at strengthening the acquisition workforce and the systems on which they work.

- In FY 2013, OAPM created the Acquisition Intranet, which is a corporate repository of tools and references for GS-1102 contracting professionals, containing checklists, processes, procedures, rules, regulations and statutes, and templates. Due to positive user feedback, OAPM began to expand its user-base and capabilities in FY 2014;
- The Department's Procurement Systems Executive Steering Committee (PSESC) invested in the upgrade of STRIPES, DOE's procurement management system, to Version 6.5 in May 2013 and upgraded to Version 7.1 in

## MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES (Unaudited)

June 2014. The PSESC also decommissioned legacy systems, reducing overhead costs and removing unnecessary duplication;

- The Department established an onboarding process for new contracting specialists in September 2014. The program is designed to prepare highly-skilled entry and mid-level specialists to excel in various contracting positions. Over the next two years, these 14 specialists will participate in a variety of blended learning activities culminating in their achievement of a Federal Acquisition Certificate in Contracting (FAC-C, Level II);
- To improve data quality, DOE piloted Fed Data Check, an automated system to identify errors. It notifies COs of any errors, so they can be fixed immediately;
- The Acquisition Career Management Program (ACMP) Handbook was updated to improve clarity and provide a formal, structured approach to career development for DOE's acquisition workforce;
- OAPM strengthened its Web presence on DOE's Intranet, to better communicate ACMP requirements, course offerings, points of contact, and frequently asked questions;
- The ACMP standardized Continuous Learning Points (CLPs) across the certification programs;
- The Department extended and expanded its direct hire authority for GS-1102s to all Programs at Headquarters, expediting the selection and time to hire cycle; and
- The Department increased its engagement with the Federal Acquisition Institute (FAI) making possible the Federal Acquisition Certification for Program and Project Managers (FAC-P/PM) certification.

OAPM's engagement from the beginning of each major acquisition and its continued assistance throughout the entire acquisition cycle is significantly enhancing the success of the Programs and facilitating more timely awards and post-award management.

To raise awareness of the Department's efforts to support strategic sourcing of various commodities, and to provide guidance to the acquisition workforce on implementing strategic sourcing, OAPM released Acquisition Guide Chapter 7.2, Strategic Sourcing Requirements, in June 2013.

### SECURITY

**Key Challenges:** Ensure the security of national assets entrusted to DOE and classified information related to nuclear weapons while striving to enhance the Department's productivity to achieve mission objectives. The security breach at the Y-12 National Security Complex (Y-12) in July 2012 and the results of the reviews directed by the Secretary for all Category I Special Nuclear Material (SNM) sites demonstrate the need for continued vigilance and improvement.

**Departmental Initiatives:** In FY 2014, departmental elements continued implementing security reforms such as establishing the role of the Chief Security Officer for

each Under Secretary; reorganizing the Office of Health, Safety and Security into the Offices of Enterprise Assessments and Environment, Health, Safety and Security; and through senior departmental leadership, worker and stakeholder engagement, and use of operational experience to establish and strengthen lines of communications, seek feedback, and resolve areas of concern. DOE program and staff offices continue to validate the technical basis and soundness of their safeguards and security programs. Where applicable, revisions were and continue to be incorporated into organizational safeguards and security procedures and site contracts. Field and site training needs are being assessed and pertinent training continues to support operational requirements. The Department continued modifying site and laboratory security operational footprints to meet the Graded Security Protection (GSP) Policy and other security policies by consolidating and improving SNM storage facilities; eliminating or releasing for general use facilities that previously required safeguarding; and restructuring security management systems. Lessons learned and findings from the assessments, inspections, and reviews are being used to implement security reforms and corrective actions to address program weaknesses.

The Department will continue to institutionalize safeguards and security reforms through the following initiatives:

- Continue maximizing the use of national and international consensus standards where applicable and ensure DOE requirements are based on credible threats, and are meaningful, clear, and concise;
- Continue improving the effectiveness and efficiency of the Department's personnel security program, to include examining all potential and organizational alternatives in an effort to streamline the access authorization process and support the Department's Insider Threat Program. Continue to provide oversight and guidance for the issuance of credentials that support both physical and logical access under the DOE Identity Credentialing and Access Management program (ICAM). (The DOE ICAM program effort maps to the federal ICAM initiative, and implements Homeland Security Presidential Directive-12, and supports other information technology-based initiatives);
- Continue implementing the requirements of the GSP Policy by updating risk acceptance and vulnerability assessment processes, deploying cost-effective security measures, and consolidating and improving nuclear material storage facilities while also examining the basis behind the GSP and its potential revision;
- Review and assess key elements of the U.S. Nuclear Weapons Physical Security Program with the Department of Defense to "harmonize" security practices leading to a common basis for



protection of nuclear weapons and special nuclear material at the national level, and allow better communication and transparency with key decision makers in Congress and the Executive Branch;

- Maintain effective levels of security expertise throughout the Department by providing security training and professional development programs through the National Training Center;
- Foster improvements to security performance through the newly established Chief Security Officer role reporting to each Under Secretary and clarifying roles and responsibilities for federal and contractor line management;
- Foster a collaborative approach to electrical grid resiliency and security through partnerships with the Power Marketing Administrations, OE, and IN to identify, test and implement cost-efficient and performance-effective security technologies and programs;
- Continue to review and update security policy to better establish clear lines of responsibility and accountability for the implementation of security within line management; and provide expertise, guidance and security support services across the Department;
- Continue to monitor actions taken across the DOE complex in response to the Y-12 incident through independent oversight inspections and performance testing. These activities will include a review of the NNSA Headquarters corrective actions and a follow-up inspection at Y-12; and
- Implement an insider threat program to detect, deter, and mitigate insider threat actions by federal and contractor employees in accordance with the requirements of Executive Order 13587; *Structural Reforms to Improve the Security of Classified Networks and the Responsible Sharing and Safeguarding of Classified Information*, dated October 7, 2011; and the *National Insider Threat Policy and Minimum Standards for Executive Branch Insider Threat Programs*, dated November 21, 2012.

### ENVIRONMENTAL CLEANUP

**Key Challenges:** Environmental Management's (EM) mission is to clean up the environmental legacy of nuclear weapons production and nuclear energy research. Fifty years of conducting these activities produced unique, technically complex problems. These problems must be solved under exceptionally hazardous conditions and will require billions of dollars a year over several decades to complete the work.

Technical and programmatic risks and associated uncertainties are an inherent part of complex cleanup projects. The process of characterizing legacy sites to identify the nuclear and other hazardous wastes that remain and tearing down facilities, removing hazardous

materials, stabilizing waste streams to prevent additional environmental damage, and restoring the sites to conditions required by legal agreements can last for decades and often requires first-of-a-kind solutions. EM's cleanup work at most sites is governed by one or more regulatory agreements or court orders that establish the scope of work to be performed at a given site and the dates by which specific cleanup milestones must be achieved. Compliance with these agreements and orders is one of the major cost drivers for the EM program.

The legacy of the Manhattan Project and the Cold War plus byproducts of the U.S. nuclear fuels programs for power facilities, post-Cold War defense purposes, and nuclear energy research have created a backlog of excess contaminated facilities, materials and wastes requiring cleanup and disposition.

As a result of the age and diversity of past secret research, this legacy condition encompasses a level of uncertainty regarding the amount and composition of waste and about the nature and extent of environmental contamination. Initial regulatory milestones were developed based on the best information about a site's condition available at the time, recognizing that further characterization was needed. As each site is characterized by EM, the scope, complexity, and duration of the potential cleanup work is better defined. The Department uses that improved understanding to initially negotiate or revise milestones and remedy decisions with the U.S. Environmental Protection Agency and state regulators, with stakeholder involvement. The Department attempts to balance the goals of protecting human health, protecting the environment, and maintaining cost effectiveness in the negotiation and decision-making process.

On February 5, 2014, the Waste Isolation Pilot Plant (WIPP) experienced an underground fire in a salt hauler vehicle. Workers were evacuated and the underground portion of WIPP was shut down. Several workers were treated for smoke inhalation, but no injuries occurred. On February 14, 2014, a radiation leak was detected below ground at WIPP. There was a chemical reaction inside of a waste drum and trace amounts of americium and plutonium were detected in the environment surrounding the facility in the outside air. The WIPP has remained closed without disposing waste since the February 5, 2014 event.

An accident investigation board (AIB) was appointed to identify and analyze the cause(s) of the incidents and regular community meetings were scheduled to keep stakeholders informed as to the path forward for and progress toward re-opening WIPP as soon as is safely possible. The AIB found that the site contractor was unable to adequately recognize and mitigate the hazard regarding a fire in the underground and also found inadequacies in the ventilation system design and



operability at the site compounded by degradation of key safety management programs and safety culture. The WIPP site cannot reopen until these and other issues are addressed and worker, environmental, and public safety can be assured.

The Energy Secretary released a WIPP Recovery Plan on September 30, 2014. The plan outlines the necessary steps to resume operations, with safety being a top priority. At this point, it is premature to say when shipments can resume. WIPP will reopen only when it is safe to do so. The Department is committed to planning and implementing the required recovery actions and corrective actions to enable a resumption of operations as quickly as can safely be achieved.

**Departmental Initiatives:** The Department will continue its environmental cleanup mission with the following ongoing initiatives. The GAO February 2013 High-Risk Series Update report to Congress acknowledged improved performance at EM sites and documented that the GAO had narrowed its focus on EM to major contracts and projects valued at \$750 million or greater. EM continues the following activities to improve its performance:

- In accordance with applicable statutes and implementing regulations, evaluate federal facility agreement cleanup milestones, permits, and proposed decisions within existing regulatory frameworks and interface with regulators and stakeholders to ensure they protect human health and the environment while appropriately balancing cost;
- Continue to develop and deploy new and innovative technologies, approaches and modeling capabilities resulting in significant improvements in safety as well as cost and schedule savings;
- Expand the use of project peer reviews and continue independent contract and project reviews, construction project reviews, and external independent reviews to keep contracts and projects aligned and on track. In FY 2014, EM completed a total of 20 such project reviews;
- Continue to improve the implementation of requirements for integrated project and contract change control. All COs and over 95% of FPDs have completed the contract changes training. EM also tracks the progress on goals and metrics for improved management of project and contract changes. Improvements have been made in establishing well-defined project baselines for acquisition executive approvals;
- EM is partnering with national laboratories, industry, academia, and the U. S. Army Corps of Engineers to ensure the best scientific and engineering resources are used. As a result, the selected technologies, design, and construction

approaches are expected to help reduce risk, and accelerate project completion for new projects. For legacy projects, EM is getting advice from the nation's best and brightest scientific and technical expert panels to gain a better understanding of the remaining issues and develop the most cost-effective path forward for project completion;

- In accordance with the Department's policy of aligning taxpayer interests with contractor interests, acquisition teams first consider the use of a firm fixed-price contract to complete work requirements. This contract type is most appropriate for services that can be objectively defined. Using firm-fixed price contracts benefits EM by placing the appropriate amount of risk and responsibility on the contractor and provides maximum incentive for the contractor to control costs and perform efficiently;
- In instances where a CO concludes that a firm fixed-price contract may not be the best contracting vehicle, the acquisition team first identifies and determines the viability (cost-benefit within the stated context of "bias for action") of conducting additional planning and risk reduction that would be needed to use a fixed-price or hybrid approach before resorting to a cost-reimbursement contract;
- EM is improving its acquisition planning practice by focusing on achieving early consensus among key stakeholders about the acquisition strategy. Under the Procurement Strategy Panel process, stakeholder agreement on the acquisition approach is reached earlier in the planning stage of the procurement. The panel will implement the framework decided in the Acquisition Strategy meeting. This will serve as the Acquisition Plan. This reduces rework and drives efficiencies in the procurement process. Additionally, by working closely with EM's budget and planning offices and mission units, projected acquisition forecasts are aligned with the sites' budget profile, ensuring more realistic scopes of work for contract opportunities;
- In accordance with DOE P 547.1, *Small Business First Policy*, approved December 14, 2012, the Department is committed to maximizing opportunities for small business contracts and subcontracts. The Small Business First Policy enforces compliance with the Small Business Act, ensures prime contracting opportunities are available to the maximum extent practicable to small business concerns, ensures the formal reporting of market research prior to approval of a contract action to other than a small business, and ensures accountability of COs and Program Officials relative to approval of contract actions. In FY 2014 EM attained 7.8% in small business prime contracts (10.4% if contributions from the

## MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES (Unaudited)

M&O first-tier subcontracts to small business are included) exceeding the DOE small business goal of 6.59%;

- EM continued to strengthen the integration of acquisition, budget and project management processes so that contract statements of work and deliverables are based on clear project requirements and robust front-end planning and risk analysis. EM is also ensuring nuclear safety requirements are addressed early and modifications to the contract and project baseline are managed through strict and timely change-control processes;
- To address contract administration and project management issues, the Secretary has elevated the focus and attention to management and performance by moving the EM program under the purview of the Under Secretary for Management and Performance. This brings the Department's strongest contract and project management capabilities, resident within the Office of Acquisition and Project Management, directly to support the EM program;
- To strengthen our staffing and skill set for contract and project oversight, EM was authorized 96 additional FTEs, 27 of which are specifically designated for contract specialists and 20 for cost estimators;
- Project management initiatives have resulted in successful performance for EM capital cleanup projects. As of the end of FY 2014, for the three year period of FY 2012-2014, EM completed 27 capital cleanup projects at a total actual cost of \$3.42 billion, which is approximately \$70 million less than the original baseline cost of \$4.18 billion. During the same period, 22 of 28 (88%) capital asset projects met the departmental schedule metrics. EM will continue rigorous management, and application of DOE Order 413.3B for planning and execution of capital projects. In addition, EM is establishing policies and guidance for managing the non-capital asset operations activities, e.g., approval authorities, performance goals and metrics, operations activity manager designation, and change control procedures. In May 2014, EM issued a policy memorandum formally requiring the principles of DOE Order 413.3B to be applied to EM's capital asset projects with Total Project Cost less than \$50 million;
- EM sites at Richland, Office of River Protection, Savannah River, Portsmouth, Paducah, Oak Ridge, West Valley, Carlsbad, Idaho, and Moab have signed partnering agreements with their major contractors. A total of sixteen agreements have been signed to date. Partnering agreements create win-win scenarios where both the federal staff and contractor staff understand and respect the rules of engagement and build better

business relationships. EM is working to build stronger relationships with oversight organizations to improve communications and demonstrate transparency and accountability in EM's contract and project management;

- EM has completed the execution of its \$5.99 billion of ARRA funding to accelerate environmental cleanup of contaminated facilities and lands and reduce the legacy footprint of the EM complex. EM successfully executed 92% of the 134 projects/activities at 17 sites in 12 states with the ARRA funding. These projects reduced the legacy footprint of the EM complex by 690 square miles, or 74%, from 931 to 241;
- DOE has developed a planning process that evaluates different cleanup and completion scenarios based on the changing external environment. The goal is to facilitate early planning and therefore maximize return on investment;
- In FY 2014, the Consortium for Risk Evaluation and Stakeholder Participation (CRESP), managed out of Vanderbilt University, was tasked to perform a Hanford, Washington site-wide evaluation of human health, nuclear safety, environmental, and cultural resource risks, with the goal to identify and characterize potential risks and impacts to the public, workers, and the environment at the Hanford Site, and to identify efficient uses of EM resources; and
- EM is supporting the Department's goal to identify the mission and core capability associated with all real property assets and to assess the asset utilization for efficiency and efficacy by evaluating its asset portfolio used for operations. The Savannah River National Lab is participating in the effort being led by the Laboratory Operating Board to address issues associated with the Department's aging infrastructure.

### USED NUCLEAR FUEL AND HIGH-LEVEL WASTE DISPOSAL

**Key Challenges:** DOE is directed by the amended Nuclear Waste Policy Act of 1982 (NWPAA) to manage and dispose of the nation's commercial and defense high-level waste and used nuclear fuel in a manner that protects public health, safety, and the environment.

The NWPAA authorizes the Secretary to enter into contracts with commercial nuclear utilities and commercial research reactor operators that own and generate SNF. In return for the payment by utilities of fees established by the NWPAA into the Nuclear Waste Fund, the Government was to begin disposing of their SNF starting in 1998. Lawsuits have been filed by utilities to recover damages resulting from the delay. The Department of Justice has entered into settlements. To date, approximately \$4.5 billion has been

paid out of the Judgment Fund for settlements and judgments to contract holders. Contract holders will continue to submit annual claims for additional costs under the settlement agreements. Additional annual payments will be made pursuant to those agreements until the Government has fulfilled its spent fuel acceptance obligations. The Department of Energy reviews the claims and provides recommendations for approval to the Department of Justice. Department of Energy staff continues to be lead Government witnesses for the remaining unsettled cases being tried and continues to manage the Nuclear Waste Fund with a balance of approximately \$32.9 billion.

**Departmental Initiatives:** The Department released its *Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste* in January 2013. The President selected this Strategy as the preferred approach for disposing of spent fuel and high-level nuclear waste in the U.S. The Department continues with research and development, analytical, and planning activities that lay the groundwork for implementing the Strategy.

**Change in the Ongoing Fee Paid Into the Nuclear Waste Fund:** In *NARUC v. DOE*, the U.S. Court of Appeals for the D.C. Circuit ruled that the Department's 2010 fee adequacy determination was legally inadequate and ordered the Department to issue a new fee adequacy evaluation in compliance with the court's opinion by January 18, 2013. The Department issued a new fee adequacy report by that date and submitted it to the Court. NARUC and NEI immediately moved to reopen the appeal to challenge that report. On November 19, 2013, the court issued a decision finding that the Department's 2013 fee adequacy report was "arbitrary and capricious" and ordered the Secretary "to submit to Congress a proposal to change the fee to zero until such time as either the Secretary chooses to comply with the [Nuclear Waste Policy Act] as it is currently written, or until Congress enacts an alternative waste management plan." On December 20, 2013, the court issued a mandate directing the Department to comply with the court's decision to reduce the fee to zero. Accordingly, on January 3, 2014, the Department submitted the court-mandated proposal to Congress to adjust the 1 mill per kilowatt-hour fee to zero. Pursuant to the NWPA, without Congressional action, the fee change would become law after 90 days of continuous Congressional session. The 90-day period ended on May 16, 2014 and the fee changed to zero. On May 12, 2014, the Department sent letters to nuclear utilities providing notice that effective May 16, 2014 the SNF Disposal Fee would, as a result of *NARUC v. U.S.*, change from 1 mill per kilowatt hour of electricity generated and sold to 0 mill per kilowatt hour of electricity generated and sold.

### CYBERSECURITY

**Key Challenges:** While there have been significant improvements in the cybersecurity posture of the Department, cyber attacks from highly-capable, malicious actors continue to increase in their complexity, frequency,

and aggression. The known areas of weakness must continue to be addressed at an Enterprise level to ensure that the Department of Energy (DOE) information assets and systems are adequately protected from harm. Senior-level support of a mission-based Risk Management Approach (RMA) continues to mature, which will protect departmental data by managing risk decisions at the mission-level while driving improvements where complex-wide systemic issues exist.

**Departmental Initiatives:** The DOE Cyber Council was established by the Energy Secretary in July 2013. A quarterly meeting was held on May 29, 2014; nine meetings have been held since its inception. The Deputy Secretary is the Chair.

The DOE Cyber Council is currently evaluating several recommendations for improving the protection of the DOE enterprise. Major accomplishments during FY 2014 include:

- In collaboration with program offices, staff offices, national labs, and other DOE sites, the CIO developed a new governance that improves the management of information resources through sound decision-making processes. The new model replaces the Information Management Governance Council (IMGC) but leverages existing IMGC working groups; and
- The Council agreed on the development of an insider-threat program that includes policy and an implementation planning as required by Executive Order (E.O.) 13587, *Structural Reforms to Improve the Security of Classified Networks and the Responsible Sharing and Safeguarding of Classified Information*. The Deputy Secretary signed the Order on June 2, 2014.

Additionally, other efforts continue in support of the departmental initiatives:

- The Office of the Chief Information Officer (OCIO) Joint Cybersecurity Coordination Center (JC3) continues to promote a coordinated approach for incident response. JC3 has completed a review of all incident response and notification workflows, and identified areas of automation. JC3 is conducting a gap analysis to establish a baseline of operations and functions as the Initial Operating Capability (IOC) and is conducting pilot initiatives for potential operational and functional enhancements to reach Fully Operating Capability (FOC). The JC3 has engaged NSA to provide enterprise monitoring, advanced analytics, and reporting for classified networks as part of the JC3 portfolio. The Program Management Plan and Scope document which detail stakeholder and partner relationships are complete;



## MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES (Unaudited)

- On August 23, 2013, the Energy Secretary designated the CIO as the DOE Senior Agency Official (SAO) for Senior Information Sharing and Safeguarding (IS&S), as required by E.O. 13587. The CIO has initiated and/or completed the following to meet program-related Presidential requirements:

- The SAO participates in the Senior Information Sharing and Safeguarding Steering Committee (SISSSC).
  - The DOE ISS Governance Board (ISSGB) meets monthly since September 2013.
  - The DOE ISS Core Working Group (CWG) held its first meeting in July 2014. A charter has been drafted and is currently under review with the CWG.
  - The DOE Information Sharing and Safeguarding Program Management Office (DOE ISSE PMO) has been established to facilitate and support DOE's program priorities, goals and objectives.
  - DOE Order 470.5, *Insider Threat Program*, was completed which establishes the Department's responsibilities and requirements to deter, detect, and mitigate insider threat actions.
  - Procedures and scope of the Department's enterprise-wide quarterly reporting requirements of the Administration's Key Information Sharing and Safeguarding Indicators (KISSI) reports were finalized based on direction from the Secretary and Deputy Secretary. The DOE ISS SAO with the DOE ISSGB will continue to review options for implementation direction and guidance regarding National Security Systems;
- DOE is actively participating in the Department of Homeland Security (DHS) Continuous Diagnostics and Mitigation (CDM) Program through participation in the purchase of tools through the program and organization of DOE internal and Government-wide activities related to the CDM program. Additionally, DOE OCIO developed and finalized a purchasing guide that provides an overview of the tools and services being offered through the Continuous Monitoring as a Service (CMaaS) Blanket Purchase Agreement (BPA) as well as ordering options available for DOE to purchase tools and services. The DOE OCIO received a Delegation of Procurement Authority (DPA) designating DOE and/or its assigned agent to perform all required Order awards and administration functions; and
- The Office of Cybersecurity has made continued progress in expanding and enhancing the enterprise Supply Chain Risk Management (eSCRM) program in areas such as training and awareness, threat assessment, outreach, and detailed tactical planning. The eSCRM program

held the DOE 2014 Supply Chain Risk Management Summit, which improved the Department's SCRM posture by providing enterprise-wide information communication technology (ICT) cyber and supply chain risk management education. In addition, the eSCRM program continued to provide open source vendor risk assessments in coordination with the DOE Office of Intelligence and Counterintelligence (IN). This capability continues to mature and, as a result of assessments during this period, analysis processes continue to be refined.

Capabilities of the DOE SCRM Resource Center are expanding and maturing; FY 2014 accomplishment highlights include the following:

- Provided strategic comments against the National Institute of Standards and Technology (NIST) Special Publication 800-161: *Supply Chain Risk Management Practices for Federal Information Systems and Organizations (Second Draft)*;
- Initiated development of Supply Chain Risk Management Information Group (SCRM-IG), to increase Department-wide collaboration, improve cross sector communication, and sustain momentum gained toward reducing departmental supply chain risks;
- Conducted vendor open source supply chain risk assessments;
- DOE continues to enhance the OCIO's delivery of quality training and workforce development products and services through execution of the approved plan to implement a centralized Cybersecurity Role-Based/Core Competency Training Program for critical federal cybersecurity roles. To date, four role-based/core competency modules have been completed and placed into production;
- In keeping with the President's annual proclamation of October as National Cybersecurity Awareness Month (NCSAM), the 2014 DOE NCSAM October event was held in both Headquarters' locations. This event is hosted annually by the OCIO in collaboration with DHS and other federal agencies to engage and educate employees about cyber threats and mitigating actions in an effort to enhance the resiliency of the nation against cyber threats; and
- The Enterprise Cyber Governance (ECGS) system has been developed and implemented to collect and track Plans of Actions and Milestones (POA&M) data across the enterprise. The module replaces the manual effort of collecting and analyzing POA&M data through spreadsheets.

## HUMAN CAPITAL MANAGEMENT

**Key Challenges:** The Department requires a fully engaged and high-performing federal workforce to achieve the strategic goals and objectives of the 2014-2018 DOE Strategic Plan. Key challenges to DOE's federal workforce in the current human capital environment include:

- Leading people and managing resources in an uncertain fiscal climate;
- Mitigating the potential loss of knowledge and skills due to accelerating retirements and other sources of attrition;
- Adapting to changing federal human capital policies and priorities;
- Improving human capital processes and HR operations to deliver a more accountable, efficient, and effective Government; and
- Improving human capital management strategies and programs to more effectively recruit, develop, and retain high performing employees.

**Departmental Initiatives:** In the 2014-2018 DOE Strategic Plan, the Department's goal for "Management and Performance" includes the following strategic objective: Attract, manage, train, and retain the best federal workforce to meet future mission needs. This objective includes five performance goals to address the key challenges facing the Department:

- Improving recruitment, hiring, and onboarding;
- Strengthening talent development and knowledge management;
- Improving workforce planning and leadership succession;
- Improving engagement, performance, and retention; and
- Improving HR effectiveness, efficiency, and customer satisfaction.

The Office of the Chief Human Capital Officer (OCHCO) achieved the following in FY 2014 in support of the 2014-2018 DOE Strategic Plan's performance goals for human capital management.

Improvements to recruitment, hiring, and onboarding:

- Improved time-to-hire (T2H) by 15% for General Schedule (GS) and equivalent positions. In FY 2014, the average T2H was 82 days from recruitment initiation to entry on duty, compared to 97 days in FY 2013;
- Improved the accuracy of T2H data for Senior Executive Service (SES) positions by evaluating each stage of the hiring process, correcting inaccuracies in the T2H database, and developing a standard operating procedure;
- Implemented a new hiring authority which allows DOE to non-competitively appoint up to 120 Exceptionally Well Qualified (EWQ)

individuals to scientific, engineering, or other critical technical positions; and

- Revised and issued SES staffing policy, which provides overarching guidance and implementing procedures to ensure consistency, transparency, and compliance with laws and regulations throughout DOE, while allowing organizations the flexibility to tailor the SES competitive recruitment process to best meet their organizational needs.

Stronger talent development and knowledge management:

- Executed the Leadership Development Speaker Series with monthly events, steadily increasing the audience to over 6,000 participants from across the federal Government, resulting in an 11% increase in attendance this year;
- Co-led with the Office of Management corporate improvements to the onboarding and development of acquisition specialists to strengthen the acquisition workforce throughout the Department of Energy. This effort capitalizes on the extension of Direct Hire Authority for the Acquisition workforce and features a blend of classroom and applied learning requirements for Level I and II in Federal Acquisition Certification for Contracting (FAC-C) and supports DOE's strategy to recruit, develop, and retain highly qualified individuals for this mission critical occupation; and
- Launched an improved competency assessment tool that features dual-rater assessment capability and behavior-based proficiency statements. The tool enables organizations to assess leadership bench strength and occupational competencies, and informs workforce planning through identification of skills gaps. The tool was successfully piloted in FY 2014 to assess DOE core and HR competencies in the OCHCO as well as HR competencies in BPA to support its "Get Well" Plan.

Improvements to workforce planning and leadership succession:

- Published the second edition of the DOE National Leadership Development Program Catalog which includes over 1,000 leadership development programs and courses indexed by the Executive Core Qualifications (ECQs). The programs and courses are delivered by over 350 organizations located across the country;
- Partnered with the Office of the Under Secretary for Science and Energy to support the ongoing development and use of standardized workload analysis and workforce planning processes by all Science and Energy organizations; and



## MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES (Unaudited)

- Facilitated interagency concurrence and approval of IN's implementation of excepted service authorities for intelligence positions pursuant to 50 USC 403-1(v). This effort supports unification and integration of the Intelligence Community (IC) workforce by granting DOE-IN hiring and appointing authorities equal to its counterparts; enables facilitation for details of other IC employees to DOE-IN in support of the IC Joint Duty Program. The projected implementation date is 1st Quarter FY 2015.

Improvements to engagement, performance and retention:

- On April 27, 2014, the Energy Secretary signed a charter between the locally recognized Labor Unions and Department Management Representatives to create a Department-wide Federal Labor-Management Forum. Although the DOE Forum cannot replace or override the local level of recognition since DOE does not have nationally recognized bargaining units, it serves as a model for effectively demonstrating the value of labor-management collaboration and pre-decisional involvement (Executive Order 13552). The DOE Forum meets four times a year to develop joint solutions that will enhance workforce safety, productivity, and employee quality of life to better accomplish the Department's mission;
- Maintained an employee participation rate of 50% in the annual Federal Employee Viewpoint Survey (FEVS) in 2013 and 2014, while the Government-wide rate declined by nearly 2% to 47% in 2014;
- Exceeded the requirements of the President's Management Council to disseminate the results of the 2014 FEVS survey down to the lowest level by providing a custom analysis for every one of the 343 DOE work units that qualified for a breakout report (a minimum of 10 survey respondents). The custom analysis identified trends, highs and lows, and benchmarks to support work units in developing relevant action plans to strengthen their organizations;
- Organized a coalition of six program offices (EM, NNSA, EERE, CIO, BPA and LPO) who have volunteered to work on employee engagement within their organizations in support of the President's Management Agenda for "People and Culture"; and
- Created a DOE Supervisor Community of Practice, which supports the Department's supervisors in sharing best practices and addressing common challenges, including employee engagement and performance.

Improvements to HR effectiveness, efficiency and customer satisfaction:

- With the Secretary's approval of the DOE HR Service Delivery Study findings and recommendations in 2013, the OCHCO led a DOE-wide integrated project team in 2014 to complete the high level planning and design of a new model for HR Service Delivery. The new service delivery model will be implemented beginning in FY 2015 through FY 2016. By FY 2018, the new model is expected to steadily reduce costs and statutory risks, increase efficiency and effectiveness, and provide greater and more consistent satisfaction with human resources services;
- Simplified, clarified, and strengthened DOE human capital policies through a comprehensive HC policy review ensuring compliance with rule, law and regulation while providing maximum flexibility to managers and customers;
- Streamlined the Human Capital Management Accountability Program (HCMAP) audit and reporting process. The new process improves the efficiency and effectiveness of HCMAP Audits by transitioning to virtual audits in lieu of on-site visits and utilizing a new HCMAP reporting tool that has reduced the audit process from 180+ days to 15 days. The new process allows more time for customer engagement and delivers the audit findings to customer management on the last day of the audit. A 2014 OPM assessment of DOE's Accountability Program found that these improvements helped to address challenges regarding timely issuance of Audit Reports and determined that DOE's system fully meets OPM requirements;
- Completed a Fit/Gap Analysis in accordance with OPM's Government-wide HR Line of Business initiative designed to provide modern, cost-effective, standardized, and interoperable HR solutions that eliminate duplicative and redundant HR Information Technology (HRIT) systems and processes across the federal Government. The Department has deferred a decision until after implementation of the HR Service Delivery initiative;
- Successfully implemented the Bonneville Power Administration (BPA) "Get Well" Plan resulting in the reconstruction of over 1,200 hiring actions several months ahead of schedule and the return of HR authorities to BPA. The plan entailed establishing a remediation plan governance structure and team; identifying and executing remediation activities; transferring day-to-day oversight of BPA HR operations to DOE HC during remediation process; and reporting on progress of goals to enhance accountability of remediation activities. This effort and the

actions/activities associated with it were critically important to resolving issues identified through reviews and audits of BPA's Human Capital Management (HCM) program and ultimately the rebuilding of the HR function at BPA;

- Fully implemented Hiring Management Enterprise Solutions (talent acquisition system) at BPA, and facilitated the effort to position BPA for implementation of the Department's ePerformance system at the beginning of FY 2015;
- Attained full certification of the new SES Performance Appraisal System. This marks the first time DOE has received full certification; previously, DOE had attained only provisional certifications;
- Revised SES performance management policy guidance, which increases flexibility and provides greater discretion to rating and reviewing officials; and
- Developed and implemented Executive Essentials, an onboarding program specific to new members of the SES. The program provides insight into DOE's strategic goals and priorities; provides an overview of topics SES members should become familiar with, such as recruitment processes and performance management for SES, ethics, financial disclosure, executive learning and development opportunities; and introduces the roles of the Office of Public Affairs and the Office of Congressional and Intergovernmental Affairs in the Department.

The OCHCO, working with DOE Program Offices, is developing a Strategic Human Capital Plan that aligns with the 2014-2018 DOE Strategic Plan, as well as the management pillars and cross-agency priority goals of the President's Second-Term Management Agenda. The plan identifies three focus areas: Leadership, People, and HR (Human Resources) Service Delivery. The focus areas include strategies to guide each year's priority initiatives as the Department works to support a fully engaged and high-performing federal workforce.

### **SAFETY CULTURE**

**Key Challenges:** Maintain the safety and health of the Department's current workforce and ensure the safety of the general public from departmental operations while striving to enhance the Department's productivity to achieve mission objectives. The safety culture concerns identified at the Hanford Site Waste Treatment and Immobilization Plant, the accident investigation of the February 5, 2014, event at the Waste Isolation Pilot Plant and through the completed extent of condition reviews directed by the Secretary elsewhere in the Department demonstrate the need for continued vigilance and improvement.

**Departmental Initiatives:** In FY 2014, departmental elements continued to implement safety and health reforms through senior departmental leadership, worker and stakeholder engagement, and use of operational experience to establish and strengthen lines of communications, seek feedback, and resolve areas of concern. DOE program and staff offices worked toward completing reviews to validate the technical basis and soundness of their health and safety programs within the context of the revised DOE directives. Where applicable, revisions to health and safety programs were, and continue to be, incorporated into organizational procedures and site contracts. Maintaining rigorous Technical Qualification Programs to support the operations of DOE nuclear facilities continued to be a major focal point for the Department.

DOE has issued a new policy supporting reciprocity of safety-related training among DOE's contractors to enhance the quality and efficiency of delivery of the training.

The Department published DOE G 226.1-2A, *Federal Line Management Oversight of Department of Energy Nuclear Facilities*, to enhance guidance on oversight of activity-level work planning and control, including criteria review and approach documents with accompanying lines of inquiry. Additionally, a new handbook, *HDBK-1211-2014, Activity-Level Work Planning and Control Implementation*, was issued to assist DOE's contractors in achieving excellence in implementation.

The Department continued to fulfill commitments in the Implementation Plan (IP) for Defense Nuclear Facilities Safety Board (DNFSB) Recommendation 2011-1, *Safety Culture at the Waste Treatment and Immobilization Plant*. Following one of the recommendations of its consolidated report to the DNFSB in May 2014, the Department is in the final stages of establishing an operating charter for a DOE Safety Culture Improvement Panel. The Panel is to provide leadership to support continuous improvement in meeting the Department's safety culture and safety conscious work environment (SCWE) across the complex and to ensure consistent leadership and focus on all aspects of DOE's safety culture initiatives. The Department is also:

- (1) pursuing incorporation of the safety culture and SCWE concepts and practices into DOE training; and
- (2) considering the evaluation of contractual language to incorporate clear reference to safety culture to sustain focus on safety culture among DOE's contractors.

The need for a strong safety culture is institutionalized in the Integrated Safety Management (ISM) Policy, Order, and Department of Energy Acquisition Regulations (DEAR) clauses. Additional guidance (e.g., guide and handbook) to improve implementation of ISM requirements for federal and contractor management and staff is being used, and the Department continued implementing its ISM System as the framework for safety throughout the Department. It is a requirement in Title 10, Code of Federal Regulations

## MANAGEMENT'S ANALYSIS, ASSURANCES AND PRIORITIES (Unaudited)

(C.F.R.), part 851, Worker Safety and Health Program (WSHP), that the WSHP be integrated with the Integrated Safety Management System. Additionally, the Office of Environment, Health, Safety and Security meet regularly with workers and managers at all levels at field sites to obtain feedback on the strengths and weaknesses of both the regulation and field implementation of worker safety and health programs.

In FY 2015, the Department will continue working toward institutionalizing ISM and safety culture through the following initiatives:

- Continue to share lessons-learned on implementation of work planning and control;
- Continue considering the hazards associated with the work, continue maximizing the use of national and international consensus standards where applicable and ensuring DOE requirements are risk-informed and performance-based and are meaningful, clear, and concise;
- Continue strengthening the implementation of safety and health-related programs; e.g., ISM, 10 C.F.R. 851, and DOE Voluntary Protection Program, through corporate assistance and awareness activities that are focused on effective implementation of DOE requirements and the strengthening of safety culture;
- Identify and support additional nuclear safety research projects through the Nuclear Safety Research and Development (NSR&D) program;
- Maintain effective levels of safety and health expertise throughout the Department by providing relevant training and professional development programs through the National Training Center and fostering the expansion of the reciprocity program, whereby accredited safety training programs are recognized by other DOE contractors and sites;
- Continue fostering improvements to safety and health performance by clarifying roles and responsibilities for federal and contractor line management;
- Continue conducting safety and health self-assessments and implementing the independent oversight and worker safety and nuclear safety enforcement programs to maintain stakeholder and public confidence;
- Conduct an independent oversight follow-up review of nuclear safety culture and management of nuclear safety concerns at the Hanford Site Waste Treatment and Immobilization Plant to evaluate progress in establishing a healthy safety culture; and
- Continue conducting independent oversight of nuclear facility projects to ensure compliance with 10 C.F.R. 830, Nuclear Safety Management, requirements.

