Fiscal Year 2011
Agency Financial Report

DOE/CF-0068

U.S. DEPARTMENT OF ENERGY

Foreword

The Reports Consolidation Act of 2000 authorizes Federal agencies, with the Office of Management and Budget's (OMB) concurrence, to consolidate various reports in order to provide performance, financial and related information in a more meaningful and useful format. The Department of Energy (Department or DOE) has chosen an alternative reporting to the consolidated Performance and Accountability Report and instead, produces an *Agency Financial Report*, an *Annual Performance Report* and a *Summary of Performance and Financial Information,* pursuant to the OMB Circular A-136. This reporting approach simplifies and streamlines the performance presentations while utilizing the Internet for providing and leveraging additional performance information. The Department's fiscal year (FY) 2011 reporting includes the following three components and will be available at the website below, as each component is completed:

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

- **Management's Discussion and Analysis** section 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** section provides a Message from the Chief Financial Officer, the Department's consolidated and combined financial statements and the Auditors' Report.
- **Other Accompanying Information** section provides the Inspector General's Statement of Management Challenges, Improper Payments Information Act Reporting details and other statutory reporting.

Annual Performance Report (APR) [will be available February 2012] The APR will be produced in conjunction with the Congressional Budget Justifications and will provide the detailed performance information and descriptions of results by each performance measure.

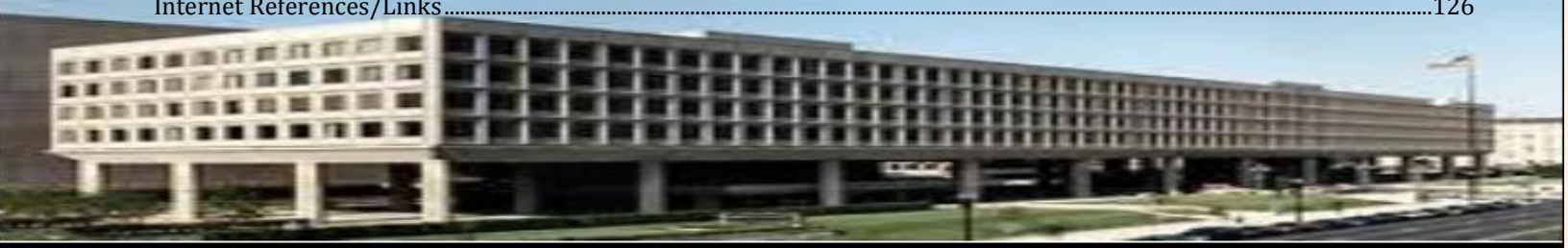
Summary of Performance Information [will be available February 2012] This document will highlight the most important performance and financial information from the APR and AFR in the brief, executive format.

The above three reports meet the following legislated reporting requirements:

- Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, requires reporting on agency efforts to identify and reduce erroneous payments.
- 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.

All three reports will be available at www.energy.gov/about/budget.htm

Table of Contents



Message from the Secretary

I am pleased to present the U.S. Department of Energy's (DOE) *Fiscal Year 2011 Agency Financial Report*. This report provides key financial and performance information that demonstrates our accountability to ensure America's security and prosperity by addressing its energy, environmental, and nuclear challenges through transformative science and technology solutions. This report and our *Fiscal Year 2011 Annual Performance Report*, available in February 2012, are produced as an alternative to the Performance and Accountability Report. These reports are available at Energy.gov.

The Department of Energy has made remarkable progress during these economically challenging times by laying the foundation for a new clean energy future, advancing groundbreaking science, and reducing the nuclear dangers facing our citizens. In the process, we have begun to change the way the Department does business so we accomplish our work more efficiently and more effectively. The Department of Energy Strategic Plan, released in May 2011, reflects this new focus through four strategic goal areas: ***transform our energy systems*** through catalyzing the timely, material, and efficient transformation of the nation's energy system and securing U.S. leadership in clean energy technologies; ***promote the science and engineering enterprise*** by maintaining a vibrant U.S. effort in science and engineering as a cornerstone of our economic prosperity, with clear leadership in strategic areas; ***secure our nation*** by enhancing nuclear security through defense, nonproliferation, and environmental efforts; and achieve ***management and operational excellence*** by establishing an operational and adaptable framework that combines the best wisdom of all Department stakeholders to maximize mission success.

The investments DOE has made have laid the foundation for a new clean energy economy – creating jobs, reducing our dependence on foreign energy sources, and saving money for American families and businesses. Investments in advanced vehicle manufacturing, renewable energy generation, the weatherization of low-income homes, smart meter deployment, and carbon capture and sequestration have benefited communities across the country, at the same time that they have increased the nation's economic competitiveness.

The Department continues to expand the frontiers of science to spur innovation and position the United States to lead in the global clean energy economy. The Advanced




Research Projects Agency-Energy (ARPA-E) has established itself as a ground-breaking research agency to support potentially transformative research. DOE has also launched three Energy Innovation Hubs and dozens of Energy Frontier Research Centers to accelerate cutting-edge R&D. From a car battery with a 500 mile range to producing gasoline from sunlight, we have unleashed bold new research efforts that – if successful – could fundamentally change the way we use and produce energy.

The Department of Energy has strengthened nuclear safety and security at home and abroad, cleaning up nuclear sites in the United States and securing vulnerable nuclear material around the world. The Department also played a central role in the historic Nuclear Security Summit, which brought together 47 world leaders to agree on effective national and international measures to secure nuclear material. DOE contributed to making the world a safer place by helping negotiate the New START Treaty – the most significant arms control agreement in nearly two decades.

As we continue our work, the Department will rely on the creativity, talent, and dedication of its employees and of the Department's contractor work force to discover and deliver solutions to our national challenges. Together, we can position the United States to win the global clean energy technology race – creating new jobs and industries and a stronger economic future.

The independent public accounting firm KPMG LLP conducted an audit of the Department's fiscal year 2011 financial statements contained in this report. Based on the results of that audit, the Department received an unqualified audit opinion. Based on our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete and reliable and accurately describes the results achieved by the Department.

As Secretary, I assure you that Department of Energy employees take their work seriously, and I commend them for their contributions.

Steven Chu
November 14, 2011

Management's Discussion and Analysis

Agency Highlights

MISSION

To ensure America's security and prosperity by addressing its energy, environmental, and nuclear challenges through transformative science and technology solutions.

MANAGEMENT PRINCIPLES

1. Our mission is vital and urgent.
2. Science and technology lie at the heart of our mission.
3. We will treat our people as our greatest asset.
4. We will pursue our mission in a manner that is safe, secure, legally and ethically sound, and fiscally responsible.
5. We will manage risk in fulfilling our mission.
6. We will apply validated standards and rigorous peer review.
7. We will succeed only through teamwork and continuous improvement.

STRATEGIC STRUCTURE

Goal 1: Transform Our Energy Systems

- Deploy the technologies we have
- Discover the new solutions we need
- Lead the national conversation on energy

Goal 2: The Science and Engineering Enterprise

- Extend our knowledge of the natural world
- Deliver new technologies to advance our mission
- Sustain a world-leading technical workforce

Goal 3: Secure Our Nation

- Support the U.S. nuclear stockpile and future military needs
- Reduce global nuclear dangers
- Apply our capabilities for other critical national security missions
- Support responsible civilian nuclear power development and fuel cycle management
- Complete environmental remediation of our legacy and active sites

Goal 4: Management and Operational Excellence

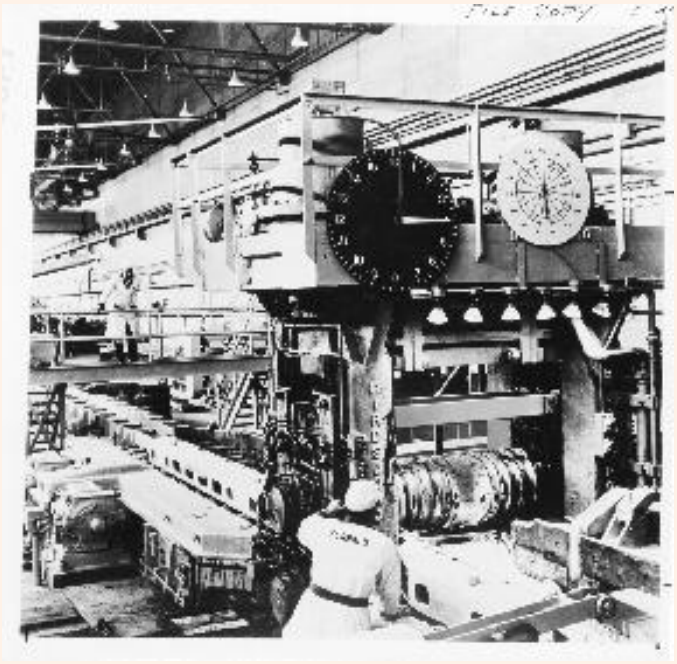
- Achieve operational and technical excellence
- Implement a performance-based culture

History

The Department 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 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 Atomic Energy 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 research and development 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.

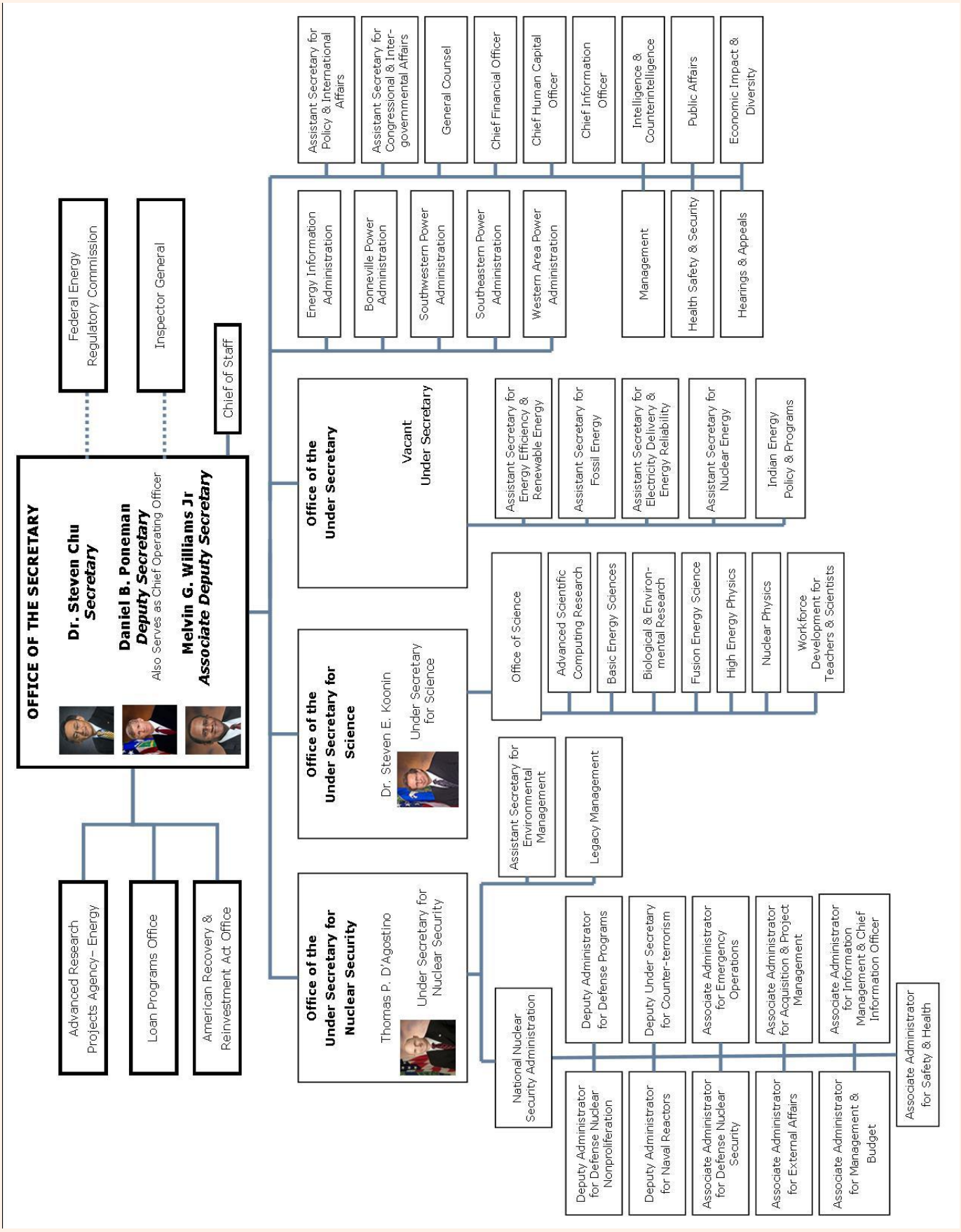
Transformers manufactured by Waukesha Electric Systems will help to modernize the electrical grid for the 21st century.



Mill used to roll uranium into rods for subsequent fabrication into fuel elements in Fernald's Plant 6 [Photo taken in 1956]

Over its history, the Department has shifted its emphasis and focus as the energy and security needs of the Nation have changed. On February 17, 2009, the Department was significantly impacted by President Obama signing into law the American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA). The Recovery Act more than doubled the Department's budget by providing an additional $35.2 billion of funding for the acceleration of a number of critical commitments in the Department's mission and activities.

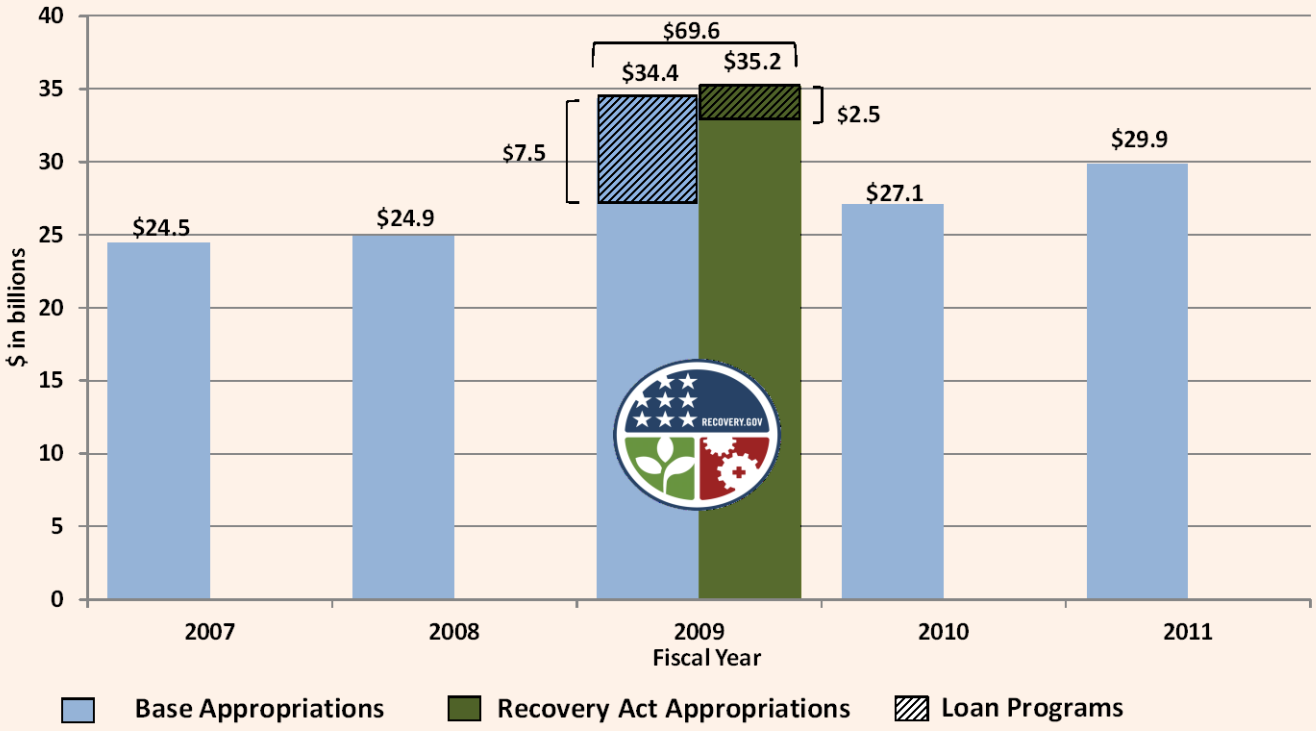
Agency Organizational Structure



Financial Resources

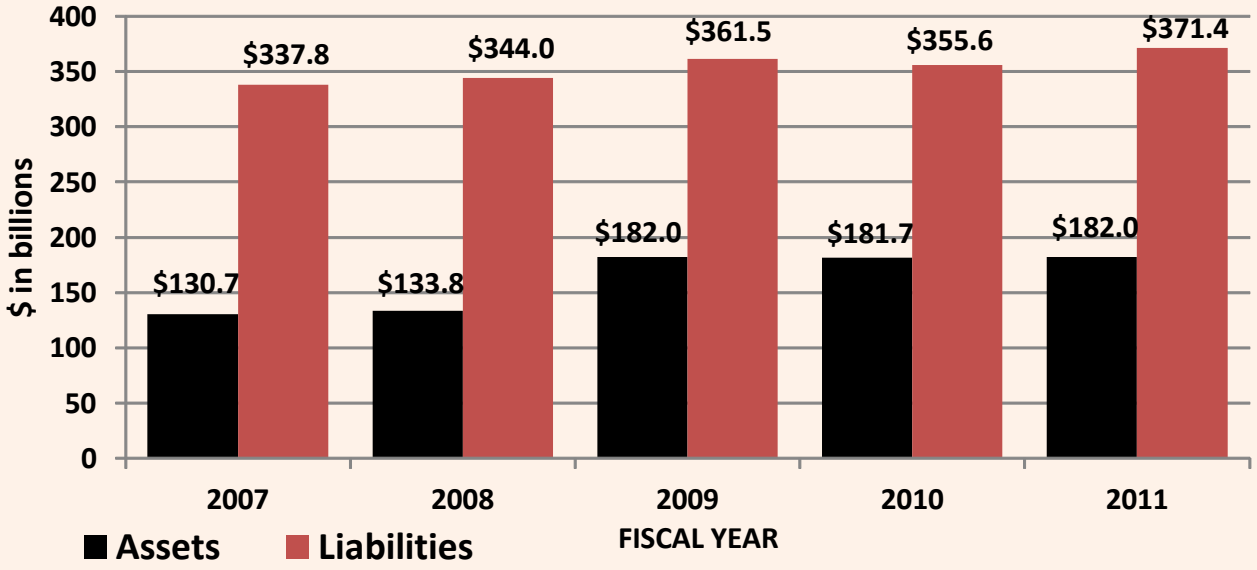
Adjusted Appropriated Amounts

(Adjustments include appropriation transfers, reductions and appropriations temporarily not available.)