DOE MANAGEMENT PRIORITIES	IG CHALLENGE AREAS FY 2015	GAO HIGH RISK LIST (As of February 2013, updated every two years.)
Acquisition and Project Management	Contract and Financial Assistance Award Management	Contract Management for the NNSA and EM Management of major (\$750M+) projects and programs
Security	Safeguards and Security	
Environmental Cleanup	Environmental Cleanup	
Used Nuclear Fuel and High- Level Waste Disposal	Nuclear Waste Disposal	
	Stockpile Stewardship	
Cybersecurity	Cybersecurity	
Human Capital Management		
Safety Culture		



# Financial Results



Tacoma Power's Cushman Hydroelectric Project, supported by Energy Department investments under the Recovery Act, installed a new two-generator powerhouse that increases electric generation capacity by 3.6 megawatts and captures energy from previously untapped water flows (Photo courtesy of Tacoma Power).

This page intentionally left blank





## Message from the Deputy Chief Financial Officer

For Fiscal Year (FY) 2014, the Department of Energy (DOE) received an unmodified audit opinion on its financial statements from the independent public accounting firm of KPMG LLP. The audit identified no material weaknesses. The audit also found the DOE financial management system to be in general compliance with governmental financial system requirements and found no instances of nonconformance.

DOE made significant progress in FY 2014 in addressing information technology (IT) financial statement audit findings. Our actions resulted in a reduction in the number of IT findings from 39 in FY 2013 to 25 in FY 2014.

Additional FY 2014 financial management accomplishments include:

- Development of the DOE 2014-2018 Strategic Plan.
- Continued development of the Funds Distribution System (FDS) 2.0 that will result in the retirement of multiple legacy systems.
- Upgraded the STRIPES procurement system to Prism version 7.1
- Completed first non-financial internal control program review.
- Implemented the Government-wide Treasury Account Symbol Adjusted Trial Balance System.
- Initiated user acceptance testing for STARS Release 12.
- Expanded DOE-wide financial management webinar program that provided a curriculum of 30 courses to over 2,300 DOE and contractor employees. The webinars continue to be highly effective and an economical way to provide training in the current fiscal environment.
- Streamlined Congressional Justification format and content.
- Provided Benefits Metric Survey findings to Laboratory Operations Board with proposed actions to reduce Management and Operating (M&O) contractor benefits costs.
- Completed iBenefits system update.

I am confident that DOE's commitment to operational excellence will continue to drive improvements throughout our financial management program.

A handwritten signature in black ink that reads "Alison L. Doone".

Alison L. Doone  
Deputy Chief Financial Officer  
November 14, 2014

# Consolidated and Combined Financial Statements

## Introduction to Principal Statements

The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy (the Department or DOE), pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget (OMB) Circular (No.) A-136, "Financial Reporting Requirements."

The responsibility for the integrity of the financial information included in these statements rests with the management of the Department. The audit of the Department's principal financial statements was performed by an independent certified public accounting firm selected by the Department's Inspector General. The auditors' report issued by the independent certified public accounting firm is included in this report.

The following provides a brief description of the nature of each required financial statement.

### Consolidated Balance Sheets

---

The *Consolidated Balance Sheets* describe the assets, liabilities and net position components of the Department.

### Consolidated Statements of Net Cost

---

The *Consolidated Statements of Net Cost* summarize the Department's operating costs by the strategic goals and objectives identified in the Department's 2014 - 2018 Strategic Plan. All operating costs reported reflect full costs, except for indirect costs, which are reported on the Management and Performance line of the statements. The costs for each line are reduced by earned revenues to arrive at net costs.

### Consolidated Statements of Changes in Net Position

---

The *Consolidated Statements of Changes in Net Position* identify appropriated funds used as a financing source for goods, services or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the Consolidated Balance Sheets from the beginning to the end of the reporting period.

### Combined Statements of Budgetary Resources

---

The *Combined Statements of Budgetary Resources* identify the Department's budgetary authority. Federal law gives budgetary authority to agencies to incur financial obligations that will eventually result in outlays or expenditures. Budgetary authority that the Department receives includes appropriations, borrowing authority, contract authority and spending authority from offsetting collections. The Combined Statements of Budgetary Resources provide information on budgetary resources available to the Department during the year and the status of those resources at the end of the year. Detail on the amounts shown in the Combined Statements of Budgetary Resources is included in the Required Supplementary Information section on the schedule of Budgetary Resources by Major Account.

### Consolidated Statements of Custodial Activities

---

The *Consolidated Statements of Custodial Activities* identify revenues collected by the Department on behalf of others. These revenues primarily result from Power Marketing Administrations that sell power generated by hydroelectric facilities owned by Department of Defense (DoD), U.S. Army Corps of Engineers (USACE), Department of the Interior (DOI), and Bureau of Reclamation (BOR).

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Principal Statements

### U.S. Department of Energy Consolidated Balance Sheets As of September 30, 2014 and 2013

(\$ IN MILLIONS)	FY 2014	FY 2013
<b>ASSETS:</b> <sup>(Note 2)</sup>		
Intragovernmental Assets:		
Fund Balance with Treasury <sup>(Note 3)</sup>	\$ 32,815	\$ 33,708
Investments and Related Interest, Net <sup>(Note 4)</sup>	38,584	36,807
Accounts Receivable, Net <sup>(Note 5)</sup>	489	626
Other Assets	24	23
<b>Total Intragovernmental Assets</b>	<b>\$ 71,912</b>	<b>\$ 71,164</b>
Investments and Related Interest, Net <sup>(Note 4)</sup>	254	255
Accounts Receivable, Net <sup>(Note 5)</sup>	3,634	3,806
Direct Loans and Loan Guarantees, Net <sup>(Note 7)</sup>	13,403	12,375
Inventory, Net <sup>(Note 8)</sup>	42,796	42,930
General Property, Plant, and Equipment, Net <sup>(Note 9)</sup>	32,981	33,345
Regulatory Assets <sup>(Note 6)</sup>	11,661	11,921
Other Non-Intragovernmental Assets <sup>(Note 10)</sup>	4,457	4,110
<b>Total Assets</b>	<b>\$ 181,098</b>	<b>\$ 179,906</b>
<b>LIABILITIES:</b> <sup>(Note 11)</sup>		
Intragovernmental Liabilities:		
Accounts Payable	\$ 107	\$ 85
Debt <sup>(Note 12)</sup>	24,425	27,077
Deferred Revenues and Other Credits <sup>(Note 13)</sup>	83	95
Other Liabilities <sup>(Note 14)</sup>	636	543
<b>Total Intragovernmental Liabilities</b>	<b>\$ 25,251</b>	<b>\$ 27,800</b>
Accounts Payable	3,615	3,708
Loan Guarantee Liability <sup>(Note 7)</sup>	208	183
Debt Held by the Public <sup>(Note 12)</sup>	5,828	5,949
Deferred Revenues and Other Credits <sup>(Note 13)</sup>	37,854	35,967
Environmental Cleanup and Disposal Liabilities <sup>(Note 15)</sup>	299,828	280,270
Pension and Other Actuarial Liabilities <sup>(Note 16)</sup>	23,554	21,445
Obligations Under Capital Leases <sup>(Note 17)</sup>	1,534	1,005
Other Non-Intragovernmental Liabilities <sup>(Note 14)</sup>	6,662	6,706
Contingencies and Commitments <sup>(Note 18)</sup>	22,759	21,485
<b>Total Liabilities</b>	<b>\$ 427,093</b>	<b>\$ 404,518</b>
<b>NET POSITION:</b>		
Unexpended Appropriations		
Unexpended Appropriations - Funds from Dedicated Collections <sup>(Note 19)</sup>	\$ 21	\$ 20
Unexpended Appropriations - Other Funds	22,564	24,537
Cumulative Results of Operations		
Cumulative Results of Operations - Funds from Dedicated Collections <sup>(Note 19)</sup>	(7,961)	(8,950)
Cumulative Results of Operations - Other Funds	(260,619)	(240,219)
<b>Total Net Position</b>	<b>\$ (245,995)</b>	<b>\$ (224,612)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 181,098</b>	<b>\$ 179,906</b>

The accompanying notes are an integral part of these statements.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## **U.S. Department of Energy Consolidated Statements of Net Cost**

For the Years Ended September 30, 2014 and 2013

(\$ IN MILLIONS)	FY 2014	FY 2013
<b>STRATEGIC GOALS:</b>		
Science and Energy		
Program Costs <sup>(Note 21)</sup>	\$ 14,587	\$ 15,878
Less: Earned Revenues <sup>(Note 22)</sup>	(5,435)	(4,682)
Net Cost of Science and Energy	<b>9,152</b>	<b>11,196</b>
Nuclear Security		
Program Costs <sup>(Note 21)</sup>	9,883	9,363
Less: Earned Revenues <sup>(Note 22)</sup>	(22)	(31)
Net Cost of Nuclear Security	<b>9,861</b>	<b>9,332</b>
Management and Performance		
Program Costs <sup>(Note 21)</sup>	5,371	5,460
Less: Earned Revenues <sup>(Note 22)</sup>	(233)	(282)
Net Cost of Management and Performance	<b>5,138</b>	<b>5,178</b>
Net Cost of Strategic Goals	<b>24,151</b>	<b>25,706</b>
<b>OTHER PROGRAMS:</b>		
Reimbursable Programs:		
Program Costs	4,330	4,306
Less: Earned Revenues <sup>(Note 22)</sup>	(4,139)	(4,205)
Net Cost of Reimbursable Programs	<b>191</b>	<b>101</b>
Other Programs <sup>(Note 23)</sup>		
Program Costs	406	349
Less: Earned Revenues <sup>(Note 22)</sup>	(317)	(326)
Net Cost of Other Programs	<b>89</b>	<b>23</b>
Costs Applied to Reduction of Legacy Environmental Liabilities <sup>(Notes 15 and 24)</sup>	(5,067)	(4,658)
Costs Not Assigned <sup>(Note 25)</sup>	32,171	12,398
<b>Net Cost of Operations</b> <sup>(Note 26)</sup>	<b>\$ 51,535</b>	<b>\$ 33,570</b>

*The accompanying notes are an integral part of these statements.*

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## U.S. Department of Energy Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2014 and 2013

(\$ IN MILLIONS)	FUNDS FROM DEDICATED COLLECTIONS (Note 19)	ALL OTHER FUNDS	ELIMINATIONS	CONSOLIDATED
	<b>FY 2014</b>			
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>				
Beginning Balances	\$ (8,950)	\$ (240,219)	\$ -	\$ (249,169)
Budgetary Financing Sources:				
Appropriations Used	\$ 12	\$ 26,351	\$ -	\$ 26,363
Non-Exchange Revenue	3	50	-	53
Donations and Forfeitures of Cash	-	5	-	5
Transfers - In/(Out) Without Reimbursement	(273)	(1)	-	(274)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	29	20	-	49
Transfers - In/(Out) Without Reimbursement (Note 26)	4,924	(72)	-	4,852
Imputed Financing from Costs Absorbed by Others (Note 26)	1	1,921	-	1,922
Other	(451)	(395)	-	(846)
<b>Total Financing Sources</b>	<b>\$ 4,245</b>	<b>\$ 27,879</b>	<b>\$ -</b>	<b>\$ 32,124</b>
Net Cost of Operations	(3,256)	(48,279)	-	(51,535)
<b>Net Change</b>	<b>\$ 989</b>	<b>\$ (20,400)</b>	<b>\$ -</b>	<b>\$ (19,411)</b>
<b>Total Cumulative Results of Operations</b>	<b>\$ (7,961)</b>	<b>\$ (260,619)</b>	<b>\$ -</b>	<b>\$ (268,580)</b>
<b>UNEXPENDED APPROPRIATIONS:</b>				
Beginning Balances	\$ 20	\$ 24,537	\$ -	\$ 24,557
Budgetary Financing Sources:				
Appropriations Received (Note 27)	\$ 13	\$ 27,244	\$ -	\$ 27,257
Appropriations Transferred - In/(Out)	-	(42)	-	(42)
Other Adjustments	-	(2,824)	-	(2,824)
Appropriations Used	(12)	(26,351)	-	(26,363)
<b>Total Budgetary Financing Sources</b>	<b>\$ 1</b>	<b>\$ (1,973)</b>	<b>\$ -</b>	<b>\$ (1,972)</b>
<b>Total Unexpended Appropriations</b>	<b>\$ 21</b>	<b>\$ 22,564</b>	<b>\$ -</b>	<b>\$ 22,585</b>
<b>Net Position</b>	<b>\$ (7,940)</b>	<b>\$ (238,055)</b>	<b>\$ -</b>	<b>\$ (245,995)</b>
	<b>FY 2013</b>			
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>				
Beginning Balances	\$ (4,919)	\$ (240,930)	\$ -	\$ (245,849)
Budgetary Financing Sources:				
Appropriations Used	\$ 12	\$ 27,902	\$ -	\$ 27,914
Non-Exchange Revenue	3	50	-	53
Donations and Forfeitures of Cash	-	3	-	3
Transfers - In/(Out) Without Reimbursement	(353)	33	3	(317)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	15	2	-	17
Transfers - In/(Out) Without Reimbursement (Note 26)	(68)	(83)	(3)	(154)
Imputed Financing from Costs Absorbed by Others (Note 26)	3	2,850	-	2,853
Other	26	(127)	(18)	(119)
<b>Total Financing Sources</b>	<b>\$ (362)</b>	<b>\$ 30,630</b>	<b>\$ (18)</b>	<b>\$ 30,250</b>
Net Cost of Operations	(3,669)	(29,919)	18	(33,570)
<b>Net Change</b>	<b>\$ (4,031)</b>	<b>\$ 711</b>	<b>\$ -</b>	<b>\$ (3,320)</b>
<b>Total Cumulative Results of Operations</b>	<b>\$ (8,950)</b>	<b>\$ (240,219)</b>	<b>\$ -</b>	<b>\$ (249,169)</b>
<b>UNEXPENDED APPROPRIATIONS:</b>				
Beginning Balances	\$ 23	\$ 28,073	\$ -	\$ 28,096
Budgetary Financing Sources:				
Appropriations Received (Note 27)	\$ 16	\$ 26,698	\$ -	\$ 26,714
Appropriations Transferred - In/(Out)	-	5	-	5
Other Adjustments	(7)	(2,337)	-	(2,344)
Appropriations Used	(12)	(27,902)	-	(27,914)
<b>Total Budgetary Financing Sources</b>	<b>\$ (3)</b>	<b>\$ (3,536)</b>	<b>\$ -</b>	<b>\$ (3,539)</b>
<b>Total Unexpended Appropriations</b>	<b>\$ 20</b>	<b>\$ 24,537</b>	<b>\$ -</b>	<b>\$ 24,557</b>
<b>Net Position</b>	<b>\$ (8,930)</b>	<b>\$ (215,682)</b>	<b>\$ -</b>	<b>\$ (224,612)</b>

The accompanying notes are an integral part of these statements.



# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## U.S. Department of Energy Combined Statements of Budgetary Resources

For the Years Ended September 30, 2014 and 2013

(\$ IN MILLIONS)	BUDGETARY	NON- BUDGETARY CREDIT REFORM FINANCING ACCOUNTS	BUDGETARY	NON- BUDGETARY CREDIT REFORM FINANCING ACCOUNTS
	<b>FY 2014</b>		<b>FY 2013</b>	
<b>BUDGETARY RESOURCES:</b>				
Unobligated Balance Brought Forward, October 1	\$ 10,121	\$ 2,024	\$ 10,123	\$ 3,507
Recoveries of Prior Year Unpaid Obligations	406	360	723	537
Other Changes in Unobligated Balance (+ or -)	1	(931)	(152)	(992)
<b>Unobligated Balance from Prior Year Budget Authority, Net</b>	<b>\$ 10,528</b>	<b>\$ 1,453</b>	<b>\$ 10,694</b>	<b>\$ 3,052</b>
Appropriations <sup>(Note 27)</sup>	25,101	-	24,881	4
Borrowing Authority	603	6,474	622	12
Contract Authority	1,826	-	1,455	-
Spending Authority from Offsetting Collections	7,167	743	7,748	417
<b>Total Budgetary Resources <sup>(Note 27)</sup></b>	<b>\$ 45,225</b>	<b>\$ 8,670</b>	<b>\$ 45,400</b>	<b>\$ 3,485</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>				
Obligations Incurred <sup>(Notes 26 &amp; 27)</sup>	\$ 37,246	\$ 6,985	\$ 35,279	\$ 1,461
<b>Unobligated Balance, End of Year:</b>				
Apportioned	\$ 7,327	\$ 64	\$ 9,370	\$ 31
Exempt from Apportionment	19	-	17	-
Unapportioned <sup>(Note 27)</sup>	633	1,621	734	1,993
<b>Total Unobligated Balance, End of Year</b>	<b>\$ 7,979</b>	<b>\$ 1,685</b>	<b>\$ 10,121</b>	<b>\$ 2,024</b>
<b>Total Budgetary Resources <sup>(Note 27)</sup></b>	<b>\$ 45,225</b>	<b>\$ 8,670</b>	<b>\$ 45,400</b>	<b>\$ 3,485</b>
<b>CHANGE IN OBLIGATED BALANCE:</b>				
<b>Unpaid Obligations:</b>				
Unpaid Obligations, Brought Forward, October 1	\$ 27,358	\$ 2,318	\$ 31,070	\$ 5,965
Obligations Incurred <sup>(Notes 26 &amp; 27)</sup>	37,246	6,985	35,279	1,461
Outlays (Gross) (-)	(36,393)	(3,035)	(38,268)	(4,571)
Recoveries of Prior Year Unpaid Obligations (-)	(406)	(360)	(723)	(537)
<b>Unpaid Obligations, End of Year <sup>(Note 27)</sup></b>	<b>\$ 27,805</b>	<b>\$ 5,908</b>	<b>\$ 27,358</b>	<b>\$ 2,318</b>
<b>Uncollected Payments:</b>				
Uncollected Pymts, Fed Sources, Brought Forward, October 1 (-)	\$ (4,313)	\$ (350)	\$ (4,415)	\$ (1,080)
Change in Uncollected Pymts, Fed Sources (+ or -)	170	208	102	730
<b>Uncollected Pymts, Fed Sources, End of Year (-)</b>	<b>\$ (4,143)</b>	<b>\$ (142)</b>	<b>\$ (4,313)</b>	<b>\$ (350)</b>
<b>Memorandum (non-add) Entries:</b>				
<b>Obligated Balance, Start of Year (+ or -)</b>	<b>\$ 23,045</b>	<b>\$ 1,968</b>	<b>\$ 26,655</b>	<b>\$ 4,885</b>
<b>Obligated Balance, End of Year (+ or -)</b>	<b>\$ 23,662</b>	<b>\$ 5,766</b>	<b>\$ 23,045</b>	<b>\$ 1,968</b>
<b>BUDGET AUTHORITY AND OUTLAYS, NET:</b>				
Budget Authority, Gross	\$ 34,697	\$ 7,217	\$ 34,706	\$ 433
Actual Offsetting Collections (-)	(9,147)	(2,136)	(9,417)	(2,048)
Change in Uncollected Pymts, Fed Sources (+ or -)	170	208	102	730
<b>Budget Authority, Net</b>	<b>\$ 25,720</b>	<b>\$ 5,289</b>	<b>\$ 25,391</b>	<b>\$ (885)</b>
Outlays, Gross	\$ 36,393	\$ 3,035	\$ 38,268	\$ 4,571
Actual Offsetting Collections (-)	(9,147)	(2,136)	(9,417)	(2,048)
<b>Outlays, Net</b>	<b>\$ 27,246</b>	<b>\$ 899</b>	<b>\$ 28,851</b>	<b>\$ 2,523</b>
Distributed Offsetting Receipts (-) <sup>(Notes 26 &amp; 27)</sup>	(3,556)	-	(4,185)	-
<b>Agency Outlays, Net <sup>(Note 27)</sup></b>	<b>\$ 23,690</b>	<b>\$ 899</b>	<b>\$ 24,666</b>	<b>\$ 2,523</b>

The accompanying notes are an integral part of these statements.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## **U.S. Department of Energy Consolidated Statements of Custodial Activities**

For the Years Ended September 30, 2014 and 2013

(\$ IN MILLIONS)	FY 2014	FY 2013
<b>SOURCES OF COLLECTIONS:</b>		
Cash Collections: <sup>(Note 28)</sup>		
Power Marketing Administrations	\$ 872	\$ 907
Federal Energy Regulatory Commission	43	327
<b>Total Cash Collections</b>	<b>\$ 915</b>	<b>\$ 1,234</b>
Accrual Adjustment	(18)	20
<b>Total Custodial Revenue</b>	<b>\$ 897</b>	<b>\$ 1,254</b>
<b>DISPOSITION OF REVENUE:</b>		
Transferred to Others:		
Bureau of Reclamation	\$ (456)	\$ (510)
Department of the Treasury	(260)	(554)
Army Corps of Engineers	(199)	(170)
Decrease/(Increase) in Amounts to be Transferred	18	(20)
<b>Net Custodial Activity</b>	<b>\$ -</b>	<b>\$ -</b>

*The accompanying notes are an integral part of these statements.*

## Notes to the Consolidated and Combined Financial Statements

### 1. Summary of Significant Accounting Policies

---

#### **A. BASIS OF PRESENTATION**

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the United States (U.S.) Department of Energy (the Department or DOE). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to federal entities.

#### **B. DESCRIPTION OF REPORTING ENTITY**

The Department is a cabinet-level agency of the Executive Branch of the U.S. Government. The Department is not subject to federal, state, or local income taxes. The Department's Headquarters organizations are located in Washington, D. C. and Germantown, Maryland, and consist of an executive management structure that includes the Secretary; the Deputy Secretary; the Under Secretary for Science and Energy; the Under Secretary for Nuclear Security/Administrator for the National Nuclear Security Administration; the Under Secretary for Management and Performance; Secretarial staff organizations; and program organizations that provide technical direction and support for the Department's principal programmatic missions. The Department also includes the Federal Energy Regulatory Commission (FERC), which is an independent organization responsible for regulating the transmission and sale of natural gas for resale in interstate commerce, for regulating the transmission and wholesale of electricity in interstate commerce, and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, Power Marketing Administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. The contractors operate, maintain, or support the Department's Government-owned facilities. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting systems are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for reimbursing the allowable costs of contractor contributions to certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these

contractors. As a result, the Department's financial statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (e.g., employee advances and prepaid pension costs) and liabilities (e.g., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other federal agencies that do not have these unique contractual relationships.

#### **C. BASIS OF ACCOUNTING**

Transactions are recorded on an accrual accounting basis and budgetary basis. Under the accrual accounting basis, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All material intradepartmental balances and transactions have been eliminated in the *Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Consolidated Statements of Custodial Activities*. The *Combined Statements of Budgetary Resources* are prepared on a combined basis and do not include intradepartmental eliminations.

Throughout these financial statements, assets, liabilities, earned revenue, and costs have been classified according to the type of entity with which the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities. Intragovernmental costs are payments or accruals for goods and services provided by other federal entities, and costs incurred by other federal entities as a result of the Department's programs (see [Note 20](#)).

#### **D. FUND BALANCE WITH TREASURY**

Funds with the U.S. Department of the Treasury (Treasury) primarily represent appropriated and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department's records are reconciled with those of Treasury (see [Note 3](#)).

#### **E. INVESTMENTS AND RELATED INTEREST, NET**

All investments are reported at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see [Note 4](#)).

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## **F. ACCOUNTS RECEIVABLE, NET**

Intragovernmental accounts receivable represent amounts due from other federal agencies and are considered to be fully collectible. The amounts due for non-intragovernmental (non-federal) receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see [Note 5](#)).

## **G. DIRECT LOANS AND LOAN GUARANTEES, NET**

The Department has two loans that were obligated and disbursed prior to Fiscal Year (FY) 1992, and are presented net of an allowance for loss. All loans obligated after FY 1992 are presented on a present value basis in compliance with the Federal Credit Reform Act of 1990. The present value of the loans is revalued on an annual basis (see [Note 7](#)).

Interest expense on the Bureau of the Fiscal Service (BFS) and Federal Financing Bank (FFB) debt is calculated in accordance with the Office of Management and Budget (OMB) Circular Number A-11, Sections 185.32 and 185.34 using the Credit Subsidy Calculator 2 (CSC2). Capitalized interest receivables on loans with FFB are reclassified to principal outstanding on the capitalization date.

## **H. INVENTORY, NET**

Stockpile materials are recorded at historical cost in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, except for certain nuclear materials identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value (see [Note 8](#)).

## **I. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET**

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold, except as noted below, is \$500,000. The capitalization threshold for Nuclear Waste Fund (NWF) is \$50,000. The capitalization threshold for the Power Marketing Administrations (PMAs) and FERC range from \$5,000 to \$50,000 or may depend on whether particular equipment is considered a major unit of property, which is capitalized upon purchase, or a minor unit, which is generally expensed. The capitalization threshold for internal use software is \$750,000, except for the PMAs and FERC, which use thresholds ranging from \$5,000 to \$150,000 (see [Note 9](#)).

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy or use, the cost is transferred to the appropriate property account. Property, plant, and equipment related to environmental management facilities storing and processing the Department's environmental legacy wastes are not capitalized.

Depreciation expense is generally computed using the straight-line method. The units of production method is used only in special cases where applicable, such as depreciating automotive equipment on a mileage basis and construction equipment on an hourly use basis. The ranges of service lives are generally as follows:

- Structures and Facilities: 25 – 50 years
- Automated Data Processing Software: 3 – 7 years
- Equipment: 5 – 40 years
- Land rights for a specified period or 50 years, whichever is less

## **J. LIABILITIES**

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see [Note 11](#)), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department that are not contract based can be abrogated by the Government acting in its sovereign capacity.

## **K. DEDICATED COLLECTIONS**

Dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues (see [Note 19](#)).

## **L. ACCRUED ANNUAL, SICK, AND OTHER LEAVE**

**Federal Employees:** Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

**Contractor Employees:** The Department accrues annual leave for contractor employees. Unlike leave for federal employees, this is a funded liability rather than an unfunded liability.

## **M. RETIREMENT PLANS**

**Federal Employees:** There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security (see [Note 20](#)). The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM). The Department does report, as an imputed financing source (see [Note 26](#)) and a program expense (see [Note 20](#)), the difference between its contributions to federal employee pension and other retirement benefits and the estimated actuarial costs as computed by OPM. The PMAs make additional annual contributions to Treasury to ensure that all postretirement benefit programs provided to their employees are fully funded and such costs are both recovered through rates and properly expensed.

**Contractor Employees:** The Department is contractually responsible for reimbursing its major contractors who sponsor employee defined benefit pension plans for the costs of contractor employee retiree benefits because these are allowable costs under their contracts. Most of these contractors sponsor defined benefit pension plans under which these plans promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. The Department does not sponsor and is not the fiduciary of contractor employee defined benefit plans. Contractors are required to make contributions to their plans as required by the Internal Revenue Code, the Employee Retirement Income Security Act (ERISA), as amended, and consistent with Departmental policy. Employer contributions are calculated to ensure that plan assets are sufficient to provide for accrued benefits of contractor employees. The level of contributions is dependent on plan provisions and actuarial assumptions about the future, such as interest rates, employee turnover and mortality, age of retirement, and compensation increases. The Department's major contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits which are generally funded on a pay-as-you-go basis. Since the Department is responsible for the allowable costs of funding these contractor pension and PRB plans, it reports assets and liabilities for these plans (see [Note 16](#)).

### N. NET COST OF OPERATIONS

Program costs are summarized in the *Consolidated Statements of Net Cost* by the strategic goals and objectives identified in the Department's 2014-2018 Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these strategic goals and objectives. Administrative costs are reported in the Management and Performance line of the Statements of

Net Costs. Costs included in this line support the activities reported in all of the Department's goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see [Notes 21](#) and [22](#)).

### O. REVENUES AND OTHER FINANCING SOURCES

The Department receives the majority of the funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. In addition to appropriations, other financing sources include exchange and non-exchange revenues and imputed financing sources. The Department also collects custodial revenues on behalf of others.

**Exchange and Non-Exchange Revenues:** In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which the Government provides value to the public or another Government entity at a price (see [Note 22](#)). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. Non-exchange revenues also include interest earned on investments funded from amounts remaining from the privatization of the U.S. Enrichment Corporation Fund (see [Note 4](#)). These revenues are not considered to reduce the cost of the Department's operations and are reported on the *Consolidated Statements of Changes in Net Position*.

**Imputed Financing Sources:** In certain instances, program costs of the Department are paid out of the funds appropriated to other federal agencies. For example, certain costs of retirement programs are paid by OPM, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs are incurred by other federal entities as a result of the Department's programs, the Department recognizes these amounts on the *Consolidated Statements of Net Cost*. In addition, these amounts are recognized as imputed financing sources on the *Consolidated Statements of Changes in Net Position* (see [Notes 20](#) and [26](#)).

**Custodial Revenues:** The Department collects certain revenues on behalf of others, which are designated as custodial revenues. The Department incurs virtually no costs to generate these revenues, nor can it use these revenues to finance its operations. The revenues are returned to Treasury and others and are reported on the *Consolidated Statements of Custodial Activities* (see [Note 28](#)).

### P. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include present value of loan receivables, estimated lives of general property, plant and



## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

equipment, environmental cleanup and disposal liabilities, pension and other actuarial liabilities, contingencies and commitments, cost accruals, estimated accrued unbilled revenues for PMAs, and managerial cost allocations. Actual results could differ from these estimates.

### **Q. COMPARATIVE DATA**

During FY 2014 changes were made to the presentation of the Statements of Net Cost. The program cost line items were revised to report amounts by the strategic goals and objectives identified in the Department's 2014 – 2018 Strategic Plan. Certain other FY 2013 amounts have been reclassified to conform to the FY 2014 presentation.

### **R. ALLOCATION TRANSFERS WITH OTHER FEDERAL AGENCIES**

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers

are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as it executes the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Department allocates funds, as the parent, to the USACE. The Department receives allocation transfers, as the child, from Treasury.

## **2. Non-Entity Assets**

(\$ IN MILLIONS)	FY 2014	FY 2013
Intragovernmental		
Other	\$ -	\$ 6
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ 6</b>
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14)	254	255
Inventories - Department of Defense stockpile oil (Notes 8 and 14)	123	123
Other	1	1
<b>Total non-entity assets</b>	<b>\$ 378</b>	<b>\$ 385</b>
<b>Total entity assets</b>	<b>180,720</b>	<b>179,521</b>
<b>Total assets</b>	<b>\$ 181,098</b>	<b>\$ 179,906</b>

Assets in the possession of the Department that are not available for its use are considered non-entity assets.

### **PETROLEUM PRICING VIOLATION ESCROW FUND**

The Petroleum Pricing Violation Escrow Fund represents receipts collected as a result of agreements or court orders

with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s and 1980s. The investments are liquidated, as needed, to make payments to claimants from this Fund.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 3. Fund Balance with Treasury

(\$ IN MILLIONS)	APPROPRIATED FUNDS	REVOLVING FUNDS	SPECIAL FUNDS	OTHER FUNDS	TOTAL
<b>FY 2014</b>					
Unobligated budgetary resources					
Available	\$ 6,515	\$ 248	\$ 647	\$ -	\$ 7,410
Unavailable <sup>(Note 27)</sup>	613	1,640	1	-	2,254
Obligated balance not yet disbursed					
Unpaid obligations <sup>(Note 27)</sup>	23,643	9,361	709	-	33,713
Uncollected pymts, Fed sources	(3,797)	(447)	(41)	-	(4,285)
Deposit funds, clearing accounts and unavailable general fund receipts	-	-	-	31	31
Other adjustments					
Contract authority	-	(1,827)	-	-	(1,827)
Appropriations, borrowing authority and spending authority from offsetting collections temporarily not available pursuant to public law	62	11	-	-	73
Invested balances - payable - to be transferred	-	41	-	-	41
Unavailable receipt accounts	-	-	2,288	-	2,288
Borrowing authority not yet converted to fund balance	-	(5,933)	-	-	(5,933)
Budgetary resources invested in Treasury securities:					
Nuclear Waste Fund	-	-	(20)	-	(20)
Uranium Enrichment D&D Fund	-	-	(336)	-	(336)
Power Marketing Administrations	-	(594)	-	-	(594)
<b>Total Fund Balance with Treasury</b>	<b>\$ 27,036</b>	<b>\$ 2,500</b>	<b>\$ 3,248</b>	<b>\$ 31</b>	<b>\$ 32,815</b>
<b>FY 2013</b>					
Unobligated budgetary resources					
Available	\$ 8,645	\$ 250	\$ 523	\$ -	\$ 9,418
Unavailable <sup>(Note 27)</sup>	734	1,993	-	-	2,727
Obligated balance not yet disbursed					
Unpaid obligations <sup>(Note 27)</sup>	23,666	5,375	635	-	29,676
Uncollected pymts, Fed sources	(3,993)	(641)	(29)	-	(4,663)
Deposit funds, clearing accounts and unavailable general fund receipts	-	-	-	48	48
Other adjustments					
Contract authority	-	(1,454)	28	-	(1,426)
Appropriations, borrowing authority and spending authority from offsetting collections temporarily not available pursuant to public law	62	15	-	-	77
Invested balances - payable - to be transferred	-	42	-	-	42
Unavailable receipt accounts	-	-	896	-	896
Borrowing authority not yet converted to fund balance	-	(2,386)	-	-	(2,386)
Budgetary resources invested in Treasury securities:					
Nuclear Waste Fund	-	-	(22)	-	(22)
Uranium Enrichment D&D Fund	-	-	(180)	-	(180)
Power Marketing Administrations	-	(499)	-	-	(499)
<b>Total Fund Balance with Treasury</b>	<b>\$ 29,114</b>	<b>\$ 2,695</b>	<b>\$ 1,851</b>	<b>\$ 48</b>	<b>\$ 33,708</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 4. Investments and Related Interest, Net

(\$ IN MILLIONS)	FACE VALUE	UNAMORTIZED PREMIUM (DISCOUNT)	INTEREST RECEIVABLE	INVESTMENTS, NET	UNREALIZED MARKET GAINS (LOSSES)	MARKET VALUE
<b>FY 2014</b>						
Intragovernmental Non-Marketable						
Nuclear Waste Fund	\$ 51,527	\$ (18,696)	\$ 78	\$ 32,909	\$ 6,844	\$ 39,753
D&D Fund	3,344	96	24	3,464	11	3,475
U.S. Enrichment Corporation Fund	1,612	-	2	1,614	-	1,614
Power Marketing Administrations	594	2	1	597	-	597
<b>Subtotal</b>	<b>\$ 57,077</b>	<b>\$ (18,598)</b>	<b>\$ 105</b>	<b>\$ 38,584</b>	<b>\$ 6,855</b>	<b>\$ 45,439</b>
Petroleum Pricing Violation Escrow Fund <sup>(Notes 2 and 14)</sup>	254	-	-	254	-	254
<b>Total investments and related interest, net</b>	<b>\$ 57,331</b>	<b>\$ (18,598)</b>	<b>\$ 105</b>	<b>\$ 38,838</b>	<b>\$ 6,855</b>	<b>\$ 45,693</b>
<b>FY 2013</b>						
Intragovernmental Non-Marketable						
Nuclear Waste Fund	\$ 50,598	\$ (19,801)	\$ 67	\$ 30,864	\$ 5,689	\$ 36,553
D&D Fund	3,673	129	30	3,832	43	3,875
U.S. Enrichment Corporation Fund	1,608	1	3	1,612	-	1,612
Power Marketing Administrations	499	-	-	499	-	499
<b>Subtotal</b>	<b>\$ 56,378</b>	<b>\$ (19,671)</b>	<b>\$ 100</b>	<b>\$ 36,807</b>	<b>\$ 5,732</b>	<b>\$ 42,539</b>
Petroleum Pricing Violation Escrow Fund <sup>(Notes 2 and 14)</sup>	255	-	-	255	-	255
<b>Total investments and related interest, net</b>	<b>\$ 56,633</b>	<b>\$ (19,671)</b>	<b>\$ 100</b>	<b>\$ 37,062</b>	<b>\$ 5,732</b>	<b>\$ 42,794</b>

Pursuant to statutory authorizations, the Department invests monies in Treasury securities and commercial certificates of deposit that are secured by the Federal Deposit Insurance Corporation. The Department's investments primarily involve the Nuclear Waste Fund and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees collected from owners and generators of spent nuclear fuel (SNF) and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds. Funds in excess of those needed to pay current program costs are invested in Treasury securities.

Upon privatization of the U.S. Enrichment Corporation Fund (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. These funds are invested in Treasury securities.

The Federal Government does not set aside assets to pay for expenditures associated with the funds for which the Department holds Treasury securities. These Treasury securities are an asset to the Department and a liability to Treasury. Because the Department and Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide the Department with ability to draw upon the U.S. Treasury to make expenditures, subject to available appropriations and OMB apportionments. When the Department requires redemption of these securities, the Federal Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public, repaying less debt, or by curtailing other expenditures. This is the same way the Federal Government finances all other expenditures.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 5. Accounts Receivable, Net

(\$ IN MILLIONS)	FY 2014			FY 2013		
	RECEIVABLE	ALLOWANCE	NET	RECEIVABLE	ALLOWANCE	NET
Intragovernmental	\$ 489	\$ -	\$ 489	\$ 626	\$ -	\$ 626
Nuclear Waste Fund	3,084	-	3,084	3,245	-	3,245
Power Marketing Administrations	475	-	475	472	-	472
Other	575	(500)	75	575	(486)	89
<b>Subtotal</b>	<b>\$ 4,134</b>	<b>\$ (500)</b>	<b>\$ 3,634</b>	<b>\$ 4,292</b>	<b>\$ (486)</b>	<b>\$ 3,806</b>
<b>Total accounts receivable, net</b>	<b>\$ 4,623</b>	<b>\$ (500)</b>	<b>\$ 4,123</b>	<b>\$ 4,918</b>	<b>\$ (486)</b>	<b>\$ 4,432</b>

Intragovernmental accounts receivable primarily represent amounts due from other federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority.

Non-intragovernmental receivables primarily represent fees due from owners and generators of SNF and high-level radioactive waste (HLW) that contribute resources to the NWF. The NWF receivables are supported by contracts and are comprised of amounts due for two types of fees to be paid to the Department for disposal services: (a) a one-time charge for SNF or HLW existing prior to April 7, 1983; and (b) an ongoing per kWh fee on all net electricity generated and sold by civilian nuclear power reactors after

April 7, 1983. On November 19, 2013, the U.S. Court of Appeals for the District of Columbia Circuit sustained a challenge to the Department's determination of the adequacy of the Nuclear Waste Fund fee, and directed the Department to transmit to Congress a proposal to reduce the fee to zero. The Department complied and, after a congressional review period, its proposal became effective May 16, 2014.

Power Marketing Administrations receivables due from the public primarily arise from the sale of power and transmission services. Other receivables due from the public include reimbursable work billings, trade receivables, and other miscellaneous receivables.

## 6. Regulatory Assets

(\$ IN MILLIONS)	FY 2014	FY 2013
Refinanced and additional appropriated capital	\$ 5,479	\$ 5,474
Residential exchange program scheduled and refund amounts	3,160	3,336
Non-operating facilities	2,047	2,172
Conservation and fish and wildlife measures	650	621
Other regulatory assets	325	318
<b>Total regulatory assets</b>	<b>\$ 11,661</b>	<b>\$ 11,921</b>

The Department's PMAs record certain amounts as assets in accordance with the Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) 980, *Regulated Operations*. The provisions of this standard require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under this standard, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers.

### REFINANCED AND ADDITIONAL APPROPRIATED CAPITAL

BPA is responsible for paying Treasury for transmission and power generating assets that were funded by appropriations, including those of the USACE and Bureau

of Reclamation (BOR). In accordance with FASB ASC 980, BPA records a regulatory asset based on this deferred cost that must be repaid to Treasury for those assets owned by USACE and BOR. This regulatory asset is amortized between 68 and 75 years on a straight-line method based on the estimated service lives of the assets. The *Consolidated Balance Sheets* include a regulatory asset and a corresponding intragovernmental debt for refinanced and additional appropriations owed to the U.S. Treasury. (BPA refinanced its unpaid capital appropriations as of September 30, 1996, and is responsible for the repayment of additional appropriated capital investment after the Refinancing Act (see [Note 12](#))).

### NON-OPERATING FACILITIES

BPA is responsible for repayment of debt for terminated Energy Northwest Nuclear Projects 1 and 3, as well as the terminated Northern Wasco hydroelectric project for which BPA terminated its participation. These assets are

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

amortized to program costs over the term of the related outstanding debt (see [Note 12](#)).

### **RESIDENTIAL EXCHANGE PROGRAM SCHEDULED AND REFUND AMOUNTS**

Under the provisions of the 2012 Residential Exchange Program (REP) Settlement Agreement, BPA's Investor Owned Utilities (IOUs) receive a fixed schedule of benefit payments (Scheduled Amounts) that will be recovered in BPA's rates through 2028. These amounts amortize to program costs. REP Refund Amounts reduce the IOU REP benefit payments through the rate setting process and are equal to the regulatory liability for REP Refund Amounts payable to Consumer Owned Utilities (COUs). The REP IOU Refund amounts are recoverable in future rates through FY 2019.

### **CONSERVATION AND FISH AND WILDLIFE MEASURES**

Conservation measures consist of the costs of deferred conservation measures and are amortized to program costs over periods from 5 to 20 years. Fish and wildlife measures consist of the costs of deferred fish and wildlife project expenses and are amortized to program costs over a period of 15 years.

### **OTHER REGULATORY ASSETS**

Other regulatory assets primarily include accrued liabilities related to outstanding legal claims and settlement agreements (recovered and amortized through future rates over a period as established by the BPA Administrator); spacer damper replacement program costs to replace deteriorated spacer dampers (amortized over 25 or 30 years); and Trojan nuclear facility decommissioning and site restoration costs that reflect the amount to be recovered in future rates for funding the Trojan asset retirement obligation liability.

## **7. Direct Loans and Loan Guarantees, Net**

(\$ IN MILLIONS)	FY 2014	FY 2013
Pre-FCRA loans	\$ 2	\$ 3
FCRA Direct loans		
ATVM	5,036	5,691
Title XVII	8,365	6,681
Total direct loans and 100% guarantee loans, net	<b>\$ 13,403</b>	<b>\$ 12,375</b>
FCRA Guarantee loans (guaranteed value)		
Title XVII	2,589	2,436
<b>Total direct loans and loan guarantees, net</b>	<b>\$ 15,992</b>	<b>\$ 14,811</b>

### **PRE-FCRA LOANS**

The Department has two loans outstanding that were issued prior to the Federal Credit Reform Act of 1990 (FCRA). These loans are presented net of an allowance for loss of \$29 million as of September 30, 2014 and \$30 million as of September 30, 2013.

### **FCRA DIRECT LOANS AND LOAN GUARANTEES**

The Department's direct loan obligations made post-FY 1991, and the resulting direct loans, are governed by the FCRA. These FCRA loans are valued at the net present value of expected future cash flows, discounted at the interest rate of Treasury marketable securities. The net present value of the FCRA loans is not necessarily representative of proceeds that might be expected if these loans were sold on the open market.

The subsidy costs for FCRA loans, which include interest rate differentials, delinquencies, defaults fees and other cash flow items, are intended to estimate the long-term cost to the U.S. Government of its loan programs. These costs are recognized in the year the loan is disbursed. A subsidy re-estimate is performed annually as of September 30. The subsidy re-estimates take into account factors that may have affected the estimated cash flows. Any

adjustment resulting from the re-estimate is recognized as a subsidy expense.

Interest revenue is accrued on a monthly basis on the loan balance outstanding at the interest rate assigned to that loan at the time of disbursement, net of any interest on non-performing loans over 90 days.

The Department operates the following FCRA direct loan and loan guarantee programs:

- Advanced Technology Vehicles Manufacturing (ATVM) Loan Program
- Title XVII Loan Guarantee Program for Innovative Technologies (Title XVII)

### **ATVM**

Section 136 of the Energy Independence and Security Act of 2007 established the ATVM Loan Program which authorizes direct loans to support the development of advanced technology vehicles and associated components in the U.S. The ATVM program provides loans to automobile and automobile part manufacturers for the cost of re-equipping, expanding, or establishing manufacturing facilities in the U.S. to produce advanced technology vehicles or qualified components, and for



## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

associated engineering integration costs. An automobile manufacturer applicant must demonstrate that the average adjusted fuel economy for its light duty fleet exceeds that of its entire fleet average for model year (MY) 2005, or if the applicant is a new automobile manufacturer, it must demonstrate that its ATVM vehicle meets or exceeds the industry adjusted average for model year 2005 for equivalent vehicles. All individual ATVM vehicles must be rated at or above 125% of the fuel economy standards for vehicles with substantially similar attributes for MY 2005. The FY 2009 Continuing Resolution (CR) enacted on September 30, 2008, appropriated \$7.5 billion to support a maximum of \$25.0 billion in loans under the ATVM.

The ATVM Program issues direct loans which are funded by the FFB with interest rates that are equal to the cost of funds to the Treasury for obligations of comparable maturity. The total subsidy cost for an ATVM direct loan is comprised of default subsidy, financing subsidy, and fees. The loan and subsidy are obligated at the time the conditional commitment is issued.

In determining the subsidy, the Department estimates a base borrower interest rate from the budget assumption yield curve used to discount cash flows that generates a zero financing subsidy when determining the final subsidy cost at the point of obligation. This base interest rate is used for calculating the subsidy cost only. Actual interest rates that borrowers pay are not affected. During the interest rate re-estimate, the actual interest rates and the discount rates are updated and will true-up the difference in the Treasury interest rates assumed in the original subsidy cost, and the actual Treasury rates at the point of disbursement, when the borrower interest rates are set.

The Department concluded the sale through auction of the notes of a borrower that was in default of its ATVM loan and realized a loss which is reflected in the balance sheet and tables in this footnote. The Department received a contingent financial interest in connection with the sale of these notes. The Department has determined that this interest has no value until certain conditions occur.

The Department has received warrants in connection with the sale of another defaulted ATVM loan. The Department has determined that the warrants have no value at this time.

As of September 30, 2014, approximately \$8.0 billion in loans are obligated for five borrowers that have been approved, and total disbursements have amounted to \$7.3 billion.

### **TITLE XVII**

The Energy Policy Act of 2005 (EPA05) authorizes the Department to issue loan guarantees to eligible projects that "avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases" and "employ new or significantly improved technologies as

compared to technologies in service in the U.S. at the time the guarantee is issued." Title XVII of EPA05 provides broad authority for the Department to guarantee loans that support early commercial use of advanced technologies if "there is reasonable prospect of repayment of the principal and interest on the obligation by the borrower."

Under the Full-Year Continuing Appropriations Act of 2011, P.L. No. 112-10 (FY 2011 CR), Congress made available approximately \$170 million in appropriated funds to pay the Credit Subsidy Costs of loan guarantees for renewable energy or efficient end-use energy technologies. An additional \$1.5 billion in loan guarantee authority, where the applicants are obligated to pay the Subsidy Costs for qualifying loan guarantees, is available under the FY 2011 CR and the Omnibus Appropriations Act, 2009, P.L. No. 111-8, as amended by Section 408 of the Supplemental Appropriations Act, 2009, P.L. No. 111-32. The Consolidated Appropriations Act, 2012, P.L. 112-74, amended Section 1702 of Title XVII to provide that the Department may combine an appropriation of Credit Subsidy Cost with a direct payment from the borrower to cover the total Credit Subsidy Cost of a loan guarantee. For nuclear power, front-end nuclear and advanced fossil projects, Section 1703 continues to operate as a "self-pay" program whereby borrowers pay the calculated subsidy cost.

In addition to the original program (Section 1703), the ARRA established a new Section 1705 of Title XVII and in FY 2009, appropriated \$6.0 billion to pay for the subsidy costs of loan guarantees for certain renewable energy systems, electric power transmission systems, and leading edge biofuel projects that commence construction no later than September 30, 2011. Public Law 111-47 required \$2.0 billion of the subsidy funds to be transferred to the Department of Transportation to fund the "Cash for Clunkers" program. Public Law 111-226 required \$1.5 billion of the subsidy funds to be rescinded. The loan guarantee and subsidy for both Sections 1703 and 1705 are obligated at the time the loan guarantee closes.

Both Section 1703 and 1705 programs are authorized to issue loan guarantees for up to 100 percent of a debt obligation, which must not exceed 80 percent of eligible project costs. In cases where the Department issues a 100 percent guarantee, the Final Rule requires that the FFB provide the funding. For the purpose of determining the credit subsidy, the Department models these loan guarantees as direct loans to reflect the economic reality to the Federal Government as a whole. Under Title XVII, the total subsidy cost for a direct loan is comprised of default subsidy and financing subsidy (as specified in the authorizing statute where fees offset administrative, not subsidy, costs).

In implementing the 1705 program, the Department also established the Financial Institution Partnership Program (FIPP) which supported loans for conventional renewable

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

energy generation projects with commercial financing. Under FIPP, the Department provided a guarantee for up to 80 percent of a loan. The goal of FIPP was to leverage the human and financial capital of private sector financial institutions in accelerating the loan application process, while balancing risk between the Department and private sector partners participating in the program. The subsidy related to FIPP loans was obligated at the time the loans closed.

In determining the subsidy, the Department estimates a base borrower interest rate from the budget assumption yield curve used to discount cash flows that generate a zero financing subsidy when determining the final subsidy cost at the point of obligation. The Department then adds a spread to that interest rate estimate to reflect any spread that the FFB may charge based on the terms and conditions of the loan guarantee agreement. This base interest rate is used for calculating the subsidy cost only. Actual interest rates that borrowers pay are not affected. During the interest rate re-estimate, the actual interest rates and the discount rates are updated and will true-up the difference in the Treasury interest rates assumed in the original subsidy cost, and the actual Treasury rates at the point of disbursement, when the borrower interest rates are set.

The Department has received warrants in connection with one Title XVII loan guarantee. These warrants have

expired never reaching a positive valuation prior to expiration.

As of September 30, 2014, conditional commitments to issue guarantees have been issued to three projects totaling \$4.0 billion under the Section 1703 program. Approximately \$6.2 billion are obligated to two projects of which \$1.7 billion has been disbursed. As of September 30, 2014, approximately \$13.6 billion are obligated to 26 projects under the Section 1705 program. Twenty projects with 100% guarantees of loans under the Section 1705 program, totaling approximately \$9.4 billion are obligated, of which \$8.9 billion has been disbursed. Six projects receiving partial guarantees of loans under the Section 1705 FIPP totaling approximately \$4.2 billion are committed, of which \$3.8 billion has been disbursed.

Two borrowers modified their loans. The changes included maturity date extensions and changes to the principal repayment schedule. The discount rates used for these modifications were the economic assumptions rates for FY 2014.

Two bankruptcy cases of borrowers who received loans guaranteed under Section 1705 are pending. The present value of the estimated recoveries on these loans is reflected in the balance sheet and tables in this footnote.

### **Direct Loans and 100% Loan Guarantees Obligated and Disbursed Post 1991**

(\$ IN MILLIONS)	LOANS RECEIVABLE, GROSS	INTEREST RECEIVABLE	ALLOWANCE FOR SUBSIDY COST (PRESENT VALUE)	VALUE OF ASSETS RELATED TO LOANS, NET	DISBURSED IN FISCAL YEAR
<b>FY 2014</b>					
ATVM	\$ 5,160	\$ 5	\$ (129)	\$ 5,036	\$ -
Title XVII	9,869	50	(1,554)	8,365	2,420
<b>Total loans</b>	<b>\$ 15,029</b>	<b>\$ 55</b>	<b>\$ (1,683)</b>	<b>\$ 13,401</b>	<b>\$ 2,420</b>
<b>FY 2013</b>					
ATVM	\$ 5,977	\$ 6	\$ (292)	\$ 5,691	\$ 186
Title XVII	8,241	48	(1,608)	6,681	2,924
<b>Total loans</b>	<b>\$ 14,218</b>	<b>\$ 54</b>	<b>\$ (1,900)</b>	<b>\$ 12,372</b>	<b>\$ 3,110</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Subsidy Expense for Direct Loans and 100% Loan Guarantees by Program and Component

(\$ IN MILLIONS)	INTEREST DIFFERENTIAL	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
<b>FY 2014</b>					
Subsidy expense for new direct loans disbursed					
ATVM	\$ -	\$ -	\$ -	\$ -	\$ -
Title XVII	(129)	131	-	-	2
<b>Total</b>	<b>\$ (129)</b>	<b>\$ 131</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2</b>
	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES	TOTAL MODIFICATIONS	TOTAL DIRECT LOAN SUBSIDY EXPENSE
Re-estimates and Modifications					
ATVM	\$ -	\$ (4)	\$ (4)	\$ -	\$ (4)
Title XVII	(140)	76	(64)	-	(62)
<b>Total</b>	<b>\$ (140)</b>	<b>\$ 72</b>	<b>\$ (68)</b>	<b>\$ -</b>	<b>\$ (66)</b>

(\$ IN MILLIONS)	INTEREST DIFFERENTIAL	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
<b>FY 2013</b>					
Subsidy expense for new direct loans disbursed					
ATVM	\$ -	\$ 6	\$ -	\$ -	\$ 6
Title XVII	(102)	471	-	-	369
<b>Total</b>	<b>\$ (102)</b>	<b>\$ 477</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 375</b>
	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES	TOTAL MODIFICATIONS	TOTAL DIRECT LOAN SUBSIDY EXPENSE
Re-estimates and Modifications					
ATVM	\$ -	\$ (6)	\$ (6)	\$ 1	\$ 1
Title XVII	(566)	611	45	2	416
<b>Total</b>	<b>\$ (566)</b>	<b>\$ 605</b>	<b>\$ 39</b>	<b>\$ 3</b>	<b>\$ 417</b>

## Subsidy Rates for Direct Loans and 100% Loan Guarantees by Program and Component

	INTEREST DIFFERENTIAL	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
<b>FY 2014</b>					
ATVM	0.00%	0.00%	0.00%	0.00%	0.00%
Title XVII	(6.04%)	1.84%	0.00%	0.00%	(4.20%)
<b>Total</b>	<b>(6.04%)</b>	<b>1.84%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>(4.20%)</b>
<b>FY 2013</b>					
ATVM	0.00%	0.00%	0.00%	0.00%	0.00%
Title XVII	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>

Rates are the weighted-average of the individual loan subsidy rates for that program. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy

expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes re-estimates.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans and 100% Loan Guarantees)

(\$ IN MILLIONS)	FY 2014	FY 2013
Beginning balance of the subsidy cost allowance	\$ 1,900	\$ 1,591
Add: subsidy expense for direct loans disbursed during the reporting years by component		
Interest rate differential costs	(129)	(102)
Default costs (net of recoveries)	131	477
Total of the above subsidy components	\$ 2	\$ 375
Adjustments:		
(a) Loan modifications	-	3
(b) Subsidy allowance amortization	(9)	(54)
(c) Loans written off	(142)	(54)
Ending balance of subsidy cost allowance before re-estimates	\$ 1,751	\$ 1,861
Add or subtract subsidy re-estimates by component		
Interest rate re-estimates	(140)	(566)
Technical/default re-estimates	72	605
<b>Ending balance of subsidy cost allowance</b>	<b>\$ 1,683</b>	<b>\$ 1,900</b>

### Guaranteed Loans Outstanding

(\$ IN MILLIONS)	OUTSTANDING PRINCIPAL OF GUARANTEED LOANS FACE VALUE	AMOUNT OF OUTSTANDING PRINCIPAL GUARANTEED
	<b>FY 2014</b>	
Title XVII	\$ 3,236	\$ 2,589
	<b>FY 2013</b>	
Title XVII	\$ 3,045	\$ 2,436

### New Guaranteed Loans Disbursed

(\$ IN MILLIONS)	PRINCIPAL OF GUARANTEED LOANS FACE VALUE	AMOUNT OF PRINCIPAL GUARANTEED
	<b>FY 2014</b>	
Title XVII	\$ 598	\$ 478
	<b>FY 2013</b>	
Title XVII	\$ 166	\$ 133

### Liability for Loan Guarantees, Present Value Method

(\$ IN MILLIONS)	FY 2014	FY 2013
Title XVII <sup>(Note 7)</sup>	\$ 208	\$ 183

### Subsidy Expense for New Loan Guarantees by Program and Component

(\$ IN MILLIONS)	INTEREST SUPPLEMENTS	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
	<b>FY 2014</b>				
Subsidy expense for new loan guarantees					
Title XVII	\$ -	\$ 41	\$ -	\$ -	\$ 41
	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES		TOTAL LOAN GUARANTEE SUBSIDY EXPENSE
Re-estimates					
Title XVII	\$ -	\$ (22)	\$ (22)		\$ 19
	INTEREST SUPPLEMENTS	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
	<b>FY 2013</b>				
Subsidy expense for new loan guarantees					
Title XVII	\$ -	\$ 8	\$ -	\$ -	\$ 8
	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES		TOTAL LOAN GUARANTEE SUBSIDY EXPENSE
Re-estimates					
Title XVII	\$ -	\$ 14	\$ 14		\$ 22

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Subsidy Rates for Loan Guarantees by Program and Component

	INTEREST SUPPLEMENTS	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
	<b>FY 2014</b>				
Title XVII	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>FY 2013</b>				
Title XVII	0.0%	0.0%	0.0%	0.0%	0.0%

Rates are the weighted-average of the individual loan subsidy rates for that program. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the guaranteed loans disbursed during the current reporting year to yield the subsidy

expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes re-estimates.

## Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

(\$ IN MILLIONS)	FY 2014	FY 2013
Beginning balance of the loan guarantee liability	\$ 183	\$ 157
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component		
Default costs (net of recoveries)	41	8
Total of the above subsidy components	\$ 41	\$ 8
Adjustments:		
Interest Accumulation on the liability balance	6	4
Ending balance of loan guarantee liability before re-estimates	\$ 230	\$ 169
Add or subtract subsidy re-estimates by component		
Technical/default re-estimates	(22)	14
<b>Ending balance of loan guarantee liability</b>	<b>\$ 208</b>	<b>\$ 183</b>

## Administrative Expenses

(\$ IN MILLIONS)	FY 2014	FY 2013
Direct loan program - ATVM	\$ 6	\$ 7
Loan guarantee program - Title XVII	\$ 32	\$ 45

## 8. Inventory, Net

(\$ IN MILLIONS)	FY 2014	FY 2013
Strategic Petroleum and Northeast Home Heating Oil Reserve	\$ 20,805	\$ 20,812
Nuclear Materials	21,374	21,495
Other Inventory	617	623
<b>Total inventory, net</b>	<b>\$ 42,796</b>	<b>\$ 42,930</b>

Inventory includes stockpile materials consisting of crude oil and gasoline held in the Strategic Petroleum Reserve (SPR) and ultra-low sulphur diesel held in the Northeast Home Heating Oil Reserve, nuclear materials, and other inventory consisting primarily of operating materials and supplies.

### STRATEGIC PETROLEUM RESERVE

The SPR consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2014, and September 30, 2013, the SPR contained crude oil with a historical cost of \$20.5 billion and \$20.7 billion, respectively. The SPR provides a response mechanism should a severe oil disruption occur. Included in the SPR is



## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

six million barrels of crude oil held for future Department of Defense (DoD) use. The FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DoD. The crude oil purchased with DoD funding is commingled with the Department's stock and is valued at its historical cost of \$123 million at September 30, 2014, and September 30, 2013 (see [Notes 2](#) and [14](#)).

### **NORTHEAST HOME HEATING OIL RESERVE**

The Northeast Home Heating Oil Reserve was established in FY 2000 pursuant to the Energy Policy and Conservation Act. The Reserve contains petroleum distillate in the New England geographical area. The historical cost of the reserve was \$141 million as of September 30, 2014 and September 30, 2013.

### **NORTHEAST REGIONAL REFINED PETROLEUM PRODUCT RESERVE**

The Northeast Regional Refined Petroleum Product Reserve was established in FY 2014 pursuant to the Energy Policy and Conservation Act. The Reserve contains refined petroleum product in the New York Harbor area and the Boston/Northern New England area. The historical cost of the reserve at September 30, 2014 was \$122 million.

### **NUCLEAR MATERIALS**

Nuclear materials include weapons materials and related components, including those in the custody of the DoD under Presidential Directive, and materials used for research and development purposes. Certain surplus plutonium carried at zero value (a provision for disposal is included in environmental liabilities) has significant arms control and nonproliferation value and is instrumental to the U.S. in ensuring that Russia continues toward the disposition of its weapons-grade plutonium.

As of September 30, 2014, the Department has natural uranium inventories of 9,146 metric tons (MTU) of uranium hexafluoride (UF<sub>6</sub>). This material can be divided into two stockpiles of material: U.S. origin (5,092 MTU of UF<sub>6</sub>) and Russian origin material (4,054 MTU of UF<sub>6</sub>). This includes the Reclassified US Origin (142.3MTU) to Russian and Canadian.

The Department has transferred uranium for services under contracts at Portsmouth since 2009. Transfers to USEC from 2009 through 2011 totaled 1,473 MTU (UF<sub>6</sub>). In addition, under the D&D contract awarded in the fall of 2010, an additional 825 MTU was bartered with Fluor, Babcock and Wilcox LLC in FY 2011. Prior to any transfers and in accordance with Section 3112 of the USEC Privatization Act, the Secretary of Energy must determine that DOE's transfers of low enriched or natural uranium will not have an adverse material impact on the domestic uranium mining, conversion or enrichment industry. In 2011, the Secretary determined that bartering up to 1,600

MTU per year through FY 2013 would not have an adverse impact on the industry. In 2012, the Secretary determined that bartering up to 2,400 MTU per year of UF<sub>6</sub> to DOE EM contractors through FY 2021, with an additional 400 MTU allocated to NNSA contracts would not have an adverse impact on the domestic uranium industry. In May 2014, the Secretary determined that bartering up to 2,055 MTU per year of natural uranium equivalent to DOE EM contractors through 2021, with an additional 650 MTU of natural uranium equivalent transferred to NNSA contractors through 2022 would not have an adverse impact on the domestic uranium industry.

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions will be made through analysis of the economic benefits and costs, and the environmental impacts of the various use and disposition alternatives. The carrying value of these items is not significant to the nuclear materials stockpile inventory balance. The Department will recognize disposition liabilities and record the material at net realizable value when disposal as waste is identified as the most likely alternative and disposition costs can be reasonably estimated. Inventory values are reduced by costs associated with decay or damage.

The nuclear materials inventory also includes highly enriched uranium (HEU). Under a declaration by the Nuclear Weapons Council and an announcement by the Secretary of Energy in 1996, 175.1 MTU of the Department's HEU was identified as excess to national security needs. Most of this material (about 153 MTU) will be down-blended for sale as low enriched uranium (LEU) and used over time as commercial or research nuclear reactor fuel to recover its value. The remaining portion (about 22 MTU) of the material is already in the form of irradiated fuel or other waste forms and will be disposed of directly as waste. In November 2005, the Secretary of Energy declared that the NNSA would remove up to 200 MTU of HEU, in the coming decades, from further use as fissile material in nuclear weapons. Out of the 200 MTU, approximately 20 MTU will be down-blended to LEU for use in commercial or research reactors, 20 MTU will be used for research and 160 MTU will be provided to Naval Reactors for programmatic use. Approximately 8 MTU of the Naval Reactors material has been rejected by Naval Reactors and re-designated for down-blending and sale as LEU fuel. Down-blending of this material will occur over the coming decades.

The Department released the Excess Uranium Inventory Management Plan on July 3, 2013 (2013 Plan). The 2013 Plan seeks to provide the public and interested stakeholders updated information on programs and foreseeable mission needs, including additions to and deletions from the inventory and changes to DOE's uranium management strategy since the issuance of a previous plan in 2008.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 9. General Property, Plant, and Equipment, Net

(\$ IN MILLIONS)	ACQUISITION COSTS	ACCUMULATED DEPRECIATION	NET BOOK VALUE	ACQUISITION COSTS	ACCUMULATED DEPRECIATION	NET BOOK VALUE
	FY 2014			FY 2013		
Land and land rights	\$ 2,121	\$ (985)	\$ 1,136	\$ 2,074	\$ (955)	\$ 1,119
Structures and facilities	46,987	(27,634)	19,353	45,949	(26,787)	19,162
Internal use software	958	(648)	310	895	(600)	295
Equipment	19,030	(12,254)	6,776	18,610	(11,946)	6,664
Natural resources	112	(17)	95	108	(16)	92
Construction work in process	5,311	-	5,311	6,013	-	6,013
<b>Total general property, plant &amp; equipment</b>	<b>\$ 74,519</b>	<b>\$ (41,538)</b>	<b>\$ 32,981</b>	<b>\$ 73,649</b>	<b>\$ (40,304)</b>	<b>\$ 33,345</b>

## 10. Other Non-Intragovernmental Assets

(\$ IN MILLIONS)	FY 2014	FY 2013
Operating non-federal projects	\$ 3,361	\$ 3,244
Prepaid pension plan costs <sup>(Note 16)</sup>	115	116
Prepayments and advances	185	202
Non-federal nuclear decommissioning trusts	279	255
Lease-purchase trust funds	358	105
Other	159	188
<b>Total other non-intragovernmental assets</b>	<b>\$ 4,457</b>	<b>\$ 4,110</b>

### OPERATING NON-FEDERAL PROJECTS

BPA contracted to acquire all of the generating capability of Energy Northwest's Columbia Generating Station (CGS) nuclear power plant and Lewis County PUD's Cowlitz Falls hydroelectric project. The contracts to acquire the generating capability of the facilities require BPA to pay all or part of the facilities operating, maintenance, and debt service costs. BPA recognizes program costs for these projects based upon the total project cash funding requirements. These assets in the *Consolidated Balance Sheets* are related to non-federal debt associated with the generation assets and are amortized over the term of the outstanding debt (see [Note 12](#)).

### NON-FEDERAL NUCLEAR DECOMMISSIONING TRUSTS

BPA recognizes an asset that represents trust fund balances for decommissioning and site restoration costs. External trust funds for decommissioning and site restoration costs are funded monthly for CGS. The trust funds are expected to provide for decommissioning at the end of the project's safe storage period in accordance with the Nuclear Regulatory Commission (NRC) requirements. The NRC requires that this period be no longer than 60

years from the time the plant stops operating. In May 2012, the NRC renewed CGS's operating license for an additional 20 years with the license now expiring in 2043. Trust fund requirements for CGS are based on an NRC decommissioning cost estimate and the license termination date. The trusts are funded and managed by BPA in accordance with the NRC requirements and site certification agreements.

### LEASE-PURCHASE TRUST FUNDS

Lease-Purchase Trust Funds are amounts held in separate trust accounts outside the Bonneville Fund for the construction of leased transmission assets, the use of which BPA has received under lease-purchase agreements. The amounts held in trust are also used in part for debt service payments during the construction period and include an investment fund mainly for future principal and interest debt service payments.

### OTHER

Other non-intragovernmental assets primarily include settlements and funding agreements for certain joint transmission projects.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 11. Liabilities Not Covered By Budgetary Resources

(\$ IN MILLIONS)	FY 2014	FY 2013
Intragovernmental		
Debt <sup>(Note 12)</sup>	\$ 9,777	\$ 13,197
Other	15	16
<b>Total intragovernmental</b>	<b>\$ 9,792</b>	<b>\$ 13,213</b>
Debt <sup>(Note 12)</sup>	5,828	5,949
Nuclear Waste Fund deferred revenues <sup>(Note 13)</sup>	35,995	34,127
Environmental liabilities <sup>(Note 15)</sup>	298,032	278,677
Pension and other actuarial liabilities <sup>(Note 16)</sup>	23,554	21,445
Capital leases <sup>(Note 17)</sup>	81	72
Other liabilities		
Residential exchange - scheduled amounts <sup>(Note 14)</sup>	2,795	2,904
Environment, safety, and health compliance activities <sup>(Note 14)</sup>	1,135	1,209
Energy savings performance contracts and similar unfunded contracts <sup>(Note 14)</sup>	567	317
Accrued annual leave for federal employees	141	142
Other	59	55
Contingencies and commitments <sup>(Note 18)</sup>	22,759	21,485
<b>Total liabilities not covered by budgetary resources</b>	<b>\$ 400,738</b>	<b>\$ 379,595</b>
Total liabilities covered by budgetary resources	26,355	24,923
<b>Total liabilities</b>	<b>\$ 427,093</b>	<b>\$ 404,518</b>

## 12. Debt

(\$ IN MILLIONS)	BEGINNING BALANCE	NET BORROWINGS	ENDING BALANCE	BEGINNING BALANCE	NET BORROWINGS	ENDING BALANCE
	FY 2014			FY 2013		
Intragovernmental - not covered <sup>(Note 11)</sup>						
Borrowing from Treasury	\$ 3,943	\$ 391	\$ 4,334	\$ 3,612	\$ 331	\$ 3,943
Appropriated capital	3,916	(2,896)	1,020	3,762	154	3,916
Refinanced & additional appropriations	3,866	(849)	3,017	3,820	46	3,866
Capitalization adjustment	1,472	(66)	1,406	1,537	(65)	1,472
<b>Subtotal</b>	<b>\$ 13,197</b>	<b>\$ (3,420)</b>	<b>\$ 9,777</b>	<b>\$ 12,731</b>	<b>\$ 466</b>	<b>\$ 13,197</b>
Intragovernmental - covered						
Borrowing from Treasury	\$ 24	\$ 95	\$ 119	\$ 4	20	\$ 24
Borrowing from FFB	13,856	673	14,529	12,108	1,748	13,856
<b>Subtotal</b>	<b>\$ 13,880</b>	<b>\$ 768</b>	<b>\$ 14,648</b>	<b>\$ 12,112</b>	<b>\$ 1,768</b>	<b>\$ 13,880</b>
Debt held by the public <sup>(Note 11)</sup>	5,949	(121)	5,828	6,127	(178)	5,949
<b>Total debt</b>	<b>\$ 33,026</b>	<b>\$ (2,773)</b>	<b>\$ 30,253</b>	<b>\$ 30,970</b>	<b>\$ 2,056</b>	<b>\$ 33,026</b>

### BORROWING FROM TREASURY

BPA is authorized by Congress, to issue and sell to the U.S. Treasury and have outstanding at any one time up to \$7.70 billion aggregate principal of bonds. Of the \$7.70 billion in U.S. Treasury borrowing authority, \$1.25 billion is available for electric power conservation and renewable resources, including capital investment at the Federal System hydroelectric facilities owned by USACE and BOR,

and \$6.45 billion is available for BPA's transmission capital program and to implement BPA's authorities under the Northwest Power Act. Of the \$7.7 billion, \$750 million can be issued to finance Northwest Power Act related expenses. The Western Area Power Administration has authority to borrow up to \$3.3 billion from the U.S. Treasury for planning, constructing, financing, operating, or maintaining new or upgraded electric power transmission

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

lines and facilities; and for delivering or facilitating the delivery of power generated by renewable energy.

The Department is authorized to borrow from Treasury if cash previously collected is not enough to cover interest expense and other items related to the ATVM and Title XVII loan programs. As of September 30, 2014, the maturity range of the debt was September 30, 2036 to September 30, 2047 and the interest rate range was 2.835 percent to 4.723 percent. As of September 30, 2013 the maturity range of the debt was September 30, 2018 to September 30, 2040 and the interest rate range was 1.570 to 4.723 percent. Borrowings from Treasury related to ATVM and Title XVII loan programs are considered covered by budgetary resources as there is no congressional action necessary to pay the debt.

### **BORROWING FROM THE FFB**

To finance its loan programs, the Department is required to use the FFB for the ATVM program and the 100 percent loan guarantees of the Title XVII program. As of September 30, 2014 and September 30, 2013, the maturity range of the debt was from October 27, 2014 to February 22, 2044 and February 5, 2014 to September 28, 2040, respectively. The interest rate range was from 1.000 percent to 4.723 percent and from 1.000 percent to 4.723 percent as of both September 30, 2014 and September 30, 2013. All debt from the FFB is considered covered by budgetary resources as there is no congressional action necessary to pay the debt.

### **APPROPRIATED CAPITAL**

Appropriated capital owed represents the balance of appropriations provided to WAPA, SWPA and SEPA for construction, operation, and maintenance of power facilities that will be repaid to the Treasury General Fund. The amount owed also includes accumulated interest on the net unpaid federal investment in the power projects. The federal investment in these facilities is to be repaid within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of federal investments are generally expected to be repaid over their useful service lives. There is no requirement for repayment of a specific amount of federal investment on an annual basis.

WAPA, SWPA and SEPA receive an annual appropriation from Treasury's General Fund to fund certain construction, operation, and maintenance expenses. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenues prior to any repayment of federal investment. The Department treated these appropriations as a debt owed to Treasury's General Fund and the Department of Interior's Reclamation Fund, and as such, the *Consolidated Statements of Changes in Net Position* do not reflect these funds as appropriated capital used.

Prior to September 30, 2014, appropriated capital also included funds that were due to DOI's Reclamation Fund

from the revenues generated from the sale of power and transmission services by the PMAs, if available as noted above.

A Memorandum of Understanding between DOI and DOE transferred the financial reporting for two receipt accounts in the Reclamation Fund from DOI to DOE as of September 30, 2014. As a result, the debt for appropriated capital previously reported as being due to DOI will no longer be reflected in DOE's financial statements and footnotes as it is being eliminated against the corresponding loan receivable that was transferred from DOI (see [Note 19](#)).

Except for the appropriation refinancing asset described in [Note 6](#) and in the next section, the Department's financial statements do not reflect the federal investment in power generating facilities owned by the USACE; DOI, BOR; and the DOS, International Boundary and Water Commission. BPA makes annual payments to Treasury from its net proceeds.

### **REFINANCED AND ADDITIONAL APPROPRIATED CAPITAL**

As discussed in [Note 6](#), BPA refinanced its unpaid capital appropriations as of September 30, 1996, and is responsible for the repayment of additional appropriated capital investment after the Refinancing Act. Repayment amounts were determined based on the date the respective facilities were placed in service using the weighted-average service lives of the associated investments, not to exceed 50 years. BPA repays amounts owed to the Treasury General Fund. Federal appropriations may be paid early without penalty. All outstanding federal appropriations are due in FY 2019 and thereafter.

Prior to September 30, 2014, refinanced and additional appropriated capital included amounts due DOI's Reclamation Fund, as well as amounts due to the Treasury General Fund.

A Memorandum of Understanding between DOI and DOE transferred the financial reporting for two receipt accounts in the Reclamation Fund from DOI to DOE as of September 30, 2014. As a result, the debt for refinanced and additional appropriated capital previously reported as being due to DOI will no longer be reflected in DOE's financial statements and footnotes as it is being eliminated against the corresponding loan receivable that was transferred from DOI (see [Note 19](#)).

### **CAPITALIZATION ADJUSTMENT**

Capitalization adjustment is the difference between BPA's appropriated debt before and after refinancing per the BPA Refinancing Section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Refinancing Act), 16 U.S.C. 838(I). The adjustment is being amortized over the remaining period of original repayment so that

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

total net interest expense is equal to what it would have been in the absence of the Refinancing Act.

### DEBT HELD BY THE PUBLIC

Debt held by the public includes liabilities associated with the BPA non-operating facilities discussed in [Note 6](#), the BPA purchased generating capability discussed in [Note 10](#), and customer prepaid power purchases described below.

During FY 2013, BPA entered into agreements with four regional consumer-owned utilities for the advance payment of customer power purchases. Under this program, customers purchased prepaid power in blocks

through FY 2028. For each block purchased, BPA repays the prepayment with interest as monthly fixed credits on the customers' power bills.

In March 2013, BPA received \$340 million representing \$474 million, principal plus interest, in scheduled credits for blocks purchased by customers. BPA accounts for the prepayment proceeds as a financing transaction and reports the value of the obligations associated with the fixed credits as a prepaid liability. Interest expense is recognized using a weighted-average effective interest rate of 4.5 percent. The prepaid liability is reduced as power is delivered and the credits are applied through FY 2028.