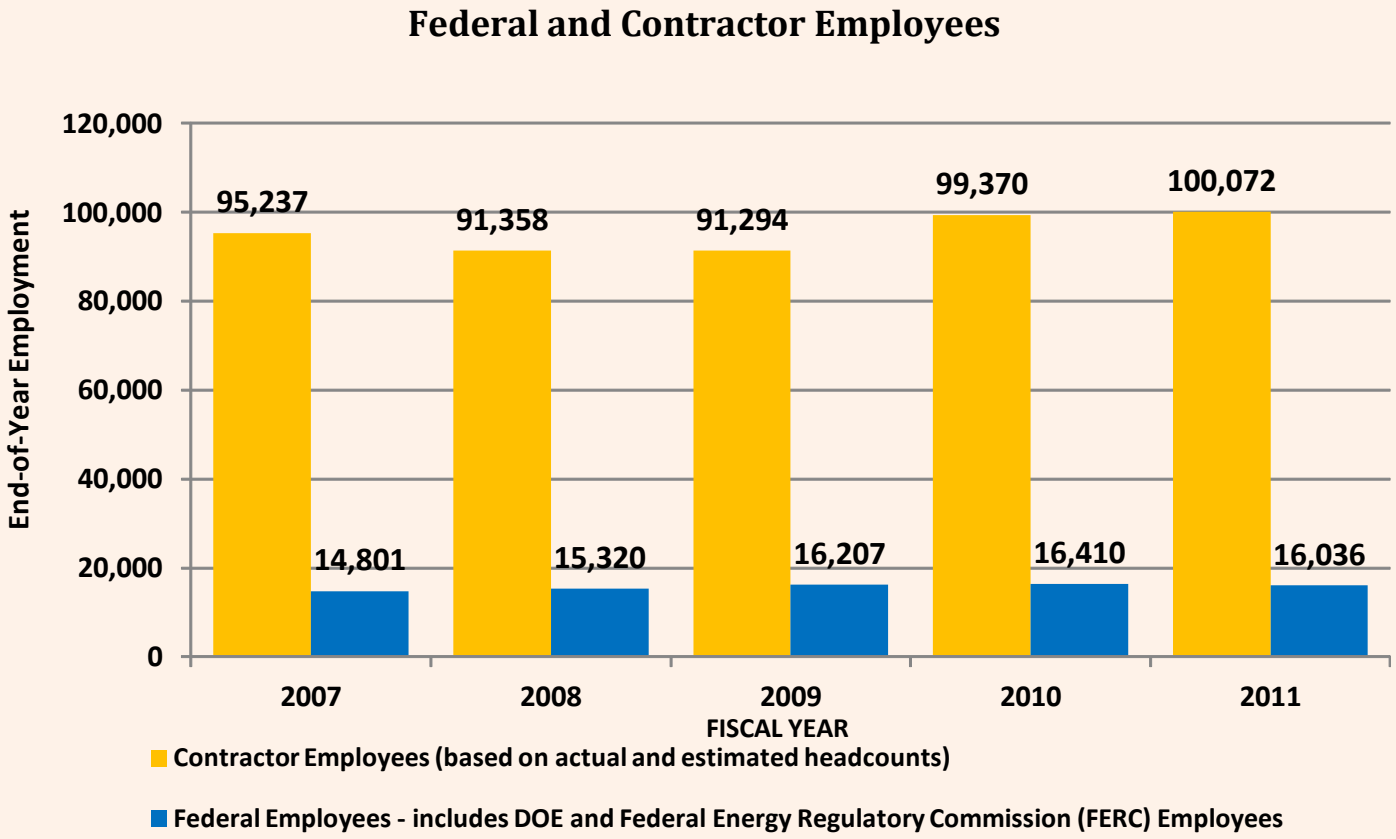


(Original $38.7 billion of Recovery Act Appropriations was later reduced by $3.5 billion in transfers and rescissions. Amounts do not include the Western Area and Bonneville Power Administrations' borrowing authority and credit reform financing accounts.)

Assets and Liabilities



Human Capital Resources



Financial Management Report Card

	REQUIREMENT OR INITIATIVE	SUPPORTING INDICATORS (see page references for more detail)
☑	Government Management Reform Act –Financial Statement Audit	Unqualified Audit Opinion (pages 104 and 119)
☑	Federal Managers' Financial Integrity Act – Internal Controls (Section II) Financial Systems (Section IV)	No Material Weaknesses (Section II) (pages 23 and119) Financial Systems generally conform to (Section IV) requirements and no FISMA significant deficiencies identified (pages 23 &119)
☑	OMB Circular A-123, Appendix A	No Material Weaknesses (see pages 23 and 119)
☑	Federal Financial Management Improvement Act	Substantially comply with Federal financial management system requirements (see pages 23 and 119)
☑	Federal Information Security Management Act (FISMA)	Substantially comply with FISMA requirements as evidenced by annual FISMA reporting data
☑	Improper Payments Information Act, as amended by the Improper Payments Elimination & Recovery Act	<1% overall Erroneous Payment Rate and not susceptible to significant improper payments (pages 121-123)

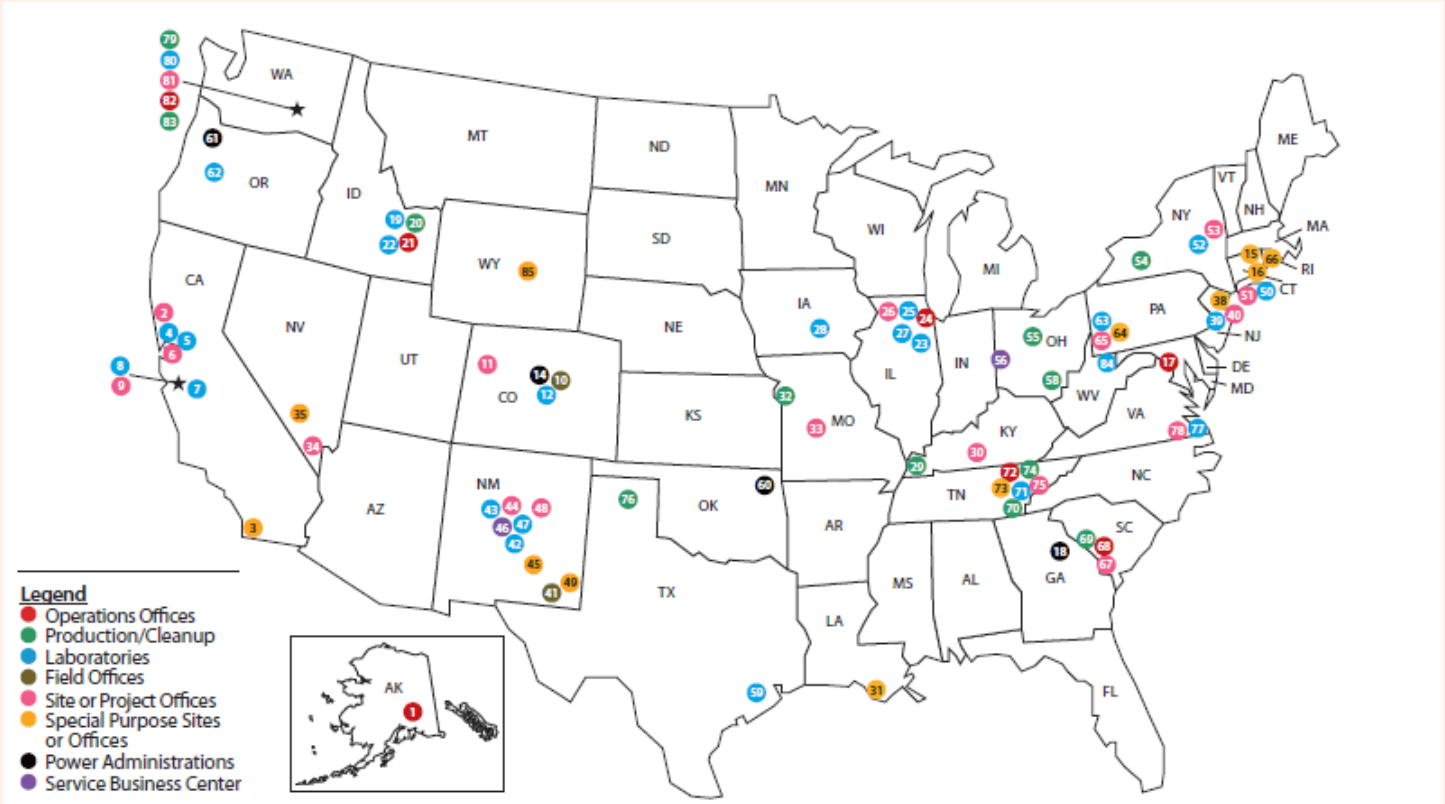
Performance Summary

The tables in this section will be updated with FY 2011 data in the Department's FY 2011 Annual Performance Report available in February 2012.

STRATEGIC GOAL	ACTIVITY (includes Recovery Act projects)	Fiscal Year 2009 Performance			Fiscal Year 2010 Performance		
		Targets Met	Targets Not Met	Results Unknown	Targets Met	Targets Not Met	Results Unknown
Strategic Goal 1: Transform Our Energy Systems							
	Electricity Delivery & Energy Reliability	13	2		15	1	
	Western Area Power Administration	3		1	4		
	Bonneville Power Administration	3			3		
	Southeastern Power Administration	2			2		
	Southwestern Power Administration	4			4		
	Solar Energy	3	4		7	2	
	Wind Energy	5	3		4	4	
	Geothermal Technologies	6	1		2	4	
	Water Power	3			3	1	
	Biomass & Biorefinery Systems R&D	9	2		6	3	
	Hydrogen Technology	5	1		4		
	Vehicle Technologies	8	2		7	2	
	Industrial Technologies	6	1		5	1	
	Building Technologies	8	2		7	3	
	Federal Energy Management Program	4			3		1
	Facilities & Infrastructure		3			2	1
	Weatherization	1	2		6	1	
	State Energy Programs	3			2		
	Appliance Rebates	1				1	
	Community Renewable Energy Deployment	1					
	Energy Efficiency & Conversation Block Grants	1					
	Fossil Energy	5			4		1
	Near-Zero Atmospheric Emissions Coal-Based Electricity & Hydrogen Production	12		1	12		
	Petroleum Reserves	3			3		
	New Nuclear Generation Technologies	5			5		
	National Nuclear Infrastructure	2			3		
	Energy Information Administration	3			3		
	Loan Programs	2	1		1	2	
	Advanced Research Projects Agency-Energy	1			1		
	Total Goal 1	122	24	2	116	27	3
Strategic Goal 2: The Science and Engineering Enterprise							
	High Energy Physics	9	2		10	1	
	Nuclear Physics	13	3		11	5	
	Biological & Environmental Research	13			12	1	
	Fusion Energy Sciences	7	5		8	4	
	Basic Energy Sciences	10			10		
	Advanced Scientific Computing Research	4	4		6	1	
	Infrastructure	2	2		4		
	Fellowships/ Career Awards				1		
	Small Business Research					1	
	Total Goal 2	58	16	0	62	13	0

STRATEGIC GOAL	ACTIVITY	Fiscal Year 2009 Performance			Fiscal Year 2010 Performance		
		Targets Met	Targets Not Met	Results Unknown	Targets Met	Targets Not Met	Results Unknown
Strategic Goal 3: Secure Our Nation							
	Office of the Administrator	2			2		
	Directed Stockpile Work	4	1		2	2	
	Science Campaign	4			2	1	
	Engineering Campaign	5			5		
	Inertial Confinement Fusion Ignition & High Yield Campaign	5			3	2	1
	Advanced Simulation & Computing Campaign	4			4		
	Readiness Campaign	4			3		
	Readiness in Technical Base & Facilities	3	1		4		
	Secure Transportation Asset	5			3		
	Nuclear Counterterrorism Incident Response	1				1	
	Facilities & Infrastructure Recapitalization	3			2		
	Site Stewardship	2			2	1	
	Defense Nuclear Security	3			4		
	Cyber Security	3			1	1	1
	Nonproliferation & Verification R&D	6			6		
	Elimination of Weapons-Grade Plutonium Production	4			1	2	
	Nonproliferation & International Security	5			5		
	International Nuclear Materials Protection & Cooperation	5	1		2	3	
	Fissile Materials Disposition	2	1		2	1	
	Global Threat Reduction Initiative	4			4		
	Naval Reactors	5			5		
	Environmental Management	23	18		30	11	
	Legacy Management	1		1	2		
	Nuclear Waste Disposal	2			1		1
	Total Goal 3	105	22	1	95	25	3
	DOE Total	285	62	3	273	65	6
	Share of Targets Met	81%			79%		

Major Laboratories and Field Facilities



Alaska
1. Artic Energy Office

California
2. Berkeley Site Office
3. Energy Technology Engineering Center
4. Lawrence Berkeley National Laboratory
5. Lawrence Livermore National Laboratory
6. Livermore Site Office
7. Sandia National Laboratories
8. SLAC National Accelerator Laboratory
9. SLAC Site Office

Colorado
10. Golden Field Office
11. Grand Junction Office
12. National Renewable Energy Laboratory
14. Western Area Power Administration

Connecticut
15. 16. Northeast Home Heating Oil Reserves

District of Columbia
17. Washington D.C. Headquarters

Georgia
18. Southeastern Power Administration

Idaho
19. 20. Idaho National Laboratory
21. Idaho Operations Office
22. Radiological Environmental Sciences Laboratory

Illinois
23. Argonne National Laboratory
24. Chicago Office
25. Fermi National Accelerator Laboratory
26. Fermi Site Office
27. New Brunswick Laboratory

Iowa
28. Ames Laboratory

Kentucky
29. Paducah Gaseous Diffusion Plant
30. Portsmouth/Paducah Project Office

Louisiana
31. Strategic Petroleum Reserve

Missouri
32. Kansas City Plant
33. Kansas City Site Office

Nevada
34. Nevada Site Office
35. Nevada National Security Site

New Jersey
38. Northeast Home Heating Oil Reserve
39. Princeton Plasma Physics Laboratory
40. Princeton Site Office

New Mexico
41. Carlsbad Field Office
42. Inhalation Toxicology Research Institute
43. Los Alamos National Laboratory
44. Los Alamos Site Office
45. National Training Center
46. NNSA Service Center
47. Sandia National Laboratories
48. Sandia Site Office
49. Waste Isolation Pilot Plant

New York
50. Brookhaven National Laboratory
51. Brookhaven Site Office
52. Knolls Atomic Power Laboratory
53. Schenectady Naval Reactors Office
54. West Valley Demonstration Project

Ohio
55. Columbus Environmental Management Project
56. EM Consolidated Business Center
58. Portsmouth Gaseous Diffusion Plant

Oklahoma
60. Southwestern Power Administration

Oregon
61. Bonneville Power Administration
62. National Energy Technology Laboratory – Albany

Pennsylvania
63. Bettis Atomic Power Laboratory
64. National Energy Technology Laboratory – Pittsburgh
65. Naval Reactors Laboratory Field Office

Rhode Island
66. Northeast Home Heating Oil Reserve

South Carolina
67. Savannah River National Laboratory
68. Savannah River Operations Office
60. Savannah River Site Office

Tennessee
70. East Tennessee Technology Park
71. Oak Ridge National Laboratory
72. Oak Ridge Site Office
73. Office of Scientific and Technical Information
74. Y-12 Plant
75. Y-12 Site Office

Texas
76. Pantex Plant and Site Office
50. National Energy Technology Lab – Sugar Land

Virginia
77. Thomas Jefferson National Accelerator Facility
78. Thomas Jefferson Site Office

Washington
79. Hanford
80. Pacific Northwest National Laboratory
81. Pacific Northwest Site Office
82. Richland Operations Office
83. Office of River Protection

West Virginia
84. National Energy Technology Laboratory – Morgantown

Wyoming
85. Naval Petroleum Reserve No. 3 – Casper

Strategic Plan and Program Performance

The narrative below discusses recent results and outcomes for DOE programs as aligned with the strategic goals presented in the new *DOE Strategic Plan* that was released in May of this year. A detailed discussion of results of each of the agency's fiscal year 2011 performance goals, assessment methodology, metrics, relevant external reviews, and documentation of performance data will be presented in the *DOE Fiscal Year 2011 Annual Performance Report.* This report will be released with the agency's Fiscal Year 2013 Congressional Budget Request in February 2012.

Goal 1 Transform Our Energy Systems

Catalyze the timely, material, and efficient transformation of the nation's energy system and secure U.S. leadership in clean energy technologies

Objectives:
- Deploy the technologies we have
- Discover the new solutions we need
- Lead the national conversation on energy

Supporting Offices:
ARPA-E
Electricity Delivery and Energy Reliability
Energy Efficiency and Renewable Energy
Energy Information Administration
Fossil Energy
Loan Programs
Nuclear Energy
Power Marketing Administrations

Currently, more than 80% of total U.S. primary energy and more than 95% of U.S. transportation fuel comes from fossil resources; these percentages are expected to change little over the next 25 years under a business-as-usual scenario. While U.S. energy consumption and carbon-dioxide emissions are also expected to increase significantly in this scenario, global energy consumption will rise more than twice as quickly due to growing population and increasing development in non-Organisation for Economic Co-operation and Development (OECD) countries. Likewise, water is integral to many energy technologies, and related water demands could be amplified in the future if climate change alters regional water cycles. Our energy technology R&D activities should be cognizant of this interdependence. This context frames the challenge before us: to achieve our long-term energy and environmental goals, we must change our current energy paradigm through concerted effort across public and private sectors.

The following are examples of recent outcomes and benefits to U.S. citizens from DOE investments in energy transformation and clean energy.