The following table summarizes future principal and interest payments required for the debt described above.

(\$ IN MILLIONS) FISCAL YEAR	BORROWING FROM TREASURY	BORROWING FROM FFB	APPROPRIATED CAPITAL	REFINANCED APPROPRIATIONS	CAPITALIZATION ADJUSTMENT	DEBT HELD BY THE PUBLIC
2015	390	1,469	18	-	64	603
2016	30	1,123	29	-	65	605
2017	68	811	39	-	65	596
2018	9	849	43	-	65	933
2019	575	873	17	6	65	440
2020+	3,381	9,404	874	3,011	1,082	2,651
<b>Subtotal</b>	<b>\$ 4,453</b>	<b>\$ 14,529</b>	<b>\$ 1,020</b>	<b>\$ 3,017</b>	<b>\$ 1,406</b>	<b>\$ 5,828</b>

## 13. Deferred Revenues and Other Credits

(\$ IN MILLIONS)	FY 2014	FY 2013
Intragovernmental	\$ 83	\$ 95
Nuclear Waste Fund <sup>(Note 11)</sup>	\$ 35,995	\$ 34,127
Power Marketing Administrations	1,251	1,252
Reimbursable work advances	394	379
Other	214	209
<b>Subtotal</b>	<b>\$ 37,854</b>	<b>\$ 35,967</b>
<b>Total deferred revenues and other credits</b>	<b>\$ 37,937</b>	<b>\$ 36,062</b>

### NUCLEAR WASTE FUND

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and SNF and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities. Revenues that exceed the NWF expenses are deferred.

### POWER MARKETING ADMINISTRATIONS

PMA deferred revenues and other credits primarily represent advances and unearned revenues. Primary components include: 1) regulatory liabilities primarily related to accumulated plant removal costs collected through rates as part of depreciation and CGS

decommissioning and site restoration costs; 2) customer reimbursable projects that consist of advances received from customers where either the customer or BPA will own the resulting asset; 3) generation interconnection agreement funds held as security for requested new network upgrades and interconnection that will be returned as credits against future transmission service; 4) unearned revenues from customers related to the Third AC intertie capacity project; 5) derivative instruments that reflect the unrealized loss of the derivative portfolio which includes physical power purchase and sale transactions; and 6) fiber optic leasing fees that reflect unearned revenue related to the leasing of the fiber optic cable.



## 14. Other Liabilities

(\$ IN MILLIONS)	FY 2014	FY 2013
<b>Intragovernmental</b>		
Oil held for Department of Defense <sup>(Notes 2 and 8)</sup>	\$ 123	\$ 123
Petroleum Pricing Violation Escrow Fund <sup>(Notes 2 and 4)</sup>	248	248
Negative subsidies and downward re-estimates on loans outstanding	149	87
Other	116	85
<b>Total other intragovernmental liabilities</b>	<b>\$ 636</b>	<b>\$ 543</b>
Environment, safety, and health compliance activities <sup>(Notes 11, 25 and 26)</sup>	\$ 1,135	\$ 1,209
Accrued payroll, benefits, and withholding taxes	1,383	1,312
Residential exchange	3,166	3,432
Petroleum Pricing Violation Escrow Fund <sup>(Notes 2 and 4)</sup>	6	7
Asset retirement obligations	176	172
Energy savings performance contracts and similar unfunded contracts <sup>(Note 11)</sup>	567	317
Other	229	257
<b>Subtotal</b>	<b>\$ 6,662</b>	<b>\$ 6,706</b>
<b>Total other liabilities</b>	<b>\$ 7,298</b>	<b>\$ 7,249</b>

### NEGATIVE SUBSIDIES AND DOWNWARD RE-ESTIMATES ON LOANS OUTSTANDING

FCRA requires the Government's cost of issuing a loan be estimated at the time of obligation. There are cases where the interest received on the loan will exceed the project interest expense and potential defaults; in essence the loan makes money. This will cause a negative subsidy rate. These negative subsidies are owed to the Treasury's General Fund at the time of the loan disbursement.

FCRA requires that the present value of loans outstanding be updated at the end of each FY. If the present value of any loan increases (i.e., the Government's cost of the loan is lower than previously estimated), a downward re-estimate is recorded. The downward re-estimate results in excess subsidies collected that must be returned to the Treasury's General Fund in the following FY.

### ENVIRONMENT, SAFETY, AND HEALTH COMPLIANCE ACTIVITIES

The Department's environment, safety, and health (ES&H) liability represents those activities necessary to bring facilities and operations into compliance with existing ES&H laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate.

### ACCRUED PAYROLL, BENEFITS, AND WITHHOLDING TAXES

Accrued payroll and benefits represent amounts owed to the Department's federal and contractor employees for accrued payroll, unfunded accrued annual leave for federal employees, funded accrued annual leave for contractor employees, payroll withholdings owed to state and local governments, and Thrift Savings Plan withholdings and employer contributions.

### RESIDENTIAL EXCHANGE

As provided in the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), beginning in 1981 BPA entered into 20-year Residential Purchase and Sale Agreements (RPSAs) with eligible regional utility customers. The RPSAs implemented the REP. From its inception, the REP has been met with challenges, has been the subject of numerous settlement agreements, and has been litigated at many stages of its implementation.

Beginning in April 2010, over 50 litigants and other regional parties entered into mediation to resolve their numerous disputes over the REP. Participants reached an agreement in principle in early September 2010 and in February 2011 reached a final settlement agreement – the 2012 Residential Exchange Program Settlement Agreement (2012 REP Settlement Agreement).

In FY 2011, the BPA administrator signed the REP-12 Final Record of Decision (ROD) and the 2012 REP Settlement Agreement, and BPA recorded an associated long-term IOU exchange benefits liability and corresponding regulatory asset of \$3.1 billion associated with the 2012 REP Settlement Agreement. Beginning in FY 2012, under the provisions of the 2012 REP Settlement Agreement the IOUs began to receive Scheduled Amounts annually starting at \$182 million with increases over time to \$286 million as the final payment in FY 2028. The distribution

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

of these payments is established in the 2012 REP Settlement Agreement that relies upon IOUs' average system cost, BPA's Priority Firm Exchange rates and exchange load. The settled Scheduled Amounts to be paid to the IOUs total \$4.1 billion over the 17-year period through 2028. Amounts recorded of \$2.8 billion at September 30, 2014, represent the present value of future cash outflows for these exchange benefits (see [Notes 6 and 11](#)).

In addition to Scheduled Amounts, the 2012 REP Settlement Agreement calls for Refund Amounts to be paid to Consumer-Owned Utilities (COU) in the amount of \$77 million each year from FY 2012 through FY 2019. The Refund Amounts were established as a regulatory asset and regulatory liability for the refunds that will be provided to BPA customers as credits on customer monthly bills. The 2012 REP Settlement Agreement established Refund Amounts totaling \$612 million. Amounts recorded as a regulatory liability of \$366 million at September 30, 2014, represent the present value of future cash flows for the amounts to be refunded to COUs, including any accumulated provision for a rate refund.

Also included within the Residential Exchange Program liabilities as of September 30, 2013, is \$95 million related to true-up of interim agreements with interest and other smaller items. The true-up amounts for the IOUs accumulated to \$89 million by the end of December 2013; however, provisions in the agreement provided that the true-up payments could not be paid until any subsequent legal challenges to BPA's final ROD, if any, were resolved. In FY 2014, the conditions allowing for payment were met, and BPA paid all remaining Interim Agreement true-up payments.

### **ASSET RETIREMENT OBLIGATIONS**

BPA recognizes asset retirement obligations (AROs) based on the estimated fair market value of the dismantlement and restoration costs associated with the retirement of certain tangible long-lived assets. The AROs relate primarily to CGS decommissioning and site restoration, terminated Energy Northwest Projects 1 and 4 site restoration, and decommissioning costs for the former Trojan nuclear power plant. The liability is adjusted for any revisions, expenditures and the passage of time. BPA also has tangible long-lived transmission assets without an associated ARO because no obligation exists to remove these assets.

### **ENERGY SAVINGS PERFORMANCE CONTRACTS AND SIMILAR UNFUNDED CONTRACTS**

The Department has entered into Energy Savings Performance Contracts (ESPCs). ESPCs are a unique financing arrangement and partnership between a federal agency and an energy service company (ESCO). ESCOs conduct comprehensive energy audits for the Department, identify areas to improve to save energy and create plans to implement energy saving initiatives. This type of contract enables the Department to fund these projects without up-front capital costs and special congressional appropriations. The ESPC liability is the amount owed to the ESCO.

### **OTHER LIABILITIES**

Other liabilities consist primarily of custodial and non-custodial deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

## **15. Environmental Cleanup and Disposal Liabilities**

(\$ IN MILLIONS)	FY 2014	FY 2013
Beginning balance	\$ 280,270	\$ 268,401
Changes to environmental cleanup and disposal liability estimates	25,983	18,014
Costs applied to reduction of legacy environmental liabilities <sup>(Note 24)</sup>	(5,067)	(4,658)
Capital expenditures related to remediation activities	(1,358)	(1,487)
<b>Ending environmental cleanup and disposal liabilities</b>	<b>\$ 299,828</b>	<b>\$ 280,270</b>
Unfunded environmental liabilities <sup>(Note 11)</sup>	\$ 298,032	\$ 278,677
Funded environmental liabilities	1,796	1,593
<b>Total environmental cleanup and disposal liabilities</b>	<b>\$ 299,828</b>	<b>\$ 280,270</b>

After World War II, the U.S. developed a massive industrial complex to research, produce, and test nuclear weapons and commercial nuclear power reactors. The nuclear complex was comprised of nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities.

At all sites where these activities took place, some environmental contamination occurred. This

contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, or groundwater. In particular, the environmental legacy of nuclear weapons production also included thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal.

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The Nuclear Waste Policy Act of 1982 (the Act) established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and SNF. The Act requires all owners and generators of high-level nuclear waste and SNF, including the Department, to pay their respective shares of the full cost of disposal. The Department's liability for disposal reflects its share of the estimated future costs of the disposal of its inventory of high-level waste and SNF. The Department's liability does not include the portion of the cost attributable to commercial owners and generators.

The Department has estimated environmental cleanup liability for the environmental contamination and waste disposition obligations discussed above. The estimates provide for a site-by-site projection of the work required to safely complete all EM projects, while complying with regulatory agreements, statutes, and regulations. Project estimates include projections of the technical scope, schedule, and estimable costs at each site for their cleanup.

In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the Department's estimates:

- The Department has identified approximately 10,500 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and regulatory decisions have not been made for many sites. Site-specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.
- Cost estimates for management of the Department's high-level waste and SNF have been predicated upon assumptions as to the timing and rate of acceptance of the waste at a geologic repository. Changes in high-level waste and SNF disposition plans could cause departmental projected costs to change.
- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.
- Estimated cleanup costs at sites for which there is no current feasible remediation approaches are excluded from the estimates, although applicable stewardship and monitoring costs for these sites are included. An example of such a site is the nuclear explosion test area at the Nevada National Security Site. The Department has not been required via regulation to establish remediation activities for these sites.

Changes to the Department's estimates during FYs 2014 and 2013 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work, including changes resulting from deferral or acceleration of work; revisions in technical approach or scope including

additional contamination; updated estimates of projected waste volume; changes in the Department's allocable percentage share of future costs; regulatory changes; and cleanup activities performed.

The Department's liabilities also include the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites. The Department is responsible for the post-closure activities at many of the closure sites as well as other sites (former uranium mills and certain sites remediated by the USACE). The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e., through 2089 in FY 2014 and through 2088 in FY 2013. While some post-cleanup monitoring and other long-term stewardship activities post 2089 are included, there are others the Department expects to continue beyond 2089 for which the costs cannot reasonably be estimated.

A portion of the environmental liability at various field sites includes anticipated costs for facilities managed by the Department's ongoing program operations which will ultimately require stabilization, deactivation, and decommissioning. These estimates are largely based upon a cost-estimating model. Site-specific estimates are used, in lieu of the cost-estimating model, when available. Cost estimates for ongoing program facilities are updated each year. For facilities newly contaminated since FY 1997, costs are allocated to the periods benefiting from the operations of the facilities. Facilities cleanup costs allocated to future periods and not included in the liability amounted to \$710 million at September 30, 2014, and \$766 million at September 30, 2013.

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental cleanup and disposal will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, some contaminated sites and facilities could be restored to a condition suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially secured, monitored, and left in place. Achieving the former conditions would have a higher cost but may, or may not, warrant the costs or be legally required. The estimates reflect applicable decisions and current expectations as to the extent of cleanup and site and facility reuse, which include consideration of legal requirements and stakeholder input. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program. The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower-than-anticipated

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

levels or unplanned delays in project completion would cause increases in life-cycle costs. All environmental liabilities as of September 30, 2014, and September 30, 2013, are stated in FY 2014 dollars and FY 2013 dollars, respectively, as required by generally accepted accounting principles for federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

### **HANFORD SITE**

The Department's Hanford Site covers 586 square miles in the desert of southeastern Washington State. The area is home to nine former production reactors and their associated processing facilities. The major activities comprising the environmental liabilities at Hanford include the following:

- The Waste Treatment Plant is a multi-year construction project that once complete will process and treat the high-level waste currently stored underground in tanks. The estimate for this project is undergoing an update that is expected to be completed beyond FY 2014 and will result in a revision of the liability.
- The River Corridor Closure Project addresses the remediation of contaminated soils and facilities adjacent to the Columbia River. Much of this work has been completed but remediation activities continue for the 300-296 waste site beneath the 324 Building, the treatment and packaging of radioactive sludge to interim storage; and the high risk 618-10 and 618-11 burial grounds.

### **SAVANNAH RIVER SITE**

The Savannah River Site (SRS), located in South Carolina, is 310 square miles in size with 1,000 facilities concentrated within 10 percent of the total land area. The SRS estimate includes disposition of radioactive liquid waste through vitrification of the high activity component at the site's Defense Waste Processing Facility, and decommissioning of facilities. The major activities comprising the environmental liabilities at SRS include the following:

- Radioactive Liquid Waste Stabilization and Disposition project includes safely and effectively treating, stabilizing and disposing of approximately 37 million gallons of legacy radioactive waste stored in 47 underground storage tanks.
- The surplus plutonium disposition program provides the capability to disposition certain of the nation's surplus, weapons-usable plutonium by converting it into a form suitable for use in commercial nuclear reactors and includes the construction, operation, and the decontamination and demolition of the Mixed Oxide (MOX) Fuel Fabrication Facility and supporting facilities. Given greater than anticipated costs, the Department is currently evaluating options, including the MOX fuel approach, to disposition such plutonium.

The Department remains committed to the U.S.-Russia Plutonium Management and Disposition Agreement.

### **IDAHO NATIONAL LABORATORY SITE**

The Idaho National Laboratory (Idaho) is a research and engineering complex that occupies 890 square miles in southeastern Idaho and has been the center of nuclear energy research since 1949. The Idaho Site has fulfilled numerous DOE missions including the design and testing of 52 nuclear reactors and reprocessing spent nuclear fuel to recover fissile materials. These activities resulted in inventories of high-level, transuranic, mixed low-level, and low-level wastes. The major activities comprising the environmental liabilities at Idaho include the following:

- The Spent Nuclear Fuel Stabilization and Disposition project includes stabilizing legacy spent nuclear fuel and managing the receipt of off-site spent nuclear fuel from research reactors.
- The Radioactive Liquid Tank Waste Stabilization and Disposition Project is treating and disposing the sodium-bearing tank wastes, closing the underground waste tanks, as well as maintaining the Idaho Nuclear Technology and Engineering Center.

### **GASEOUS DIFFUSION PLANTS**

The Department constructed and formerly operated three gaseous diffusion plants (GDPs) located in Oak Ridge, Tennessee, Portsmouth, Ohio, and Paducah, Kentucky to enrich uranium which resulted in radioactive and chemical contamination at the sites. The major activities comprising the environmental liabilities at the GDPs include the following:

- Portsmouth and Paducah Nuclear Material Stabilization and Disposition-Depleted Uranium Hexafluoride Conversion projects that include the operation of the depleted uranium hexafluoride conversion facilities at the Portsmouth and Paducah sites. These facilities will convert the material into a more stable form of depleted uranium oxide suitable for reuse or disposition.
- Portsmouth and Paducah Nuclear Facility D&D projects that include environmental cleanup and surveillance and maintenance activities, and decontamination and decommissioning of inactive or excess facilities.

### **ENVIRONMENTAL LIABILITY ESTIMATES FOR OTHER SITES**

Environmental liabilities exist for other sites and activities across the Department. The cleanup activities at these sites are similar to those mentioned above, including, depending on the site, soil and groundwater remediation; waste retrieval, treatment, and disposal; and decontamination and decommissioning of nuclear reactors and other facilities.



## 16. Pension and Other Actuarial Liabilities

(\$ IN MILLIONS)	FY 2014	FY 2013
Contractor pension plans	\$ 13,104	\$ 10,616
Contractor postretirement benefits other than pensions	10,330	10,711
Contractor disability and life insurance plans	16	16
Federal Employees' Compensation Act	104	102
<b>Total pension and other actuarial liabilities</b> <sup>(Note 11)</sup>	<b>\$ 23,554</b>	<b>\$ 21,445</b>

Most of the Department's major contractors sponsor defined benefit pension plans which promise to pay specified benefits, such as a percentage of the final average pay for each year of service, to their employees. The Department's allowable costs under these contracts include reimbursement of annual contractor contributions to these pension plans. Most of the contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. The Department approves, for cost reimbursement purposes, these contractors' pension and postretirement benefit plans and is responsible for the allowable costs of funding the plans. As such, the Department follows FASB ASC 715, Compensation – Retirement Benefits, for reporting contractor pension and PRB plans for which the Department has a continuing obligation to reimburse allowable costs. The Department also reimburses these contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

### CONTRACTOR PENSION PLANS

As of September 30, 2014, the Department reports contractor pension assets (i.e., aggregate of net assets for all contractor plans with plan assets in excess of the projected benefit obligation) of \$103 million and contractor pension liabilities (i.e., aggregate of net liabilities for all contractor plans with projected benefit obligations in excess of the plan assets) of \$13.1 billion. The Department has a continuing obligation to reimburse allowable costs for a variety of contractor-sponsored pension plans (36 qualified and 13 nonqualified).

For qualified defined benefit pension plans, the Department's current funding policy is to reimburse contractors for contributions made by the contractors to defined benefit pension plans sponsored by the contractors. Contractors are required to make contributions to their plans as required by the Internal Revenue Code, the Employee Retirement Income Security Act (ERISA), as amended, and consistent with Departmental policy. For nonqualified plans, the funding policy is pay-as-you-go.

**Assumptions and Methods** – Contractors use their own actuarial assumptions for determining required contributions to employee pension plans. However, in order to provide consistency among the Department's various contractors, the Department requires the use of

certain standardized actuarial assumptions for financial reporting purposes. These standardized assumptions include the discount rates, mortality assumptions, and an expected long-term rate of return on plan assets, salary scale, and any other economic assumptions consistent with an expected long-term inflation rate of 2.5 percent for the entire U.S. economy with adjustments to reflect regional or industry rates as appropriate. In most cases, ERISA valuation actuarial assumptions for demographic assumptions were used.

The following specific assumptions and methods were used to determine the net periodic cost. The weighted average discount rate was 4.75 percent for FY 2014 and 3.75 percent for FY 2013; the weighted average long-term rate of return on assets was 7.05 percent for FY 2014 and 7.16 percent for FY 2013; and the average rate of compensation increase was 3.9 percent for FY 2014 and FY 2013. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for each of the contractors' plans.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2014, and September 30, 2013, were 4.25 percent and 4.75 percent, respectively.

The aggregate September 30, 2014, accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are \$43.2 billion and \$33.1 billion, respectively. The aggregate September 30, 2014, projected benefit obligation and aggregate fair value of plan assets for plans with projected benefit obligations in excess of plan assets are \$46.2 billion and \$33.1 billion, respectively.

Since the Department reports under federal accounting requirements, newly measured net prior service costs/(credits) and net (gains)/losses are recognized immediately as components of net periodic cost rather than classified as other comprehensive income under FASB ASC 715 and later amortized and included as components of net periodic cost. All components of the net periodic cost are recognized in the Consolidated Statements of Net Costs. Service costs are recorded by program and all other



## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

net periodic costs are recorded as costs not assigned (see [Note 25](#)). If the Department classified these costs as other comprehensive income, the amortization of the net transition (asset)/obligation, the net prior service cost/(credit), and the net (gain)/loss for the defined benefit pension plans that would have been included in the net periodic cost would have been \$0 million, (\$41) million, and \$524 million in FY 2014, and \$0 million, (\$24) million, and \$1.1 billion in FY 2013, respectively. Additional amortization of \$20 million and (\$9) million due to curtailments and settlements would also have been included in FY 2014 and 2013, respectively. The estimated amortization of the net prior service cost/(credit), and the net (gain)/loss that would have been included in the net periodic cost in FY 2015 are (\$49) million, and \$605 million, respectively.

### **CONTRACTOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

As of September 30, 2014, the Department reports contractor PRB assets of \$12 million and contractor PRB liabilities of \$10.3 billion. The Department accrues the cost of PRB during the years that the employees render service. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are five contractors, however, that are prefunding benefits in part as permitted by law. The Department's contractors sponsor a variety of postretirement benefits other than pensions.

**Assumptions and Methods** - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include medical and dental trend rates, discount rates, and mortality assumptions.

The following specific assumptions and methods, with respect to trends in the costs of medical and dental benefit plans, were used in determining the PRB estimates. The medical trend rates for a point of service plan, a self-insured HMO, a PPO, or similar plan grade from 8.0 percent in 2014 down to 5.0 percent in 2022 and later for under age 65; 7.6 percent in 2014 down to 5.0 percent in 2022 and later for age 65 and older and for non-Part D prescription drug benefits. The medical trend rates for a traditional indemnity plan, fully-insured HMO, or similar plan, grade from 8.0 percent in 2014 down to 5.0 percent in 2022 and later for any age on a combined basis. Separate trend rates were used this year for a Medicare Advantage plan depending on the current per member per month (PMPM) level of employer cost that grade from 76.29 percent, 40.64 percent, or 22.82 percent (interpolated/extrapolated as necessary for other PMPM level of employer cost) for employer cost of \$50, \$100, or \$200, respectively, down to 5.0 percent by 2022 and later. The trend rates for Part D prescription drug plan grade from 7.5 percent in 2014 down to 5.0 percent in 2022 and later. The medical trend rates or combination of rates used to determine the PRB estimates are dependent on

each of the contractor's specific plan design and impact of health care reform, if applicable. The dental trend rates at all ages grade from 5.25 percent in 2014 down to 4.75 percent in 2016 and later.

The weighted average discount rates of 4.75 percent for FY 2014 and 3.75 percent for FY 2013, and the weighted average long-term rate of return on assets of 5.27 percent for FY 2014 and 5.25 percent for FY 2013 were used to determine the net periodic cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for each of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2014, and September 30, 2013, were 4.25 percent and 4.75 percent, respectively.

The September 30, 2014, aggregate accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are \$10.5 billion and \$137 million, respectively.

Since the Department reports under federal accounting requirements, newly measured net prior service costs/(credits) and net (gains)/losses are recognized immediately as components of net periodic cost rather than classified as other comprehensive income under FASB ASC 715 and later amortized and included as components of net periodic cost. All components of the net periodic cost are recognized in the Consolidated Statements of Net Costs. Service costs are recorded by program and all other net periodic costs are recorded as costs not assigned (see [Note 25](#)). If the Department classified these costs as other comprehensive income, the amortization of the net prior service cost/(credit) and the net (gain)/loss for the PRB plans that would have been included in the net periodic cost would have been (\$532) million and \$31 million in FY 2014, and (\$525) million and \$198 million in FY 2013, respectively. Additional amortization of \$0 million and (\$90) million due to curtailments and settlements would also have been included in FY 2014 and 2013, respectively. The estimated amortization of the net prior service cost/(credit) and the net (gain)/loss that would have been included in the net periodic cost in FY 2015 are (\$546) million and \$68 million, respectively.

The FY 2014 and FY 2013 values reflect the impact of the passage of health care reform legislation in March 2010. The liabilities reflect the contractors' best estimates given the limited guidance available on implementation of the new laws. Liabilities in future years may need to be adjusted as additional guidance is issued under the laws.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(\$ IN MILLIONS)	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	FY 2014	FY 2013	FY 2014	FY 2013
<b>NET AMOUNT RECOGNIZED IN THE COMBINED BALANCE SHEET</b>				
Accumulated benefit obligation	\$ 43,917	\$ 37,879		
Effect of future compensation increases	2,978	3,253		
Benefit obligation	<b>\$ 46,895</b>	<b>\$ 41,132</b>	\$ 10,474	\$ 10,856
Plan assets	33,894	30,621	156	156
<b>Net amount recognized in the balance sheet (net funded status)</b>	<b>\$ (13,001)</b>	<b>\$ (10,511)</b>	<b>\$ (10,318)</b>	<b>\$ (10,700)</b>
<b>RECONCILIATION OF AMOUNTS RECOGNIZED IN THE COMBINED BALANCE SHEET</b>				
Asset (prepaid pension plan costs) <sup>(Note 10)</sup>	\$ 103	\$ 105	\$ 12	\$ 11
Liability	(13,104)	(10,616)	(10,330)	(10,711)
<b>Net amount recognized in the balance sheet (net funded status)</b>	<b>\$ (13,001)</b>	<b>\$ (10,511)</b>	<b>\$ (10,318)</b>	<b>\$ (10,700)</b>
<b>COMPONENTS OF NET PERIODIC COSTS</b>				
Service costs <sup>(Note 26)</sup>	\$ 862	\$ 1,085	\$ 205	\$ 272
Interest costs	1,999	1,709	472	453
Expected return on plan assets	(2,096)	(1,971)	(8)	(8)
(Gain)/loss due to curtailments, settlements or special termination benefits	(5)	(49)	-	(147)
Net prior service cost/(credit)	(61)	(86)	(904)	(503)
Net (gain)/loss	3,279	(6,811)	233	(2,448)
<b>Total net periodic costs</b>	<b>\$ 3,978</b>	<b>\$ (6,123)</b>	<b>\$ (2)</b>	<b>\$ (2,381)</b>
<b>CONTRIBUTIONS AND BENEFIT PAYMENTS</b>				
Employer contributions <sup>(Note 26)</sup>	\$ 1,486	\$ 1,186	\$ 383	\$ 390
Participant contributions	84	72	94	89
Benefit payments	1,890	1,831	483*	487*
* Includes \$6 million paid from plan assets for FY 2014, and \$7 million paid from plan assets for FY 2013. For FY 2014, gross benefit payments were \$492 million including \$9 million of Federal Medicare subsidy. This resulted in net benefit payments of \$483 million for FY 2014. For FY 2013, gross benefit payments were \$497 million including \$10 million of Federal Medicare subsidy. This resulted in net benefit payments of \$487 million for FY 2013.				

(\$ IN MILLIONS)	PENSION BENEFITS	OTHER POSTRETIREMENT BENEFITS
<b>Expected contributions for fiscal year ending September 30, 2015</b>		
Employer contributions	\$ 1,160	\$ 436
Participant contributions	90	115

(\$ IN MILLIONS)	PENSION BENEFITS	OTHER POSTRETIREMENT BENEFITS		
		GROSS PAYMENT	LESS FEDERAL MEDICARE PART D SUBSIDY *	NET PAYMENT
<b>ESTIMATED FUTURE BENEFIT PAYMENTS FY:</b>				
2015	\$ 1,964	\$ 543	\$ 7	\$ 536
2016	2,026	578	7	571
2017	2,132	612	8	604
2018	2,230	647	9	638
2019	2,338	686	10	676
2020 to 2024	13,102	3,795	67	3,728

\* Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, a Federal subsidy is provided to sponsors of retiree healthcare benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. Generally, the Department has reflected the impact of the subsidy as a reduction to the employers' cost of the benefits.

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The following chart shows the average target allocation for the 36 pension benefit plans and five other postretirement benefit plans with assets. The weighted average actual FY 2014 and FY 2013 allocations of assets are also shown.

ASSET CLASS	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	TARGET ALLOCATION	PERCENT OF PLAN ASSETS AT END FY 2014	PERCENT OF PLAN ASSETS AT END FY 2013	TARGET ALLOCATION	PERCENT OF PLAN ASSETS AT END FY 2014	PERCENT OF PLAN ASSETS AT END FY 2013
Cash and Equivalents	1.2%	2.6%	3.5%	0.2%	0.1%	0.2%
US Government Bonds	10.0%	10.6%	9.3%	4.0%	2.8%	1.2%
State and Municipal Government Bonds	0.8%	0.8%	0.6%	0.0%	0.9%	1.3%
Foreign Government Bonds	1.2%	1.7%	1.5%	0.0%	0.0%	0.0%
High-yield Corporate Bonds	0.9%	1.3%	1.3%	0.0%	0.0%	0.0%
Corporate Bonds other than high-yield	10.1%	20.4%	18.9%	4.1%	3.1%	3.7%
Small Cap Domestic Equities	2.8%	3.0%	4.1%	0.1%	0.1%	0.1%
Mid Cap Domestic Equities	3.9%	4.7%	7.3%	0.5%	0.4%	0.4%
Large Cap Domestic Equities	18.5%	17.6%	16.9%	0.9%	0.6%	0.6%
International Equities	22.2%	22.5%	21.5%	0.1%	1.4%	1.4%
Real Estate Investment Funds	2.7%	2.3%	2.4%	1.1%	0.0%	0.0%
Other Real Estate	0.3%	0.7%	0.5%	1.2%	0.0%	0.0%
Mortgage-Backed Securities	1.1%	2.4%	2.2%	0.0%	0.3%	1.7%
Asset-Backed Commercial Paper	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Bonds/Notes Issued by Structured Investment Vehicles	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Derivatives, including Collateralized Debt Obligations and Credit Default Swaps	0.0%	0.6%	0.6%	0.0%	0.0%	0.0%
Private Investment Funds, including Hedge Funds	6.4%	6.1%	6.8%	0.0%	0.0%	0.0%
Insurance Contracts (general accounts)	0.1%	0.3%	0.4%	72.3%	72.3%	74.3%
Insurance Contracts (separate accounts)	0.1%	0.2%	0.2%	15.5%	15.5%	13.6%
Employer Securities	0.3%	0.3%	0.3%	0.0%	0.0%	0.0%
Aggregate Bond Index, Long Bond Index	1.1%	1.2%	1.0%	0.0%	0.0%	0.0%
Other	16.3%	0.6%	0.7%	0.0%	2.5%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Each contractor develops its own investment policies and strategies for the plans it sponsors. Therefore, there is no one overall investment policy for the contractors' plans.

Generally, their objectives provide for benefit security for plan participants through the maximization of total returns while limiting risk and providing liquidity coverage of benefit payments.

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The following chart shows the allocation of the assets for the 36 pension benefit plans with assets among the levels in the fair value hierarchy.

(\$ IN MILLIONS)		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS
Asset Class	Total	(Level 1)	(Level 2)	(Level 3)
Cash and Equivalents	\$ 866	\$ 271	\$ 467	\$ 128
US Government Bonds	3,599	1,356	1,936	307
State and Municipal Government Bonds	256	43	213	-
Foreign Government Bonds	576	11	565	-
High-yield Corporate Bonds	434	39	395	-
Corporate Bonds other than high-yield	6,924	438	6,486	-
Small Cap Domestic Equities	1,031	728	185	118
Mid Cap Domestic Equities	1,609	1,514	95	-
Large Cap Domestic Equities	5,963	4,530	891	542
International Equities	7,580	3,893	3,687	-
Real Estate Investment Funds	788	92	121	575
Other Real Estate	250	-	-	250
Mortgage-Backed Securities	805	53	752	-
Asset-Backed Commercial Paper	30	-	30	-
Bond/Notes Issues by Structured Investment Vehicles	1	-	1	-
Derivatives	213	-	213	-
Private Investment Funds	2,072	358	201	1,513
Insurance Contracts (general accounts)	105	-	60	45
Insurance Contracts (separate accounts)	63	-	63	-
Employer Securities	111	111	-	-
Aggregate Bond Index, Long Bond Index	399	2	397	-
Other	219	151	57	11
<b>Total Assets</b>	<b>\$ 33,894</b>	<b>\$ 13,590</b>	<b>\$ 16,815</b>	<b>\$ 3,489</b>

The following chart shows the reconciliation of the Level 3 assets for FY 2014 for the 36 pension benefit plans with assets.

(\$ IN MILLIONS)	CASH AND EQUIVA- LENTS	U.S. BONDS	SMALL CAP EQUITIES	LARGE CAP EQUITIES	INT'L EQUITIES	REAL ESTATE INVEST- MENT FUNDS	OTHER REAL ESTATE	ASSET BACKED COM- MERCIAL PAPER	PRIVATE INVEST- MENT FUNDS	INSURANCE CONTRACTS (GENERAL ACCOUNTS)	OTHER	TOTAL
Beginning Balance	\$ 399	\$ 270	\$ 101	\$ -	\$ 291	\$ 549	\$ 163	\$ 1	\$ 1,464	\$ 48	\$ 11	\$3,297
Actual return on plan assets:												
Relating to assets still held at the reporting date	-	37	17	(13)	-	48	(6)	-	223	3	-	309
Relating to assets sold during the period	-	-	-	-	-	5	-	-	54	-	-	59
Purchases, sales, and settlements	-	-	-	-	-	(2)	71	-	(36)	(5)	-	28
Transfers in and/or out of Level 3	(271)	-	-	555	(291)	(25)	21	(1)	(191)	(1)	-	(204)
Other	-	-	-	-	-	-	1	-	(1)	-	-	-
<b>Ending Balance</b>	<b>\$ 128</b>	<b>\$ 307</b>	<b>\$ 118</b>	<b>\$ 542</b>	<b>\$ -</b>	<b>\$ 575</b>	<b>\$ 250</b>	<b>\$ -</b>	<b>\$ 1,513</b>	<b>\$ 45</b>	<b>\$ 11</b>	<b>\$3,489</b>

Pension assets included in Level 1 of the fair value hierarchy are valued daily based on quoted prices in active markets. Assets included in Level 2 are valued using significant observable inputs other than quoted prices in active markets. US Government Bonds and Corporate Bonds included in Level 2 assets are generally part of collective investment funds valued at the net asset values of the funds based on the quoted prices of the underlying

securities in active markets. Other bonds in these categories are valued based on interest rates and yield curves observable at commonly quoted intervals or at bid evaluation prices for securities traded on OTC markets as provided by independent pricing vendors. Domestic and International Equities included in Level 2 assets are generally part of collective investment funds valued at the net asset values of the funds based on the quoted prices of

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

the underlying securities in active markets. Assets included in Level 3 are valued using significant unobservable inputs. Private Investment Funds and Real Estate Funds included in Level 3 assets are generally priced by the fund general partners, verified by independent third-party appraisers, and audited by independent auditing firms. The actual market values are generally only determinable by negotiations between independent parties pursuant to sales transactions. Assets held in Life Insurance Company General Accounts under Level 3 are generally credited guaranteed interest rates under the contracts or are valued based on the values of the underlying asset holdings of the accounts. Cash and domestic equities under Level 3 generally represent commingled fund investments held in an account utilizing an equity index and cash funds and are valued based on the values of the underlying holdings of the account.

There are three plans that have securities of the employer or related parties included in the plan assets. No assets are expected to be returned to the employers during the next FY.

The \$156 million of assets in the five other postretirement benefit plans include \$137 million of investments in insurance contracts of which \$112 million is valued using significant unobservable inputs (Level 3). The balance of the Level 3 insurance contracts decreased by \$2 million during FY 2014 from \$114 million to \$112 million due to the return on assets still held at the reporting date. The remaining assets in the other postretirement benefit plans are invested in asset classes similar to the assets of the

pension plans. None of the other assets in the other postretirement benefit plans were valued using unobservable inputs.

Other Postretirement Benefit assets included in Level 1 of the fair value hierarchy are valued daily based on quoted prices in active markets. International Equities in mutual funds employ fair value pricing in accordance with SEC requirements to reflect market events where the exchange on which they are traded is closed prior to the close of US mutual funds. Assets held in Life Insurance Company General and Separate Accounts under Levels 2 and 3 of the fair value hierarchy are generally credited guaranteed interest rates based on customized fixed income indices.

Some of the Department's contractors' plan assets are invested in investment funds, which are recorded based on the net asset value (NAV) per share (or its equivalent), are reported by the underlying funds without further adjustment, as a practical expedient of fair value. Generally, the fair value of the investment in a privately offered investment fund represents the amount that the investor could reasonably expect to receive from the investment fund if the investment is withdrawn at the measurement date based on the NAV. These investments are redeemable at NAV under ordinary terms of the agreements and based on the operation of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. The terms of any fund agreements may vary by contractor.



# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 17. Capital Leases

(\$ IN MILLIONS)	FY 2014	FY 2013
<b>SUMMARY OF ASSETS UNDER CAPITAL LEASE</b>		
Power line equipment	\$ 671	\$ 518
Buildings	-	22
ADP equipment	370	341
Construction work in progress	422	321
Lease-purchase trust funds <sup>(Note 10)</sup>	333	74
Other assets	96	14
<b>Total capital lease assets</b>	<b>\$ 1,892</b>	<b>\$ 1,290</b>
Less accumulated depreciation	(343)	(275)
<b>Net assets under capital leases</b>	<b>\$ 1,549</b>	<b>\$ 1,015</b>

(\$ IN MILLIONS)	POWER LINE EQUIPMENT	OTHER	TOTAL
<b>FISCAL YEAR</b>			
<b>Future lease payments:</b>			
2015	\$ 246	\$ 39	\$ 285
2016	259	37	296
2017	35	12	47
2018	35	1	36
2019	230	-	230
2020+	1,067	1	1,068
<b>Total future lease payments</b>	<b>\$ 1,872</b>	<b>\$ 90</b>	<b>\$ 1,962</b>
Less imputed interest	\$ (389)	\$ -	\$ (389)
Less executory costs	(39)	-	(39)
<b>Net capital lease liability</b>	<b>\$ 1,444</b>	<b>\$ 90</b>	<b>\$ 1,534</b>
Lease liabilities covered by budgetary resources			\$ (1,453)
Lease liabilities not covered by budgetary resources <sup>(Note 11)</sup>			(81)
<b>Total capital lease liability</b>			<b>\$ (1,534)</b>

## 18. Contingencies and Commitments

(\$ IN MILLIONS)	FY 2014	FY 2013
<b>Unfunded contingencies <sup>(Note 11)</sup></b>		
Spent nuclear fuel litigation	\$ 22,634	\$ 21,364
Other	125	121
<b>Total contingencies</b>	<b>\$ 22,759</b>	<b>\$ 21,485</b>

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the federal government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where the loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government. The following are significant contingencies:

### SPENT NUCLEAR FUEL LITIGATION

In accordance with the Nuclear Waste Policy Act of 1982 (NWPAA), the Department entered into contracts with more than 45 utilities in which, in return for payment of fees established by the NWPAA into the NWF, the Department agreed to begin disposal of SNF by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPAA, it has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

To date, 33 suits have been settled involving utilities that collectively produce about 82 percent of the nuclear-generated electricity in the United States. Under the terms of the settlements, the Judgment Fund, 31 U.S.C. 1304, paid \$3.2 billion to the settling utilities for delay damages they have incurred through September 30, 2014. In addition, 31 cases have been resolved by final judgments. Eight of those cases resulted in an award of no damages by the trial court and the remaining 23 cases resulted in a total of \$1.3 billion in damages that have been paid.

The Department's SNF litigation liability is updated to include the effects of final judgments and settlements as well as payments to date from the Judgment Fund. Additional payments under these settled and adjudicated cases may be made if the utilities incur additional costs before the Department permanently disposes of the SNF. The Department believes its assumptions and methodology provide a reasonable basis for the contingent liability estimate.

Nineteen cases remain pending either in the Court of Federal Claims or in the Court of Appeals for the Federal Circuit. Liability is probable in these cases, and in many of these cases orders have already been entered establishing the Government's liability and the only outstanding issue to be litigated is the amount of damages to be awarded. The industry is reported to estimate that damages for all utilities with which the Department has contracts ultimately will be at least \$50 billion. The Department believes that the industry's estimate is highly inflated and that the disposition of the 66 cases that have either been settled or subject to a judgment in the trial court suggests that the Government's ultimate liability is likely to be significantly less than that estimate. Accordingly, based on these settlement estimates, the total liability estimate is \$27.1 billion. After deducting the amount paid as of September 30, 2014, under these settlements and as a result of final judgments, a total of \$4.5 billion, the remaining liability is estimated to be approximately \$22.6 billion. Under current law, any damages or settlements in this litigation will be paid out of the Judgment Fund. The Department's contingent liability estimate for SNF litigation is reported net of amounts paid to date from the Judgment Fund.

The Department previously reported several developments that made it difficult to reasonably predict the amount of the government's likely liability. The courts have since resolved that jurisdiction for these cases is appropriate in the Court of Federal Claims and that the Government cannot assert the unavoidable delays defense, under which, if it were applicable, the Government would not be liable for any damages. The Administration decided it will no longer pursue development of a repository at Yucca Mountain and directed the Secretary to establish the Blue-Ribbon Commission (the Commission) on America's Nuclear Future to evaluate alternative approaches for meeting the Federal Government's responsibility. The Commission submitted a final report in January 2012 with

its recommendations for consideration by the Administration and Congress. The Administration issued the "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Waste" on January 11, 2013 (Strategy Document), but Congress has not yet enacted legislation supporting the Strategy. In the interim, the Department's position is that its existing SNF litigation model provides a reasonable basis for its accounting liability estimate using key assumptions from the Strategy Document: (1) a pilot storage facility will be available in 2021 to allow for the removal of SNF from shut down reactors; (2) an interim storage facility will be available in 2025 to begin the removal of SNF from operating nuclear power reactors and (3) that reactors will incur costs reimbursable by the Department until the Department has fulfilled its obligations under the agreements.

### **ALLEGED EXPOSURES TO RADIOACTIVE AND/OR TOXIC SUBSTANCES**

A number of class action and/or multiple plaintiff tort suits have been filed against current and former DOE contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; and Brookhaven, New York. Collectively, in these cases, damages in excess of \$102 billion are sought.

These cases are being vigorously defended. Trials have been held in the Rocky Flats litigation and the Hanford litigation. In the Rocky Flats litigation, although the jury returned a substantial verdict in favor of the plaintiffs, the court of appeals vacated the judgment and remanded the matter to the district court. The United States Supreme Court denied plaintiffs' petition for a writ of certiorari on June 25, 2012. On remand, the plaintiffs stipulated to dismiss with prejudice all claims and the district court entered final judgment. Plaintiffs appealed and oral arguments will be held on November 20, 2014. In the Hanford litigation, following rulings by the court of appeals, seven of twelve "bellwether" plaintiffs' claims were resolved in favor of the defendants, relatively small judgments in favor of two "bellwether" plaintiffs were affirmed, and three "bellwether" plaintiffs' claims were remanded to the district court for further proceedings. Settlements have diminished the number of remaining Hanford plaintiffs' claims to around 200. The cases have been proceeding through mediation and, if no settlement is reached, will go to trial.

### **HANFORD SITE NATURAL RESOURCES DAMAGES**

The Confederated Tribes of the Yakama Nation filed suit in September 2002 against DOE and the Department of Defense alleging natural resources damages in the 1100 area of the Hanford site. The Yakama Nation has since amended their complaint to add the 100 and 300 areas to the suit, alleging additional natural resources damages. In addition, the States of Washington and Oregon, as well as

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

the Confederated Tribes of the Umatilla and the Nez Perce tribe, have joined the suit. Two of the four claims have been settled, the third claim remains stayed, and the fourth has been dismissed. The government reimbursed the Yakama Nation for its past response costs under claim one of the complaint. Under the settlement for claim two, the government will reimburse the plaintiffs through the Trustee Council for natural resource damage assessments. Claim three, which seeks natural resource damages recovery, remains stayed, until the issue of resource damages (if any) is resolved. Claim four was dismissed.

### **REFUNDS TO UTILITY COMPANIES**

The Bonneville Power Administration (BPA) and the Western Area Power Administration (WAPA) were parties to proceedings at FERC that sought refunds for sales into markets operated by the California Independent System Operator (ISO) and the California Power Exchange (PX) during the California energy crisis of 2000-2001. BPA, along with a number of other governmental utilities, challenged FERC's refund authority over governmental utilities. In *BPA v. FERC*, 422 F.3d 908 (9th Cir. 2005) the Ninth Circuit Court found that governmental utilities, like BPA and WAPA, were not subject to FERC's statutory refund authority. As a consequence of the Ninth Circuit Court's decision, three California investor-owned utilities along with the State of California filed breach of contract claims in the United States Court of Federal Claims against BPA and WAPA. The complaints, filed in 2007, alleged that BPA and WAPA were contractually obligated to pay refunds on transactions where the BPA and WAPA received amounts in excess of mitigated market clearing prices established by FERC.

In May 2012, the Court of Federal Claims issued an opinion in the trial on the liability portion of plaintiffs' contractual breach claim and held that BPA breached its contracts with the California parties by failing to pay refund amounts it retained in excess of the mitigated market clearing prices during the refund period. BPA estimates that such refund amounts, including interest, through September 30, 2014, could amount up to approximately \$56 million. While this ruling does not establish a specific liability in this matter, BPA recorded a liability in this amount.

The California parties filed separate motions with the court of Federal Claims requesting a ruling on their declaratory relief claims for the summer of 2000 exchange and multiday transactions. A new judge for the Court of Federal Claims was assigned to the claims, and on December 30, 2013, she vacated the May 2012 ruling that BPA breached its contracts with California parties. The judge conducted a hearing on June 5, 2014, for the parties to show cause why the court, on reconsideration, should not dismiss the cases, because of plaintiff's failure to establish the requirements of standing to sue on a government contract, thereby depriving the court of jurisdiction of the claims for breach of contract on July 1, 2014. BPA is awaiting a decision on the motion to dismiss. BPA has not adjusted its liability for the California parties'

refund claims as a result of the events occurring at the FERC and the Court of Federal Claims during FY 2014 on the basis that management has determined that it is not probable that such events will ultimately result in an increase in liabilities already recorded in connection with resolution of the California parties' refund claims.

### **PADUCAH AND PORTSMOUTH NATURAL RESOURCE DAMAGES**

As a result of releases of hazardous substances at the Paducah and Portsmouth Sites, the States of Ohio and Kentucky have potential claims against the Department under CERCLA for damages to natural resource (e.g., ground water) caused by such releases. The Department has had preliminary discussions with Ohio about a possible settlement of its claims for natural resource damages at the Portsmouth site. Kentucky has indicated that it desires a "tolling" agreement with respect to potential claims for natural resource damages at the Paducah site. A tolling agreement would suspend the statute of limitations for the filing of the state's claims for a mutually agreeable period of time. The Department will continue its discussions with the states about their potential claims for natural resource damages. Although the Department will be liable for at least some natural resource damages at the sites, it is unable to prepare an estimate of such damages and has not included a provision for damages in the consolidated financial statements.

### **PURCHASE POWER AND TRANSMISSION COMMITMENTS AND IRRIGATION ASSISTANCE**

The PMAs have entered into commitments to sell expected generation for future dates. When the PMAs forecast a resource shortage they take a variety of steps to cover the shortage including entering into power commitments. If appropriate, the PMAs will enter into long-term commitments to purchase power for future delivery. The PMAs record expenses associated with these purchases in the periods that power is received.

As directed by law, WAPA and BPA are required to establish rates sufficient to make cash distributions to the U.S. Treasury for the portion of BOR's original capital construction costs allocated to irrigation purposes, which were determined by the Secretary of the Interior to be beyond the ability of the irrigation customers to pay. These irrigation distributions do not specifically relate to power generation. In establishing power rates, particular statutory provisions guide the assumptions that BPA makes as to the amount and timing of such distributions. As a result, WAPA and BPA include a schedule of irrigation assistance costs in each respective power system's power repayment study to demonstrate repayment of principal within the allowable repayment period. These repayment amounts do not incur or accumulate interest from the date that BOR determines the irrigators' inability to pay. Future irrigation assistance payments are scheduled for BPA to total \$555 million over a maximum of 66 years since the time the irrigation facilities were completed and placed in service, and

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

WAPA's payments are scheduled to total \$1.8 billion by 2041.

Although these repayments will be recovered through power sales, they do not represent an operating cost of the individual power systems nor a liability on the consolidated balance sheets due to factors such as the variable payment schedule. Accordingly, when paid these distributions reduce accumulated net revenues in the *Consolidated Statements of Net Cost*.

The following table summarizes future purchase power and transmission commitments and irrigation assistance. The table includes firm purchase power agreements of known cost that are currently in place to assist in meeting expected future obligations under long-term power sales contracts. BPA has several power purchase agreements with wind-powered and other generating facilities that are not included because payments are based on the variable amount of future energy generated, and there are no minimum payments required.

(\$ IN MILLIONS) FISCAL YEAR	PURCHASE POWER AND TRANSMISSION (ALL PMA's)	IRRIGATION ASSISTANCE (BPA and WAPA)
2015	\$ 119	\$ 56
2016	126	85
2017	159	58
2018	148	32
2019	150	58
2020+	224	2,109
<b>Total</b>	<b>\$ 926</b>	<b>\$ 2,398</b>

### **BONNEVILLE POWER ADMINISTRATION**

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife projects that are consistent with the Northwest Power Act and that are consistent with the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, certain fish species are listed under the Endangered Species Act (ESA) as threatened or endangered. BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions (BiOp) prepared by the National Oceanic and Atmospheric Administration Fisheries Service and the U.S. Fish and Wildlife Service in furtherance of the ESA. BPA's total commitment including timing of payments under the Northwest Power Act, ESA, and BiOp is not fixed or determinable. As of September 30, 2014, BPA has entered into long-term fish and wildlife agreements with estimated commitments of \$710 million. These agreements will expire at various dates between FYs 2018 and 2025.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 19. Dedicated Collections

	FY 2014					
(\$ IN MILLIONS)	NUCLEAR WASTE FUND	D&D FUND	USEC	PMA's	OTHER FUNDS FROM DEDICATED COLLECTIONS	TOTAL FUNDS FROM DEDICATED COLLECTIONS
<b>BALANCE SHEET</b>						
<b>ASSETS</b>						
Fund Balance with Treasury	\$ 1	\$ 5	\$ -	\$ 3,148	\$ 1,057	\$ 4,211
Investments and related interest, net	32,909	3,464	1,614	597	-	38,584
Accounts receivable, net	3,084	-	-	643	4	3,731
Direct loans and loan guarantees, net	-	-	-	1	-	1
Inventory, net	-	-	-	138	157	295
General property plant and equipment, net	-	-	-	9,042	33	9,075
Regulatory assets	-	-	-	11,661	-	11,661
Other assets	1	20	-	4,168	-	4,189
<b>Total Assets</b>	<b>\$ 35,995</b>	<b>\$ 3,489</b>	<b>\$ 1,614</b>	<b>\$ 29,398</b>	<b>\$ 1,251</b>	<b>\$ 71,747</b>
<b>LIABILITIES AND NET POSITION</b>						
Accounts payable	\$ -	\$ 148	\$ -	\$ 558	\$ 11	\$ 717
Debt	-	-	-	15,605	-	15,605
Deferred revenues and other credits	35,995	-	-	1,385	3	37,383
Environmental cleanup and disposal liabilities	-	20,863	-	14	-	20,877
Pensions and other actuarial liabilities	-	-	-	57	-	57
Obligations under capital leases	-	-	-	1,453	-	1,453
Other liabilities	-	1	-	3,476	20	3,497
Contingencies and commitments	-	-	-	98	-	98
Unexpended appropriations	-	-	-	-	21	21
Cumulative results of operations	-	(17,523)	1,614	6,752	1,196	(7,961)
<b>Total Liabilities and Net Position</b>	<b>\$ 35,995</b>	<b>\$ 3,489</b>	<b>\$ 1,614</b>	<b>\$ 29,398</b>	<b>\$ 1,251</b>	<b>\$ 71,747</b>
<b>STATEMENT OF NET COST</b>						
Program costs	\$ 3	\$ 15	\$ -	\$ 4,221	\$ 120	\$ 4,359
Less earned revenues	(9)	(200)	-	(4,778)	(510)	(5,497)
Net program costs	\$ (6)	\$ (185)	\$ -	\$ (557)	\$ (390)	\$ (1,138)
Costs not assigned	3	4,391	-	-	-	4,394
<b>Net cost of operations</b>	<b>\$ (3)</b>	<b>\$ 4,206</b>	<b>\$ -</b>	<b>\$ (557)</b>	<b>\$ (390)</b>	<b>\$ 3,256</b>
<b>STATEMENT OF CHANGES IN NET POSITION</b>						
Cumulative results of operations, beginning balance	\$ -	\$ (13,385)	\$ 1,612	\$ 1,572	\$ 1,251	\$ (8,950)
Appropriations used	-	-	-	5	7	12
Non-exchange revenue	-	-	2	-	1	3
Donations and forfeitures of cash	-	-	-	29	-	29
Transfers - in/(out) without reimbursement	(3)	68	-	4,585	1	4,651
Imputed financing	-	-	-	1	-	1
Other	-	-	-	3	(454)	(451)
Net cost of operations	3	(4,206)	-	557	390	(3,256)
<b>Cumulative results of operations, ending balance</b>	<b>\$ -</b>	<b>\$ (17,523)</b>	<b>\$ 1,614</b>	<b>\$ 6,752</b>	<b>\$ 1,196</b>	<b>\$ (7,961)</b>
Unexpended appropriations, beginning balance	\$ -	\$ -	\$ -	\$ -	\$ 20	\$ 20
Appropriations received	-	-	-	5	8	13
Other adjustments	-	-	-	-	-	-
Appropriations used	-	-	-	(5)	(7)	(12)
<b>Unexpended appropriations, ending balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21</b>	<b>\$ 21</b>



# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Dedicated Collections (continued)

	FY 2013					
(\$ IN MILLIONS)	NUCLEAR WASTE FUND	D&D FUND	USEC	PMA's	OTHER FUNDS FROM DEDICATED COLLECTIONS	TOTAL FUNDS FROM DEDICATED COLLECTIONS
<b>BALANCE SHEET</b>						
<b>ASSETS</b>						
Fund balance with Treasury	\$ 2	\$ 5	\$ -	\$ 1,789	\$ 1,109	\$ 2,905
Investments and related interest, net	30,864	3,832	1,612	499	-	36,807
Accounts receivable, net	3,259	-	-	754	7	4,020
Direct loans and loan guarantees, net	-	-	-	1	-	1
Inventory, net	-	-	-	136	158	294
General property plant and equipment, net	-	-	-	8,564	32	8,596
Regulatory assets	-	-	-	11,921	-	11,921
Other assets	2	44	-	3,787	1	3,834
<b>Total Assets</b>	<b>\$ 34,127</b>	<b>\$ 3,881</b>	<b>\$ 1,612</b>	<b>\$ 27,451</b>	<b>\$ 1,307</b>	<b>\$ 68,378</b>
<b>LIABILITIES AND NET POSITION</b>						
Accounts payable	\$ -	\$ 104	\$ -	\$ 502	\$ 15	\$ 621
Debt	-	-	-	19,146	-	19,146
Deferred revenues and other credits	34,127	-	-	1,399	2	35,528
Environmental cleanup and disposal liabilities	-	17,160	-	14	-	17,174
Pensions and other actuarial liabilities	-	-	-	56	-	56
Obligations under capital leases	-	-	-	933	-	933
Other liabilities	-	2	-	3,737	19	3,758
Contingencies and commitments	-	-	-	92	-	92
Unexpended appropriations	-	-	-	-	20	20
Cumulative results of operations	-	(13,385)	1,612	1,572	1,251	(8,950)
<b>Total Liabilities and Net Position</b>	<b>\$ 34,127</b>	<b>\$ 3,881</b>	<b>\$ 1,612</b>	<b>\$ 27,451</b>	<b>\$ 1,307</b>	<b>\$ 68,378</b>
<b>STATEMENT OF NET COST</b>						
Program costs	\$ 2	\$ 16	\$ -	\$ 4,377	\$ 97	\$ 4,492
Less earned revenues	(6)	(250)	-	(4,485)	(44)	(4,785)
Net program costs	\$ (4)	\$ (234)	\$ -	\$ (108)	\$ 53	\$ (293)
Costs not assigned	-	3,962	-	-	-	3,962
<b>Net cost of operations</b>	<b>\$ (4)</b>	<b>\$ 3,728</b>	<b>\$ -</b>	<b>\$ (108)</b>	<b>\$ 53</b>	<b>\$ 3,669</b>
<b>STATEMENT OF CHANGES IN NET POSITION</b>						
Cumulative results of operations, beginning balance	\$ -	\$ (9,718)	\$ 1,608	\$ 1,872	\$ 1,319	\$ (4,919)
Appropriations used	-	-	-	6	6	12
Non-exchange revenue	-	-	3	-	-	3
Donations and forfeitures of cash	-	-	-	15	-	15
Transfers - in/(out) without reimbursement	(4)	61	1	(448)	(31)	(421)
Imputed financing	-	-	-	3	-	3
Other	-	-	-	16	10	26
Net cost of operations	4	(3,728)	-	108	(53)	(3,669)
<b>Cumulative results of operations, ending balance</b>	<b>\$ -</b>	<b>\$ (13,385)</b>	<b>\$ 1,612</b>	<b>\$ 1,572</b>	<b>\$ 1,251</b>	<b>\$ (8,950)</b>
Unexpended appropriations, beginning balance	\$ -	\$ -	\$ -	\$ 1	\$ 22	\$ 23
Appropriations received	-	-	-	5	11	16
Other adjustments	-	-	-	-	(7)	(7)
Appropriations used	-	-	-	(6)	(6)	(12)
<b>Unexpended appropriations, ending balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20</b>	<b>\$ 20</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## **NUCLEAR WASTE FUND**

The NWPA requires the owners and generators of nuclear waste to pay their share of disposal costs into the NWF and, to that end, establishes a fee for electricity generated and sold by civilian nuclear power reactors which the Department must collect and annually assess to determine its adequacy. A special fund within Treasury was created to account for the collection of those fees. Fees are invested in Treasury securities and any interest earned is available to pay expenditures related to radioactive waste disposal activities covered by the NWF. The NWPA requires preparation of annual financial statements.

## **DECONTAMINATION AND DECOMMISSIONING FUND**

The Energy Policy Act of 1992 established the D&D fund to pay for the costs of decontamination and decommissioning of gaseous diffusion facilities through collection of revenues derived from domestic utility assessments and government appropriations. The Energy Policy Act also requires that balances in the D&D fund be invested in Treasury securities and any interest earned would be available to pay the costs of environmental remediation.

## **U.S. ENRICHMENT CORPORATION FUND**

Upon privatization of USEC on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC fund. These funds are invested in Treasury securities.

## **POWER MARKETING ADMINISTRATIONS**

The PMAs are funded primarily from four sources. These include contract and borrowing authority, direct receipts generated from the sale of power, and annual appropriations. Each of the PMAs, except for BPA, receives an annual appropriation from Treasury's General Fund. WAPA also receives an annual appropriation from a receipt fund within the Reclamation Fund. In most instances, these appropriated funds are repaid to Treasury's General Fund and the Reclamation Fund from the receipts generated from power sales.

A Memorandum of Understanding between the DOI and DOE redefined the reporting treatment of two specific receipt accounts within the Reclamation Fund from DOI to DOE as of September 30, 2014 in accordance with SFFAS No. 27, Identifying and Reporting Funds from Dedicated Collections. The receipt accounts consisted of balances in Fund Balance with Treasury and Loans Receivable from the PMAs. As a result of the transfer, Fund Balance with Treasury of \$1.4 billion that was previously reported by the DOI was transferred to DOE and is included within these financial statements and footnotes. Furthermore, DOE's appropriated capital of \$3.0 billion and refinanced and additional appropriated capital of \$635 million (see [Note 12](#)) due to the transferred receipt accounts is being eliminated against the corresponding Loans Receivable.

## **20. Gross Costs, Intragovernmental**

(\$ IN MILLIONS)	FY 2014	FY 2013
Imputed costs, Compensation Program for Occupational Illnesses - Department of Labor <sup>(Notes 25 and 26)</sup>	\$ 1,012	\$ 1,628
Interest costs on debt <sup>(Note 12)</sup>		
Borrowing from Treasury	191	216
Borrowing from FFB	445	484
Power Marketing Administrations' appropriated capital - Treasury	172	20
Power Marketing Administrations' appropriated capital - Department of the Interior	129	150
Imputed costs, Judgment Fund payments made by Treasury		
Spent nuclear fuel contingency <sup>(Notes 25 and 26)</sup>	800	1,100
Other Judgment Fund payments <sup>(Notes 25 and 26)</sup>	8	27
Federal employee benefits		
Agency share of employee retirement benefits - OPM	307	306
Imputed costs, employee retirement benefits - OPM <sup>(Note 26)</sup>	102	98
Federal Insurance Contributions Act (FICA) employer contributions - Treasury	65	65
Other intragovernmental costs		
Defense agencies	194	144
General Services Administration	221	203
All other agencies	339	341
<b>Total intragovernmental gross costs with other federal agencies</b>	<b>\$ 3,985</b>	<b>\$ 4,782</b>
Costs with the public	57,696	38,314
<b>Total gross costs</b>	<b>\$ 61,681</b>	<b>\$ 43,096</b>

## 21. Gross Costs by Strategic Goals

(\$ IN MILLIONS)	FY 2014	FY 2013
<b>Science and Energy</b>		
Advance the goals and objectives in the President's Climate Action Plan	\$ 8,621	\$ 10,106
Support the U.S. energy infrastructure	733	1,066
Discover and strengthen science and technology innovation	5,233	4,706
<b>Total program costs for science and energy</b>	<b>\$ 14,587</b>	<b>\$ 15,878</b>
<b>Nuclear Security</b>		
Maintain the nation's nuclear deterrent without nuclear testing	\$ 3,917	\$ 3,411
Strengthen science, technology, and engineering capabilities	3,152	3,060
Reduce global nuclear security threats	1,733	1,928
Provide integrated nuclear propulsion systems for U.S. Navy	1,081	964
<b>Total program costs for nuclear security</b>	<b>\$ 9,883</b>	<b>\$ 9,363</b>
<b>Management and Performance</b>		
Continue cleanup from Manhattan Project and Cold War activities	\$ 4,464	\$ 4,585
Manage assets to support DOE mission	137	100
Manage projects, agreements, contracts, and contractor performance	121	113
Operate the DOE enterprise safely, securely, and efficiently	609	615
Attract, manage, train, and retain the best federal workforce	40	47
<b>Total program costs for management and performance</b>	<b>\$ 5,371</b>	<b>\$ 5,460</b>
<b>Total program costs for strategic objectives</b>	<b>\$ 29,841</b>	<b>\$ 30,701</b>

### SCIENCE AND ENERGY

**Goal:** Advance foundational science, innovate energy technologies, and inform data driven policies that enhance U.S. economic growth and job creation, energy security, and environmental quality, with emphasis on implementation of the President's Climate Action Plan to mitigate the risks of and enhance resilience against climate change. Objectives include:

- **Advance the goals and objectives in the President's Climate Action Plan** - Support prudent development, deployment, and efficient use of "all of the above" energy resources that also create new jobs and industries.
- **Support the U.S. energy infrastructure** - Support a more economically competitive, environmentally responsible, secure and resilient U.S. energy infrastructure.
- **Deliver and strengthen science and technology innovation** - Deliver the scientific discoveries and major scientific tools that transform our understanding of nature and strengthen the connection between advances in fundamental science and technology innovation.

### NUCLEAR SECURITY

**Goal:** Strengthen national security by maintaining and modernizing the nuclear stockpile and nuclear security infrastructure, reducing global nuclear threats, providing for nuclear propulsion, improving physical and cybersecurity, and strengthening key science, technology, and engineering capabilities. Objectives include:

- **Maintain the nation's nuclear deterrent without nuclear testing** - Sustain a safe, secure, and effective nuclear arsenal.
- **Strengthen science, technology, and engineering capabilities** - Strengthen key science, technology, and engineering capabilities and modernize the national security infrastructure.
- **Reduce global nuclear security threats** - Prevent nuclear terrorism and the spread of nuclear weapons-related materials, technology, and expertise.
- **Provide integrated nuclear propulsion systems for U.S. Navy** - DOE provides the design, development, and operational support required to provide militarily effective nuclear propulsion plants and ensure their safe, reliable, and long-lived operation.

### MANAGEMENT AND PERFORMANCE

**Goal:** Position the Department of Energy to meet the challenges of the 21<sup>st</sup> century and the nation's Manhattan Project and Cold War legacy responsibilities by employing effective management and refining operational and support capabilities to pursue departmental missions. Objectives include:

- **Continue cleanup from Manhattan Project and Cold War activities** - Continue cleanup of radioactive and chemical waste resulting from the Manhattan Project and Cold War activities.
- **Manage assets to support DOE mission** - Manage assets in a sustainable manner that supports the DOE mission.

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

- **Manage projects, agreements, contracts, and contractor performance** – Improve the effectiveness and efficiency of DOE’s financial assistance agreements, contract and project management performance.
- **Operate the DOE enterprise safely, securely, and efficiently** – Ensure the efficiency and effectiveness of DOE’s mission success.
- **Attract, manage, train, and retain the best federal workforce** – Plan and improve outreach, recruitment programs, and human resource operations.

### 22. Earned Revenues

(\$ IN MILLIONS)	INTRA- GOVERNMENTAL	PUBLIC	DEFERRED REVENUE ADJUSTMENT	TOTAL
<b>FY 2014</b>				
<b>Science and Energy</b>				
Power Marketing Administrations	\$ (136)	\$ (4,297)	\$ -	\$ (4,433)
Loan Programs	(82)	(398)	(9)	(489)
Petroleum reserve sales	-	(476)	-	(476)
Isotopes program	(1)	(35)	-	(36)
Other	-	(1)	-	(1)
<b>Earned revenues for science and energy</b>	<b>(219)</b>	<b>(5,207)</b>	<b>(9)</b>	<b>(5,435)</b>
<b>Nuclear Security</b>				
Other	(21)	(1)	-	(22)
<b>Earned revenues for nuclear security</b>	<b>(21)</b>	<b>(1)</b>	<b>-</b>	<b>(22)</b>
<b>Management and Performance</b>				
Nuclear Waste Fund	(1,443)	(434)	1,868	(9)
D&D Fund	(48)	(152)	-	(200)
Other	-	(24)	-	(24)
<b>Earned revenues for management and performance</b>	<b>(1,491)</b>	<b>(610)</b>	<b>1,868</b>	<b>(233)</b>
Reimbursable programs	(3,442)	(697)	-	(4,139)
Other programs				
FERC <sup>(Note 23)</sup>	-	(307)	-	(307)
Other <sup>(Note 23)</sup>	(2)	(8)	-	(10)
<b>Earned revenues for other programs</b>	<b>(2)</b>	<b>(315)</b>	<b>-</b>	<b>(317)</b>
<b>Total earned revenues</b>	<b>\$ (5,175)</b>	<b>\$ (6,830)</b>	<b>\$ 1,859</b>	<b>\$ (10,146)</b>
<b>FY 2013</b>				
<b>Science and Energy</b>				
Power Marketing Administrations	\$ (101)	\$ (4,042)	\$ -	\$ (4,143)
Loan Programs	(107)	(331)	(53)	(491)
Petroleum reserve sales	-	(9)	-	(9)
Isotopes program	(1)	(38)	-	(39)
Other	1	(1)	-	-
<b>Earned revenues for science and energy</b>	<b>(208)</b>	<b>(4,421)</b>	<b>(53)</b>	<b>(4,682)</b>
<b>Nuclear Security</b>				
Other	(29)	(2)	-	(31)
<b>Earned revenues for nuclear security</b>	<b>(29)</b>	<b>(2)</b>	<b>-</b>	<b>(31)</b>
<b>Management and Performance</b>				
Nuclear Waste Fund	(1,414)	(688)	2,096	(6)
D&D Fund	(70)	(180)	-	(250)
Other	(1)	(25)	-	(26)
<b>Earned revenues for management and performance</b>	<b>(1,485)</b>	<b>(893)</b>	<b>2,096</b>	<b>(282)</b>
Reimbursable programs	(3,484)	(721)	-	(4,205)
Other programs				
FERC <sup>(Note 23)</sup>	-	(305)	-	(305)
Other <sup>(Note 23)</sup>	(2)	(19)	-	(21)
<b>Earned revenues for other programs</b>	<b>(2)</b>	<b>(324)</b>	<b>-</b>	<b>(326)</b>
<b>Total earned revenues</b>	<b>\$ (5,208)</b>	<b>\$ (6,361)</b>	<b>\$ 2,043</b>	<b>\$ (9,526)</b>

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

### **POWER MARKETING ADMINISTRATIONS**

The Department's four PMAs market electricity generated primarily by federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations, interest on the capital investment repayment, borrowings from Treasury, operation and maintenance costs as well as other payment obligations. Revenues collected by the Southeastern, Southwestern, and Western Area Power Administrations on behalf of other agencies are reported as custodial activity (see [Note 28](#)).

### **LOAN PROGRAMS**

The loan program is required to collect administrative fees for the Title XVII loan program from the borrowers. Those fees are recognized as earned when an expense is accrued. Fees of \$31 million and \$5 million were earned as of September 30, 2014 and September 30, 2013, respectively. The program also earns interest on the loans made to borrowers and on the cash balances held with Treasury. Interest on cash balances of \$82 million and \$107 million and on loans from the borrower of \$367 million and \$326 million were earned as of September 30, 2014 and September 30, 2013, respectively. Amortization of the subsidy (see [Note 7](#)) is an adjustment made to the earned revenue and was \$9 million and \$53 million as of September 30, 2014 and September 30, 2013, respectively.

### **PETROLEUM RESERVE OIL SALES**

In FY 2014, the Secretary of Energy authorized a test sale of the Strategic Petroleum Reserve. The sale tested various aspects of the SPR drawdown process including sales and deliveries in the Texoma distribution system. The SPR sold 5 million barrels of crude oil. The crude oil had a historical cost of \$129 million and was sold for \$469 million.

### **NUCLEAR WASTE FUND**

The NWPA authorizes the Department to enter into contracts that require the Department to collect fees from owners and generators of high-level radioactive waste and SNF to fund the costs associated with management and disposal activities under the Act. On November 19, 2013, the U.S. Court of Appeals for the District of Columbia Circuit sustained a challenge to the Department's determination of the adequacy of the Nuclear Waste Fund fee, and directed the Department to transmit to Congress a proposal to reduce the fee to zero. The Department complied and, after a congressional review period, its proposal became effective May 16, 2014. Fees of \$464 million and \$734 million were recorded as of September 30, 2014, and September 30, 2013, respectively. Interest

earned on fees owed and on accumulated funds totaled \$1.4 billion as of September 30, 2014, and September 30, 2013, respectively. Annual adjustments are made to defer the recognition of revenues until earned (i.e., when costs are incurred).

### **D&D FUND**

The Department assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning the Department's gaseous diffusion facilities used for uranium enrichment services. Accumulated funds in excess of those needed to pay current program costs are invested in Treasury securities. Interest earned on these investments totaled \$48 million and \$70 million as of September 30, 2014 and September 30, 2013, respectively. Gains on the transfer of uranium to Fluor, Babcock and Wilcox, LLC in exchange for environmental clean-up services totaled \$152 million as of September 30, 2014, and \$180 million as of September 30, 2013.

### **REIMBURSABLE PROGRAMS**

The Department performs work for other federal agencies and private companies on a reimbursable work basis and on a cooperative work basis.

The Department's policy is to establish prices for materials and services provided to public entities at the Department's full cost. In some cases, the full cost information reported by the Department in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, exceeds revenues. This results from implementation of provisions contained in the Economy Act of 1932, as amended; the Atomic Energy Act of 1954, as amended; and the National Defense Authorization Act for FY 1999, which provide the Department with the authority to charge customers an amount less than the full cost of the product or service. Costs attributable to generating intragovernmental reimbursable program revenues were \$3.6 billion as of September 30, 2014, and September 30, 2013, respectively.

### **FEDERAL ENERGY REGULATORY COMMISSION**

FERC is an independent regulatory organization within the Department that regulates essential aspects of electric, natural gas and oil pipeline industries, and non-federal hydropower industries. It ensures that the rates, terms, and conditions of service for segments of the electric and natural gas and oil pipeline industries are just and reasonable; it authorizes the construction of natural gas pipeline facilities; and it ensures that hydropower licensing administration and safety actions are consistent with the public interest. FERC assesses its administrative program costs as an annual charge to each regulated entity (see [Note 23](#)).



# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 23. Other Programs

(\$ IN MILLIONS)	FY 2014	FY 2013
Federal Energy Regulatory Commission		
Program costs	\$ 307	\$ 305
Less earned revenues <sup>(Note 22)</sup>	(307)	(305)
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ -</b>
Other programs		
Program costs	\$ 99	\$ 44
Less earned revenues <sup>(Note 22)</sup>	(10)	(21)
<b>Subtotal</b>	<b>\$ 89</b>	<b>\$ 23</b>
<b>Total net cost for other programs</b>	<b>\$ 89</b>	<b>\$ 23</b>

## 24. Costs Applied to Reduction of Legacy Environmental Liabilities

Costs applied to reduction of legacy environmental liabilities are current year operating expenditures for the remediation of contaminated facilities and wastes

generated from past operations. These amounts are excluded from current year environmental liability estimates since the expenses have been accrued.

## 25. Costs Not Assigned

(\$ IN MILLIONS)	FY 2014	FY 2013
Spent nuclear fuel contingency <sup>(Note 18)</sup>		
Judgment Fund payments <sup>(Notes 20 and 26)</sup>	\$ 800	\$ 1,100
Change in estimates <sup>(Note 26)</sup>	1,269	1,631
Current year spent nuclear fuel contingency costs	\$ 2,069	\$ 2,731
Change in environmental liability estimates <sup>(Note 26)</sup>	25,983	18,003
Changes in contractor pension and PRB estimates <sup>(Note 26)</sup>	2,910	(9,864)
Change in unfunded safety and health liabilities <sup>(Notes 11, 14 and 26)</sup>	(74)	(110)
Change in occupational illness program <sup>(Notes 20 and 26)</sup>	1,012	1,628
Other Judgment Fund payments <sup>(Notes 20 and 26)</sup>	8	27
Other	263	(17)
<b>Total costs not assigned</b>	<b>\$ 32,171</b>	<b>\$ 12,398</b>

### CHANGES IN CONTRACTOR PENSION AND PRB ESTIMATES

The changes in contractor pension and PRB estimates are comprised of all the components of contractor pension and PRB net periodic costs except for service costs [i.e., interest costs; expected return on plan assets; (gain)/loss due to curtailments, settlements, or special termination benefits; net prior service cost/(credit); and net (gain)/loss including impacts of changes in actuarial assumptions]. Service costs are not included since they are recorded by program (see [Notes 16](#) and [26](#)).

### COMPENSATION PROGRAM FOR OCCUPATIONAL ILLNESSES

The Energy Employees Occupational Illness Compensation Program Act (EEOICPA) authorized compensation for certain illnesses suffered by employees of the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. EEOICPA covers illnesses associated with exposure to radiation, beryllium, or silica. In general, each eligible employee and survivors

of deceased employees will receive compensation for the disability or death of that employee in the amount of \$150,000 plus the costs of medical care.