***Solar Breakthroughs*:** Alta Devices single-junction thin-film Gallium Arsenide (GaAs) photovoltaic technology recently achieved a National Renewable Energy Laboratory (NREL)-confirmed world record 28.2% conversion efficiency. The company utilizes an epitaxial lift-off technique pioneered by University of California Berkeley's Eli Yablonovitch that allows Alta to produce flexible layers of GaAs with a thickness of only one micron. Eventually, Alta thinks that it will be able to build its modules at a cost of around $0.50 per watt. President and CEO Chris Norris recently credited the SunShot Initiative's aggressive cost targets with helping spur the spirit of innovation at his own company: "The goal of achieving the $1 per installed watt target, set by the Department of Energy, has energized our entire company." Concentrated photovoltaic manufacturer Solar Junction's multi-junction solar cell recently achieved an NREL-confirmed world record 43.5% conversion efficiency, easily surpassing the previous record of 42.3%. Solar Junction's multi-junction cells employ multiple semiconductor layers in order to absorb more wavelengths of sunlight, allowing for increased efficiency.

***Plants as Fuels*:** A team of researchers at the BioEnergy Science Center pinpointed the exact, single gene that controls ethanol production capacity in a microorganism found in many types of biomass crops. This discovery could be the missing link in developing biomass crops that produce higher concentrations of ethanol. Scientists at Brookhaven National Laboratory have developed a computational model for analyzing the metabolic processes in rapeseed plants — particularly those related to the production of oils in their seeds. This model will help to optimize the production of plant oils that have widespread potential as renewable resources for fuel and industrial chemicals.

***Airborne Wind Technology*:** The hope of harnessing high altitude wind power has been alive for years, but initial deployments have yet to succeed due to strict Federal Aviation Authority safety regulations that apply to anything flying above 2,000 feet. Furthermore, the historical lack of support from government agencies suggests a high level of risk for potential investors. The Advanced Research Project Agency – Energy (ARPA-E) helped high-altitude hopefuls gain ground last year by awarding California-based Makani Power $3 million to advance its airborne wind technology. Makani's Airborne

Wind Turbine aims to capture wind power at altitudes below 2,000 feet and where Federal Aviation Administration safety regulations are milder, but still high enough to extract energy from more powerful, consistent winds.

Clean Energy Projects: DOE fills an important gap providing debt financing for innovative clean energy projects helping to bridge the "valley-of-death" in the clean energy technology development cycle, between the pilot-facility stage and commercial maturity, where companies find it difficult to obtain the financing needed to deploy their technologies at commercial scale. DOE finalized a number of transformative projects in FY 2011. These include POET's Project Liberty, one of the nation's first cellulosic ethanol power plants located in Iowa. The partial loan guarantee to Project Amp will support the distributed generation of an estimated 733 megawatts of electricity using photovoltaic solar (PV) panels installed on approximately 750 commercial roof tops in 28 states. When completed, the Aqua Caliente Project in Arizona will be the largest PV generation facility in the world. DOE has also supported several of the world's largest concentrating solar power facilities that will triple the nation's currently-installed concentrated solar photovoltaic capacity.

***Advanced Battery Factory*:** Johnson Controls in Holland, Michigan – a once shuttered factory – is helping speed up the advanced battery industry in the United States. This long dormant plant was revived by a $300 million grant through DOE which allowed Johnson Controls to secure the private investments it needed to select the Holland facility over several overseas locations. Similar DOE investments have helped position the United States to lead the charge in advanced battery production, practically building the industry from the ground up in less than two years.

***Smart Grid Deployment*:** CenterPoint Energy is one of the nation's leaders in smart grid technologies. With the help of $200 million from DOE, the company is building a smarter, more reliable, electrical system for Houston's residents. The project is deploying a total of 2.2 million smart meters, more than 500 grid monitoring sensors, automation at 30 different substations, and a range of energy use tools to help families save money on their energy bills every month.

***New Research Center Established*:** The Energy Innovation Hub for Nuclear Energy, administered by the Consortium for Advanced Simulation of Light Water Reactors (CASL), is expected to help accelerate the advancement of nuclear reactor technology. CASL researchers are using supercomputers to study the performance of light water reactors and to develop highly sophisticated modeling that will help accelerate upgrades at existing U.S. nuclear plants. This work will enable better understanding of reactor performance so that designers and operators can achieve maximum efficiency while providing continued improvements in reliability and safety. The facility, headquartered at DOE's Oak Ridge National Laboratory, brings together four national labs, three industry partners and three universities in a highly collaborative effort to develop tools that will advance new generations of nuclear reactors and safely extend the life and reliability of existing plants.

***National Carbon Capture Center Launches Post-Combustion Test Center*:** The recent successful commissioning of an Alabama-based test facility is another step forward in research that will speed deployment of innovative post-combustion carbon dioxide capture technologies for coal-based power plants. Technologies tested at the Post-Combustion Carbon Capture Center are an important component of carbon capture and storage, whose commercial deployment is considered by many experts as essential for helping to reduce human-generated carbon dioxide emissions that contribute to potential climate change.

Challenges

***Improving Electricity Delivery*:** Reliable, efficient, affordable, and secure delivery of electric power requires innovative solutions, including large grid-scale energy storage and grid integration of electric vehicles and intermittent power sources such as wind and solar.

***Increasing Clean Transportation*:** Enabling widespread utilization of hybrid vehicles requires advanced batteries with substantially higher energy and power densities, lower costs, and faster recharge times.

***Extracting Natural Gas Cleanly and Safely*:** Natural gas will continue to play an important role in the nation's energy portfolio, helping create jobs, stimulate the economy, and provide an alternative to imported oil. However, this is built on the ability to work with industry to improve the environmental performance of the processes. What can be done now to increase safe and responsible production of natural gas is directly connected to the long-term ability to develop this fuel source.

CASL modeling and simulation capabilities for predicting simulation of light water reactors.

Goal 2 The Science and Engineering Enterprise

Maintain a vibrant U.S. effort in science and engineering as a cornerstone of our economic prosperity, with clear leadership in strategic areas

Objectives:
- Extend our knowledge of the natural world
- Deliver new technologies to advance our mission
- Sustain a world leading technical workforce

Supporting Offices:
Science

The Department of Energy supports basic research into the smallest constituents of matter; the most fleeting subatomic, atomic, and chemical transitions; and the structure and properties of materials and biological systems. We are the largest federal funder of physical sciences. Our research extends our understanding of nature; enables new technologies that support the Department's energy, environment, and security missions; and improves the quality of life of all Americans. Scientific discovery feeds technology development; and, conversely, technology advances enable scientists to pursue an ever more challenging set of questions. The Department strives to maintain leadership in fields where this feedback is particularly strong, including materials science research, bio-energy research, and high-performance computing.

The following are examples of recent outcomes and benefits to U.S. citizens from DOE investments in science and engineering.

Trapping the Light Fantastic: A new solar cell design uses advanced optics and nanotechnology to maximize performance and minimize cost. One of the more promising new applications of nano-optics to solar energy is the work of Harry Atwater and his team at the California Institute of Technology. Starting with a focus on harvesting and trapping light, Atwater's group has developed an entirely new design for a thin-film silicon solar cell, which promises to achieve efficiencies rivaling today's top-of-the-line commercial silicon cells, at potentially a fraction of the cost. If successful, the technology could help take us a step closer to "grid parity," the long-sought-after point at which solar photovoltaics become inexpensive enough to be genuinely cost-competitive with fossil fuel-generated electricity. In the space of a year, Atwater's unusually promising design has gone from the lab bench to the early stages of commercialization, aided by a $1 million incubator grant from DOE and a newly raised round of venture capital.

General Electric Co. Uses DOE Advanced Light Sources to Develop Revolutionary Battery Technology: The company is constructing a new battery factory in upstate New York that is expected to create over 300 jobs. The new batteries, based on sodium metal halide technology, boast three times the energy density and charging power of the lead-acid batteries they are designed to replace. GE engineers also say the batteries have long cycle life, withstanding thousands upon thousands of charge and discharge cycles, for expected lifetimes of up to 20 years, and can operate in a wide range of temperature environments. To help achieve these breakthroughs, GE researchers relied on two of the nation's most advanced and sophisticated scientific user facilities, the National Synchrotron Light Source at DOE's Brookhaven National Laboratory on Long Island and the Advanced Photon Source at DOE's Argonne National Laboratory outside Chicago.

Superfast Search Engine Speeds Past the Competition: Computer scientists at the DOE's Lawrence Berkeley National Laboratory developed a new approach to searching massive databases. Embodied in open-source software called FastBit, the new method can search massive databases 10 to 100 times faster than large commercial database software, depending on the specific application. Originally developed to sort through the massive data produced by nuclear physics experiments, the software has found important commercial uses. A German-based pharmaceutical firm has used the software to accelerate drug discovery. Still other companies have used it to analyze computer network performance or rapidly comb through masses of financial data.

Fundamental Studies in Catalysis Enable Use of "Lean-Burn" Engines for Vehicles: In recent years, DOE research has focused on solving the vexing issues that have been preventing the fuel efficient lean-burn engine from becoming a commercial reality for today's vehicles. Lean-burn engines operate at very high air-to-fuel ratios and, in this way, can improve fuel efficiency by more than 25% over standard gasoline engines. Unfortunately, these higher ratios mean that emission control devices developed for standard gasoline engines are not effective for removing nitrogen oxides. Pacific Northwest National Laboratory's catalysis research program, sponsored by DOE's Office of Science, performed research that led to a better understanding of how the catalyst functions and enabled improvements in catalytic converter performance.

R&D 100 Awards: DOE researchers have won 36 of the 100 awards given out for 2011 by R&D Magazine for the most outstanding technology developments with promising commercial potential. The coveted awards are presented annually in recognition of exceptional new products,

processes, materials or software developed throughout the world and introduced into the market the previous year.

Challenges

Global Competitiveness: America today faces not only fierce international economic competition, but competition across a wide spectrum of activities, including growing competition in science and in scientific facilities. Meeting the challenge may require new technologies for producing, storing, and using energy with performance levels far beyond what is now possible. Such technologies spring from scientific breakthroughs.

Developing a Technical Workforce: There is a growing need in the private and public sectors, for scientists and engineers, including researchers. Providing technical and scientific training is vital to ensure that America remains competitive and prosperous.

Goal 3 Secure Our Nation

Enhance nuclear security through defense, nonproliferation, and environmental efforts

Objectives:

- Support the U.S. nuclear stockpile and future military needs
- Reduce global nuclear dangers
- Apply our capabilities for other critical national security missions
- Support responsible civilian nuclear power development and fuel cycle management
- Complete environmental remediation of our legacy and active sites

Supporting Offices:

Environmental Management
Intelligence and Counterintelligence
Legacy Management
National Nuclear Security Administration

The Department of Energy—primarily through the National Nuclear Security Administration—is central to preventing proliferation and nuclear terrorism and sustaining a safe, secure, and effective nuclear arsenal. We have added responsibility for cleaning up the environmental legacy of the Cold War's nuclear weapons complex. Through engagement with the International Atomic Energy Agency and directly with other international and interagency partners, the Department has a leading role in nonproliferation and cooperative threat-reduction programs. This expertise positions the Department ideally to help shape policy surrounding future deployment of nuclear power globally. Just as the Department is the trusted authority on the safety, security, and effectiveness of the U.S. nuclear weapons stockpile, it can apply science, technology, and engineering to ensure future nuclear power systems can be deployed safely and securely with appropriate mitigation of risks from terrorism and proliferation.

The Department has the monumental task of cleaning up the environmental legacy from five decades of nuclear weapons development and government-sponsored nuclear energy research. We have been successfully mitigating the technically challenging risks and have made substantial progress in nearly every area of nuclear waste cleanup, including stabilizing and consolidating special nuclear material and safely storing tons of used nuclear fuel. We have continued to build momentum in disposing of solid radioactive wastes, remediating contaminated soil and water, and deactivating and decommissioning radioactively contaminated facilities, with each succeeding year building on the last.

Our Intelligence and Counterintelligence program provides the Secretary, his staff, and other policymakers within the Department timely, technical intelligence analyses on all aspects of foreign nuclear weapons, nuclear materials, and energy issues worldwide.

The following are examples of recent outcomes and benefits to U.S. citizens from DOE investments in securing our nation.

Ratification and Implementation of New START:
DOE/National Nuclear Security Administration (NNSA) played an essential role in enabling U.S. Senate consideration of the New Strategic Arms Reduction Treaty (START), which President Obama submitted to the Senate for its advice and consent on May 13, 2010. This included testimony in support of the Treaty by Secretary Chu and NNSA Administrator D'Agostino, responses to numerous questions for the record associated with DOE/NNSA future plans to maintain the nation's nuclear weapons stockpile, and the development of material to further enable long-term planning and support for the stockpile stewardship program and required infrastructure. The Senate provided its advice and consent on December 22, 2010, and New START entered into force on February 5, 2011. DOE/NNSA continues to play an important role in Treaty implementation, including in the Treaty's Bilateral Consultative Commission, and utilizes expertise across the

Nuclear Security Enterprise for work such as assessing Russian radiation detection equipment for use during inspections in the United States.

United States-Russia Peaceful Nuclear Cooperation Agreement: In January 2011, the United States and Russia brought into force a peaceful nuclear cooperation agreement (Section 123 Agreement) that establishes the legal basis for U.S. and Russian industry to engage in significant nuclear commerce. The agreement establishes a solid foundation for long-term civil nuclear cooperation, provides commercial opportunities for U.S. industry, and enhances U.S.-Russian cooperation on important nuclear nonproliferation goals. Pursuant to its statutory authority, DOE provided technical support in the negotiation of the agreement and will have the lead role in its implementation.

Rules on Sensitive Exports Strengthened: DOE recently helped secure international agreement on a landmark change to the nuclear supply regime. After seven years of negotiations, the 46-member Nuclear Suppliers Group (NSG) agreed to new guidelines that impose specific criteria for access to the most sensitive and dangerous elements of the nuclear fuel cycle, enrichment and reprocessing (ENR). For over 30 years, the NSG—the world's most important nuclear trade rule-making body—has urged holders of sensitive nuclear technology to "exercise restraint" in decisions about exports, but until now, has imposed few specific conditions on this trade. In 2003, however, it was confirmed that A.Q. Khan's international smuggling ring had proliferated uranium enrichment technology to Iran, Libya, North Korea, and perhaps elsewhere; and the NSG initiated an effort to strengthen its ENR guidelines.

Global Threat Reduction Initiative (GTRI): In support of President Obama's goal to secure all vulnerable material in four years, as of July 2011 3,085 kilograms (including shipments from Poland, Belarus, Serbia, Ukraine, Canada, Italy, and Belgium) were removed. In addition GTRI has shut down or verified as shutdown 76 reactors, supported the shipment to the United States of the first low enriched uranium-based Mo-99 produced in South Africa accelerated four U.S. domestic projects to produce the medical isotope Mo-99 without the use of highly enriched uranium, and secured a total of 1,074 buildings with high activity radiological materials.

Zheleznogorsk Plutonium Production Elimination Project: In July 2011, this project fulfilled its commitments under the 2003 Plutonium Production Reactors Agreement by providing assistance to supply heat to the city, after the shutdown of the last plutonium production reactor. In August 2011, the U.S. government met its commitment to provide capability for replacement heat and electricity to the city of Zheleznogorsk with the completion of a new heating plant. Six donor countries provided financial assistance. Capability for replacement heat and electricity was required because of the April 2010 shutdown of the last Russian weapons-grade plutonium production reactor.

Radiation Detection Systems: The Second Line of Defense (SLD) program achieved a major milestone by completing deployments of radiation detection systems at all 380 Federal Customs Service of Russia crossing points (airports, seaports, and land crossings). This achievement was completed as a cost-shared cooperative effort with Russian partners and will help prevent, detect and interdict the illicit movement of nuclear or radioactive material. Each side contributed resources to approximately half the Customs sites. All sites in the North West Customs Directorate (approximately 60 crossings) were integrated electronically to local, regional and Moscow-based oversight and technical support organizations. The SLD program also completed work in the Republic of Georgia. Approximately 17 ports, airports, and border crossings were equipped with radiation detection systems and have been networked to provide oversight and technical support. In addition, mobile detection systems have been provided to Border Police and other organizations.

Weapons Dismantled: The Weapons Dismantlement and Disposition program successfully executed the actions to completely dismantle the B53 ahead of the current schedule. The B53 is a 1960's era weapon weighing in at approximately 10,000 pounds, making it the largest and heaviest weapon in the stockpile. The B53 Dismantlement Team's commitment, strategic focus, and ability to accelerate the salvage of national asset parts proved beneficial to non-proliferation and counter-terrorism efforts.

First Integrated Ignition Experiments: The National Ignition Facility (NIF) recently completed its first integrated ignition experiment – using a 192-beam laser system to fire one megajoule of laser energy into its first cryogenically layered capsule – raising the drive energy by a factor of 30 over previously conducted experiments. The successful completion of the test means NIF, the world's largest and highest-energy laser system, will move forward with the next phase of its campaign to culminate in fusion ignition tests. Built as a part of the NNSA program to ensure the safety, security and effectiveness of the nuclear weapons stockpile without underground testing, NIF's laser system is expected to be the first to demonstrate reliable fusion ignition – the same force that powers the sun and the stars – in a laboratory environment.

Uranium Disposition: NNSA achieved the goal of eliminating a cumulative 124 metric tons of U.S. surplus highly enriched uranium (enough for more than 2,600 nuclear weapons) by downblending it to low enriched uranium for peaceful use as fuel in power and research reactors.

Plutonium Disposition: The Mixed Oxide Fuel Fabrication Facility (MFFF) enabled the United States to meet its commitments in the 2000 Plutonium Management and Disposition Agreement (PMDA), the 2010 Protocol that amended the PMDA, and the 2006 Liability Protocol, which all entered into force on July 13, 2011, by exchanging diplomatic notes between the United States and Russia. Construction of MFFF is approximately 44% complete with more than 95,000 cubic yards of reinforced concrete and more than 16,000 tons of rebar installed, as well as 11 of 16 auxiliary buildings complete.