The National Defense Authorization Act of 2005 amended the EEOICPA to grant workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at the Department's facilities. The amendment also makes it possible for uranium workers, as defined under Section 5 of the Radiation Exposure Compensation Act, to receive compensation for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act.

As of September 30, 2005, the law makes payments under these programs the responsibility of the Department of Labor. Therefore, the liability is recorded by the Department of Labor and changes in the total liability are recognized by the Department as an imputed cost and an imputed financing source.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 26. Reconciliation of Net Cost of Operations to Budget

(\$ IN MILLIONS)	FY 2014		FY 2013	
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>				
Obligations incurred <sup>(Note 27)</sup>	\$ 44,231		\$ 36,740	
Less spending authority from offsetting collections and recoveries	(11,671)		(11,893)	
Less offsetting receipts <sup>(Note 27)</sup>	(3,556)		(4,185)	
Net obligations		\$ 29,004		\$ 20,662
Imputed financing from costs absorbed by others				
Increase in occupational illnesses liability <sup>(Notes 20 and 25)</sup>	\$ 1,012		\$ 1,628	
OPM imputed costs <sup>(Note 20)</sup>	102		98	
Payments made from Treasury's Judgment Fund <sup>(Notes 20 and 25)</sup>	808		1,127	
Total imputed costs absorbed by others		\$ 1,922		\$ 2,853
Transfers-in/(out) without reimbursement		4,852		(154)
Nuclear Waste Fund offsetting receipts, deferred		2,650		2,838
Other		20		16
Total resources used to finance activities		\$ 38,448		\$ 26,215
<b>RESOURCES USED TO FINANCE ACTIVITIES NOT PART OF NET COST OF OPERATIONS</b>				
Change in budgetary resources obligated for orders but not yet provided	\$ (4,087)		\$ 6,545	
Resources that finance the acquisition of assets	(6,507)		(8,546)	
Credit program collection and receipts that increase liabilities	1,749		1,749	
Resources that fund expenses recognized in prior periods	(5,059)		(4,654)	
Other resources and adjustments	(4,762)		1,552	
Total resources used to finance items not part of Net Cost of Operations		\$ (18,666)		\$ (3,354)
<b>NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD</b>				
Contractor Pension and PRB plans				
Contractor pension and PRB estimate changes <sup>(Note 25)</sup>	\$ 2,910		\$ (9,864)	
Current year pension and PRB service costs <sup>(Notes 16 and 25)</sup>	1,067		1,357	
Current year pension and PRB employer contributions <sup>(Note 16)</sup>	(1,869)		(1,576)	
Total pension and PRB plans	\$ 2,108		\$ (10,083)	
Change in environmental liability estimates <sup>(Note 25)</sup>	25,983		18,003	
Change in spent nuclear fuel contingency <sup>(Note 25)</sup>	1,269		1,631	
Change in unfunded ESPC and similar unfunded contracts	554		-	
Change in unfunded safety and health liabilities <sup>(Notes 11, 14 and 25)</sup>	(74)		(110)	
Upward/Downward re-estimates of credit subsidy expense	(306)		(124)	
Change in other unfunded liabilities	448		66	
Depreciation of property, plant and equipment	1,856		1,807	
Amortization of premiums and discounts on Treasury investments	(597)		(683)	
Revaluation of assets and liabilities for loans	(3)		(50)	
Other amortization	213		166	
Gain on sale of SPRO oil	(340)		-	
Other	642		86	
Total net cost of items that do not require or generate resources in current period		\$ 31,753		\$ 10,709
<b>NET COST OF OPERATIONS</b>		\$ 51,535		\$ 33,570

### NUCLEAR WASTE FUND OFFSETTING RECEIPTS, DEFERRED

The Department defers the recognition of revenues related to the fees paid by owners and generators of SNF, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for SNF generated by civilian reactors. In addition, market value

adjustments for Treasury securities of the NWF are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts and interest collected are reported as offsetting receipts on the *Combined Statements of Budgetary Resources*. Therefore, a reconciling amount is reported for the portion of the offsetting receipts for which revenues are not recognized in the current period.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 27. Combined Statements of Budgetary Resources

The *Statements of Budgetary Resources* are presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

DETAILS OF OBLIGATIONS INCURRED (\$ IN MILLIONS)	FY 2014	FY 2013
Direct		
Category A (by quarter)	\$ 13,668	\$ 12,778
Category B (by project)	21,589	14,974
<b>Sub-total direct obligations incurred</b>	<b>\$ 35,257</b>	<b>\$ 27,752</b>
Exempt from apportionment	4,195	4,229
Reimbursable		
Category A (by quarter)	36	4
Category B (by project)	4,743	4,755
<b>Sub-total reimbursable obligations incurred</b>	<b>\$ 4,779</b>	<b>\$ 4,759</b>
<b>Total obligations incurred</b> <sup>(Note 26)</sup>	<b>\$ 44,231</b>	<b>\$ 36,740</b>

UNOBLIGATED BALANCES NOT AVAILABLE (\$ IN MILLIONS)	FY 2014	FY 2013
Loan funds reserved for future defaults	\$ 1,621	\$ 2,197
Unexpired appropriations that did not receive apportionments	11	-
Prior year deobligations in excess of apportioned amount	49	56
Reimbursable work/collections in excess of amount apportioned	19	64
Expired appropriations	546	406
Other amounts not apportioned	8	4
<b>Total unobligated balances not available</b> <sup>(Note 3)</sup>	<b>\$ 2,254</b>	<b>\$ 2,727</b>

Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.

DETAILS OF UNPAID OBLIGATIONS (\$ IN MILLIONS)	FY 2014	FY 2013
Undelivered orders	\$ 25,982	\$ 22,255
Accounts payable and other liabilities	7,731	7,421
<b>Total unpaid obligations</b> <sup>(Note 3)</sup>	<b>\$ 33,713</b>	<b>\$ 29,676</b>

RECONCILIATION TO APPROPRIATIONS RECEIVED ON THE CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (\$ IN MILLIONS)	FY 2014	FY 2013
Appropriations on the Combined Statements of Budgetary Resources:		
Definite appropriations	\$ 24,994	\$ 24,709
Permanent indefinite appropriations	107	176
<b>Total appropriations on the Combined Statements of Budgetary Resources</b>	<b>\$ 25,101</b>	<b>\$ 24,885</b>
Adjustments to take the SBR from net appropriations to appropriations received:		
Rescissions, sequesters, and other amounts precluded from obligation	\$ 2,823	\$ 2,430
Appropriation transfers	42	(5)
Other adjustments:		
Special and trust fund appropriated receipts	(702)	(590)
Appropriated capital owed, net	(12)	(6)
Other	5	-
<b>Appropriations received on the Consolidated Statements of Changes in Net Position</b>	<b>\$ 27,257</b>	<b>\$ 26,714</b>

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

### PERMANENT INDEFINITE APPROPRIATIONS

The Department is authorized to use indefinite appropriations per the FCRA. These amounts are used to fund upward re-estimates on the FCRA loans.

RECONCILIATION TO THE BUDGET (FY 2013) (\$ IN MILLIONS)	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	DISTRIBUTED OFFSETTING RECEIPTS	NET OUTLAYS
Combined Statements of Budgetary Resources as published	\$ 48,885	\$ 36,740	\$ (4,185)	\$ 27,189
OMB adjustments made to exclude:				
U.S. Enrichment Corporation Fund	-	-	-	10
Non-budgetary Credit Reform Financing Accounts	(3,485)	(1,461)	-	(2,523)
Expired accounts	(406)	-	-	-
Receipts in Defense Environmental Cleanup	(61)	-	-	-
Other	(5)	(2)	(2)	(6)
<b>Budget of the United States Government</b>	<b>\$ 44,928</b>	<b>\$ 35,277</b>	<b>\$ (4,187)</b>	<b>\$ 24,670</b>

The FY 2013 *Combined Statements of Budgetary Resources* are reconciled to the President's Budget that was published in February 2014. The President's Budget containing actual FY 2014 balances is expected to be published and available on the OMB web site, [www.whitehouse.gov/omb/budget](http://www.whitehouse.gov/omb/budget), in February 2015. Budgetary resources and obligations incurred are reconciled to the departmental balances as published in the Appendix to the Budget; distributed offsetting receipts and net outlays are reconciled to the departmental balances in the Federal Program by Agency and Account section of the Analytical Perspectives Volume of the President's Budget.

The non-budgetary credit reform financing accounts are reported separately in the President's Budget and are not reflected in the budget surplus or deficit.

### BORROWING AUTHORITY

The Department's borrowing authority reflected in the *Combined Statements of Budgetary Resources* represents the amount of borrowing authority for the current FY's obligations, which may or may not have been converted to cash. The borrowing authority available at September 30, 2014 and September 30, 2013 is \$5.9 billion and \$2.3 billion for the Department's loan program, \$3.5 billion and \$3.8 billion for BPA, and \$3.2 billion and \$3.2 billion for WAPA, respectively. The amounts available are authority that has not been converted to cash.

## 28. Custodial Activities

### POWER MARKETING ADMINISTRATIONS

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to Treasury and the DOI revenues attributable to the hydroelectric power projects owned and operated by the DoD, USACE; DOI, BOR; and the DOS, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

### FEDERAL ENERGY REGULATORY COMMISSION

FERC is responsible for billing regulated companies annual charges as a custodian for certain federal agencies. These include: 1) the USACE for licensees to provide

maintenance and operations of dams owned by the U.S. and maintenance for operations of headwater or other navigable waters owned by the U.S.; 2) the BOR for the occupancy and use of public lands and national parks owned by the U.S. and for Indian Tribal Trust Funds from licensees for the reservation of Indian land; 3) Treasury for revenues collected based on penalties, interest, and administrative charges for overdue accounts receivables and for civil penalties; and 4) payments to states collected from licensees for the occupancy and use of national forests and public lands from development within the boundaries of any state.

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Consolidating Schedules

### U.S. Department of Energy Consolidating Schedules - Balance Sheets

As of September 30, 2014 and 2013

(See independent auditors' report)

(\$ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
	<b>FY 2014</b>				
<b>ASSETS:</b>					
Intragovernmental Assets:					
Fund Balance with Treasury	\$ 91	\$ 3,148	\$ 29,576	\$ -	\$ 32,815
Investments and Related Interest, Net	-	597	37,987	-	38,584
Accounts Receivable, Net	-	169	949	(629)	489
Other Assets	-	-	93	(69)	24
<b>Total Intragovernmental Assets</b>	<b>\$ 91</b>	<b>\$ 3,914</b>	<b>\$ 68,605</b>	<b>\$ (698)</b>	<b>\$ 71,912</b>
Investments and Related Interest, Net	-	-	254	-	254
Accounts Receivable, Net	9	474	3,151	-	3,634
Direct Loans and Loan Guarantees, Net	-	1	13,402	-	13,403
Inventory, Net:	-	138	42,658	-	42,796
General Property, Plant, and Equipment, Net	13	9,042	23,926	-	32,981
Regulatory Assets	-	11,661	-	-	11,661
Other Non-Intragovernmental Assets	-	4,168	289	-	4,457
<b>Total Assets</b>	<b>\$ 113</b>	<b>\$ 29,398</b>	<b>\$ 152,285</b>	<b>\$ (698)</b>	<b>\$ 181,098</b>
<b>LIABILITIES:</b>					
Intragovernmental Liabilities:					
Accounts Payable	\$ -	\$ 72	\$ 157	\$ (122)	\$ 107
Debt	-	9,777	14,648	-	24,425
Deferred Revenues and Other Credits	-	5	147	(69)	83
Other Liabilities	14	30	1,099	(507)	636
<b>Total Intragovernmental Liabilities</b>	<b>\$ 14</b>	<b>\$ 9,884</b>	<b>\$ 16,051</b>	<b>\$ (698)</b>	<b>\$ 25,251</b>
Accounts Payable	13	486	3,116	-	3,615
Loan Guarantee Liability	-	-	208	-	208
Debt Held by the Public	-	5,828	-	-	5,828
Deferred Revenues and Other Credits	-	1,380	36,474	-	37,854
Environmental Cleanup and Disposal Liabilities	-	14	299,814	-	299,828
Pension and Other Actuarial Liabilities	4	57	23,493	-	23,554
Obligations Under Capital Leases	-	1,453	81	-	1,534
Other Non-Intragovernmental Liabilities	40	3,446	3,176	-	6,662
Contingencies and Commitments	-	98	22,661	-	22,759
<b>Total Liabilities</b>	<b>\$ 71</b>	<b>\$ 22,646</b>	<b>\$ 405,074</b>	<b>\$ (698)</b>	<b>\$ 427,093</b>
<b>NET POSITION:</b>					
Unexpended Appropriations					
Unexpended Appropriations- Dedicated Collections	\$ -	\$ -	\$ 21	\$ -	\$ 21
Unexpended Appropriations- Other Funds	-	-	22,564	-	22,564
Cumulative Results of Operations					
Cumulative Results of Operations - Dedicated Collections	-	6,752	(14,713)	-	(7,961)
Cumulative Results of Operations - Other Funds	42	-	(260,661)	-	(260,619)
<b>Total Net Position</b>	<b>\$ 42</b>	<b>\$ 6,752</b>	<b>\$ (252,789)</b>	<b>\$ -</b>	<b>\$ (245,995)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 113</b>	<b>\$ 29,398</b>	<b>\$ 152,285</b>	<b>\$ (698)</b>	<b>\$ 181,098</b>



# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
<b>FY 2013</b>				
\$ 76	\$ 1,789	\$ 31,843	\$ -	\$ 33,708
-	499	36,308	-	36,807
-	282	987	(643)	626
-	-	76	(53)	23
<b>\$ 76</b>	<b>\$ 2,570</b>	<b>\$ 69,214</b>	<b>\$ (696)</b>	<b>\$ 71,164</b>
-	-	255	-	255
29	472	3,305	-	3,806
-	1	12,374	-	12,375
-	136	42,794	-	42,930
12	8,564	24,769	-	33,345
-	11,921	-	-	11,921
-	3,787	323	-	4,110
<b>\$ 117</b>	<b>\$ 27,451</b>	<b>\$ 153,034</b>	<b>\$ (696)</b>	<b>\$ 179,906</b>
\$ 1	\$ 63	\$ 185	\$ (164)	\$ 85
-	13,197	13,880	-	27,077
-	6	143	(54)	95
23	33	965	(478)	543
<b>\$ 24</b>	<b>\$ 13,299</b>	<b>\$ 15,173</b>	<b>\$ (696)</b>	<b>\$ 27,800</b>
11	439	3,258	-	3,708
-	-	183	-	183
-	5,949	-	-	5,949
-	1,393	34,574	-	35,967
-	14	280,256	-	280,270
4	56	21,385	-	21,445
-	933	72	-	1,005
35	3,704	2,967	-	6,706
-	92	21,393	-	21,485
<b>\$ 74</b>	<b>\$ 25,879</b>	<b>\$ 379,261</b>	<b>\$ (696)</b>	<b>\$ 404,518</b>
\$ -	\$ -	\$ 20	\$ -	\$ 20
-	-	24,537	-	24,537
-	1,572	(10,522)	-	(8,950)
43	-	(240,262)	-	(240,219)
<b>\$ 43</b>	<b>\$ 1,572</b>	<b>\$ (226,227)</b>	<b>\$ -</b>	<b>\$ (224,612)</b>
<b>\$ 117</b>	<b>\$ 27,451</b>	<b>\$ 153,034</b>	<b>\$ (696)</b>	<b>\$ 179,906</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## U.S. Department of Energy Consolidating Schedules of Net Cost

For the Years Ended September 30, 2014 and 2013

(See independent auditors' report)

(\$ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
	<b>FY 2014</b>				
<b>STRATEGIC GOALS:</b>					
Science and Energy					
Program Costs	\$ -	\$ 3,970	\$ 10,683	\$ (66)	\$ 14,587
Less: Earned Revenues	-	(4,483)	(1,018)	66	(5,435)
Net Cost of Transform Our Energy Systems	-	(513)	9,665	-	9,152
Nuclear Security					
Program Costs	-	-	9,883	-	9,883
Less: Earned Revenues	-	-	(22)	-	(22)
Net Cost of Science and Engineering Enterprise	-	-	9,861	-	9,861
Management and Performance					
Program Costs	-	-	5,371	-	5,371
Less: Earned Revenues	-	-	(233)	-	(233)
Net Cost of Secure Our Nation	-	-	5,138	-	5,138
Net Cost of Strategic Goals	-	(513)	24,664	-	24,151
<b>OTHER PROGRAMS:</b>					
Reimbursable Programs:					
Program Costs	-	251	4,098	(19)	4,330
Less: Earned Revenues	-	(295)	(3,863)	19	(4,139)
Net Cost of Reimbursable Programs	-	(44)	235	-	191
Other Programs:					
Program Costs	307	-	351	(252)	406
Less: Earned Revenues	(307)	-	(262)	252	(317)
Net Cost of Other Programs	-	-	89	-	89
Costs Applied to Reduction of Legacy Environmental Liabilities	-	-	(5,067)	-	(5,067)
Costs Not Assigned	-	-	32,171	-	32,171
<b>Net Cost of Operations</b>	<b>\$ -</b>	<b>\$ (557)</b>	<b>\$ 52,092</b>	<b>\$ -</b>	<b>\$ 51,535</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
<b>FY 2013</b>				
\$ -	\$ 4,132	\$ 11,808	\$ (62)	\$ 15,878
-	(4,172)	(554)	44	(4,682)
-	(40)	11,254	(18)	11,196
-	-	9,363	-	9,363
-	-	(31)	-	(31)
-	-	9,332	-	9,332
-	-	5,460	-	5,460
-	-	(282)	-	(282)
-	-	5,178	-	5,178
-	(40)	25,764	(18)	25,706
-	245	4,088	(27)	4,306
-	(313)	(3,919)	27	(4,205)
-	(68)	169	-	101
305	-	232	(188)	349
(305)	-	(209)	188	(326)
-	-	23	-	23
-	-	(4,658)	-	(4,658)
-	-	12,398	-	12,398
\$ -	\$ (108)	\$ 33,696	\$ (18)	\$ 33,570

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## U.S. Department of Energy Consolidating Schedules of Changes in Net Position

For the Years Ended September 30, 2014 and 2013

(See independent auditors' report)

(\$ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
	<b>FY 2014</b>				
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>					
Beginning Balances	\$ 43	\$ 1,572	\$ (250,784)	\$ -	\$ (249,169)
Budgetary Financing Sources:					
Appropriations Used	\$ -	\$ 5	\$ 26,358	\$ -	\$ 26,363
Non-Exchange Revenue	-	-	53	-	53
Donations and Forfeitures of Cash	-	-	5	-	5
Transfers - In/(Out) Without Reimbursement	-	(271)	(3)	-	(274)
Other Financing Sources (Non-Exchange):					
Donations and Forfeitures of Cash	-	29	20	-	49
Transfers - In/(Out) Without Reimbursement	-	4,856	(4)	-	4,852
Imputed Financing from Costs Absorbed by Others	15	1	1,906	-	1,922
Other	(16)	3	(833)	-	(846)
<b>Total Financing Sources</b>	<b>\$ (1)</b>	<b>\$ 4,623</b>	<b>\$ 27,502</b>	<b>\$ -</b>	<b>\$ 32,124</b>
Net Cost of Operations	-	557	(52,092)	-	(51,535)
<b>Net Change</b>	<b>\$ (1)</b>	<b>\$ 5,180</b>	<b>\$ (24,590)</b>	<b>\$ -</b>	<b>\$ (19,411)</b>
<b>Total Cumulative Results of Operations</b>	<b>\$ 42</b>	<b>\$ 6,752</b>	<b>\$ (275,374)</b>	<b>\$ -</b>	<b>\$ (268,580)</b>
<b>UNEXPENDED APPROPRIATIONS:</b>					
Beginning Balances	\$ -	\$ -	\$ 24,557	\$ -	\$ 24,557
Budgetary Financing Sources:					
Appropriations Received	\$ -	\$ 5	\$ 27,252	\$ -	\$ 27,257
Appropriations Transferred - In/(Out)	-	-	(42)	-	(42)
Other Adjustments	-	-	(2,824)	-	(2,824)
Appropriations Used	-	(5)	(26,358)	-	(26,363)
<b>Total Budgetary Financing Sources</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,972)</b>	<b>\$ -</b>	<b>\$ (1,972)</b>
<b>Total Unexpended Appropriations</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 22,585</b>	<b>\$ -</b>	<b>\$ 22,585</b>
<b>Net Position</b>	<b>\$ 42</b>	<b>\$ 6,752</b>	<b>\$ (252,789)</b>	<b>\$ -</b>	<b>\$ (245,995)</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
<b>FY 2013</b>				
\$ 18	\$ 1,872	\$ (247,739)	\$ -	\$ (245,849)
\$ -	\$ 6	\$ 27,908	\$ -	\$ 27,914
-	-	53	-	53
-	-	3	-	3
-	(314)	(6)	3	(317)
-	15	2	-	17
11	(134)	(28)	(3)	(154)
14	3	2,836	-	2,853
-	16	(117)	(18)	(119)
<b>\$ 25</b>	<b>\$ (408)</b>	<b>\$ 30,651</b>	<b>\$ (18)</b>	<b>\$ 30,250</b>
-	108	(33,696)	18	(33,570)
<b>\$ 25</b>	<b>\$ (300)</b>	<b>\$ (3,045)</b>	<b>\$ -</b>	<b>\$ (3,320)</b>
<b>\$ 43</b>	<b>\$ 1,572</b>	<b>\$ (250,784)</b>	<b>\$ -</b>	<b>\$ (249,169)</b>
\$ -	\$ 1	\$ 28,095	\$ -	\$ 28,096
\$ -	\$ 5	\$ 26,709	\$ -	\$ 26,714
-	-	5	-	5
-	-	(2,344)	-	(2,344)
-	(6)	(27,908)	-	(27,914)
<b>\$ -</b>	<b>\$ (1)</b>	<b>\$ (3,538)</b>	<b>\$ -</b>	<b>\$ (3,539)</b>
<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,557</b>	<b>\$ -</b>	<b>\$ 24,557</b>
<b>\$ 43</b>	<b>\$ 1,572</b>	<b>\$ (226,227)</b>	<b>\$ -</b>	<b>\$ (224,612)</b>



# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## U.S. Department of Energy Combining Schedules of Budgetary Resources

For the Years Ended September 30, 2014 and 2013

(See independent auditors' report)

	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	COMBINED
(\$ IN MILLIONS)				
	FY 2014			
<b>BUDGETARY RESOURCES:</b>				
Unobligated Balance Brought Forward, October 1	\$ 21	\$ 716	\$ 11,408	\$ 12,145
Recoveries of Prior Year Unpaid Obligations	2	-	764	766
Other Changes in Unobligated Balance (+ or -)	-	-	(930)	(930)
<b>Unobligated Balance from Prior Year Budget Authority, Net</b>	<b>\$ 23</b>	<b>\$ 716</b>	<b>\$ 11,242</b>	<b>\$ 11,981</b>
Appropriations	4	108	24,989	25,101
Borrowing Authority	-	603	6,474	7,077
Contract Authority	-	1,826	-	1,826
Spending Authority from Offsetting Collections	305	2,825	4,780	7,910
<b>Total Budgetary Resources</b>	<b>\$ 332</b>	<b>\$ 6,078</b>	<b>\$ 47,485</b>	<b>\$ 53,895</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>				
Obligations Incurred	\$ 304	\$ 5,281	\$ 38,646	\$ 44,231
<b>Unobligated Balance, End of Year:</b>				
Apportioned	\$ 28	\$ 770	\$ 6,593	\$ 7,391
Exempt from Apportionment	-	8	11	19
Unapportioned	-	19	2,235	2,254
<b>Total Unobligated Balance, End of Year</b>	<b>\$ 28</b>	<b>\$ 797</b>	<b>\$ 8,839</b>	<b>\$ 9,664</b>
<b>Total Budgetary Resources</b>	<b>\$ 332</b>	<b>\$ 6,078</b>	<b>\$ 47,485</b>	<b>\$ 53,895</b>
<b>CHANGE IN OBLIGATED BALANCE:</b>				
<b>Unpaid Obligations:</b>				
Unpaid Obligations, Brought Forward, October 1	\$ 34	\$ 3,352	\$ 26,290	\$ 29,676
Obligations Incurred	304	5,281	38,646	44,231
Outlays (Gross) (-)	(294)	(4,939)	(34,195)	(39,428)
Recoveries of Prior Year Unpaid Obligations (-)	(2)	-	(764)	(766)
<b>Unpaid Obligations, End of Year</b>	<b>\$ 42</b>	<b>\$ 3,694</b>	<b>\$ 29,977</b>	<b>\$ 33,713</b>
<b>Uncollected Payments:</b>				
Uncollected Pymts, Fed Sources, Brought Forward, October 1 (-)	\$ -	\$ (321)	\$ (4,342)	\$ (4,663)
Change in Uncollected Pymts, Fed Sources (+ or -)	-	(26)	404	378
<b>Uncollected Pymts, Fed Sources, End of Year (-)</b>	<b>\$ -</b>	<b>\$ (347)</b>	<b>\$ (3,938)</b>	<b>\$ (4,285)</b>
<b>Memorandum (non-add) Entries:</b>				
<b>Obligated Balance, Start of Year (+ or -)</b>	<b>\$ 34</b>	<b>\$ 3,031</b>	<b>\$ 21,948</b>	<b>\$ 25,013</b>
<b>Obligated Balance, End of Year (+ or -)</b>	<b>\$ 42</b>	<b>\$ 3,347</b>	<b>\$ 26,039</b>	<b>\$ 29,428</b>
<b>BUDGET AUTHORITY AND OUTLAYS, NET:</b>				
Budget Authority, Gross	\$ 309	\$ 5,362	\$ 36,243	\$ 41,914
Actual Offsetting Collections (-)	(305)	(4,605)	(6,373)	(11,283)
Change in Uncollected Pymts, Fed Sources (+ or -)	-	(26)	404	378
<b>Budget Authority, Net</b>	<b>\$ 4</b>	<b>\$ 731</b>	<b>\$ 30,274</b>	<b>\$ 31,009</b>
Outlays, Gross	\$ 294	\$ 4,939	\$ 34,195	\$ 39,428
Actual Offsetting Collections (-)	(305)	(4,605)	(6,373)	(11,283)
<b>Outlays, Net</b>	<b>\$ (11)</b>	<b>\$ 334</b>	<b>\$ 27,822</b>	<b>\$ 28,145</b>
Distributed Offsetting Receipts (-)	(32)	(651)	(2,873)	(3,556)
<b>Agency Outlays, Net</b>	<b>\$ (43)</b>	<b>\$ (317)</b>	<b>\$ 24,949</b>	<b>\$ 24,589</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	COMBINED
<b>FY 2013</b>			
\$ 21	\$ 751	\$ 12,858	\$ 13,630
1	-	1,259	1,260
-	(152)	(992)	(1,144)
<b>\$ 22</b>	<b>\$ 599</b>	<b>\$ 13,125</b>	<b>\$ 13,746</b>
3	102	24,780	24,885
-	623	11	634
-	1,455	-	1,455
289	3,248	4,628	8,165
<b>\$ 314</b>	<b>\$ 6,027</b>	<b>\$ 42,544</b>	<b>\$ 48,885</b>
\$ 293	\$ 5,311	\$ 31,136	\$ 36,740
\$ 21	\$ 707	8,673	\$ 9,401
-	8	9	17
-	1	2,726	2,727
<b>\$ 21</b>	<b>\$ 716</b>	<b>\$ 11,408</b>	<b>\$ 12,145</b>
<b>\$ 314</b>	<b>\$ 6,027</b>	<b>\$ 42,544</b>	<b>\$ 48,885</b>
\$ 36	\$ 3,058	\$ 33,941	\$ 37,035
293	5,311	31,136	36,740
(294)	(5,017)	(37,528)	(42,839)
(1)	-	(1,259)	(1,260)
<b>\$ 34</b>	<b>\$ 3,352</b>	<b>\$ 26,290</b>	<b>\$ 29,676</b>
\$ -	\$ (371)	\$ (5,124)	\$ (5,495)
-	50	782	832
<b>\$ -</b>	<b>\$ (321)</b>	<b>\$ (4,342)</b>	<b>\$ (4,663)</b>
<b>\$ 36</b>	<b>\$ 2,687</b>	<b>\$ 28,817</b>	<b>\$ 31,540</b>
<b>\$ 34</b>	<b>\$ 3,031</b>	<b>\$ 21,948</b>	<b>\$ 25,013</b>
\$ 292	\$ 5,428	\$ 29,419	\$ 35,139
(305)	(4,839)	(6,321)	(11,465)
-	50	782	832
<b>\$ (13)</b>	<b>\$ 639</b>	<b>\$ 23,880</b>	<b>\$ 24,506</b>
\$ 294	\$ 5,017	\$ 37,528	\$ 42,839
(305)	(4,839)	(6,321)	(11,465)
<b>\$ (11)</b>	<b>\$ 178</b>	<b>\$ 31,207</b>	<b>\$ 31,374</b>
(295)	(574)	(3,316)	(4,185)
<b>\$ (306)</b>	<b>\$ (396)</b>	<b>\$ 27,891</b>	<b>\$ 27,189</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## U.S. Department of Energy Consolidating Schedules of Custodial Activities

For the Years Ended September 30, 2014 and 2013

(See independent auditors' report)

(\$ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
	<b>FY 2014</b>				
<b>SOURCES OF COLLECTIONS:</b>					
Cash Collections:					
Power Marketing Administrations	\$ -	\$ 872	\$ -	\$ -	\$ 872
Federal Energy Regulatory Commission	43	-	-	-	43
<b>Total Cash Collections</b>	<b>\$ 43</b>	<b>\$ 872</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 915</b>
Accrual Adjustment	(15)	(3)	-	-	(18)
<b>Total Custodial Revenue</b>	<b>\$ 28</b>	<b>\$ 869</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 897</b>
<b>DISPOSITION OF REVENUE:</b>					
Transferred to Others:					
Bureau of Reclamation	\$ (8)	\$ (448)	\$ -	\$ -	\$ (456)
Department of the Treasury	(27)	(233)	-	-	(260)
Army Corps of Engineers	(8)	(191)	-	-	(199)
Decrease/(Increase) in Amounts to be Transferred	15	3	-	-	18
<b>Net Custodial Activity</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
<b>FY 2013</b>				
\$ -	\$ 907	\$ -	\$ -	\$ 907
327	-	-	-	327
<b>\$ 327</b>	<b>\$ 907</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,234</b>
14	6	-	-	20
<b>\$ 341</b>	<b>\$ 913</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,254</b>
\$ (7)	\$ (503)	\$ -	\$ -	\$ (510)
(312)	(242)	-	-	(554)
(8)	(162)	-	-	(170)
(14)	(6)	-	-	(20)
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Required Supplementary Stewardship Information (RSSI)

Supplementary Stewardship Reporting on Research and Development Costs for FY 2014 through 2010

UNAUDITED – See accompanying Auditors’ Report.

(\$ IN MILLIONS)	Program Office	FY2014			FY2013			FY2012			FY2011			FY2010		
		DIRECT COST	DEPRECIATION & OTHER	TOTAL	DIRECT COST	DEPRECIATION & OTHER	TOTAL	DIRECT COST	DEPRECIATION & OTHER	TOTAL	DIRECT COST	DEPRECIATION & OTHER	TOTAL	DIRECT COST	DEPRECIATION & OTHER	TOTAL
BASIC	Efficiency and Renewable Energy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ 1	\$ 10	\$ 4	\$ 1	\$ 5	\$ 2	\$ -	\$ 2
	Fossil Energy	7	-	7	4	1	5	5	1	6	6	2	8	5	1	6
	National Nuclear Security Administration	48	1	49	45	3	48	53	2	55	42	2	44	30	3	33
	Electricity Delivery and Energy Reliability	3	-	3	4	-	4	6	1	7	4	1	5	1	-	1
	Science	3,969	434	4,403	3,941	561	4,502	3,962	766	4,728	3,873	787	4,660	3,497	616	4,113
	Bonneville Power Administration	5	-	5	9	-	9	9	-	9	8	-	8	-	-	-
TOTAL BASIC		\$ 4,032	\$ 435	\$ 4,467	\$ 4,003	\$ 565	\$ 4,568	\$ 4,044	\$ 771	\$ 4,815	\$ 3,937	\$ 793	\$ 4,730	\$ 3,535	\$ 620	\$ 4,155
APPLIED	Advanced Research Projects Agency - Energy	\$ 112	\$ -	\$ 112	\$ 94	\$ 1	\$ 95	\$ 92	\$ -	\$ 92	\$ 64	\$ -	\$ 64	\$ 16	\$ -	\$ 16
	Efficiency and Renewable Energy	437	7	444	365	46	411	454	47	501	516	63	579	433	34	467
	Environmental Management	4	-	4	4	-	4	11	-	11	145	3	148	141	4	145
	Fossil Energy	247	4	251	158	48	206	219	53	272	264	78	342	210	57	267
	National Nuclear Security Administration	1,871	95	1,966	1,898	139	2,037	2,044	193	2,237	1,491	178	1,669	1,513	195	1,708
	Nuclear Energy	292	6	298	258	40	298	284	41	325	194	28	222	248	118	366
	Electricity Delivery and Energy Reliability	45	-	45	42	5	47	46	5	51	35	5	40	11	-	11
	Science	56	-	56	46	1	47	-	-	-	-	-	-	-	-	-
	Bonneville Power Administration	2	-	2	5	-	5	5	-	5	4	-	4	3	-	3
TOTAL APPLIED		\$ 3,066	\$ 112	\$ 3,178	\$ 2,870	\$ 280	\$ 3,150	\$ 3,155	\$ 339	\$ 3,494	\$ 2,713	\$ 355	\$ 3,068	\$ 2,575	\$ 408	\$ 2,983
DEVELOPMENT	Advanced Research Projects Agency - Energy	\$ 83	\$ -	\$ 83	\$ 77	\$ 1	\$ 78	\$ 39	\$ -	\$ 39	\$ 59	\$ -	\$ 59	\$ 15	\$ -	\$ 15
	Efficiency and Renewable Energy	295	5	300	320	43	363	801	72	873	484	60	544	424	30	454
	Environmental Management	8	-	8	8	-	8	22	-	22	295	6	301	274	8	282
	Fossil Energy	414	7	421	197	60	257	274	66	340	330	97	427	263	72	335
	National Nuclear Security Administration	1,563	116	1,679	1,471	163	1,634	1,464	244	1,708	1,357	281	1,638	1,338	351	1,689
	Nuclear Energy	11	-	11	31	14	45	36	10	46	28	5	33	40	23	63
	Electricity Delivery and Energy Reliability	29	-	29	26	3	29	24	2	26	15	2	17	6	-	6
	Bonneville Power Administration	9	-	9	1	-	1	1	-	1	1	-	1	-	-	-
TOTAL DEVELOPMENT		\$ 2,412	\$ 128	\$ 2,540	\$ 2,131	\$ 284	\$ 2,415	\$ 2,661	\$ 394	\$ 3,055	\$ 2,569	\$ 451	\$ 3,020	\$ 2,360	\$ 484	\$ 2,844
TOTAL R&D		\$ 9,510	\$ 675	\$ 10,185	\$ 9,004	\$ 1,129	\$ 10,133	\$ 9,860	\$ 1,504	\$ 11,364	\$ 9,219	\$ 1,599	\$ 10,818	\$ 8,470	\$ 1,512	\$ 9,982

## Investment in Research and Development

The Department’s research and development programs are classified as Basic Research, Applied Research, and Development. Research and Development (R&D) program offices facilitate the creation, advancement, and deployment of the new technologies and support the Department’s mission to ensure America’s security and prosperity by addressing its energy, environmental, and nuclear challenges through transformative science and technology solutions. (Examples of R&D investments are discussed in the section on “Strategic Plan and Program Performance.”)

## Goal 1: Science and Energy

(Basic, Applied, and Development)

The [Office of Science](#) supports research activities in the following areas: Advanced Scientific Computing Research relevant to the complex challenges faced by the Department and providing world class supercomputer and networking facilities for scientists; Basic Energy Sciences, including work in the natural sciences that emphasizes fundamental research in materials physics, chemistry, geosciences, and physical biosciences; Biological and Environmental Research, which provides foundational science for alternative fuels, advanced climate predictions, terrestrial carbon sequestration, subsurface bio-geo-processes, and radiobiology at a range of scales from individual molecules to the whole Earth; Fusion Energy Sciences, including broad-based fundamental research efforts aimed at producing the knowledge needed to develop a fusion energy source, and to be among the world

leaders in plasma physics and high energy density physics research; High Energy Physics activities directed at understanding the nature of matter and energy; Nuclear Physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and Small Business Innovation Research/Technology Transfer support for energy related technologies.

Additionally, Science supports the operation of a geographically diverse suite of major facilities that provide thousands of researchers from universities, industry, and Government laboratories unique tools to advance a wide range of sciences. These user facilities are operated on an open access, competitive merit review, basis, enabling scientists from every state and of many disciplines from academia, national laboratories, and industry to utilize the facilities’ unique capabilities and sophisticated instrumentation.

The [Office of Energy Efficiency and Renewable Energy](#) (EERE) invests in high-value research and development, as well as demonstration and deployment support activities that would not be sufficiently conducted by the private sector. EERE works with public and private sector decision makers, partners, and other stakeholders to develop programs and policies to facilitate the advancement of clean energy technologies and practices. In the area of energy efficiency, EERE supports mechanisms such as appliance efficiency standards, model building codes, federal fleet initiatives, energy education activities, and financial assistance grants. Program activities include: Hydrogen & Fuel Cell Technologies, Biomass & Biorefinery Systems R&D, Solar Energy, Wind Energy, Geothermal



## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Technologies, Water Power, Vehicle Technologies, Building Technologies, Advanced Manufacturing, Federal Energy Management Program, and Weatherization and Intergovernmental Activities.

As an example, the EERE [Building Technologies](#) program connects basic and applied sciences by developing the next generation of highly efficient technologies and practices for both residential and commercial buildings through Emerging Technologies R&D activities. Similarly, the EERE [Advanced Manufacturing](#) program connects basic and applied sciences by bringing together industry, the national laboratories, and academia to: transition scientific innovations into manufacturing capabilities, develop cutting-edge foundational manufacturing technologies relevant to industry, advance broadly applicable manufacturing processes that use energy efficiently, and drive a corporate culture of continuous improvement to reduce energy use in the manufacturing sector. It also integrates national laboratory, university, and industry activities by competitively awarding cost-shared funding to collaborative research teams that rely on industry's active participation to ensure that the technologies meet real-world criteria, thus accelerating technology commercialization.

The [Advanced Research Projects Agency-Energy](#) (ARPA-E) is a catalyst for innovation. ARPA-E invests in high-potential, high-impact energy technologies that could radically transform the U.S. energy landscape and create new options for the nation's energy future. ARPA-E awardees are unique because they are creating entirely new ways to generate, store, and use energy. ARPA-E seeks multiple approaches to energy challenges and selects projects for both focused program areas and through open funding opportunities. The agency's streamlined awards process allows for agility, focus, and impact. ARPA-E focuses only on innovative projects that can make a big impact over a finite period of time. Term-limited program directors and technology-to-market advisors provide projects with hands-on support to help them meet specific technical and market milestones. ARPA-E's goal is to develop a funded project to the point where private or public partners commit to advancing it to the next step.

The [Office of Fossil Energy](#) (FE) enhances U.S. economic and energy security by managing and performing energy-related research that maximizes the efficient and environmentally sound production and use of fossil fuels; supporting the development of policy options that benefit the U.S. public by ensuring access to adequate supplies of affordable and clean energy; partnering with industry and others to advance clean and efficient fossil energy; maintaining strategic crude and heating oil supplies to protect the United States against sudden and major supply interruptions and shortages; and maximizing the value of certain Government-owned oil and gas fields.

Relative to the nation's coal resources, FE plays a leadership role in the development of clean coal technologies with a focus on carbon capture and storage (CCS). CCS is designed to enhance our energy security and reduce environmental concerns over the future use of coal by developing a portfolio of revolutionary technologies. The program, in partnership with the private sector, is focused on maximizing efficiency and environmental performance, while minimizing the costs of emerging technologies by pursuing two key strategies: (1) the capture and storage of carbon dioxide--a potent greenhouse gas--including improving overall economics where possible by utilizing carbon dioxide in applications such as enhanced oil recovery, and (2) the improvement of the efficiency of fossil energy systems. Past FE research in hydraulic fracturing and horizontal drilling facilitated the current shale gas boom that is benefiting the nation. Building off the early technological successes for producing shale gas, the program is now focusing on evaluating and mitigating environmental concerns with the production of shale gas resources.

The primary mission of the [Office of Nuclear Energy](#) (NE) is to support nuclear power as a resource capable of making contributions in meeting our nation's energy supply, environmental, and energy security needs. NE seeks to resolve technical, cost, safety, security, and regulatory issues through research and development. By focusing on the research and development (R&D) of advanced nuclear technologies, NE supports the Administration's goals of providing domestic sources of secure energy, reducing greenhouse gases, and enhancing national security. NE organizes its R&D activities along four main objectives that address challenges to expanding the use of nuclear power: (1) develop technologies and other solutions that can improve the reliability, sustain the safety, and extend the life of current reactors; (2) develop improvements in the affordability of new reactors to enable nuclear energy to help meet the administration's energy security and climate change goals; (3) research alternative nuclear fuel cycles; and (4) understanding and minimization of risks of nuclear proliferation and terrorism.

The [Office of Electricity Delivery and Energy Reliability](#) research and development initiatives focus on developing the next generation of innovative technologies to improve the reliability, efficiency, flexibility, and security of the nation's electricity grid. Transmission reliability research advances technologies that can provide unprecedented information on transmission system health, enhancing system reliability and reducing the frequency and duration of operational disturbances. Advanced modeling research develops the computational tools and algorithms for real-time understanding of grid conditions. Research on energy storage technologies can reduce peak prices of electricity and increase asset utilization as well as improve accessibility to a variety of energy generation sources. Cyber security for energy delivery systems research is advancing resilient energy delivery systems that are

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

designed, installed, operated and maintained to survive a cyber event while sustaining critical functions. Smart grid research is aimed at the distribution level of the grid, with a goal of self-healing from grid disturbances, improving reliability, and improved integration for greater system efficiency while enabling greater consumer participation in managing their energy use.

A [Technology Innovation](#) office within the Bonneville Power Administration (BPA) is used to focus and manage technology initiatives, as well as to help guide the development of a robust research and development portfolio, drawing from staff that are already engaged in BPA's dispersed research and development work. Current projects fall under categories of energy efficiency and interactability, renewable resource/wind integration, and transmission operations and control. An example is the Development and Demonstration of Advanced Lighting Technologies project, where the objective is to demonstrate the applicability of advanced, high-efficiency lighting technologies that can be controlled through energy management systems, lighting based control systems, and/or demand response control systems that utilize Internet protocol based remote control and command to allow the reduction of lighting loads.

### **Goal 2: Nuclear Security**

---

*(Basic, Applied, and Development)*

The nation has not deployed a new nuclear weapon in over 20 years, nor conducted an underground nuclear test since 1992. Scientists at the [National Nuclear Security Administration](#) (NNSA) maintain the warheads in the stockpile by using sophisticated supercomputers, facilities, and computer codes that test and predict the safety,

security, and reliability of U.S. weapons in NNSA laboratories.

The NNSA Defense Nuclear Nonproliferation, Research and Development (DNN R&D) program drives the innovation of unilateral and multi-lateral technical capabilities to detect, identify, and characterize foreign: 1) nuclear weapons programs, 2) movement and diversion of special nuclear materials, and 3) nuclear detonations. To meet national and departmental nuclear security requirements, DNN R&D leverages the unique facilities and scientific skills of the NNSA Nuclear Security Enterprise, other DOE national laboratories, academia, and industry to improve U.S. and international detection and characterization of foreign nuclear weapons program activities and to develop capabilities to meet U.S. nuclear treaty verification and detonation detection requirements and other U.S. Government nuclear security requirements.

The NNSA [Naval Reactors](#) program's research and development efforts support new reactor plant development, new technologies for future fleet application, and continued, reliable operation of the nuclear fleet.

### **Goal 3: Management and Performance**

---

*(Applied)*

The [Office of Environmental Management](#) maintains a Technology Development and Deployment program. The overall goal of this program is to eliminate technical barriers to cleanup by reducing technical uncertainty, improving safety performance by applying improved or new technologies, increasing confidence in achieving long-term cleanup goals, addressing emerging issues, and leveraging investments in scientific research conducted by other parts of the Department.

## Required Supplementary Information (RSI)

**UNAUDITED** – See accompanying Auditors’ Report

**T**his section of the report provides required supplementary information for the Department on deferred maintenance and budgetary resources by major budget account.

### Deferred Maintenance

Deferred maintenance and repairs information is a requirement under SFFAS No. 42, Deferred Maintenance and Repairs (DM&R), which requires deferred maintenance to be disclosed as of the end of each FY. Deferred maintenance is defined in SFFAS No. 42 as “maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period.” DM&R reporting enables the Government to be accountable to citizens for the proper administration and stewardship of its assets. Specifically, DM&R reporting assists users by providing an entity’s realistic estimate of DM&R amounts and the effectiveness of asset maintenance practices the entities employ in fulfilling their missions. The Department chose to implement SFFAS No. 42 one year early.

Estimates were developed for:

(\$ in Millions)	
Buildings and Other Structures and Facilities	\$5,884
Capital Equipment	<u>146</u>
Total	\$6,030

### Deferred Maintenance and Repairs - Buildings and Other Structures and Facilities

The Department of Energy has custody of nearly 19 thousand real property assets with an estimated 117 million gross square feet of building space, \$48 billion replacement value for structures, and a total of 2.2 million acres of land. The Department’s portfolio of property, plant and equipment (PP&E) supports preeminent federal research laboratory campuses; user facilities; production, special purpose, and legacy clean-up activities; and facilities used predominantly for office space and warehousing. It is Departmental policy to maintain real property assets in a manner that promotes operational safety, worker health, environmental protection and compliance, property preservation, and cost-effectiveness while meeting the program missions. Estimates reported herein include DM&R for buildings and trailers, structures, and heritage assets owned by the Department without regard to capitalization thresholds or depreciation status. Estimates do not include inactive assets not yet screened as excess to the Department’s needs. The Department

does not accrue deferred maintenance and repairs on general or stewardship land parcels.

### Defining and Implementing M&R Policies in Practice

The Department visually assesses the condition of each building, trailer, and structure at least once every five years to identify all deficiencies, except for some structures where a physical barrier prevents visual assessments (e.g., underground pipe systems). In such cases, sites may employ other methods to identify deficiencies. The requirement to conduct a condition assessment on each asset at least once within a five-year period applies to all assets regardless of status. departmental guidance gives its component programs and sites the flexibility to apply industry standard methods commensurate with each asset’s status, usage, and hazards; or more thorough procedures when mandated by federal, state, or local codes. Inactive assets must remain in a state safe enough to allow such inspections to occur and so as not to endanger the mission responsibilities borne by other assets.

The recordation of deficiencies as deferred maintenance depends on programmatic and site policies. Sites estimate the cost to address deferred maintenance deficiencies using unit construction, maintenance and repair cost data available from R. S. Means (“CostWorks”), or other providers of unit cost data. For years in between updates, sites apply inflators derived from annual budget preparation guidance published by the Department’s Chief Financial Officer to deferred maintenance estimates to approximate current dollars. After resolving a deferred maintenance item, sites remove that item from their backlog.

### Ranking and Prioritizing M&R Activities

The Department does not rank or prioritize maintenance and repair activities for its component programs and sites. Instead, it relies on the site manager to execute the maintenance budget based on the role each asset has in supporting the site’s various missions. Ranking factors may include mission dependency, status, use, ownership, and risks presented by any noted deficiencies among potentially other considerations.

### Factors Considered in Setting Acceptable Condition

The Department directive DOE Order 430.1B, *Real Property Asset Management*, defines Asset Condition Index (ACI) and identifies it as a real property portfolio performance measure. ACI equals one less the sum of the deferred maintenance of a portfolio of assets divided

## CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(normalized) by the replacement value of that same portfolio of assets. This directive assigns qualitative labels to ACI ranges and considers assets with an ACI equal to or greater than 0.95 in at least adequate condition. For this purpose, the Department equates the terms “adequate” and “acceptable”. As of September 30, 2014, the percentage of active buildings and trailers in a condition at or above “acceptable” based on ACI is approximately 60 percent.

### Significant Changes from Prior Year and Related Events

As of September 30, 2014, an amount of \$5,351 million of deferred maintenance was estimated to be required to return active real property assets to acceptable operating condition. This is an overall increase of \$460 million.

The Department adopted a year-to-year variance threshold of ten percent and considers a greater increase or decrease as significant. The Department recorded significant increases in estimated deferred maintenance and repair for Inactive & Excess Buildings, Inactive & Excess Structures, as well as Active Structures. The increase for Active Structures resulted from a robust effort initiated this fiscal year to identify infrastructure deficiencies at the Department’s national laboratories and to accumulate data using a more consistent methodology across the Department. The significant increase in estimated deferred maintenance and repair for Inactive & Excess Buildings and Structures resulted from an initiative to reduce the quantity of inactive assets awaiting the excess screening process. Completion of the screening

process realigns uncategorized (inactive but not yet screened as excess) deferred maintenance into the Inactive & Excess category.

### Deferred Maintenance and Repair Costs

Estimates of the beginning and ending balances of DM&R for each major category of PP&E for which maintenance and repairs have been deferred include:

### Capital Equipment

Pursuant to the cost/benefit considerations provided in SFFAS No. 6 and SFFAS No. 42, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) are not applicable to property items with an acquisition cost of less than \$100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department’s capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of \$146 million of deferred maintenance was estimated to be needed as of September 30, 2014, to return capital equipment assets to acceptable operating condition.

(\$ IN MILLIONS)	2014 Ending Balance DM&R	2014 Beginning Balance DM&R
<b>ACTIVE:</b>		
General PP&E:		
Buildings & Trailers	\$ 3,418	\$ 3,202
Structures	1,926	1,680
Land	-	-
<b>Subtotal - General PP&amp;E Active</b>	<b>\$ 5,344</b>	<b>\$ 4,882</b>
Stewardship Land:	\$ -	\$ -
Heritage Assets	7	10
<b>Subtotal - All Active</b>	<b>\$ 5,351</b>	<b>\$ 4,892</b>
<b>INACTIVE AND EXCESS:</b>		
General PP&E:		
Buildings & Trailers	\$ 501	\$ 268
Structures	32	15
Land	-	-
<b>Subtotal - General PP&amp;E Inactive and Excess</b>	<b>\$ 533</b>	<b>\$ 283</b>
<b>Total Deferred Maintenance and Repair Cost</b>	<b>\$ 5,884</b>	<b>\$ 5,175</b>



# CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## Budgetary Resources by Major Account For the Year Ended September 30, 2014

	Weapons Activities 019 05 0240	Science 019 20 0222	Defense Environmental Cleanup 019 10 0251	Advanced Technology Vehicles Manufacturing Loan Program Account 019 20 0322	Bonneville Power Administration Fund 019 50 4045
<b>BUDGETARY RESOURCES:</b>					
Unobligated Balance Brought Forward, October 1	\$ 224	\$ 32	\$ 96	\$ 4,223	\$ 8
Recoveries of Prior Year Unpaid Obligations	45	15	23	88	(1)
Other Changes in Unobligated Balance (+ or -)	-	-	-	-	-
Budget Authority, Gross	10,516	5,672	4,938	19	4,193
Total Budgetary Resources	\$ 10,785	\$ 5,718	\$ 5,057	\$ 4,330	\$ 4,200
<b>STATUS OF BUDGETARY RESOURCES:</b>					
Obligations Incurred	\$ 10,638	\$ 5,689	\$ 4,992	\$ 17	\$ 4,191
Unobligated Balances Available	141	23	57	4,313	8
Unobligated Balances not Available	6	6	7	-	-
Total Budgetary Resources	\$ 10,785	\$ 5,718	\$ 5,057	\$ 4,330	\$ 4,200
<b>CHANGE IN OBLIGATED BALANCE:</b>					
Obligated Balance, Start of Year (+ or -)	\$ 2,872	\$ 3,666	\$ 1,822	\$ 117	\$ 2,525
Obligations Incurred	10,638	5,689	4,992	17	4,191
Outlays (Gross) (-)	(9,965)	(5,555)	(4,768)	(18)	(3,816)
Recoveries of Prior Year Unpaid Obligations (-)	(45)	(15)	(23)	(88)	1
Change in Uncollected Pymts, Fed Sources (+ or -)	20	5	-	-	(14)
Obligated Balance, End of Year (+ or -)	\$ 3,521	\$ 3,790	\$ 2,022	\$ 28	\$ 2,886
<b>Agency Outlays, Net</b>	\$ 7,219	\$ 5,010	\$ 4,769	\$ 18	\$ 261
	Energy Efficiency and Renewable Energy 019 20 0321	Defense Nuclear Nonproliferation 019 05 0309	Construction, Rehabilitation, Operation and Maintenance, Western Area Power Administration 019 50 5068	Naval Reactors 019 05 0314	Other Budgetary Accounts
<b>BUDGETARY RESOURCES:</b>					
Unobligated Balance Brought Forward, October 1	\$ 252	\$ 246	\$ 496	\$ 24	\$ 4,520
Recoveries of Prior Year Unpaid Obligations	147	19	-	-	70
Other Changes in Unobligated Balance (+ or -)	-	-	-	-	1
Budget Authority, Gross	2,031	1,942	822	1,103	3,461
Total Budgetary Resources	\$ 2,429	\$ 2,207	\$ 1,318	\$ 1,126	\$ 8,055
<b>STATUS OF BUDGETARY RESOURCES:</b>					
Obligations Incurred	\$ 1,779	\$ 2,167	\$ 763	\$ 1,112	\$ 5,898
Unobligated Balances Available	401	27	555	13	1,808
Unobligated Balances not Available	250	13	-	-	351
Total Budgetary Resources	\$ 2,429	\$ 2,207	\$ 1,318	\$ 1,126	\$ 8,055
<b>CHANGE IN OBLIGATED BALANCE:</b>					
Obligated Balance, Start of Year (+ or -)	\$ 3,493	\$ 1,654	\$ 270	\$ 280	\$ 6,346
Obligations Incurred	1,779	2,167	763	1,112	5,898
Outlays (Gross) (-)	(2,264)	(1,889)	(755)	(1,049)	(6,314)
Recoveries of Prior Year Unpaid Obligations (-)	(147)	(19)	-	-	(70)
Change in Uncollected Pymts, Fed Sources (+ or -)	(2)	-	(13)	-	174
Obligated Balance, End of Year (+ or -)	\$ 2,859	\$ 1,913	\$ 265	\$ 343	\$ 6,035
<b>Agency Outlays, Net</b>	\$ 2,061	\$ 1,884	\$ 42	\$ 1,049	\$ 1,377
	Subtotal of Budgetary Accounts	Title 17 Innovative Technology Direct Loan Financing Account 019 20 4455	Title 17 Innovative Loan Guaranteed Loan Financing Account 019 20 4577	Advanced Technology Vehicles Manufacturing Direct Loan Financing Account 019 20 4579	Combined Statement of Budgetary Resources Total
<b>BUDGETARY RESOURCES:</b>					
Unobligated Balance Brought Forward, October 1	\$ 10,121	\$ 1,352	\$ 237	\$ 435	\$ 12,145
Recoveries of Prior Year Unpaid Obligations	406	24	-	336	766
Other Changes in Unobligated Balance (+ or -)	1	(338)	-	(593)	(930)
Budget Authority, Gross	34,697	6,998	19	200	41,914
Total Budgetary Resources	\$ 45,225	\$ 8,036	\$ 256	\$ 378	\$ 53,895
<b>STATUS OF BUDGETARY RESOURCES:</b>					
Obligations Incurred	\$ 37,246	\$ 6,786	\$ -	\$ 199	\$ 44,231
Unobligated Balances Available	7,346	27	21	16	7,410
Unobligated Balances not Available	633	1,223	235	163	2,254
Total Budgetary Resources	\$ 45,225	\$ 8,036	\$ 256	\$ 378	\$ 53,895
<b>CHANGE IN OBLIGATED BALANCE:</b>					
Obligated Balance, Start of Year (+ or -)	\$ 23,045	\$ 1,030	\$ (68)	\$ 1,006	\$ 25,013
Obligations Incurred	37,246	6,786	-	199	44,231
Outlays (Gross) (-)	(36,393)	(2,835)	-	(200)	(39,428)
Recoveries of Prior Year Unpaid Obligations (-)	(406)	(24)	-	(336)	(766)
Change in Uncollected Pymts, Fed Sources (+ or -)	170	80	41	87	378
Obligated Balance, End of Year (+ or -)	\$ 23,662	\$ 5,037	\$ (27)	\$ 756	\$ 29,428
<b>Agency Outlays, Net</b>	\$ 23,690	\$ 1,581	\$ (60)	\$ (622)	\$ 24,589



# Auditors' Report

## Memorandum from the Inspector General



**Department of Energy**  
Washington, DC 20585

November 17, 2014

### MEMORANDUM FOR THE SECRETARY

FROM:   
Gregory H. Friedman  
Inspector General

SUBJECT: INFORMATION: Audit Report on "Department of Energy's Fiscal Year 2014 Consolidated Financial Statements"

Pursuant to requirements established by the *Government Management Reform Act of 1994*, the Office of Inspector General engaged the independent public accounting firm of KPMG, LLP (KPMG) to perform the audit of the Department of Energy's Fiscal Year 2014 Consolidated Financial Statements.

KPMG audited the consolidated financial statements of the Department as of September 30, 2014 and 2013, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources for the years then ended. KPMG concluded that these consolidated financial statements are presented fairly, in all material respects, in conformity with United States generally accepted accounting principles and has issued an unmodified opinion based on its audits and the reports of other auditors for the years ended September 30, 2014 and 2013.

As part of this review, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the consolidated financial statements. The audit revealed certain deficiencies in internal control related to unclassified network and information systems security that were considered to be a significant deficiency. The following significant deficiency in the Department's system of internal controls is not considered a material weakness:

Unclassified Network and Information Systems Security: Network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems continue to exist. The Department has taken steps to improve its unclassified cybersecurity program, including formalizing and approving a framework to support mission enhancement, operational excellence and risk management, and enhancing a continuous monitoring program that, when fully implemented, should facilitate near real-time situational awareness and appropriate cost-effective risk based decisions.

The audit disclosed no instances of noncompliance or other matters that are required to be reported under applicable audit standards and requirements.

## AUDITORS' REPORT

KPMG is responsible for the attached auditor's report and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding KPMG's performance under the terms of the contract. Our review was not intended to enable us to express, and accordingly we do not express, an opinion on the Department's financial statements, management's assertions about the effectiveness of its internal control over financial reporting or the Department's compliance with laws and regulations. Our monitoring review disclosed no instances where KPMG did not comply with applicable auditing standards.

I would like to thank each of the Department elements for their courtesy and cooperation during the review.

### Attachment

cc: Deputy Secretary of Energy  
Under Secretary for Nuclear Security  
Deputy Under Secretary for Science and Energy  
Deputy Under Secretary for Management and Performance  
Chief of Staff  
Deputy Chief Financial Officer

Audit Report: OAS-FS-15-01

<http://www.energy.gov/cfo/reports/agency-financial-reports>

## Independent Auditors' Report



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

Attachment

### Independent Auditors' Report

The Inspector General, United States Department of Energy and  
The Secretary, United States Department of Energy:

#### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Energy (Department), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements 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 Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.



*Opinion on the Financial Statements*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy as of September 30, 2014 and 2013, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

*Emphasis of Matters*

As discussed in Note 7 to the consolidated financial statements, the Department has total direct loans and loan guarantees, net, of \$16 billion and \$15 billion as of September 30, 2014 and 2013, respectively, which are issued under the *Federal Credit Reform Act of 1990*. Subsidy costs of the direct loans and loan guarantees are intended to estimate the long-term cost to the U.S. Government of its loan program and include interest rate differentials, delinquencies, defaults, fees, and other cash flow items. A subsidy re-estimate is performed annually at September 30. Any adjustment resulting from the re-estimate is recognized as subsidy expense. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the consolidated financial statements, the cost estimates supporting the Department's environmental cleanup and disposal liabilities of \$300 billion and \$280 billion as of September 30, 2014 and 2013, respectively, are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control. Our opinion is not modified with respect to this matter.

As discussed in Note 18 to the consolidated financial statements, the Department is involved as a defendant in several matters of litigation relating to its inability to accept commercial spent nuclear fuel by January 31, 1998, the date specified in the *Nuclear Waste Policy Act of 1982*, as amended. The Department has recorded liabilities for likely damages of \$23 billion and \$21 billion as of September 30, 2014 and 2013, respectively. Our opinion is not modified with respect to this matter.

*Other Matters**Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating information in the Consolidating Schedules section, the Message from the Secretary, the Message from the Chief Financial Officer, and Other Information section of the Department's 2014 *Agency Financial Report* are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the Message from the Secretary, the Message from the Chief Financial Officer, and Other Information section of the Department's 2014 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Other Reporting Required by Government Auditing Standards**Internal Control Over Financial Reporting*

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2014, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain





deficiencies in internal control, described below and in more detail in Exhibit I that we consider to be a significant deficiency.

- *Unclassified network and information systems security* – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should protect networks and information systems against unauthorized access and implement an adequate performance monitoring and risk management program to improve its network and information systems security.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

### *Department's Response to Findings*

The Department's response to the finding identified in our audit is presented in Exhibit I. The Department's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

### *Purpose of the Other Reporting Required by Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 14, 2014

**Independent Auditors' Report**  
**Exhibit I – Significant Deficiency**  
**Unclassified Network and Information Systems Security**

The United States Department of Energy (the Department or DOE) uses a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to address many of the identified weaknesses at the sites whose security controls we, and the Department's Office of Independent Enterprise Assessments, reviewed in prior years. However, at the time of our testing, corrective actions had not been fully completed.

The severity of network security weaknesses reported by KPMG remains consistent with prior year weaknesses. The Department recognizes the need to enhance its unclassified cybersecurity program and continues to implement corrective action plans as reported in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year (FY) 2014. Improvements are still needed in the areas of system and application access controls, configuration management, security patch management and system integrity.

Our FY 2014 audit disclosed information system security deficiencies similar in type and risk level to our findings in prior years. We identified similar weaknesses at sites where we had not reviewed security controls in the prior year. Specifically, we noted significant weaknesses and associated vulnerabilities for network servers and devices, desktop systems and business applications. The affected systems included servers providing core network services, workstations used by financial application users and system administrators with privileged levels of access to financial applications and other network systems, and web applications supporting business, human resources and general support applications.

We identified multiple instances of easily guessed login credentials or unrestricted access controls on network systems that could permit unauthorized access to those systems and their data. We also identified deficiencies in configuration and vulnerability management on network server and desktop systems. We found numerous instances in which critical security patches had not been applied in a timely manner to correct known vulnerabilities more than 30 days, and at several sites, more than 90 days, after the patches became available. We identified multiple server systems running operating system versions that were no longer supported by the vendor.

We also identified numerous weaknesses related to web application integrity as a result of design flaws in those applications. We identified web applications supporting financial processes that accepted insecure user authentication information or did not properly validate the form or content of input data against an application's database, which could result in unauthorized access to application functionality, sensitive data stored in the applications, and other network systems and applications.

While certain weaknesses were corrected immediately after we identified and reported them to site management, deficiencies in cybersecurity processes and procedures have continued from prior years. Numerous network and information security weaknesses previously identified in FY 2010 and 2011 at two sites had not been remediated at the time of our review. These weaknesses, if left uncorrected, could adversely affect the Department's ability to identify, assess and mitigate new and existing threats and risks to its information systems and data.



## Attachment

We noted that numerous sites had not fully implemented cybersecurity processes that could have prevented many of the weaknesses identified during our testing. At multiple locations, network and information system security processes and procedures had been implemented but were not operating effectively or being followed in accordance with site-defined policies. Specifically, these processes and procedures, including security testing and validation, standard baseline configurations, secure software coding, automated security updates, and continuous monitoring were not fully implemented to identify, monitor and remediate system vulnerabilities and to prevent unauthorized access by internal and external sources.

The Department's programs and sites are continuing to transition from a traditional compliance-based cybersecurity process to one that supports the National Institute of Standards and Technology's Risk Management Framework and continuous system authorizations. Numerous locations we reviewed were continuing to develop and implement site-level Implementation Plans in accordance with the Department's Risk Management Approach to manage information system-related security risks and make risk-based decisions. Although certain sites had developed the process of assessing risk and determining the approach to risk management, the process did not include all cybersecurity elements and had not been fully implemented in the sites' unclassified cybersecurity programs. We also found that risk-based decisions, including evaluation and acceptance of risk, were not adequately documented at several sites to address residual risk, business justification and mitigations.

The Department's Office of Inspector General (OIG) reported on these deficiencies in its evaluation report on *The Department of Energy's Unclassified Cybersecurity Program - 2014*, dated October 2014. The OIG noted that the identified weaknesses occurred, in part, because the Department's programs and sites had not ensured that cybersecurity policies and procedures were developed and properly implemented. The OIG reported that the Department's performance monitoring and risk management programs were not completely effective. The OIG also noted that continued network and information system security deficiencies could render the Department unable to gain or retain assurance that its systems and data are operated and maintained within acceptable levels of risk.

Although certain controls had been implemented at the sites we reviewed to mitigate the risk associated with these security weaknesses, these controls may not protect against many attacks, including publicly available exploits and custom attacks with no known signatures. The identified vulnerabilities and control weaknesses in unclassified network and information systems increase the possibility that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity, confidentiality and availability of data in the Department's financial applications.

During FY 2014, the Department had taken steps to improve its unclassified cybersecurity program. The Department's Cyber Council formalized and approved its Information Management Governance Framework to support mission enhancement, operational excellence and risk management across the Department. Additionally, the National Nuclear Security Administration continued to enhance its Enterprise Continuous Monitoring Program that, when fully implemented, should facilitate near real-time situational awareness and appropriate cost-effective risk-based decisions at its sites, including Headquarters.

**Recommendation:**

While progress has been made, continued efforts are needed to effectively manage the evolving nature of cybersecurity threats, including strengthening the management review process and monitoring of field sites to improve cybersecurity program performance; fully implementing revised and ongoing risk management processes; and expanding the use of security testing and validation in the resolution of the vulnerabilities and control weaknesses described above to properly configure, implement and update systems throughout the lifetime of those systems.

Therefore, we recommend that the Under Secretary for Nuclear Security, Acting Under Secretary for Science and Energy, and Acting Under Secretary for Management and Performance, in coordination with the Department and National Nuclear Security Administration Chief Information Officers, correct, through the implementation of appropriate controls, the weaknesses identified during our review; ensure that networks and information systems are adequately protected against unauthorized access to a level of risk commensurate with the criticality of the systems and the sensitivity of the information within them; and ensure that an adequate performance monitoring and risk management program is implemented to improve the effectiveness of the Department's unclassified cybersecurity program implementation. Detailed recommendations to address the issues discussed above have been separately reported to the cognizant management officials.

**Management's Response**

The Department's Office of Chief Information Officer (OCIO) and Office of the Chief Financial Officer (OCFO) appreciate the opportunity to comment on the Significant Deficiency Report. The OCIO and the OCFO acknowledge the FY 2014 findings and note that these findings represent a 36% reduction in the number of findings from FY 2013. The auditors recognized in their report that there are mitigating controls in place to ensure the integrity of the financial systems and data. While the Department will address the findings and continue to improve and adhere to security control processes and procedures, we believe that the Department's financial data and systems are adequately protected.

As noted in this report, the Department has implemented corrective actions to address many of the identified findings at the sites where security controls were reviewed by the OIG and the Department's Office of Independent Enterprise Assessments in prior years. The OCIO acknowledges that remediation of some of these findings is not yet complete and recognizes the need to continue efforts to enhance unclassified cybersecurity programs across the Department and implement corrective action plans as reported in its *Federal Managers' Financial Integrity Act* assurance statement for FY 2014.

The Department continues its commitment to the protection of its information and information systems through strong comprehensive cybersecurity and privacy programs. The Department will take appropriate follow-up action on specific findings, as well as continue to work in the most effective way to improve the Department's overall cybersecurity posture. The following efforts support the continued improvement of the Department's risk-managed cybersecurity program at the enterprise and local levels.

- **Update of DOE Order 205.1B, *Department of Energy Cyber Security Program*:** The Department is updating DOE O 205.1B, which codifies a federated risk-based approach to cybersecurity planning, to align with recently released Federal laws, regulations, and guidelines. The Order will be updated to address application access control, configuration management, security patch management/vulnerability management, system integrity, and to codify authorities and responsibilities related to the documentation, implementation, and oversight of cybersecurity



activities across the Department. The new Order will address Federal requirements and will be consistent with National Institute of Standards and Technology (NIST) and Committee on National Security Systems (CNSS) direction and guidance. DOE will utilize this policy to model daily and long-term activities surrounding cybersecurity processes and controls, including access control, configuration management, vulnerability management, and system integrity as identified in this report.

- **Plans of Action and Milestones (POA&M):** The DOE OCIO has reviewed the weaknesses noted in this report and will confirm that they are recorded and tracked as POA&Ms. Each DOE program provides the estimated completion dates and corrective actions through quarterly POA&M reporting to the OCIO. The OCIO will enhance its capabilities to assess program POA&M reports for completeness and accuracy and initiate processes to validate POA&M information. The OCIO is leveraging its Enterprise Cyber Governance System (ECGS) to streamline POA&M tracking and reporting and provide a centralized repository for cybersecurity weakness remediation activities. This combined approach will assist the Program Offices in refining their processes for managing remediation activities, assessing weaknesses across the program, and prioritizing actions.
- **Information Management Governance Framework.** The Secretary's Cyber Council, which was launched in 2013, approved a new Information Management governance framework, developed in collaboration with program offices, staff offices, national labs, and other DOE sites. The Information Management Governance Board (IMGB) serves as the principal forum for coordinating information management and cybersecurity activities and issues across the Department. Issues concerning the strengthening of cybersecurity programs will be part of the agenda for this group.
- **Vulnerability Management and Continuous Monitoring.** DOE O 205.1B requires organizations to implement a risk-based approach to cybersecurity within their programs and systems. Organizations are required to incorporate continuous monitoring and vulnerability assessment and remediation in their documented programs to support informed risk management decisions, as well as to implement consistent patch management as recommended in NIST Special Publication 800-40. Organizations are further supported by programs such as Information Security Continuous Monitoring, which includes the Department of Homeland Security (DHS) Continuous Diagnostics and Mitigation (CDM) program. In 2013, DOE signed a Memorandum of Agreement with DHS to deploy CDM capability, including participation in "buying groups," and procurement authority to use DHS-administered contracts.
- **JC3.** The capabilities of the Joint Cybersecurity Coordination Center (JC3) continue to develop in support of DOE's efforts to address identified weaknesses, enhance its overall protective posture, and coordinate and strengthen incident response capabilities. The DOE follows all US-CERT and ICS-CERT reporting guidelines for computer security incidents and utilizes the US-CERT Incident Notification System. The JC3 is the primary interface with US-CERT and collects and delivers all incident notifications, alerts, and reports within US-CERT reporting guidelines. All incidents reported in FY 2014 have been resolved or remediated.



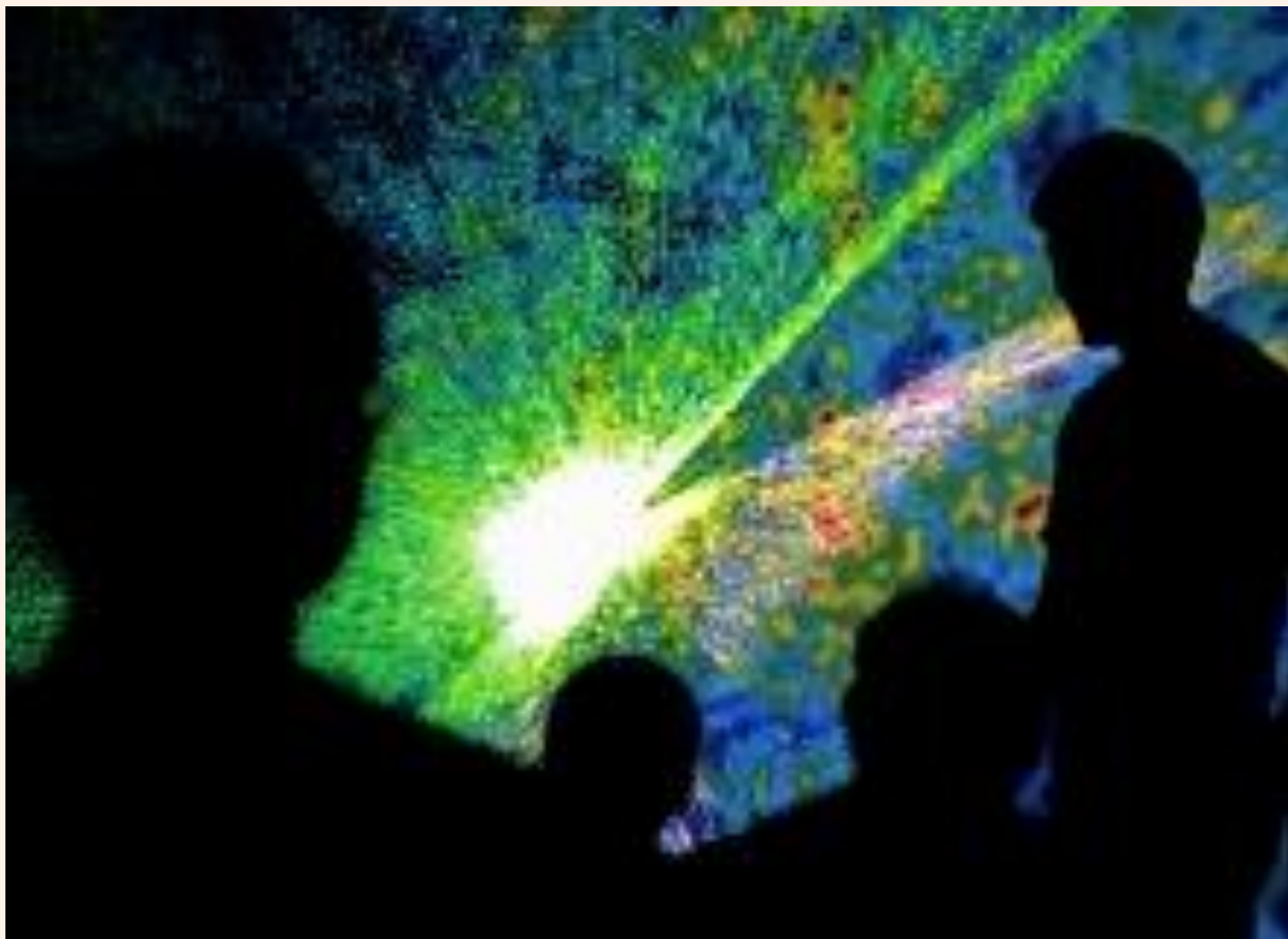
- **Strategy to Identify Significantly Vulnerable Systems.** An OCIO task force is developing an enterprise-wide strategy and framework for identifying and reporting the status of significantly vulnerable systems to DOE senior leadership. The framework will provide earlier indicators and recommendations from system owners, the Privacy Office, and DOE leadership concerning the operational status of significantly vulnerable systems. The strategy assumes that prompt identification of these assets enables leadership to quickly expend resources, as needed, to mitigate weaknesses and restore or enhance the cybersecurity posture of DOE enterprise networks.
- **IT Audit Working Group.** The OCFO will continue to work with the Program Offices and labs in FY 2015 to address improvements in information technology processes related to financial management and controls. In addition, the IT Audit Working Group was instrumental in closing numerous prior-year findings in FY 2014 and will be focused in FY 2015 on audit preparation, strengthening technical reviews of audit progress, and improving management responses to audit findings.