Environmental Cleanup Milestones: By the end of September 2011, the DOE Environmental Management program completed the majority of projects in its $6 billion environmental cleanup portfolio under the Recovery Act. A few examples follow:

Final Hanford Offsite Waste Shipment Leaves Idaho Treatment Facility - The Advanced Mixed Waste Treatment Project (AMWTP) recently completed the last of 25 shipments of waste bound for permanent disposal in New Mexico and Nevada, six months ahead of a regulatory deadline. It took 77 shipments to bring the 923 85-gallon drums of waste from the Hanford Site in Washington to AMWTP. After characterization and compaction operations, the waste left AMWTP in 25 shipments to permanent disposal locations. The transuranic waste was shipped to the Waste Isolation Pilot Plant (WIPP) in New Mexico, and two, 100-gallon drums of mixed low-level waste were shipped to the Nevada National Security Site.

Paducah, Kentucky – Crews for DOE cleanup contractor finished work in the C-340 Metals Plant at the Paducah Site in early August of this year. The two-year cleanup project means another inactive Cold War complex is ready for demolition.

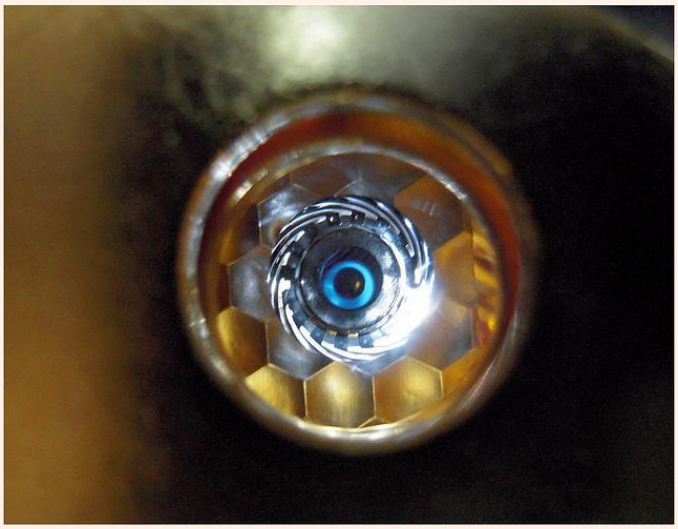
Richland, Washington – Workers have reduced the Hanford Site by approximately 50% or 290 square miles; cleared away dozens of facilities and waste sites; removed legacy waste and fuels from onsite inventory and underground storage; prepared complex facilities for demolition ahead of schedule; and constructed a network of wells, pipelines and treatment systems to expand and enhance groundwater treatment capabilities by millions of gallons per day.

Challenges

Nuclear Deterrence: The challenge is to build on the national consensus demonstrated with the bipartisan ratification of the New START and carry the momentum forward by continuing investments in key nuclear security capabilities. This will enable the nation to resolve current technical challenges and give this and future administrations the confidence needed to further reduce our number of nuclear weapons, while providing the flexibility to respond appropriately in an unpredictable global environment.

Russian Program: The primary challenge now that the PMDA has entered into force is to conclude the implementing arrangements and milestone plan for the allocation of the $400 million pledge in U.S. assistance. The balance of the approximately $2.5 billion cost will be provided by the Russian Federation.

Nuclear Material Storage: The administration continues to believe that nuclear energy has an important role to play as America moves to a clean energy future. As part of the commitment to restarting the American nuclear industry and creating thousands of new jobs and export opportunities in the process, the government is committed to finding a sustainable approach to assuring safe, secure long-term disposal of used nuclear fuel and nuclear waste. The Blue Ribbon Commission on America's Nuclear Future was formed by the Secretary of Energy at the request of the President to conduct a comprehensive review of policies for managing the back end of the nuclear fuel cycle and recommend a new plan. In July 2011, the Commission issued a draft of its recommendations.



A view of a cryogenically cooled NIF target as "seen" by the laser through the hohlraum's laser entrance hole. Photo is courtesy of LLNL.

Goal 4 Management and Operational Excellence

Establish an operational and adaptable framework that combines the best wisdom of all Department stakeholders to maximize mission success

Objectives:
- Achieve operational and technical excellence
- Implement a performance-based culture

Supporting Offices:
Chief Financial Officer
Chief Human Capital Officer
Chief Information Officer
Congressional and Intergovernmental Affairs
Economic Impact and Diversity
General Counsel
Health, Safety, and Security
Hearings and Appeals
Inspector General
Management
Policy and International Affairs
Public Affairs

The Secretary has challenged all who serve within the Department of Energy to achieve and sustain a commitment to Management and Operational Excellence in support of the mission – from headquarters, to every site office and service center, and every laboratory and production facility.

The following are other examples of management initiatives and the progress made during FY 2011:

Horizontal Integration: To help realize this goal, Secretary Chu established the Associate Deputy Secretary position in February 2011. In support of the Secretary and Deputy Secretary, the Associate Deputy Secretary drives improvements in mission execution and assures that they are efficiently and effectively implemented throughout the Department. A key focus in FY 2011 was to improve horizontal integration across the Department. To that end, we now have six key decision-making bodies that are meeting routinely, discussing issues, and making decisions from an enterprise-wide perspective.

Project and Contract Management: We are measurably starting to improve our performance in project and contract management. The Office of Science, for example, exceeded the target for completing more than 90% of capital asset projects at the original scope and within 110% of the cost baseline. In FY 2011, they achieved a 100% success rate -- a Department first.

Employee Hiring Time: Efforts have been underway to reduce average time-to-hire for General Schedule and equivalent positions (from initiation date to entry on duty date) from a 174 to 80-day average while continuing to attract quality hires, and to ensure the right skill sets are onboard. DOE's time-to-hire was ranked number two, most improved agency, by the Federal Times (August 2, 2011). In FY 2011, the average was reduced to 100 days. In addition, recent progress has been made to develop a tracking and reporting system to provide more meaningful data for hiring managers.

Streamlined Requirements: While ensuring continued safe and secure mission performance, the Department's Office of Health, Safety and Security reviewed its complete set of requirements and reduced those that were duplicative or conflicting, placed authorities at the appropriate level, invoked external standards where possible, and streamlined process requirements and decision-making.

Continual Learning Program: In FY 2011, we initiated enhancements to our Continual Learning Program to ensure that we develop the most highly-qualified, capable, and flexible Federal workforce, moving us towards a more performance-based culture. Key among them was implementation of a "managers training managers" professional development training module which is clearly communicating performance expectations among our managers. This training employs a case study approach, is interactive, and will be provided to our senior leaders throughout FY 2012. Other enhancements are being rolled out in the coming year.

Diversity and Inclusion: In July 2011, we concluded a comprehensive review of DOE's workforce diversity and inclusion policies and programs. The findings from this analysis, which have been shared with DOE senior management, indicate that we can do more to create a culture that values diversity, which in turn will make the Department an employer of choice and enhance our mission effectiveness. The Secretary has asked each DOE senior leader, manager, and employee to join him in taking immediate and sustained action to better promote our Department as a positive model of equal opportunity, diversity, and inclusion.

Website Reform: In FY 2011, DOE reduced, consolidated, and moved websites to the Energy.gov platform to achieve cost savings. A new web platform was launched that includes 16 consolidated sites in an open source content management system and cloud hosting environment.

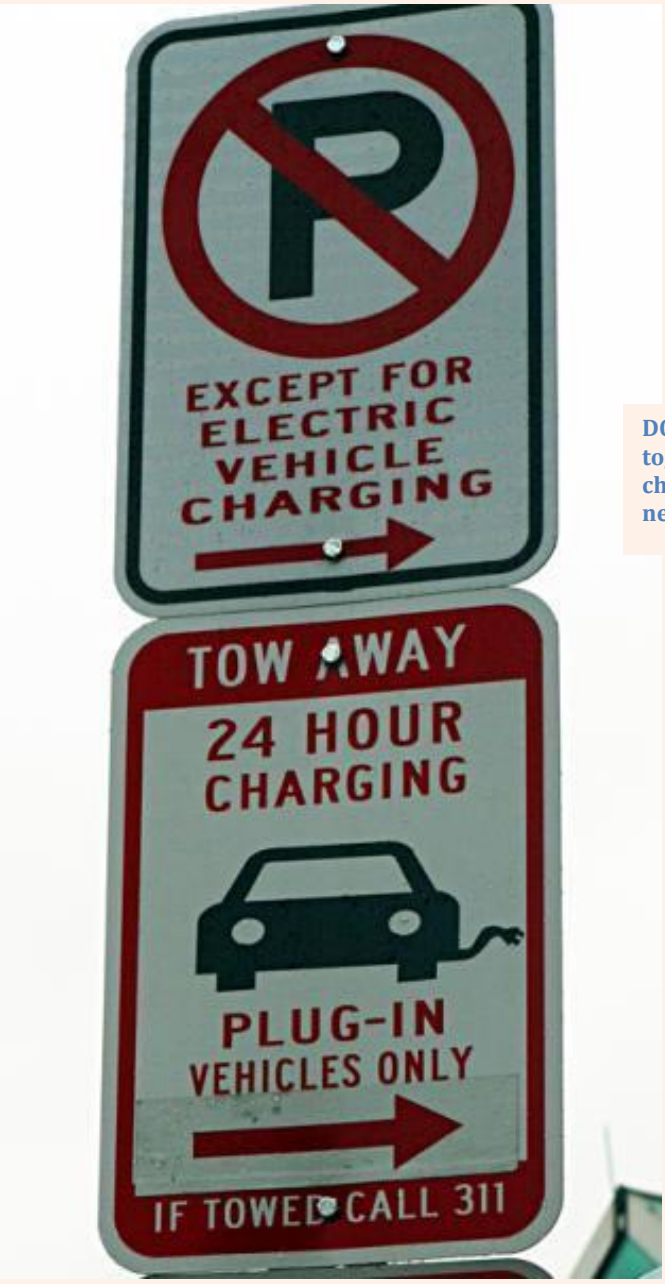
Fleet Reduction: This past year, we successfully reduced the headquarters fleet by 35% and replaced more than 750 vehicles DOE-wide with hybrid vehicles.

Strategic Sourcing: By expanding the use of bulk purchasing and other methods, significant costs were saved or avoided this past year within the program offices. These initiatives will continue in FY 2012.

Disposition of Excess Real Property: A cumulative 4.6 million gross square feet of excess real property was eliminated in FY 2011, lowering the Department's overall stewardship costs.

Support Service Contracts: DOE is aiming to reduce reliance on support service contracts while also ensuring that our federal workforce retains core competencies, talent, and marketability. In FY 2011, we achieved a 27% reduction, with further work planned in FY 2012.

Financial Transparency: A quarterly reporting capability was developed for timely and reliable functional institutional cost information from our national laboratories to improve transparency, trust, and effectiveness towards mission performance. A dashboard prototype is in the development stages.



DOE and the city of Washington, D.C. joined together to install the first public electric vehicle charging station in the bustling U Street neighborhood.

Management's Analysis, Assurances and Priorities

Analysis of Financial Statements

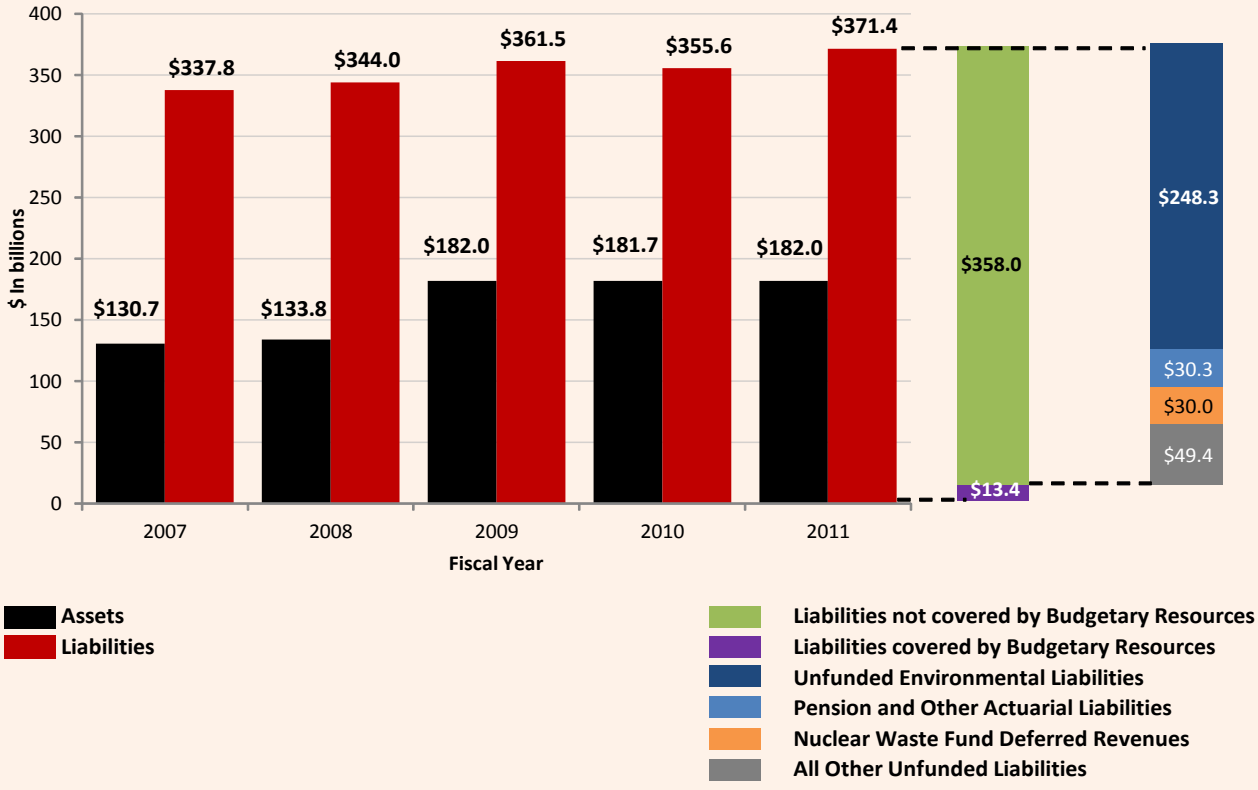
The Department's financial statements are included in the Financial Results section of this report. Preparing these statements is part of the Department's goal to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources. The Department's management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The financial statements have been prepared to 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 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 OMB (Office of Management and Budget). 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

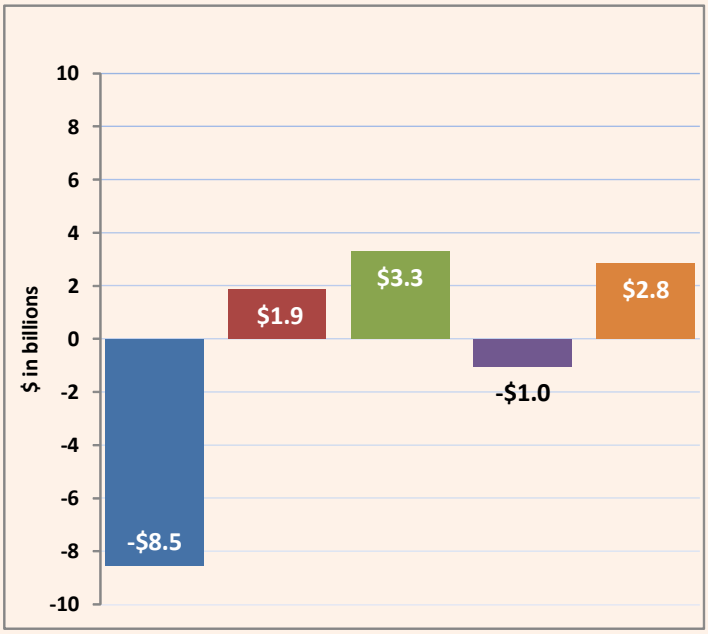
As shown in Chart 1, the Department's total liabilities exceed assets. Significant balance changes are detailed in Charts 2 and 3. Chart 4 provides a detailed trend analysis of the changes in the Department's environmental liability balances over the past 5 years. The largest component of the Department's 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 EM for active sites (including estimated cleanup) and the Office of Legacy Management (LM) for post-closure responsibilities (including surveillance and

Chart 1: Total Assets and Liabilities with Breakdown of FY 2011 Liabilities



monitoring activities; soil and groundwater remediation; and disposition of excess material for sites after the EM program activities have been completed). The other legacy liabilities also includes the Department's share of the estimated future costs of dispositioning its inventory of high-level waste and spent nuclear fuel.

Chart 2: FY 2011 Significant Changes in Assets



Fund Balance with Treasury
Net decrease primarily resulted from expenditure of ARRA funds ($10.6 billion) partially offset by $3.2 billion increase in funds retained from sale of oil stockpile reserves.

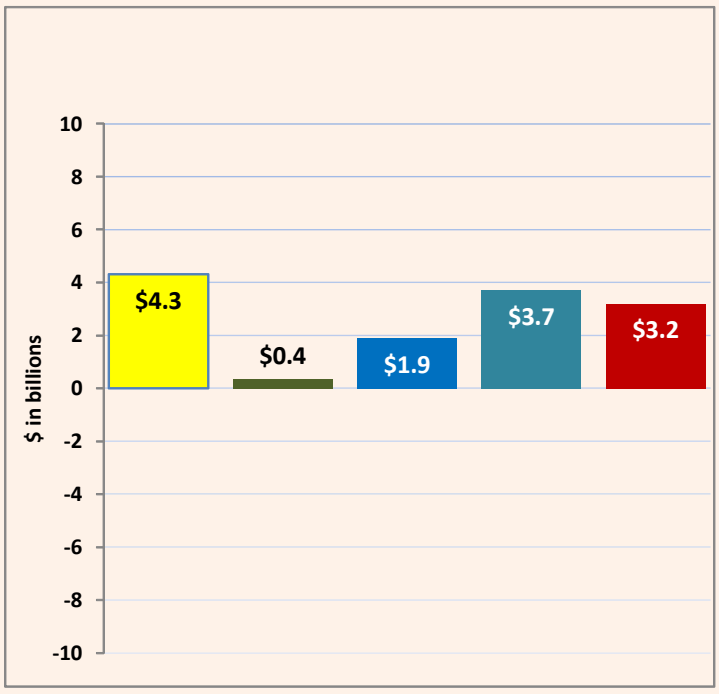
Investments
Increase due primarily from additional Nuclear Waste Fund receipts from fees collected from owners and generators of spent nuclear fuel and high-level wastes in excess of amounts needed to pay current program costs.

Loans and Loan Guarantees
Increase primarily due to $4 billion of disbursements on 17 loans partially offset by ($.7) billion decrease in present value of loans.

Strategic Petroleum and Home Heating Oil Reserve
Net decrease due to sale of 32 million barrels of stockpile reserves.

Regulatory Assets
Increase resulted primarily from BPA's residential exchange benefits agreement (see offsetting increase in other liabilities).

Chart 3: FY 2011 Significant Changes in Liabilities



Debt
Increase resulted primarily from borrowing from the Federal Financing Bank to fund disbursments to loan recipients.

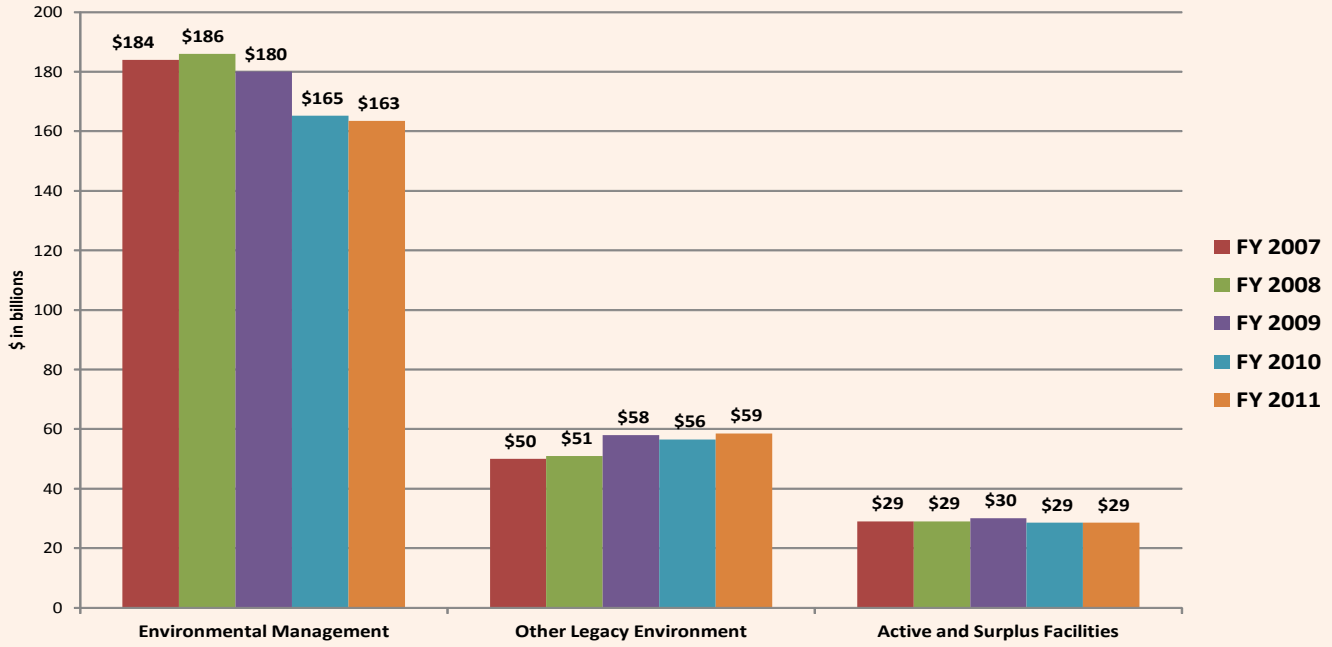
Environmental Cleanup
Net increase resulted from unfunded liability estimate increase (see chart 7) offset by FY 2011 cleanup expenditures of $9.8 billion.

Pension and Other Actuarial Liabilities
Contractor pension plan liabilities increased by $2.7 billion and other contractor post-retirement benefit plan liabilities decreased by $0.8 billion. The most significant component of the pension plan increase resulted from a decrease in the rates used to discount the liabilities to present value (See chart 8).

Contingencies and Commitments
Increase is attributable to changes in spent-nuclear fuel litigation liability estimates (see Chart 7) offset by $.8 billion of payments related to settlements and final judgments.

Other Liabilities
Increase resulted primarily from BPA's residential exchange benefits agreement (see offseting increase in regulatory assets).

Chart 4: Composition of Environmental Cleanup and Disposal Liability



Net Cost of Operations

The major elements of net cost (see Chart 5) include program costs, unfunded liability estimate changes and earned revenues. The Statement of Net Cost also provides program cost information along the Department's three Programmatic Strategic Goals (see Chart 6).

The Department's overall net costs are dramatically impacted by changes in environmental and other unfunded liability estimates. Since these estimates primarily 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 2011 unfunded liability estimate changes are shown in Chart 7.

Chart 5: Major Elements of Net Cost

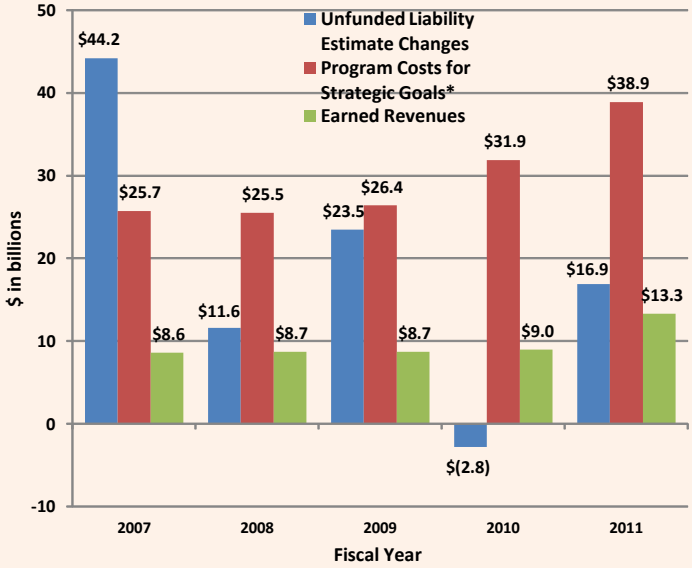
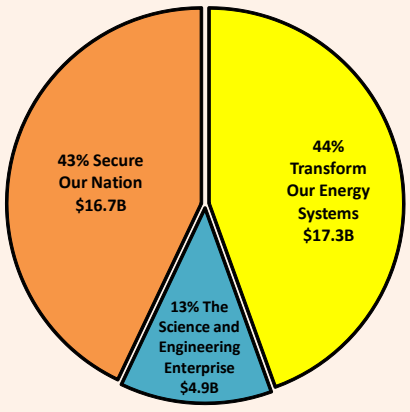


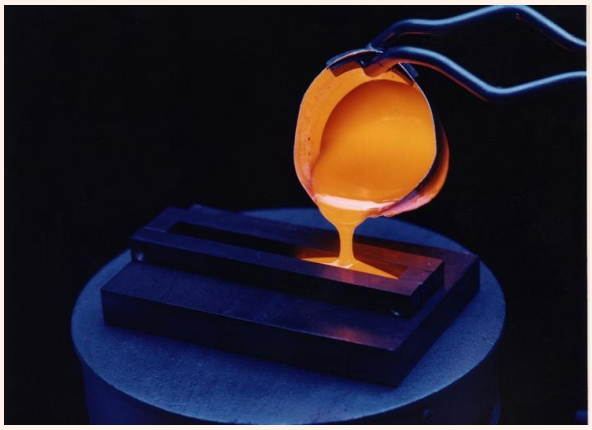
Chart 6: FY 2011 Program Costs (Gross) Breakdown by Programmatic Strategic Goal*



* Program Costs for strategic goals exclude certain costs not directly attributable to the strategic goals, such as the cost of reimbursable and other miscellaneous programs, costs applied to the reduction of legacy environmental liabilities and imputed costs for the occupational illness program. These excluded costs are more fully described in Notes 22-24 of the financial statements.

A net increase to the Department's environmental liability estimates during fiscal year 2011 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 (see Chart 4).

The Department's FY 2011 unfunded liability estimates increased by $2.7 billion for contractor pension plans and decreased by $0.8 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 resulted from a decrease in the rates used to discount the liabilities to present value. These discount rates are based on the yields of high-quality fixed income securities as of September 30, 2011 and 2010. Plan liabilities also changed due to 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. The unfunded pension liability was further increased by less than expected investment return on pension assets for the year.



Researchers at PNNL are using the ancient glass from a Roman merchant ship that sank in the Adriatic Sea, roughly 1,800 years ago to study how to safely store radioactive waste for millennia into the future through vitrification technology.

Chart 7: FY 2011 Unfunded Liability Estimate Changes

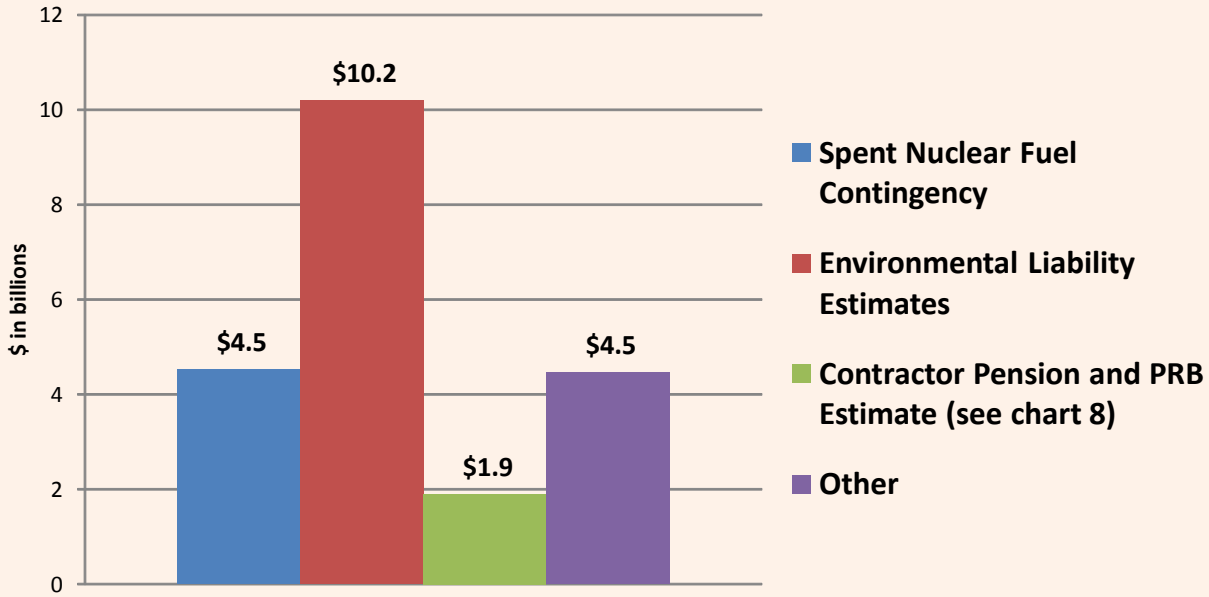
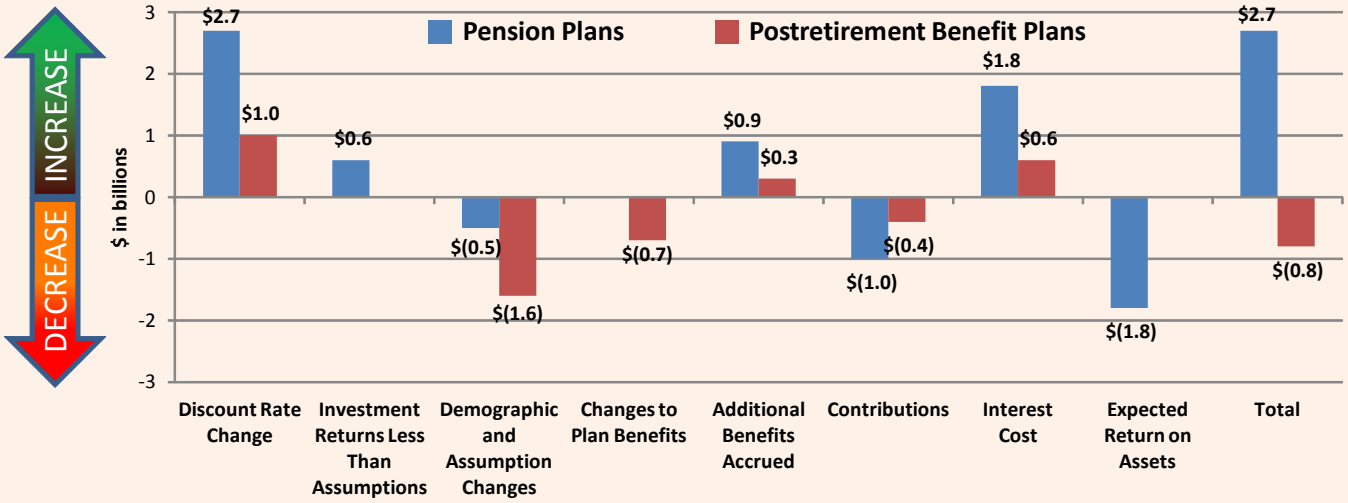


Chart 8: Contractor Employee Pension and PRB Liability Estimate Changes



Budgetary Resources

The Combined Statements of Budgetary Resources provide 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 has increased by $2.9 billion from FY 2010.

As shown in Chart 9, for FY 2011, The Department's Obligations Incurred decreased by $4.4 billion from FY 2010. This was primarily due to there being no new Recovery Act Funding in FY 2011 resulting in a decrease of $14.7 billion offset by a $10.9 billion increase in the Non Budget Credit Reform Financing Account.

Chart 9: Obligations Incurred

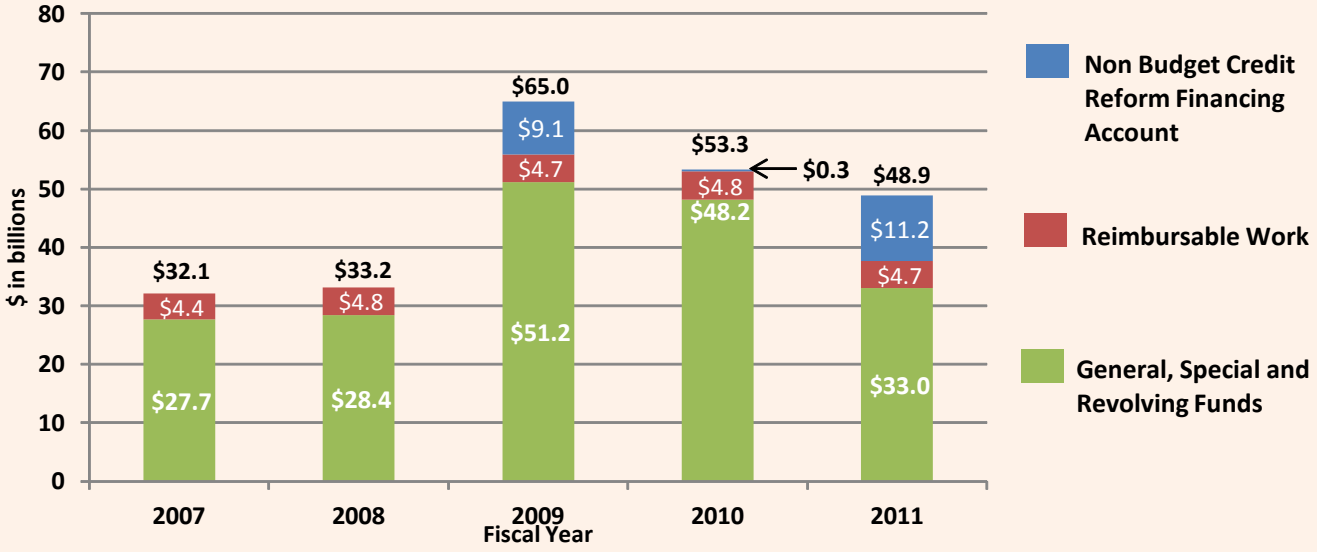


Chart 10: Recovery Act Appropriations, Obligations and Outlays

(Cumulative amounts through FY 2011 below exclude the Western Area and Bonneville Power Administrations' borrowing authority and credit reform financing accounts)