## **Auditor Comments**

Management's comments are responsive to our recommendations. Management's planned corrective actions should, if fully implemented, help to further improve the Department's cybersecurity posture. Although we identified and tested compensating controls during our IT procedures that served to mitigate the potential impact of the security weaknesses on the integrity of data in the Department's financial applications, our audit is not for the purpose of expressing an opinion or providing assurance on the effectiveness of the Department's internal controls, and accordingly, we express no such opinion or assurance on whether the controls ensure the integrity of the financial systems and data.

# Other Information

(Unaudited)



At KIPAC's Visualization Lab, visitors watched 3-D movies that explained the history of the universe.

# OTHER INFORMATION (Unaudited)

## Combining Schedules of Spending

For the Years Ended September 30, 2014 and 2013

(\$ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	COMBINED	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	COMBINED
	<b>FY 2014</b>				<b>FY 2013</b>			
<b>WHAT MONEY IS AVAILABLE TO SPEND?</b>								
Total Resources	\$ 332	\$ 6,078	\$ 47,485	\$ 53,895	\$ 314	\$ 6,027	\$ 42,544	\$ 48,885
Less Amount Available but Not Agreed to be Spent	(28)	(778)	(6,604)	(7,410)	(21)	(715)	(8,682)	(9,418)
Less Amount Not Available to be Spent	-	(19)	(2,235)	(2,254)	-	(1)	(2,726)	(2,727)
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 304</b>	<b>\$ 5,281</b>	<b>\$ 38,646</b>	<b>\$ 44,231</b>	<b>\$ 293</b>	<b>\$ 5,311</b>	<b>\$ 31,136</b>	<b>\$ 36,740</b>
<b>HOW WAS THE MONEY SPENT/ISSUED?</b>								
<b>Personnel Compensation</b>								
Contracts	\$ -	\$ -	\$ 3	\$ 3	\$ -	\$ -	\$ 4	\$ 4
Non-Financial Assistance Direct Payments	167	587	1,050	1,804	164	571	1,062	1,797
Other Payment Types	-	-	-	-	-	-	5	5
Total Personnel Compensation	\$ 167	\$ 587	\$ 1,053	\$ 1,807	\$ 164	\$ 571	\$ 1,071	\$ 1,806
<b>Personnel Benefits</b>								
Contracts	\$ -	\$ -	\$ 2	\$ 2	\$ -	\$ -	\$ 2	\$ 2
Non-Financial Assistance Direct Payments	47	178	305	530	47	176	304	527
Total Personnel Benefits	\$ 47	\$ 178	\$ 307	\$ 532	\$ 47	\$ 176	\$ 306	\$ 529
<b>Travel and Transportation of Persons</b>								
Contracts	\$ 3	\$ -	\$ 2	\$ 5	\$ -	\$ -	\$ 3	\$ 3
Non-Financial Assistance Direct Payments	-	35	46	81	3	29	40	72
Total Travel and Transportation of Persons	\$ 3	\$ 35	\$ 48	\$ 86	\$ 3	\$ 29	\$ 43	\$ 75
<b>Rent, Communications and Utilities</b>								
Contracts	\$ 24	\$ 65	\$ 333	\$ 422	\$ 26	\$ 66	\$ 327	\$ 419
Non-Financial Assistance Direct Payments	-	1	4	5	-	1	5	6
Other Payment Types	-	-	3	3	-	-	1	1
Total Rent, Communications and Utilities	\$ 24	\$ 66	\$ 340	\$ 430	\$ 26	\$ 67	\$ 333	\$ 426
<b>Other Contractual Services</b>								
Contracts	\$ 51	\$ 3,390	\$ 23,983	\$ 27,424	\$ 43	\$ 3,387	\$ 22,586	\$ 26,016
Financial Assistance Direct Payments	-	-	1,086	1,086	-	-	1,031	1,031
Grants	-	-	32	32	-	-	23	23
Non-Financial Assistance Direct Payments	-	32	16	48	-	45	5	50
Other Payment Types	-	-	13	13	-	-	5	5
Total Other Contractual Services	\$ 51	\$ 3,422	\$ 25,130	\$ 28,603	\$ 43	\$ 3,432	\$ 23,650	\$ 27,125
<b>Supplies and Materials</b>								
Contracts	\$ 2	\$ 77	\$ 140	\$ 219	\$ 2	\$ 76	\$ 11	\$ 89
Other Payment Types	-	-	9	9	-	-	7	7
Total Supplies and Materials	\$ 2	\$ 77	\$ 149	\$ 228	\$ 2	\$ 76	\$ 18	\$ 96
<b>Equipment</b>								
Contracts	\$ 4	\$ 203	\$ 477	\$ 684	\$ 2	\$ 174	\$ 501	\$ 677
Financial Assistance Direct Payments	-	-	1	1	-	-	-	-
Non-Financial Assistance Direct Payments	-	-	-	-	-	-	1	1
Other Payment Types	-	-	9	9	-	-	7	7
Total Equipment	\$ 4	\$ 203	\$ 487	\$ 694	\$ 2	\$ 174	\$ 509	\$ 685
<b>Land and Structures</b>								
Contracts	\$ -	\$ 402	\$ 2,327	\$ 2,729	\$ -	\$ 409	\$ 1,908	\$ 2,317
Financial Assistance Direct Payments	-	-	55	55	-	-	-	-
Other Payment Types	-	-	1	1	-	-	-	-
Total Land and Structures	\$ -	\$ 402	\$ 2,383	\$ 2,785	\$ -	\$ 409	\$ 1,908	\$ 2,317
<b>Loans</b>								
Loans	\$ -	\$ -	\$ 6,443	\$ 6,443	\$ -	\$ -	\$ -	\$ -
<b>Grants, Subsidies and Contributions</b>								
Contracts	\$ -	\$ -	\$ 21	\$ 21	\$ 3	\$ -	\$ 42	\$ 45
Financial Assistance Direct Payments	-	-	393	393	-	-	447	447
Grants	-	47	1,217	1,264	-	65	1,138	1,203
Loans	-	-	-	-	-	-	9	9
Non-Financial Assistance Direct Payments	4	-	7	11	-	-	13	13
Reestimate	-	-	198	198	-	-	1,153	1,153
Other Payment Types	-	-	6	6	-	-	1	1
Total Grants, Subsidies and Contributions	\$ 4	\$ 47	\$ 1,842	\$ 1,893	\$ 3	\$ 65	\$ 2,803	\$ 2,871
<b>Interest</b>								
Interest and Dividends	\$ -	\$ 260	\$ 451	\$ 711	\$ -	\$ 304	\$ 485	\$ 789
<b>All Other</b>								
Contracts	\$ 2	\$ 4	\$ 3	\$ 9	\$ 3	\$ 8	\$ 3	\$ 14
Non-Financial Assistance Direct Payments	-	-	4	4	-	-	3	3
Other Payment Types	-	-	6	6	-	-	4	4
Total All Other	\$ 2	\$ 4	\$ 13	\$ 19	\$ 3	\$ 8	\$ 10	\$ 21
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 304</b>	<b>\$ 5,281</b>	<b>\$ 38,646</b>	<b>\$ 44,231</b>	<b>\$ 293</b>	<b>\$ 5,311</b>	<b>\$ 31,136</b>	<b>\$ 36,740</b>

## OTHER INFORMATION (Unaudited)

The *Combining Schedules of Spending* present an overview of how and where the Department spent its funding. The budgetary information in these schedules is presented on a combined basis and not a consolidated basis.

*What Money is Available to Spend* summarizes the funds the Department obligated during the fiscal year. *How Was the Money Spent/Issued* summarizes the Department's obligations for the fiscal year, categorized by the OMB Budget Object Class definitions found in Circular A-11,

"Preparation, Submission and Execution of the Budget" and by payment types.

The total amount agreed to be spent in both sections is equivalent to the obligations incurred shown on the *Combined Statements of Budgetary Resources*. Similar data are also submitted to USAspending.gov; however the amounts will differ because USAspending.gov excludes certain types of obligations such as reimbursable work, classified amounts, and individual transactions below \$25,000.

# Inspector General's Management Challenges

On an annual basis, the Office of Inspector General identifies what it considers to be the most significant management challenges facing the Department of Energy. This effort is designed to assess the agency's progress in addressing previously identified challenges and to consider emerging issues. The identified challenges represent risks inherent in the Department's wide ranging and complex operations as well as those related to problems with specific management processes. The overall goal is to focus attention on significant issues with the objective of working with Department managers to enhance the effectiveness of agency programs and operations.

While the Fiscal Year (FY) 2015 challenge areas remain largely consistent with those in previous years, based on the results of our work over the last year, a few notable changes in emphasis have been made. As a result, the FY 2015 management challenges include the following:

- Contract and Financial Assistance Award Management
- Cybersecurity
- Environmental Cleanup
- Nuclear Waste Disposal
- Safeguards and Security
- Stockpile Stewardship

A significant change in this year's report involves the removal of Operational Efficiency and Cost Savings from the formal list. Originally introduced in the wake of the Nation's financial crisis, the Department, like other Federal agencies, faced the potential of significant budgetary reductions. While cost savings and increased efficiencies should be a primary agency objective at all times, the atmosphere surrounding the financial crisis provided the Department with, what we thought to be, a unique opportunity to focus on significant operations where reduced costs and increased efficiencies were possible. With this in mind, the OIG's FY 2012 management challenge report included a series of measures for management's consideration.

Separately, we have changed the designation of Human Capital Management, downgrading the topic from a Management Challenge to the OIG's Watch List. As noted in previous reports, for a number of years strategic management of human capital has been recognized by oversight organizations as one of the Government's most significant challenges. While concerns remain, the Department has worked aggressively in this arena. For example, it has instituted a program to close critical skills gaps. In this regard, the Department's Office of the Chief Human Capital Officer has initiated efforts to improve senior executive recruitment and orientation. Separately, the Department has begun an implementation process to improve human resource delivery models. One aspect of

this new approach will be the establishment of shared service centers to support the Department's management structure.

In addition to Human Capital Management, our Watch List also consists of other issues that do not meet the threshold of a management challenge, yet in our view, warrant special attention by Department officials. For FY 2015, the Watch List also includes Infrastructure Modernization, Loan Guarantee Program, and Worker and Community Safety.

## Contract and Financial Assistance Award Management

The Department of Energy is the most contractor-dependent civilian agency in the Federal government. The Department awards contracts, grants, and other financial assistance instruments to industrial companies, small businesses, academic institutions, and non-profit organizations. In fact, approximately 90 percent of the Department's budget is spent through such instruments. The challenges associated with managing the Department's sizeable contracting portfolio have been recognized internally by the agency as well as externally by the Government Accountability Office, which has included inadequate contract and project oversight on its High-Risk List since 1990. Given the number of contracts handled by the Department and the complexity and importance of the Department's numerous multi-million dollar projects, the area of Contract and Financial Assistance Award Management remains a significant management challenge.

## Cybersecurity

Given the importance and sensitivity of the Department's activities, along with the vast array of data it processes and maintains, cybersecurity is a crucial aspect of the Department's overall security posture. Although the Department has implemented numerous countermeasures in recent years, security challenges and threats to the Department's information systems continue and are constantly evolving. Adversaries routinely attempt to compromise the information technology assets of the Department. Recent intrusions of the Department's information technology systems, which in one notable instance resulted in the exfiltration of personally identifiable information on more than 100,000 individuals, have highlighted the importance of protecting such systems as well as the difficulty and diligence required to guard against such intrusions. The OIG's annual evaluation of the Department's information technology systems highlighted specific weaknesses and offered recommendations to aid in correcting recognized deficiencies. Clearly, it is critical that cybersecurity protective measures keep pace with the growing threat. As



a result of these inherent risks and the sensitivity of much of the Department's work, we have identified Cybersecurity as a continuing and significant management challenge.

### **Environmental Cleanup**

---

With the end of the Cold War, the Department's environmental remediation mission took on a greater focus as the agency began to dispose of large volumes of radioactive waste resulting from more than 50 years of nuclear defense and energy research work. This effort involves 2 million acres of land and employs more than 30,000 Federal and contractor employees. For example, one of the largest cleanup efforts of its kind in the world, at the Hanford Site in southeastern Washington, 11,000 employees are working to remediate 40 years of plutonium processing which resulted in, among several challenges, millions of gallons of radioactive waste stored in 177 large underground tanks. Cleanup activities at most sites are governed by one or more regulatory agreements or court orders that establish scopes of work, timeframes, and specific achievement milestones. The disposal and cleanup effort is complex and costly. In fact, these efforts are projected to cost more than \$280 billion and will continue well into the foreseeable future. As has been the case in previous years, Environmental Cleanup remains a management challenge that warrants attention on the part of Departmental management.

### **Nuclear Waste Disposal**

---

Under the Nuclear Waste Policy Act of 1982, as amended, the Department is responsible for the management and safe disposal of high-level defense and commercial waste and spent nuclear fuel. For a number of years, the centerpiece of the Department's efforts relating to the disposal of nuclear waste was the development of the Yucca Mountain Nuclear Waste Repository in Nye County, Nevada. The Department's FY 2010 budget request, however, included no funding for the Yucca Mountain Project, effectively terminating the Office of Civilian Radioactive Waste Management. Since that time, the Blue Ribbon Commission on America's Nuclear Future issued a report at the direction of the President on policies for managing the back end of the nuclear fuel cycle, which includes alternative storage sites. Subsequently, in January 2013, the Department released its *Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste*, and is currently working to plan, develop, and implement this strategy. In addition, the Department faces several additional challenges related to the disposal of transuranic and other waste products. Given the importance of a coherent strategy on nuclear waste disposal that protects public health, safety, and the environment and until a viable solution for disposal and storage is developed, the area of Nuclear Waste Disposal will be recognized as a significant challenge facing the Department.

### **Safeguards and Security**

---

While the Department has shifted its focus over time, since the origin of the Manhattan Project, special emphasis on safeguards and security has remained a vital aspect of the Department's mission. In order to faithfully execute its mission, the Department employs numerous security personnel, protects various classified materials and other sensitive property, and develops policies designed to safeguard national security and other critical assets. In our FY 2013 report, Safeguards and Security was elevated to the management challenges list primarily as a result of events at the Y-12 National Security Complex, which highlighted the need for a robust security apparatus with effective Federal oversight. Further, as a direct result of the Y-12 security breach, the Department reported the Y-12 incident as a material weakness in its FYs 2012 and 2013 Statement of Assurance. Given the policy issues that have arisen as a result of this event and the importance of ensuring the safe and secure storage of nuclear materials at Department sites, Safeguards and Security remains a significant management challenge.

### **Stockpile Stewardship**

---

The Department is responsible for the maintenance, certification, and reliability of the Nation's nuclear weapons stockpile. To help ensure that our nuclear weapons continue to serve their essential deterrence role, the Department conducts stockpile surveillance and engineering analyses, refurbishes selected nuclear systems, and sustains the ability to restore the manufacturing infrastructure for the production of replacement weapons. Our reviews in recent years have suggested that sustained efforts to improve operational efficiency are necessary to manage problems associated with an aging weapons complex and the implementation of multiple, overlapping weapons life extensions within a constrained budget environment. While the Department has taken action in recent years to further enhance the safety and reliability of the Nation's nuclear weapons stockpile, sustained efforts will be necessary if the Department is to extend the life of aging warheads and maintain a viable weapon stockpile.

# Summary of Financial Statement Audit and Management Assurances

<b>Audit Opinion</b>	Unmodified				
<b>Restatement</b>	No				
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Effectiveness of Internal Control over Financial Reporting (FMFIA Section II)						
Statement of Assurance	Unqualified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
No Material Weaknesses reported						
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Effectiveness of Internal Control over Operations (FMFIA Section II)						
Statement of Assurance	Unqualified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
Security Breach at the Y-12 National Security Complex	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Unclassified information system cybersecurity	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Material Weaknesses</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>

Conformance with financial management system requirements (FMFIA Section IV)						
Statement of Assurance	Systems conform to financial management systems requirements					
<b>Non-Conformances</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
No non-conformances reported						
<b>Total non-conformance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Conformance with Federal Financial Management Improvement Act (FFMIA)		
	<b>Agency</b>	<b>Auditor</b>
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

# Financial Management Systems Plan

## Corporate Business Systems

The Department's enterprise-wide corporate business systems consist of financial, budgetary, procurement and personnel systems. Information from these systems is supported by a data warehouse that links common data elements from each of the Department's business systems and supports both external and internal reporting. The major business systems are:

- Financial System: Standard Accounting and Reporting System (STARS)
- Personnel System: Corporate Human Resource Information System (CHRIS)
- Procurement System: Strategic Integrated Procurement Enterprise System (STRIPEs)
- Data Warehouse (IDW)/iPortal
- Travel and payroll processing: Travel processing services are provided through the General Services Administration (GSA) eTravel Services contract using a system called Concur Government Edition (CGE). Payroll processing services are outsourced to the Defense Finance and Accounting Service.

## Current Systems

*Standard Accounting and Reporting System* – STARS is the Department's financial management system that provides budget execution, financial accounting, financial reporting, and performance measurement. STARS integrates with procurement, funds distribution, travel, and human resources systems. In FY 2014, the Department implemented the Government-wide Treasury Account Symbol changes and completed development and began User Acceptance Testing in support of the upgrade to Oracle eBusiness Suite Release 12. Future activities planned for STARS include implementation of the Oracle Release 12 upgrade in February 2015.

*Corporate Human Resource Information System* – CHRIS is the Human Resources (HR) system. The primary objectives for CHRIS are to improve operational HR efficiency, reduce paperwork, and provide strategic information necessary to make informed human resource management decisions.

*Strategic Integrated Procurement Enterprise System* – STRIPES is the procurement and contracts management system that automates all procurement and contract activities associated with planning, awarding and administering various unclassified acquisition and financial assistance instruments. STRIPES replaced and consolidated federal, regional, and local procurement-related systems across the Department. The STRIPES application connects DOE with the Integrated Acquisition Environment which includes the System for Award Management (SAM), Federal Procurement Data System – Next Generation (FPDS-NG), and Federal Business Opportunities, as well as Grants.gov and FedConnect. In addition, STRIPES is integrated with STARS and IDW. The STRIPES team developed integration to the Office of Science Portfolio Analysis and Management System (PAMS) and

supported the Office of Acquisition and Project Management efforts to retire the Procurement and Assistance Data System. STRIPES successfully upgraded to Compusearch PRISM v7.1 in June 2014 which provides enhanced contracting capabilities.

*Data Warehouse (IDW) iPortal* – IDW is a central data warehouse linking common data elements from multiple DOE corporate business applications to provide reporting to DOE executives, managers, and staff. IDW provides access to business applications, personalized dashboards, messaging, discussion boards, collaboration capabilities, news, reporting, web conferencing, graphing and data exchange capabilities to DOE executives, managers and staff. In FY 2014 the Department completed an upgrade of the Business Intelligence (BI) reporting tool that provides improved performance and additional functionality to the users. In conjunction with the upgrade, a cleanup process was developed and implemented that identifies old unused reports and removes them from the system. The initial execution of this process removed over 22,000 reports from the repository. Additionally, changes were made to the underlying BI data structure and reports in support of the STRIPES 7.1 upgrade and the decommissioning of the Procurement and Assistance Data System. The interface with the Portfolio Analysis and Management System (PAMS) was developed and deployed. This interface provides PAMS with information on grants from STRIPES to allow the effective management of grants from early planning and solicitation phases through grant award, post-award, and close-out. The Small Business Goaling Application was developed and deployed for the Office of Small and Disadvantaged Business Utilization (OSDBU). This application automates the process by which program elements propose their annual small business goals. Future activities planned for IDW include the deployment of a department-wide Human Capital Dashboard, development of BI reports in support of Funds Distribution 2.0, and the upgrade of the WebCenter software.

## Systems Underway

DOE is integrating the front-end budget formulation and funds distribution functions into the STARS Oracle eBusiness Suite. The project has two phases. The first phase is underway and will implement a corporate funds distribution solution that automates, standardizes, and streamlines the processes and procedures across the Department, retiring multiple legacy applications in use among the various site offices.

The second phase will implement a corporate budget formulation solution that will replace the Excel spreadsheets in use today and will allow budgets to be formulated from the bottom up across the enterprise in a standard framework. After the second phase, future efforts will include development of a project cost accounting framework and system.

# Improper Payments Information and Reporting

The Improper Payments Information Act (IPIA) of 2002, Public Law (P.L.) No. 107-300, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments, to measure and report improper payment rates and amounts for programs that are found to be susceptible to improper payments. In addition, IPERA and the implementing guidance expanded agency authorities and requirements for recapturing overpayments, one type of improper payment. OMB released guidance for implementing IPERA and established specific reporting requirements for agencies with programs that possess a significant risk of erroneous payments and for reporting on the results of recapture activities.

## Improper Payments

The Department uses OMB's risk factors in performing risk assessments at least once every three years to determine whether programs are susceptible to significant improper payments, unless programs experience significant change when the frequency is accelerated. Based on risk assessments conducted during FY 2014, the Department currently does not have any programs susceptible to significant improper payments and continues to maintain a <1% overall erroneous payment rate and actual improper payments at a level below OMB's \$100 million threshold. The Departmental erroneous payment rate has remained

below one percent since the inception of its tracking program in FY 2002. For FY 2013 reported information, the Department's total payment outlays were \$ 39.0 billion, and the actual amount of improper payments identified were \$19.7 million.

## Recovery Auditing

In accordance with the expanded requirements of IPERA, the Department has established a policy for implementing payment recapture auditing requirements. This policy prescribes requirements for identifying overpayments and establishes reporting standards to track the status of recoveries. The Department's payment recapture audit activities include conducting recapture audits and leveraging various other processes to identify and recover improper payments. These other processes include performing post-payment reviews, internal audits and utilizing the results of cost allowability audits of integrated contractors. The Department's ongoing and integrated relationship with its contractors results in a high improper payment recapture rate, 96 percent for FY 2013. The cumulative amount determined not collectible by the Department since FY 2004 is \$ .90 million and is deemed uncollectible due to amounts being below a minimal threshold established for pursuing recapture or due to lost prompt payment discounts. The Department will continue to scrutinize improper payment activity and controls through its internal control program by emphasizing, evaluating and strengthening controls where needed to maintain our record of low payment errors and ensure the effective stewardship of public funds.

### Payment Recapture Audit Reporting for FY 2013 Payments (\$ in millions)

FY 2013									
PROGRAM PAYMENT TYPE	AMOUNT SUBJECT TO REVIEW	ACTUAL AMOUNT REVIEWED AND REPORTED	AMOUNTS IDENTIFIED FOR RECOVERY	AMOUNTS RECOVERED	% OF AMOUNT RECOVERED OUT OF AMOUNT IDENTIFIED	AMOUNT OUTSTANDING	% OF AMOUNT OUTSTANDING OUT OF AMOUNT IDENTIFIED	AMOUNT DETERMINED NOT COLLECTABLE	% OF AMOUNT DETERMINED NOT COLLECTABLE OUT OF AMOUNT IDENTIFIED
Vendor/Contracts	\$ 21,747	\$ 21,747	\$ 16.2	\$ 16.0	98.8%	\$ 0.056	0.4%	\$ 0.143	0.9%
Payroll	9,760	9,760	1.6	1.0	67.0%	0.451	29.0%	0.070	4.5%
Travel	312	312	0.2	0.2	91.5%	0.018	7.8%	0.002	0.7%
Other	849	849	0.0	0.0	100.0%	0.000	0.0%	0.000	0.0%
Grants	3,007	3,007	1.7	1.7	97.0%	0.053	3.0%	0.000	0.0%
Loans	3,110	3,110	0.0	0.0	0.0%	0.000	0.0%	0.000	0.0%
<b>Total</b>	<b>\$ 38,785</b>	<b>\$ 38,785</b>	<b>\$ 19.7</b>	<b>\$ 18.9</b>	<b>96.0%</b>	<b>\$ 0.579</b>	<b>3.0%</b>	<b>\$ 0.214</b>	<b>1.1%</b>

## OTHER INFORMATION (Unaudited)

Payment Recapture Audit Reporting for FY 2013 Payments (\$ in millions)					
FY 2004-2012		FY 2004-2013			FY 2004-2013
AMOUNTS IDENTIFIED FOR RECOVERY	AMOUNTS RECOVERED	CUMULATIVE AMOUNTS IDENTIFIED FOR RECOVERY	CUMULATIVE AMOUNTS RECOVERED	CUMULATIVE AMOUNT PENDING RECOVERY	CUMULATIVE AMOUNT DETERMINED NOT COLLECTABLE
\$ 123.72	\$ 112.32	\$ 148.48	\$ 137.62	\$ 10.77	\$ 0.90

Payment Recapture Rate and Targets (\$ in millions)							
PROGRAMS	TYPE OF PAYMENT	FY 2013 AMOUNT IDENTIFIED	FY 2013 AMOUNT RECOVERED	FY 2013 RECOVERY RATE	FY 2014 RECOVERY RATE TARGET	FY 2015 RECOVERY RATE TARGET	FY 2016 RECOVERY RATE TARGET
ALL	ALL	\$ 19.71	\$ 18.91	96.0%	93.0%	93.0%	93.0%

Aging of Outstanding Overpayments (\$ in millions)				
PROGRAMS	TYPE OF PAYMENT	FY 2013 AMOUNT OUTSTANDING (0-6 months)	FY 2013 AMOUNT OUTSTANDING (6 months-1 yr)	FY 2013 AMOUNT OUTSTANDING (Over 1 yr)
ALL	ALL	N/A	N/A	\$ 0.579

Disposition of Recaptured Funds (\$ in millions)*							
PROGRAMS	TYPE OF PAYMENT	AGENCY EXPENSES TO ADMINISTER THE PROGRAM	PAYMENT RECAPTURE AUDITOR FEES	FINANCIAL MANAGEMENT IMPROVEMENT ACTIVITIES	ORIGINAL PURPOSE	OFFICE OF INSPECTOR GENERAL	RETURNED TO TREASURY
ALL	ALL	N/A	N/A	N/A	\$ 23.25	N/A	\$ 2.04

\*Recaptured funds include amounts associated with FY 2013 payments and recapture that occurred in FY 2013 for payments made in previous years due to Statement of Cost Incurred and Claimed, Single Audits, contract closeouts, etc.

### Reduction of Improper Payments with the Do Not Pay Initiative

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), Public Law 112-248, requires OMB to submit to Congress an annual report which, in part, includes an evaluation of whether the Do Not Pay (DNP) Initiative has reduced improper payments. To support this requirement, DOE is providing a summary of information related to its efforts to implement use of DNP during FY 2014.

During FY 2014, the Department incorporated the IPERIA listed Do Not Pay (DNP) databases into existing business processes and programs through implementation of Treasury's DNP adjudication process. As part of this initiative, elements from records of DOE's payments as they appear in the Treasury Payments, Claims, and Enhanced Reconciliation (PACER) file were matched to elements of the public version of the Social Security Administration's Death Master File (DMF-public) and the

GSA's Excluded Parties List System (EPLS)/updated System for Award Management (SAM). The resulting matching reports provided to the Department by its designated Treasury DNP Relationship Manager were then researched as part of the monthly DNP adjudication process to determine whether the payments were proper or improper. In all instances, it was found that the payments were proper and that the matches were false positives (see table below). Furthermore, a pre-award verification process through SAM is performed for every new award.

Additional efforts are underway during FY 2015 to perform pre-payment reviews utilizing continuous monitoring and batch processing on a monthly basis, as well as online single searches, as necessary. IPERIA databases utilized to conduct these efforts will be the DMF and SAM.



## OTHER INFORMATION (Unaudited)

Reduction of Improper Payments with the Do Not Pay Initiative						
(\$ IN MILLIONS)	October 2013 - June 2014					
	Number (#) of payments reviewed for improper payments	Dollars (\$) of payments reviewed for improper payments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of improper payments reviewed and not stopped	Dollars (\$) of improper payments reviewed and not stopped
Reviews with DMF Public	231,309	\$ 7,966	N/A	N/A	0	\$ -
Reviews with SAM Exclusions Public	231,606	\$ 7,984	N/A	N/A	0	\$ -

- Payments reviewed for improper payments includes the total number of payments disbursed by the agency through the PACER payment system minus any payments that were excluded from matching due to (1) a missing or unmatchable TIN (DMF only) or (2) a missing name.
- Payments Stopped is currently not applicable since the Do Not Pay matching and adjudication process is based on post-payment results.
- Improper Payments Reviewed and Not Stopped includes the total number of matches identified by the Do Not Pay Initiative that were adjudicated as improper by the agency.

# Freeze the Footprint

In FY 2014, OMB Circular A-136, Financial Reporting Requirements, requires the Department to report on progress made implementing the “Freeze the Footprint” policy in FY 2014. Specifically, all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to a FY 2012 baseline.

determined by GSA, the Department’s memorandum-subject building area dispositions and reports of excess to GSA exceeded its acquisitions in FY 2013 by 10,546 square feet. Concurrently, operating costs associated with memorandum-subject assets fell by \$34.6 million. The Department plans to continue reporting excess assets to GSA as appropriate and disposing of its unneeded space.

Between its initial FY 2012 baseline and its FY 2013 inventory of memorandum-subject assets, both

Freeze the Footprint Baseline Comparison		
FY 2012 Baseline	FY 2013 Square Footage	Change (Baseline - FY 2013)
35,733,813 SF	35,723,267 SF	(10,546) SF

DOE Owned and Leased Operating Costs (in Millions)			
	FY 2012 Reported Cost	FY 2013 Reported Cost	Change (Baseline - FY 2013)
Operation & Maintenance Costs	\$468	\$434	(\$34.60)

The above tables are based on final FY 2013 data, as yearend FY 2014 data is not yet available.

# Other Statutory Reporting – Management’s Response to Audit Reports

Pursuant to the Inspector General Act Amendments of 1988 (Public Law 100-504), agency heads are to report to Congress on the status of final action taken on audit report recommendations. This report complements a report prepared by the Department’s Inspector General that provides (1) information on audit reports issued during the period; (2) the status of management decisions made on previously issued IG audit reports; and (3) information on the disposition of funds put to better use and questioned costs. The IG report is available at <http://www.ig.energy.gov>.

This report also contains information on the resolution of Government Accountability Office (GAO) audits per the reporting requirements in OMB Circular A-50.

## Inspector General Audit Reports

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the IG, and implementing agreed-upon corrective actions. In some instances, we are able to take corrective action immediately and in others, action plans with long-term milestones are developed and implemented. The audit resolution and follow-up process is an integral part of the Department’s effort to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase the efficiency and effectiveness of our operations and strengthen our standards of accountability.

During FY 2014, the Department received **83** IG reports, of which **54** contained recommendations requiring corrective actions and **29** had no recommendations. The Department took final action on **54** IG reports, **six** of which identified cost impacts, including both questioned costs and funds put to better use. At the end of the period, **147** IG reports awaited final action. As reported here, taking final action on a report includes both the development of an agreed-upon management decision and completion of the corrective actions.

## Government Accountability Office Audit Reports

The GAO audits are also included in the Department’s audit follow-up program. At the beginning of FY 2014 there were **42** GAO Audits awaiting final action. During FY 2014, the Department received **63** additional final GAO audit reports, of which **22** contained recommendations requiring corrective actions and **41** had no recommendations. The Department completed agreed-upon corrective actions for **24** audits during FY 2014, leaving **40** GAO reports awaiting final action at year-end.

## Status of Final Action on IG and GAO Audit Reports for FY 2014

The following chart provides a summary of closure actions for IG and GAO audit and inspection reports during FY 2014.

AUDIT REPORTS	NUMBER OF IG REPORTS	NUMBER OF GAO REPORTS
Reports Pending Final Action at the end of FY 2013*	147	42
Reports Issued in FY 2014 Requiring Corrective Actions	54	22
Total Reports Pending Final Action During FY 2014	201	64
Reports Closed During FY 2014	54	24
Total Reports Pending Final Action as of the End of FY 2014	147	40

\*Reflects adjustments to previously reported amounts.

# Glossary of Acronyms

ASC	Accounting Standards Codification	FASB	Financial Accounting Standards Board
ARPA-E	Advanced Research Projects Agency-Energy	FIPP	Financial Institution Partnership Program
ATVM	Advanced Technology Vehicle Manufacturing	FY	Fiscal Year
AFR	Agency Financial Report	GS	General Schedule
ARRA	American Recovery and Reinvestment Act	GSA	General Services Administration
APR	Annual Performance Report	GTRI	Global Threat Reduction Initiative
ARO	Asset Retirement Obligations	GAO	Government Accountability Office
BiOp	Biological Opinion	GSP	Graded Security Protection
BPA	Bonneville Power Administration	HMO	Health Maintenance Organization
BOR	Bureau of Reclamation	HEU	Highly Enriched Uranium
ISO	California Independent System Operator	HR	Human Resources
CCS	Carbon Capture and Storage	IP	Implementation Plan
CO <sub>2</sub>	Carbon Dioxide	IPERA	Improper Payments Elimination and Recovery Act
CFO	Chief Financial Officer	IT	Information Technology
CSRS	Civil Service Retirement System	IDW	Integrated Data Warehouse
C.F.R.	Code of Federal Regulations	ISM	Integrated Safety Management
CGS	Columbia Generating Station	IAEA	International Atomic Energy Agency
CR	Continuing Resolution	IOU	Investor Owned Utility
CO	Contracting Officer	JAEA	Japan Atomic Energy Agency
CHRIS	Corporate Human Resources Information System	JC3	Joint Cybersecurity Coordination Center
CAP	Corrective Action Plan	LEU	Low Enriched Uranium
COU	Consumer-Owned Utilities	M&O	Management and Operating
DNFSB	Defense Nuclear Facilities Safety Board	PDP	Medicare Part D Prescription Drug Plan
DNN	Defense Nuclear Nonproliferation	MTU	Metric Tons of Uranium
DoD	Department of Defense	MY	Model Year
DOE	Department of Energy	NCSAM	National Cybersecurity Awareness Month
DHS	Department of Homeland Security	NNSA	National Nuclear Security Administration
DOI	Department of the Interior	NAV	Net Asset Value
Treasury	Department of the Treasury	NRC	Nuclear Regulatory Commission
DNP	Do Not Pay	NSR&D	Nuclear Safety Research and Development
ERISA	Employee Retirement Income Security Act	NWF	Nuclear Waste Fund
ESA	Endangered Species Act	NWPA	Nuclear Waste Policy Act
EEOICPA	Energy Employees Occupational Illness Compensation Program Act	OAPM	Office of Acquisition and Project Management
eSCRM	Enterprise Supply Chain Risk Management	EERE	Office of Energy Efficiency and Renewable Energy
ES&H	Environment, Safety, and Health	EM	Office of Environmental Management
FCRA	Federal Credit Reform Act of 1990	FE	Office of Fossil Energy
FERS	Federal Employees Retirement System	IG	Office of Inspector General
FERC	Federal Energy Regulatory Commission	OMB	Office of Management and Budget
FFMIA	Federal Financial Management Improvement Act	NE	Office of Nuclear Energy
FFB	Federal Financing Bank	OPM	Office of Personnel Management

## OTHER INFORMATION (Unaudited)

PMPM	Per Member Per Month
PAR	Performance and Accountability Report
PEMPs	Performance Evaluation Management Plans
PAMS	Portfolio Analysis and Management System
PRB	Post Retirement Benefits Other Than Pensions
PMA	Power Marketing Administration
P.L.	Public Law
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
R&D	Research and Development
REP	Residential Exchange Program
RCA	Root Cause Analysis
SES	Senior Executive Service
SNM	Special Nuclear Material
SNF	Spent Nuclear Fuel
STARS	Standard Accounting and Reporting System
SFFAS	Statement of Federal Financial Accounting Standard
STRIPES	Strategic Integrated Procurement Enterprise System
SPR	Strategic Petroleum Reserve
SCRM	Supply Chain Risk Management
SAM	System for Award Management
USACE	U.S. Army Corps of Engineers
U.S.C.	United States Code
USEC	United States Enrichment Corporation
D&D	Uranium Enrichment Decontamination and Decommissioning Fund
UF6	Uranium Hexafluoride
WIPP	Waste Isolation Pilot Plant
WTP	Waste Treatment and Immobilization Plant
WAPA	Western Area Power Administration
Y-12	Y-12 National Security Complex



## OTHER INFORMATION (Unaudited)

### **Front Cover:**

Top Photo: DOE is providing funding to deploy clean energy and energy efficiency projects in tribal communities.

Center Photo: The LAZAP satellite at Sandia National Laboratory. Sandia's LAZAP program was started in the mid-1970's to test and calibrate the optical sensor systems aboard America's Vela reconnaissance satellites.

Bottom Left Photo: Inside the National Ignition Facility at Lawrence Livermore National Laboratory a service system lift allows technicians to access the target chamber interior for inspection and maintenance (picture courtesy of Philip Saltonstall/LLNL).

Bottom Upper Right Photo: An x-ray laser pulse at SLAC's Linac Coherent Light Source probes a super cooled water droplet. (Photo courtesy of Greg Stewart/SLAC)

Bottom Lower Right Photo: A Z-Pinch wire array is prepared for shooting on Sandia National Laboratories' Z machine, the world's most powerful and efficient laboratory radiation source.

### **Back Cover:**

Top Photo: Environmental Molecular Sciences Laboratory's Cascade is the 13<sup>th</sup> fastest computer in the world (the lab is funded and sponsored by DOE's Office of Biological & Environmental Research).

Bottom Photo: The Energy Department is helping Alaska Native communities reduce their energy costs by investing in renewable energy and energy efficiency upgrades. | Photo courtesy of Western Community Energy.



**WWW.ENERGY.GOV**

[www.energy.gov/cfo/reports/agency-financial-reports](http://www.energy.gov/cfo/reports/agency-financial-reports)