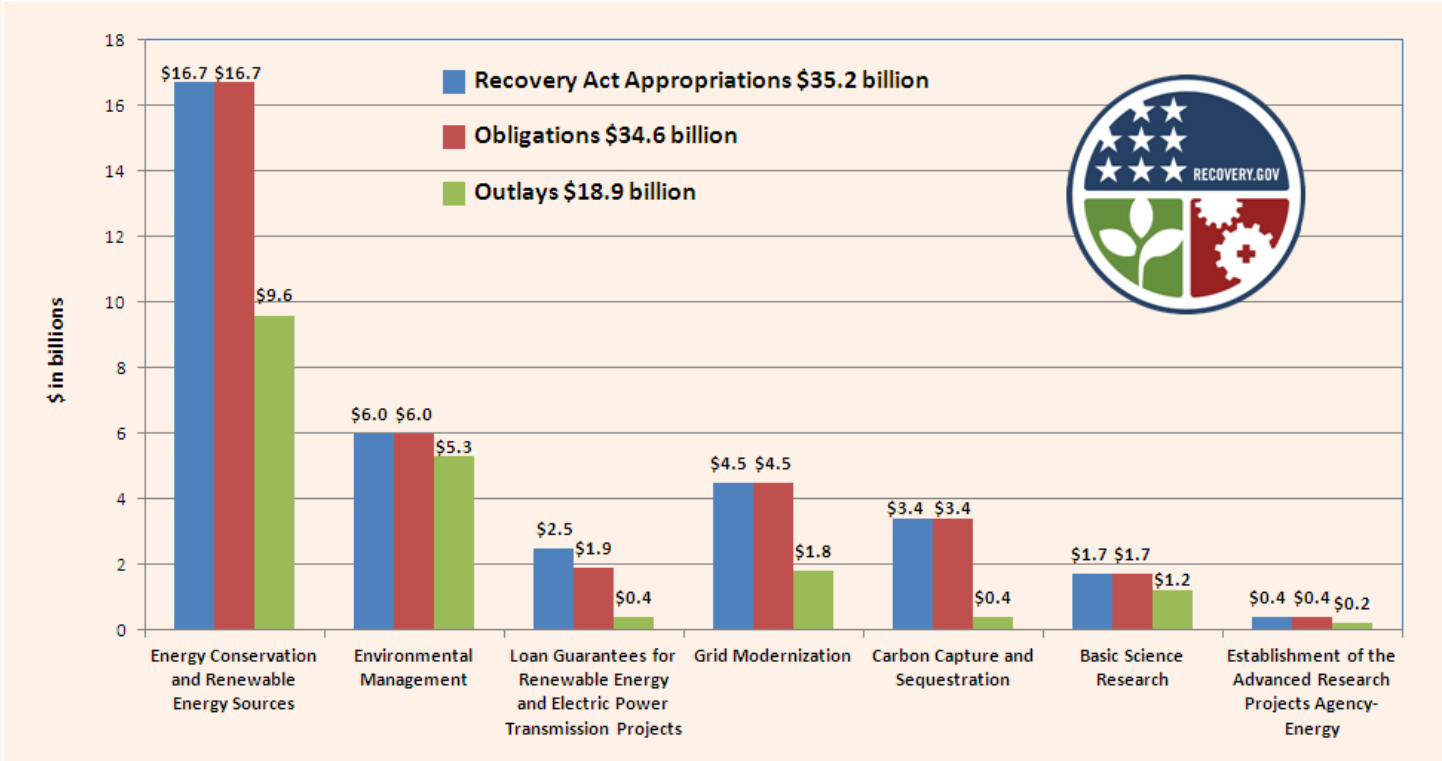


Chart 11: Linking Priorities, Budget and Cost

STRATEGIC GOALS	STRATEGIC OBJECTIVE	BUDGETARY EXPENDITURES INCURRED[a] ($ IN BILLIONS)	PROGRAM COST[b] (GROSS IN BILLIONS)	
			FY 2011	FY 2010
Transform Our Energy Systems	Deploy the technologies we have	$ 18.1	$ 13.1	$ 8.7
	Discover the new solutions we need	4.0	4.0	3.0
	Lead the National conversation on energy	0.2	0.2	0.2
The Science and Engineering Enterprise	Extend our knowledge of the natural world	3.6	3.5	3.1
	Deliver new technologies to advance our mission	1.8	1.4	1.2
	Sustain a world-leading technical workforce	-	-	-
Secure Our Nation	Support the U.S. nuclear stockpile and future military needs	7.0	6.2	5.1
	Reduce global nuclear dangers	2.4	1.8	1.7
	Apply our capabilities for other critical national security missions	1.2	1.2	1.2
	Support responsible civilian nuclear power development and fuel cycle management	0.2	0.2	0.3
	Complete environmental remediation of our legacy and active sites	8.6	7.3	7.4

a *Budgetary Expenditures Incurred is synonymous with delivered orders – amounts accrued or paid for services performed, goods and tangible property received, or for programs for which no current service is required such as loans. 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 allocations of Department Administration activities.*

b *Program Costs (Gross) are taken from the Department's Consolidated Statements of Net Cost.*

Analysis of Systems, Controls and Legal Compliance

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, 2011, 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, 2011, 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 control 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 control (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.

Although the Department has no material weaknesses to report as a result of the above internal control evaluations, the Department is continuing 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.

Steven Chu
November 14, 2011

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 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, makes the final assessment and decision for the Department.

The Department's evaluation for FY 2011 identified no material weaknesses in the design or operation of its management and financial system internal controls.

OMB Circular A-123, Appendix A

Internal control requirements for publicly traded companies contained in the Sarbanes-Oxley Act of 2002 paved the way for the Federal Government to also strengthen its internal control requirements. The issuance of 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 2011 did not identify any material weaknesses as of, or subsequent to, June 30, 2011.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) 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 U.S. Government Standard General Ledger at the transaction level.

American Recovery and Reinvestment Act

The Recovery Act was signed into law 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 is an extraordinary response to a crisis unlike any since the Great Depression, and includes 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

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 Accompanying Information section of this report. Similarly, in FY 2011 the GAO identified five major management challenges and program risks to be addressed by the Department.

The Department, after considering all critical activities within the agency and those areas identified by the IG and GAO, has identified nine Management Priorities that represent the most important strategic management issues facing the Department now and in the coming years.

CONTRACT AND PROJECT ADMINISTRATION

Key Challenges: Congress requested that the Department take corrective action to be removed from the GAO High-Risk List for inadequate contract and project oversight and management. DOE has been on this list since its inception in 1990. Leadership commitment from the Department's senior management and support from GAO and OMB is required to shape the necessary broad ranging policy and cultural changes while preventing adverse impact to the Department's mission.

Departmental Initiatives: The Department completed a comprehensive Root Cause Analysis (RCA) of contract and project management deficiencies in April 2008 and approved a Corrective Action Plan (CAP) in July 2008. The CAP addressed the root causes by identifying solutions that provide demonstrable results. Based on progress over the past several years, especially in DOE's Office of Science, GAO in 2009 narrowed the scope of the high-risk designation to include only DOE's National Nuclear Security Administration and Office of Environmental Management. GAO issued a scorecard with five criteria for removing all DOE programs from the High-Risk List. GAO acknowledges that the Department has met three of these criteria through its efforts to address contract and project management weaknesses including: 1) demonstrating strong commitment and top leadership support; 2) developing a corrective action plan that identifies effective solutions; and 3) demonstrating progress in implementing corrective measures. DOE will continue to address the remaining two criteria: having the capacity (people and resources) to resolve the problems and monitoring and independently validating the effectiveness and sustainability of corrective measures.

Nearly all corrective actions identified in the CAP were completed in FY 2010. As a result, the Department made sustainable improvements to contract and project management and generated measurable results. In short, the Department strengthened front-end planning by implementing Project Definition Rating Index and Technology Readiness Assessment Tools, developed Program specific staffing models based on industry and government best practices to provide appropriate project and contract oversight during planning and execution phases, and adopted a policy to require Project Peer Reviews (a best practice adopted from the Office of Science) be conducted at least once per year for large or high visibility projects and more frequently for the most complex projects or those experiencing performance challenges. A web-enabled replacement Project Assessment and Reporting System that provides transparent, consistent and quality project performance

data (including contractor Earned Value Management System data) to all levels of field and Headquarters' management was developed and deployed. A revision to DOE's project management directive, DOE Order 413.3B, has been issued. GAO acknowledged in its most recent High-Risk List update (February 2011) that the steps DOE has taken are very important, but have not yet consistently improved contract and management performance in EM and NNSA.

In its efforts to improve contract and project oversight, in FY 2011 the Department transitioned from RCA/CAP closeout to an increased focus on Contract and Project Management Reform. In the 1st quarter of FY 2011, the Department's Operations Management Council identified contract and project management as a key initiative of the Department's Management Excellence agenda. The initiative was formally kicked off in December 2010 by a Deputy Secretary-hosted Contract and Project Management Summit that brought together Federal Project Directors, program officials, Heads of Contracting Activity, Procurement Directors, HQ staff, as well as Energy Facility Contractor Group and National Laboratory Directors Council representatives. The Summit focused on six key areas – Project and Contract Alignment and Change Control; Contract Administration including surveillance, monitoring and oversight; Program/Project Prioritization and Funding Alignment; Roles and Responsibilities of Contracting Officers and Contracting Officer Representatives; Accountability – Aligning Incentives; and, Adequate Project and Contract Management Staffing. Following the Summit, cross-functional teams were established for each area to develop and implement solutions. The teams are reporting progress to the Contract and Project Management Improvement (CPMI) Executive Steering Committee on a monthly basis. Most are expected to complete their efforts by the end of FY 2012. Continuous improvement opportunities that result from the RCA/CAP and the CPMI teams will be implemented to further enhance the Department's efforts to consistently deliver capital asset projects within scope, cost and schedule commitments. Implementation of the RCA/CAP corrective measures will be monitored and appropriate project success performance metrics will be reported to Departmental leadership, OMB and GAO. In addition, DOE will report on its improvement status to the House and Senate Appropriations Committees in the annual budget request.

ACQUISITION PROCESS MANAGEMENT

Key Challenges: The Department is the largest civilian contracting agency in the Federal Government and spends approximately 80% of the appropriated funds on contracts to operate its scientific laboratories, engineering and production facilities, and environmental restoration sites. The Department has been challenged, both externally and internally, to improve the efficiency and efficacy of the procurement process. Most recently, a July 2009 report by the National Academy of Public Administration identified systemic and other areas where improvements could be made to facilitate DOE's acquisition processes. In addition, the DOE Inspector General has identified contract management as a management challenge and has issued two additional reports on DOE's acquisition workforce. DOE, through its own internal assessments, has determined that it needs to improve the quality of both its procurement systems across the complex and the procurement transactions which they produce. In response to the key challenges, DOE conducted a root cause analysis and developed a corrective action plan that will, over time, help the Department's major projects meet their budget, schedule and scope requirements. Vulnerabilities will be substantially mitigated by the initiatives implemented during FY 2010.

Departmental Initiatives: Significant progress has been made in addressing this Management Priority. The majority of corrective measures has been completed and will improve the way contracts are awarded and administered. In FY 2010, the Office of Procurement and Assistance Management (OPAM) implemented a concept of operations for the Source Evaluation Board Secretariat Function and further matured its source selection knowledge management initiatives. OPAM also worked with EM to develop an aggressive portfolio of initiatives that will build on, and further mature, the re-engineering of the competitive contracting process with a focus on acquisition planning and proposal evaluations, and strengthening field contracting operational effectiveness. In concert with the RCA/CAP initiatives championed by the Office of Engineering and Construction Management, specific areas of focus include:

- Strengthening front-end planning (requirements definition).
- Augmenting project staffing levels.
- Strengthening risk management strategies.
- Improving cost estimating capability.
- Strengthening Federal oversight, including improving integration of acquisition strategies, acquisition plans and project plans.
- Enhancing integrated contract teams through Deep Dive Reviews, Program Reviews and other oversight actions along with close interaction between Program and Office of Procurement acquisition officials.

Highlights of significant activities include developing Departmental guidance on Project Front-End Planning and publishing a Technical Readiness Assessment Guide. OPAM and EM also collaborated in the development of a stand-alone course for managing contract/project changes which is expected to significantly improve our post-award management function. In FY11, eight courses were held at various DOE sites. Feedback on the course from attendees has been overwhelmingly positive. In addition, OPAM is continuing to support Government-wide initiatives aimed at building and strengthening the acquisition workforce.

DOE's ability to obligate approximately $34.6 billion in ARRA funding under an extremely compressed timeframe

demonstrates the success of the initiatives undertaken in FY 2010. DOE's acquisition and program workforce was quickly mobilized and worked in a truly collaborative manner making this massive obligation possible. In some instances, contracting officials were co-located with program officials in order to facilitate the process and resulting awards. The Department is looking at more widespread adoption of co-location of contracting officials within programs where appropriate. DOE also undertook a number of industry outreach efforts to educate the public on the competitive award process, making the entire process more efficient. These lessons learned will be incorporated into all facets of DOE acquisition. OPAM officials are interacting with programs and their acquisition officials during the acquisition concept phase to help acquisition officials identify their requirements and provide advice and recommendations. OPAM's engagement from the beginning of each major acquisition and its continued assistance throughout the entire acquisition cycle is expected to significantly enhance the success of the program and facilitate more timely awards and post-award management.

SECURITY

Key Challenges: The Department works to ensure the security of national assets entrusted to the DOE while minimizing the impact on productivity and achievement of the Department's mission objectives.

Departmental Initiatives: In FY 2011, Departmental elements continued the security reform efforts initiated in FY 2009 to maintain high standards of safeguards and security of national assets entrusted to the Department thus contributing to national security and safety of the public while reducing regulatory burden. Through leadership, worker and stakeholder engagement, and operational experience, the Department continued to refine its safeguards and security policies and focus its oversight programs. The Department continued to implement an aggressive outreach program to establish and strengthen lines of communication, seek feedback, and resolve areas of interest and concern. Such activities included conducting focus group meetings led by the Office of Health, Safety and Security with participation from DOE program offices, worker trade unions, professional associations and other stakeholders. DOE program and staff offices continued reviewing safeguards and security programs and requirements to validate the technical basis and soundness of Department security measures in order to shift towards clear, concise, performance-based requirements without being overly prescriptive or redundant, and to maximize the use of consensus standards. Independent oversight activities were further focused on sites and laboratories that maintain significant levels of classified materials and/or information and demonstrate poor performance. Additionally, the Department continued to reduce the overall security footprint and meet the Graded Security Protection (GSP) Policy by consolidating and improving special nuclear material storage facilities; eliminating or releasing for general use facilities that previously required safeguarding; restructuring security management systems; deploying security technologies; implementing the tactical response force doctrine where needed; and modifying contractual incentives and performance metrics to enhance the Department's overall effectiveness.

In FY 2012, the Department will work towards institutionalizing the safeguards and security reforms implemented in FY 2010 and FY 2011 through the following initiatives:

- Maximize the use of national and international consensus standards where applicable and ensure DOE requirements are performance-based, meaningful, clear and concise without being overly prescriptive or redundant;
- Streamline the access authorization process and implement other efficiencies while continuing 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 effort, which maps to the Federal ICAM initiative, implements Homeland Security Presidential Directive-12 as well as 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 technologies in coordination with implementing the tactical response force doctrine where appropriate, and consolidating and improving nuclear material storage facilities;
- Collectively 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 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 by clarifying roles and responsibilities for Federal and contractor line management; and
- Continue the conduct of effective and transparent safeguards and security self-assessment, independent oversight, and enforcement programs to maintain stakeholder and public confidence.

ENVIRONMENTAL CLEANUP

Key Challenges: Within the Department, EM's 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 adverse environmental effects, which must be remediated, frequently under the most hazardous of

conditions, and which will require billions of dollars a year for several more decades.

Technical and programmatic risks and associated uncertainties are an inherent part of such complex cleanup projects, which can last for decades and often require first-of-a-kind solutions. Also, EM's cleanup work at most sites is governed by one or more regulatory agreements or 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 the major cost driver for the EM program.

In some cases, regulatory milestones were developed with existing available information recognizing that further characterization was needed, whether for the composition of waste or the nature and extent of environmental contamination. With these additional data and further risk analyses, revised milestones may lead to accelerated risk reduction and human health and environment protection balanced with cost effectiveness.

In addition to being responsible for the cleanup of the legacy of the Manhattan Project and the Cold War, the Department has a backlog of excess facilities, materials and wastes requiring cleanup. EM has established a procedure to integrate the remediation and disposition of these environmental liabilities into its existing program.

Departmental Initiatives: In FY 2012, the Department will continue its environmental cleanup mission with the following ongoing initiatives:

- Specific cleanup actions can be re-sequenced to clean up higher risk waste and environmental contamination sooner. Therefore, EM has been reviewing its cleanup agreements with regulators to identify actions that can accelerate risk reduction sooner and in a more cost-effective manner.

- To meet DOE's strategic goals for improving project and contract management performance, EM is implementing several initiatives, as follows:

  - EM has partnered with national laboratories, industry, academia, and the U.S. Army Corps of Engineers to ensure the best scientific and engineering resources are used, so that the selected technologies and the design and construction approaches will help reduce risk, lower cost, and accelerate project completion.
  - EM is expanding the use of independent contract and project reviews, construction project reviews, peer reviews, and external independent reviews to keep contracts and projects aligned and on track. EM is also conducting verification and validation reviews to ensure that performance data is credible and reliable.
  - EM continues to strengthen the integration of acquisition 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; nuclear safety requirements are addressed early; and modifications to the contract and project baseline are managed through strict and timely change control processes.
  - EM has completed restructuring of the EM cleanup projects into smaller, more definitive capital projects and non-capital operations activities. In addition to adhering to DOE Order 413.3B for planning and execution of capital assets, EM will follow the same disciplined principles for managing the non-capital asset operations activities, e.g., establishing approval authorities, performance goals and metrics, operations project director designation, and change control procedures.
  - EM is currently implementing partnering agreements for major contracts, to create win-win scenarios where both the Federal staff and contractor staff understand and respect the rules of engagement and build better business relationships. Also, 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.

- In 2008, the Office of Science (SC), the Office of Nuclear Energy (NE), and NNSA nominated for possible transfer to EM approximately 340 excess facilities, materials, and wastes no longer needed for Departmental missions. To address the excess liabilities, EM conducts a comprehensive evaluation process to determine if they are suitable for transfer to EM from other Departmental organizations. When EM determines that nominated facilities, materials, and/or wastes satisfy transfer criteria, those liabilities enter the EM program, but only when funding is available to address them. Until funding becomes available, the current owners (SC, NE and NNSA) retain ownership, and are responsible for any associated surveillance and maintenance (S&M) costs. In addition, for excess facilities, the Department's Facilities Information Management System (FIMS) shall continue to identify SC, NE and NNSA as the current owners of the excess liabilities. Lastly, during the last two years, using ARRA funding, EM has been able to accelerate the demolition and cleanup of 72 excess liabilities, helping to shrink the EM footprint and lower the Department's overall environmental liability.

- DOE has developed a planning process that analyzes life-cycle cost profiles for discrete scope elements to inform optimum allocation of resources across the complex and to identify and accommodate additional cleanup scope. As part of this process, alternative

approaches that maximize risk reduction and cost savings are being identified and evaluated.

NUCLEAR WASTE DISPOSAL

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

The NWPA authorizes the Secretary to enter into contracts with commercial nuclear utilities and commercial research reactor operators that own and generate spent nuclear fuel. In return for the 1 mill per kilowatt-hour fee payment by utilities into the Nuclear Waste Fund, the government was to begin disposing of their spent nuclear fuel starting in 1998. As of September 2011, 76 lawsuits had been filed by utilities to recover claimed damages resulting from the delay. The Department of Justice has entered into 23 settlements. To date, approximately $1.35 billion in claims have been paid under these settlements, with contract holders continuing to submit annual claims for additional costs. Additional annual payments will be made 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 (DOJ). On March 7, 2011, DOJ notified opposing counsel in the pending spent nuclear fuel (SNF) cases of the terms and conditions under which DOJ would be willing to settle those cases, referred to below as "New Settlements". The terms and conditions are significantly different from those contained in the pre-2011 settlements. While there are numerous differences between the pre-2011 and New Settlements, the major difference is the use of the SNF acceptance rate published in the 1987 Draft Mission Plan to establish the government's liability under these settlements, i.e. a 900 MTU annual acceptance rate under the pre-2011 settlements versus a 3000 MTU annual acceptance rate under the New Settlements. The number of New Settlements made in FY 2011, coupled with the significantly higher spent nuclear fuel acceptance rate in those settlements, after deducting amounts paid by the Treasury Judgment Fund, resulted in a net increase in the Department's spent nuclear fuel litigation liability of $3.6 billion from FY 2010. Staff from the Department of Energy continue to be the lead government witnesses for the remaining unsettled cases being tried and continue to manage the Nuclear Waste Fund which has a balance of approximately $26.7 billion.

Yucca Mountain is not a workable option and the Department terminated the Office of Civilian Radioactive Waste Management and the Yucca Mountain repository project in FY 2010. The Department continues to support waste management and disposal R&D and remains committed to meeting its obligations to manage and ultimately dispose of spent nuclear fuel and high-level radioactive waste.

Departmental Initiatives: The Secretary, acting at the direction of the President, established the Blue Ribbon Commission on America's Nuclear Future (the Commission) to conduct a comprehensive review of policies for managing the back end of the nuclear fuel cycle, including all alternatives for the storage, processing, and disposal of civilian and defense used nuclear fuel, high-level waste, and materials derived from nuclear activities. The Commission provided a draft report to the Secretary in July 2011 and a final report will be issued in January 2012. The draft report is posted on the Commission's website, www.brc.gov , for public comment.

The Commission established three subcommittees to address specific areas of their charter. The three subcommittees evaluated reactor and fuel cycle technology, transportation and storage of used nuclear fuel, and disposal of used nuclear fuel and high-level waste.

CYBER SECURITY

Key Challenges: Despite overall improvements in the cybersecurity posture of the Department, cyber attacks are increasing in their level of complexity, frequency and aggression. These persistent, pervasive areas of vulnerability must be addressed at an enterprise level to ensure that DOE information assets and systems are adequately protected from harm. During FY 2011, the Office of the Chief Information Officer (CIO) made good progress towards institutionalizing a Departmental risk-based approach to cybersecurity, including the issuance of DOE Order 205.1B, which codifies the governance structure and risk-managed implementation and measurement. In the Order, the responsibility for defining the risk profile and implementation requirements for Departmental operating units falls to the Under Secretary-level organizations, which are grouped for the sake of cybersecurity as Senior DOE Management (SDM). The SDM organizations are also responsible, through the deployment of contractor assurance systems (CAS), for graded oversight of their operating units' cybersecurity programs based on risk and past performance. Rich data regarding the cybersecurity profile of enterprise systems is currently collected by the CIO for external Federal reporting requirements. The implementation of a continuous effort to synthesize and analyze this data for use by senior Departmental management will provide key internal stakeholders with a tool for enhancing their understanding of current trends regarding cybersecurity risks facing the DOE enterprise.

Departmental Initiatives: Cybersecurity is vital to protecting national security and securing America's energy future. During FY 2011, the Department continued transformative steps to improve the management of cybersecurity. The Information Management Governance Council established by the Deputy Secretary over a year ago is thriving. Key to its success is the partnership between the CIO, the Under Secretaries' IT/Cyber Security Representatives, and the Management and Operating contractors.

Long-term and continuous corrective action is required to effectively manage the evolving nature of cybersecurity threats. In FY 2011, to sustain and improve its cybersecurity program the Department focused on a mission based risk management approach; developed and implemented the Cyber Security Strategic Plan; and developed and implemented the Cyber Security Architecture.

Several efforts are underway in support of the tasks mentioned above. A new cyber directive, DOE O 205.1B, Cyber Security Management, was signed by the Deputy Secretary on May 16, 2011. The order clarifies and codifies DOE's approach for risk management.

A Memorandum of Understanding (MOU) between DOE and the Department of Homeland Security (DHS) was developed to establish a mutually acceptable framework for the implementation of OMB and DHS cybersecurity memoranda. It defines the terms for how DOE and DHS will engage in cooperative coordination for cybersecurity program implementation, monitoring, and oversight. In addition, the CIOs of DOE, including NNSA, and DoD signed an MOU that establishes a framework to protect DOE/NNSA and DoD program information from unauthorized disclosure and enables a process to assess the damage from suspected compromises of information systems containing critical unclassified information. It also establishes the framework to forge a collaborative environment for sharing threat and vulnerability information between DOE and DoD to improve protection of U.S. controlled unclassified information.

To further the Departmental goal of focusing on and supporting a mission-based, risk management approach as well as to provide consistent, complex-wide training to key cybersecurity personal, the CIO initiated a critical project initiative to develop and implement Authorizing Official (AO)/AO Designated Representative Role-Based Training for Federal employees. One of the primary objectives of this course is to describe DOE's Risk Management Approach (RMA) as defined in DOE O 205.1B, as well as other national guidance such as the NIST Risk Management Framework. Additionally, the process of developing the next prioritized competency module, Security Risk Management has started and can be applied to several key cyber role core competency training suites.

The Cyber Security Strategic Plan was developed and integrated into an CIO Strategic plan. And finally, a Notional Cyber Security Management Architecture Framework was established that includes DOE Cyber Security Principles, DOE Cyber Security Objectives, and a diagram that presents a view of meta-level cybersecurity program architecture driven by the RMA.

HUMAN CAPITAL MANAGEMENT

Key Challenges: The Department requires a highly technical and specialized workforce to accomplish its scientific and technological missions. The ongoing challenge is to recruit, maintain and develop a capable and flexible workforce in the face of numerous barriers, including increased competition for individuals with the needed technical knowledge and broad competency set and the continuous knowledge and skill drain from retirements and other sources of attrition.

Departmental Initiatives: In FY 2011, the Chief Human Capital Officer (CHCO) worked closely with the newly appointed Associate Deputy Secretary (ADS) to achieve targeted outcomes with respect to the Department's Strategic Goal to establish an operational and adaptable framework that combines the best wisdom of all Department stakeholders to maximize mission success. The CHCO is directly accountable for 11 Departmental effectiveness and performance measures and is using metrics to monitor progress and make course corrections and newly developed and implemented tracking and reporting mechanisms to continually monitor progress towards goals. In FY 2011, the Department achieved a number of Human Capital Management successes, including:

- Establishing a Disability Employment Program and Veterans Employment Initiative to increase the employment of persons with disabilities and veterans in the Department. DOE submitted operational plans to the Office of Personnel Management (OPM) for both initiatives that outline the scope, goals, and objectives of the programs, encompassing recruitment, training, workers' compensation and reasonable accommodation. DOE also partnered with the Department of Labor to offer training to hiring managers and human resources professionals on the use of Schedule A hiring authority. As a result, the Department is on track to meet its current hiring goals.
- Leading the Department's efforts to achieve the President's Hiring Reform Initiatives by reducing the time-to-hire for General Schedule (GS) and equivalent positions during FY 2011 from 174 to 101 days (42%) with over 1,200 hiring actions. DOE was featured by the CHCO Council's CHCO Academy and the Partnership for Public Service as a model for other agencies on successful hiring reform strategies and emerging practices.
- Launching new recruitment initiatives designed to unify the Department's corporate identity and attract diverse talent to DOE. These strategies included expanding the Student Ambassador's Program on college campuses; deploying a new DOE branding tagline "Only Here…" to internal and external constituencies; enhancing the Jobs One Portal website; holding online job fairs and recruitment events; and launching "The Intern Experience," the first DOE blog dedicated to enabling student employees and entry-level professionals with the capacity to share

experiences, professional tips and advice and to feature the exciting work being performed by these employees across the country.
- Leading the Department's efforts to improve workforce development through the creation of an Executive Leadership Learning Series; establishing the Leaders as Teachers Program, a new Knowledge Management strategy designed to engage senior DOE leaders as subject matter experts, teachers, speakers and curriculum developers to capture, distribute and repurpose intellectual knowledge within the DOE workforce; implementing the first phase of the DOE University Framework to improve workforce development, leverage best practices, enable enhanced L&D technologies, implement corporate standards and improve management of training costs, products and services; implementing a new DOE mentoring Program to include 16 mentoring events with 98 mentees and 88 mentors; and mandating the increased use of Individual Development Plans (IDPs). Increasing the use of IDPs (by nearly 40% during FY 2011) enables Department Elements an improved capability to accurately assess the learning needs of the organization and more effectively plan for the costs associated with staff development, while also identifying skill gaps in the workforce that may require the recruitment of new talent.
- Partnering with the Office of Personnel Management (OPM) to co-chair the multi-agency workgroup formed by OPM Director John Berry to develop a single performance management model for GS employees throughout the Federal Government and to lead the development of HR University (HRU). The performance management model will focus on providing ongoing feedback and communication, establishing a clear and easy to understand process, and ensuring strategic alignment with agency mission. The HRU will improve the availability and cost effectiveness of delivering training to the HR community across agencies.
- Developing and piloting an electronic Performance Management System (ePerformance) to improve the execution, efficiency and effectiveness of the Department's performance management responsibilities and building upon the CHCO's efforts to 'green' the human capital management workplace, through online recruitment, Employee Self Service and the electronic Official Personnel Folder. The system will roll out to a majority of the Department at the beginning of FY 2012.
- Leading the Workforce Management Review Board, which was formed by the Associate Deputy Secretary to provide expertise and data modeling capability to assist Departmental Elements in making corporate-level workforce decisions for both Federal employees and support service contractors. This is a critical capability in light of the constrained budget environments expected for FY 2012 and beyond.

The Department will continue to emphasize Management Excellence in FY12 through the continuation of the initiatives mentioned above and other innovative Human Capital Management programs. For instance, the Department is elevating the time-to-hire metric to High Priority Performance Goal status for FY 2012/13. Specifically, the goal for FY 2012/13 is to reduce the agency's time-to-hire to 80 calendar days or less, including a target of 50 days or less for time-to-offer.

SAFETY AND HEALTH

Key Challenges: The Department works to maintain the safety and health of its workers and the public to enhance productivity and achieve its mission objectives.

Departmental Initiatives: In FY 2011, Departmental elements continued the safety and health reform efforts initiated in FY 2009 to maintain high standards of health and safety for its workers and the public while reducing regulatory burden. Through leadership, worker and stakeholder engagement, and operational experience, the Department continued to refine its safety and health policies, focus its oversight programs, and align its enforcement activities. The Department continued to implement an aggressive safety and health outreach program to establish and strengthen lines of communication, seek feedback and resolve areas of interest and concern. Such activities included conducting focus group meetings led by the Office of Health, Safety and Security with participation from DOE program offices, worker trade unions, professional associations and other stakeholders. DOE program and staff offices continued reviewing safety and health programs and requirements to validate the technical basis and soundness of Department measures. Where necessary, requirements were amended to better support the Department's overall mission objectives and management principles. The Department also continued to strengthen oversight of capital projects, to include major nuclear design and construction projects and to ensure that quality assurance and safety and health requirements are properly implemented in all project life-cycle phases. Independent oversight activities were further focused on operations involving higher hazards or poor performance. The Department continued to align its worker and nuclear safety enforcement programs with those of the Occupational Safety and Health Administration and the Nuclear Regulatory Commission to provide a more consistent regulatory environment to its contractor base. The Department also continued to implement Title 10 Code of Federal Regulation Part 851, Worker Health and Safety Program, and the Departments Integrated Safety Management principles into all facets of work planning and execution, including work conducted under the American Recovery and Reinvestment Act.

In FY 2012, the Department will work towards institutionalizing the safety and health reforms implemented in FY 2010 and FY 2011 through the following initiatives:

- Maximize the use of national and international consensus standards where applicable and ensure DOE requirements are performance-based, meaningful, clear and concise without being overly prescriptive or redundant;
- Strengthen the implementation of Department safety and health-related programs, e.g., DOE Voluntary Protection Program and Integrated Safety Management, through corporate assistance and awareness activities;
- Maintain effective levels of safety and health expertise throughout the Department by providing safety training and professional development programs through the National Training Center;
- Foster improvements to safety and health performance by clarifying and communicating roles and responsibilities for Federal and contractor line management; and
- Continue the conduct of effective and transparent safety and health self-assessment, independent oversight, and enforcement programs to maintain stakeholder and public confidence.

RECOVERY ACT

Key Challenges: Through ARRA, the Department of Energy was appropriated $35.2 billion contract, grant and loan guarantee funds and $6.5 billion in power marketing administration borrowing authority. DOE was originally appropriated $38.7 billion of ARRA funds, which was later reduced to $35.2 billion after $3.5 billion in rescissions and transfers from the loan program. The Department is also supporting Treasury in administering more than $15 billion in tax grants for renewable-energy generation and tax credits for clean-energy manufacturing. These ARRA funds represented a five-fold increase in the Applied Energy base budget and required the majority of program offices to significantly scale up operations quickly. Moreover, DOE established a new program, ARPA-E. As a result of ARRA, the Department increased transparency and accountability, improved efficiency in the procurement process, and improved collaboration within DOE and with external stakeholders.

Departmental Initiatives: Over the last two fiscal years, the Department has undertaken the following initiatives to meet the goals of the ARRA:

- Developed a master plan that defined key deadlines: issuing notices of funding opportunities, application due, completion of review processes, announcements, NEPA reviews, contracts to be completed and projects to be started.
- Developed an online financial database for ARRA work, accessible through the iPortal. This provides managers with a consistent set of information regarding the current status of programs aggregated by agency or program or at the level of a particular project. Information related to obligations, payments and milestones is also available. Daily reports are generated and made available to the Department's senior management and the Congress.
- Specified the resources required to meet deadlines in the master plan. This highlighted the Department's need for reviewers, environmental compliance specialists and procurement officers. DOE worked vigorously with partners and external stakeholders to bring in more resources to the Department. The additional resources created the capacity to deliver at scale.
- Held regular "tag up" meetings to identify critical issues, assign staff to resolve the issues and set a clear deadline for resolution.
- Conducted Recovery Program Reviews to perform a "deep dive" into a specific Program Office's financial, operational and impact metric progress in meeting targets.
- Developed comprehensive risk management plans for each program. Plans were supported by Inspector General's preventive up-front audit, documenting each instance of waste, fraud and abuse that had occurred over the last decade in any program receiving funds under ARRA.
- Established call centers to help those applying for funding and, if necessary, provided resources to the field to facilitate the application process.

While the Department was successful in obligating ARRA funds, continued focus will remain on the following issues:

- Ensuring ARRA funds are expended quickly and wisely to maximize job creation and meet energy goals.
- Strengthening risk management practices as part of project oversight, including closing out ARRA related contracts on a timely basis and resolving post-award audits promptly.
- Providing appropriate level of resources for ARRA–specific oversight and management through the end of ARRA projects.

Changes From FY 2010 Management Priorities

Following management review and discussion, the previous Management Priority of Stockpile Stewardship has been removed from the FY 2011 list of Management Priorities. However, Stockpile Stewardship will continue to be a long-term strategic priority of the Department and is discussed in the Strategic Planning and Program Performance section of this Report.

It is the Department's goal that the strategies to address these areas will also help mitigate related IG and GAO management challenges. To highlight how the Department's strategies for mitigating its Management Priorities align with the IG and GAO challenge areas, the following table provides a crosswalk of the relationship

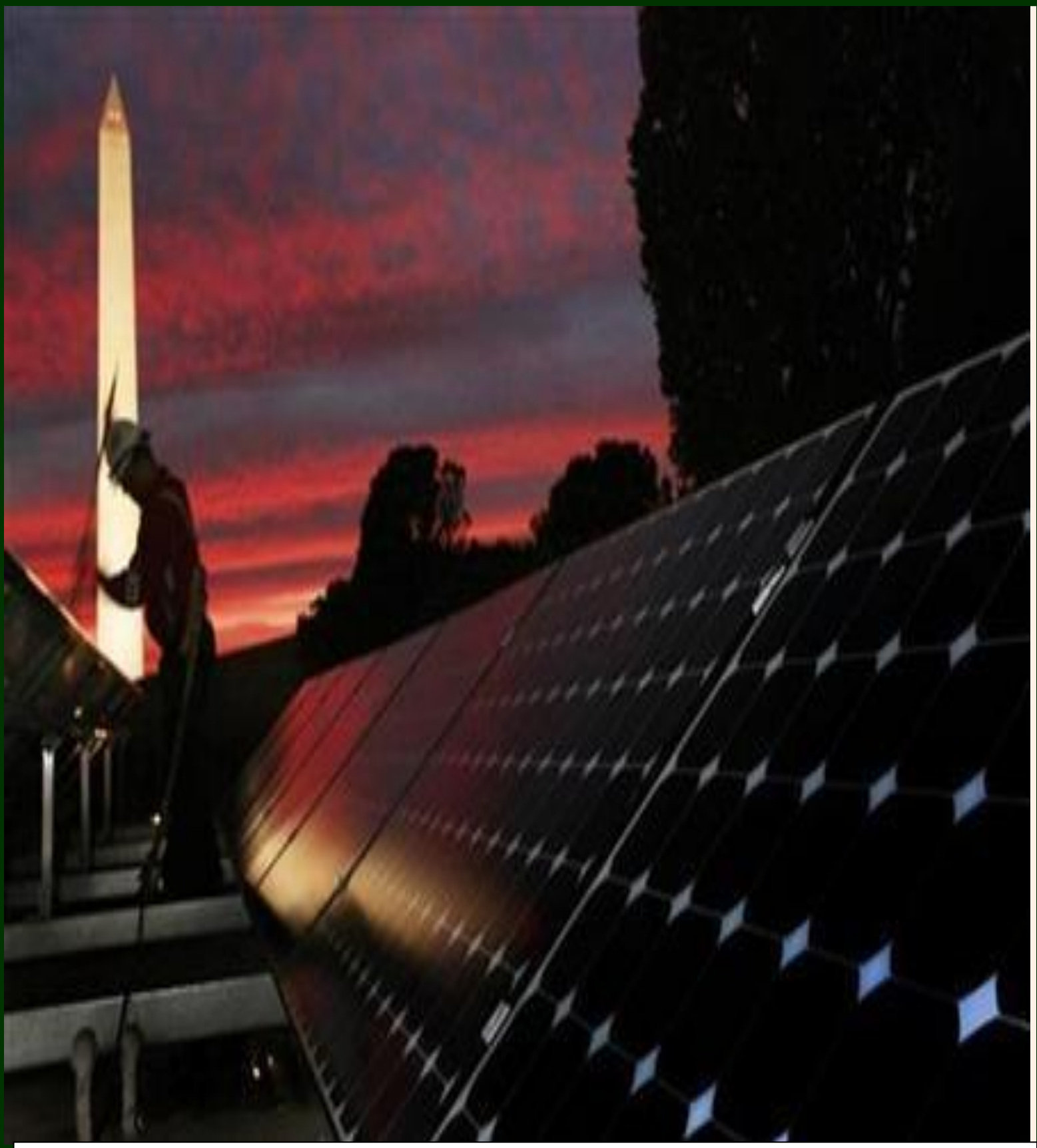
between the three. Please note that the IG and GAO did identify areas that are not currently reported as Management Priorities by the Department. While the ongoing importance of those areas is recognized and they continue to receive appropriate management attention, management has not designated them as Management Priorities.

DOE MANAGEMENT PRIORITIES	IG CHALLENGE AREAS FY 2011	GAO CHALLENGE AREAS
Contract and Project Administration **S** Acquisition Process Management **S**	Contract and Financial Assistance Award Management **S**	Resolve contract administration and project management problems for large and complex projects **S**
Security **D**		
Environmental Cleanup **D** Nuclear Waste Disposal **D**	Environmental Cleanup **D** Nuclear Waste Disposal **D**	
	Stockpile Stewardship **D**	Improve the safety, reliability and physical and information security for the Nation's nuclear weapons stockpile **D**
Cyber Security **S**	Cyber Security **S**	
	Energy Supply **D**	Enhance the development, management and protection of assets vital to the nation's energy and national security **D**
Human Capital Management **S**	Human Capital Management **S**	Address the human capital challenge of developing and retaining a skilled workforce capable of overseeing complex projects **S**
Safety & Health **S**		
		Sustain the relevance and effectiveness of nonproliferation efforts **D**
Recovery Act **D and S**		
	Operational Efficiency & Cost Savings **D and S**	

D = Mission Direct **S = Mission Support**

Employees of the Savannah River Site's M Area Operable Unit gather at the completed site. Recovery Act funds contributed to completion of site.

Financial Results



A student from the University of Puerto Rico cleans solar panels to maximize energy efficiency during the U.S. Department of Energy Solar Decathlon near the Washington Monument on the National Mall in Washington.

Solar panels on the roof of the Department of Energy's Forrestal Building in Washington, D.C.

Message from the Chief Financial Officer

I am pleased that the public accounting firm KPMG LLP, serving as our independent auditor, has expressed an unqualified opinion on our financial statements for a fifth consecutive year. No material weaknesses in our internal controls were identified, and our financial systems conform to governmental standards and requirements. Our achievement is an important and successful measure of the integrity of our finances and governing internal controls.

I would like to take this opportunity to express my deepest appreciation for the continued dedication and professionalism of our financial management community to assure the financial integrity of our Department. As public servants we shall continue to work in ever increasingly challenging times, and we need to be prepared for that. However, I am both proud and comforted that I shall continue to have the opportunity to serve amongst you.

Thank you again, and good luck for fiscal year 2012.

Owen F. Barwell
November 14, 2011

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, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the OMB Circular 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 IG. 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 May 2011 Strategic Plan. All operating costs reported reflect full costs, including all direct and indirect costs, consumed by a program or responsibility segment. The full costs 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 budget authority. Budget authority is the authority that Federal law gives to agencies to incur financial obligations that will eventually result in outlays or expenditures. Specific forms of budget authority that the Department receives are 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 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 the Army Corps of Engineers and the Bureau of Reclamation.

Principal Statements

U.S. Department of Energy Consolidated Balance Sheets

As of September 30, 2011 and 2010

($ IN MILLIONS)	FY 2011	FY 2010
ASSETS: (Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 47,720	$ 56,249
Investments and Related Interest, Net (Note 4)	33,291	31,396
Accounts Receivable, Net (Note 5)	807	496
Regulatory Assets (Note 6)	5,492	5,468
Other Assets	33	61
Total Intragovernmental Assets	**$ 87,343**	**$ 93,670**
Investments and Related Interest, Net (Note 4)	181	195
Accounts Receivable, Net (Note 5)	3,893	4,018
Direct Loans and Loan Guarantees, Net (Note 7)	5,732	2,435
Inventory, Net: (Note 8)		
Strategic Petroleum and Home Heating Oil Reserve	20,668	21,700
Nuclear Materials	21,642	21,454
Other Inventory	536	513
General Property, Plant, and Equipment, Net (Note 9)	30,740	29,687
Regulatory Assets (Note 6)	7,406	4,605
Other Non-Intragovernmental Assets (Note 10)	3,840	3,421
Total Assets	**$ 181,981**	**$ 181,698**
LIABILITIES: (Note 11)		
Intragovernmental Liabilities:		
Accounts Payable	$ 104	$ 101
Debt (Note 12)	19,307	14,847
Deferred Revenues and Other Credits (Note 13)	64	36
Other Liabilities (Note 14)	1,511	1,281
Total Intragovernmental Liabilities	**$ 20,986**	**$ 16,265**
Accounts Payable	4,843	4,832
Loan Guarantee Liability	86	4
Debt Held by the Public (Note 12)	5,763	5,915
Deferred Revenues and Other Credits (Note 13)	31,715	29,495
Environmental Cleanup and Disposal Liabilities (Note 15)	250,569	250,209
Pension and Other Actuarial Liabilities (Note 16)	30,304	28,405
Obligations Under Capital Leases (Note 17)	607	540
Other Non-Intragovernmental Liabilities (Note 14)	7,373	4,406
Contingencies and Commitments (Note 18)	19,175	15,481
Total Liabilities	**$ 371,421**	**$ 355,552**
NET POSITION:		
Unexpended Appropriations		
Unexpended Appropriations - Earmarked Funds (Note 19)	$ 21	$ 18
Unexpended Appropriations - Other Funds	37,741	46,981
Cumulative Results of Operations		
Cumulative Results of Operations - Earmarked Funds (Note 19)	(5,083)	(4,622)
Cumulative Results of Operations - Other Funds	(222,119)	(216,231)
Total Net Position	**$ (189,440)**	**$ (173,854)**
Total Liabilities and Net Position	**$ 181,981**	**$ 181,698**

The accompanying notes are an integral part of these statements.

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

For the Years Ended September 30, 2011 and 2010

($ IN MILLIONS)	FY 2011	FY 2010
STRATEGIC GOALS:		
Transform Our Energy Systems		
Program Costs (Note 20)	$ 17,315	$ 11,924
Less: Earned Revenues (Note 21)	(8,400)	(4,015)
Net Cost of Transform Our Energy Systems	**8,915**	**7,909**
The Science and Engineering Enterprise		
Program Costs (Note 20)	4,872	4,294
Less: Earned Revenues (Note 21)	(32)	(22)
Net Cost of Science and Engineering Enterprise	**4,840**	**4,272**
Secure Our Nation		
Program Costs (Note 20)	16,698	15,691
Less: Earned Revenues (Note 21)	(375)	(387)
Net Cost of Secure Our Nation	**16,323**	**15,304**
Net Cost of Strategic Goals	**30,078**	**27,485**
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	4,257	4,202
Less: Earned Revenues (Note 21)	(4,168)	(4,169)
Net Cost of Reimbursable Programs	**89**	**33**
Other Programs (Note 22)		
Program Costs	826	806
Less: Earned Revenues (Note 21)	(357)	(363)
Net Cost of Other Programs	**469**	**443**
Costs Applied to Reduction of Legacy Environmental Liabilities (Notes 15 and 23)	(7,881)	(6,515)
Costs Not Assigned (Note 24)	21,235	2,377
Net Cost of Operations (Note 25)	**$ 43,990**	**$ 23,823**

The accompanying notes are an integral part of these statements.

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

For the Years Ended September 30, 2011 and 2010

($ IN MILLIONS)	EARMARKED FUNDS (Note 19)	ALL OTHER FUNDS	ELIMINATIONS	CONSOLIDATED
	FY 2011			
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	$ (4,622)	$ (216,231)	$ -	$ (220,853)
Budgetary Financing Sources:				
Appropriations Used	$ 9	$ 37,713	$ -	$ 37,722
Non-Exchange Revenue	7	52	-	59
Donations and Forfeitures of Cash	-	15	-	15
Transfers - In/(Out) Without Reimbursement	(26)	(276)	-	(302)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	9	6	-	15
Transfers - In/(Out) Without Reimbursement (Note 25)	(664)	(78)	-	(742)
Imputed Financing from Costs Absorbed by Others (Note 25)	1	5,237	-	5,238
Other	(3,273)	(1,038)	(53)	(4,364)
Total Financing Sources	**$ (3,937)**	**$ 41,631**	**$ (53)**	**$ 37,641**
Net Cost of Operations	3,476	(47,519)	53	(43,990)
Net Change	**$ (461)**	**$ (5,888)**	**$ -**	**$ (6,349)**
Total Cumulative Results of Operations	**$ (5,083)**	**$ (222,119)**	**$ -**	**$ (227,202)**
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	$ 18	$ 46,981	$ -	$ 46,999
Budgetary Financing Sources:				
Appropriations Received (Note 26)	$ 11	$ 29,020	$ -	$ 29,031
Appropriations Transferred - In/(Out)	-	3	-	3
Other Adjustments	-	(549)	-	(549)
Appropriations Used	(8)	(37,714)	-	(37,722)
Total Budgetary Financing Sources	**$ 3**	**$ (9,240)**	**$ -**	**$ (9,237)**
Total Unexpended Appropriations	**$ 21**	**$ 37,741**	**$ -**	**$ 37,762**
Net Position	**$ (5,062)**	**$ (184,378)**	**$ -**	**$ (189,440)**
	FY 2010			
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	$ (4,688)	$ (230,269)	$ -	$ (234,957)
Budgetary Financing Sources:				
Appropriations Used	$ 13	$ 33,062	$ -	$ 33,075
Non-Exchange Revenue	7	54	-	61
Donations and Forfeitures of Cash	-	1	-	1
Transfers - In/(Out) Without Reimbursement	17	(50)	-	(33)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	27	2	-	29
Transfers - In/(Out) Without Reimbursement (Note 25)	3	198	-	201
Imputed Financing from Costs Absorbed by Others (Note 25)	2	5,492	-	5,494
Other	488	(907)	(482)	(901)
Total Financing Sources	**$ 557**	**$ 37,852**	**$ (482)**	**$ 37,927**
Net Cost of Operations	(491)	(23,814)	482	(23,823)
Net Change	**$ 66**	**$ 14,038**	**$ -**	**$ 14,104**
Total Cumulative Results of Operations	**$ (4,622)**	**$ (216,231)**	**$ -**	**$ (220,853)**
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	$ 20	$ 55,387	$ -	$ 55,407
Budgetary Financing Sources:				
Appropriations Received (Note 26)	$ 11	$ 26,176	$ -	$ 26,187
Appropriations Transferred - In/(Out)	-	3	-	3
Other Adjustments	-	(1,523)	-	(1,523)
Appropriations Used	(13)	(33,062)	-	(33,075)
Total Budgetary Financing Sources	**$ (2)**	**$ (8,406)**	**$ -**	**$ (8,408)**
Total Unexpended Appropriations	**$ 18**	**$ 46,981**	**$ -**	**$ 46,999**
Net Position	**$ (4,604)**	**$ (169,250)**	**$ -**	**$ (173,854)**

The accompanying notes are an integral part of these statements.

U.S. Department of Energy Combined Statements of Budgetary Resources
For the Years Ended September 30, 2011 and 2010

($ IN MILLIONS)	BUDGETARY	NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNTS	BUDGETARY	NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNTS
	FY 2011		FY 2010	
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ 9,946	$ 3,363	$ 27,262	$ 3,336
Recoveries of Prior Year Unpaid Obligations	157	30	997	189
Budget Authority:				
Appropriations (Note 26)	$ 29,947	$ -	$ 27,065	$ -
Borrowing Authority	1,048	10,152	838	160
Contract Authority	1,288	-	1,135	-
Spending Authority from Offsetting Collections:				
Earned:				
Collected	8,671	1,752	8,343	947
Change in Receivables from Federal Sources	31	-	23	-
Change in Unfilled Customer Orders:				
Advances Received	79	-	9	-
Without Advance from Federal Sources	(28)	562	20	(775)
Subtotal	$ 41,036	$ 12,466	$ 37,433	$ 332
Nonexpenditure Transfers, Net, Actual	(92)	-	(87)	-
Temporarily not Available Pursuant to Public Law	(1,647)	-	-	-
Permanently not Available	(2,201)	(37)	(2,623)	(189)
Total Budgetary Resources (Note 26)	$ 47,199	$ 15,822	$ 62,982	$ 3,668
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred:				
Direct	$ 29,219	$ 11,229	$ 44,467	$ 305
Exempt from Apportionment	3,721	-	3,773	-
Reimbursable	4,737	-	4,796	-
Total Obligations Incurred (Notes 25 and 26)	$ 37,677	$ 11,229	$ 53,036	$ 305
Unobligated Balance:				
Apportioned	6,200	38	8,278	71
Exempt from Apportionment	29	-	53	-
Unobligated Balance not Available (Note 26)	3,293	4,555	1,615	3,292
Total Status of Budgetary Resources	$ 47,199	$ 15,822	$ 62,982	$ 3,668
CHANGE IN OBLIGATED BALANCE:				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	$ 51,502	$ 6,143	$ 41,897	$ 8,194
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(4,498)	(2,093)	(4,455)	(2,868)
Total Unpaid Obligated Balance, Net, October 1	$ 47,004	$ 4,050	$ 37,442	$ 5,326
Obligations Incurred (Notes 25 and 26)	37,677	11,229	53,036	305
Less: Gross Outlays	(47,406)	(5,074)	(42,434)	(2,167)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(157)	(30)	(997)	(189)
Change in Uncollected Customer Payments from Federal Sources	(3)	(562)	(43)	775
	$ 37,115	$ 9,613	$ 47,004	$ 4,050
Obligated Balance, Net, End of Period:				
Unpaid Obligations (Note 26)	$ 41,616	$ 12,268	$ 51,502	$ 6,143
Less: Uncollected Customer Payments from Federal Sources	(4,501)	(2,655)	(4,498)	(2,093)
Total, Unpaid Obligated Balance, Net, End of Period	$ 37,115	$ 9,613	$ 47,004	$ 4,050
NET OUTLAYS:				
Gross Outlays	$ 47,406	$ 5,074	$ 42,434	$ 2,167
Less: Offsetting Collections	(8,750)	(1,752)	(8,352)	(947)
Less: Distributed Offsetting Receipts (Notes 25 and 26)	(7,306)	-	(3,305)	-
Net Outlays (Note 26)	$ 31,350	$ 3,322	$ 30,777	$ 1,220

The accompanying notes are an integral part of these statements.

U.S. Department of Energy Consolidated Statements of Custodial Activities
For the Years Ended September 30, 2011 and 2010

($ IN MILLIONS)	FY 2011	FY 2010
SOURCES OF COLLECTIONS:		
Cash Collections: (Note 27)		
Power Marketing Administrations	$ 819	$ 899
Federal Energy Regulatory Commission	48	41
Total Cash Collections	**$ 867**	**$ 940**
Accrual Adjustment	(20)	(13)
Total Custodial Revenue	**$ 847**	**$ 927**
DISPOSITION OF REVENUE:		
Transferred to Others:		
Bureau of Reclamation	(491)	(471)
Department of the Treasury	(306)	(351)
Army Corps of Engineers	(63)	(87)
Others	(6)	-
Decrease/(Increase) in Amounts to be Transferred	19	(18)
Net Custodial Activity	**$ -**	**$ -**

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). 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 of Energy; the Under Secretary for Nuclear Security/Administrator for The National Nuclear Security Administration; the Under Secretary for Science; 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 and 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 on a day-to-day basis and provide other special work under the direction of the Department's field organizations. 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 whom 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, and intragovernmental costs are payments or accruals to other federal entities.

D. FUND BALANCE WITH TREASURY

Funds with the 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).

F. ACCOUNTS RECEIVABLE, NET

Intragovernmental accounts receivables 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

The Department has two loans that were obligated and disbursed prior to fiscal year 1992, and are presented net of an allowance for loss. All loans obligated after fiscal year 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 Federal Financing Bank (FFB) Debt is calculated in accordance with the Office of Management and Budget Circular No. 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 is $50,000 except for the power marketing administrations (PMAs) and FERC, which use thresholds ranging from $5,000 to $50,000. 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. EARMARKED FUNDS

Earmarked funds 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 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. 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 25) and a program expense, 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 Departmental direction. 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 May 2011 Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these strategic goals and objectives. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 20 and 21).

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 21). 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 (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 that are directly attributable to the Department's operations are paid by other agencies, 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 Note 25).

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 27).

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

Q. COMPARATIVE DATA

Certain fiscal year 2010 amounts have been reclassified to conform to the fiscal year 2011 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 U.S. 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 U.S. Army Corps of Engineers. The Department receives allocation transfers, as the child, from Treasury, the U.S. Department of Transportation and the U.S. Agency for International Development.

2. Non-Entity Assets

($ IN MILLIONS)	FY 2011	FY 2010
Intragovernmental		
Naval Petroleum Reserve Deposit Fund (Note 14)	$ -	$ 323
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14)	75	59
Other	8	7
Subtotal	**$ 83**	**$ 389**
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14)	181	195
Inventories - Department of Defense stockpile oil (Notes 8 and 14)	123	123
Other	2	2
Total non-entity assets	**$ 389**	**$ 709**
Total entity assets	181,592	180,989
Total assets	**$ 181,981**	**$ 181,698**

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

NAVAL PETROLEUM RESERVE DEPOSIT FUND

The balance of the Naval Petroleum Reserve Deposit Fund was returned to Treasury in FY 2011 upon final settlement of the equity interest from the 1998 sale of Naval Petroleum Reserve No. 1 Elk Hills (see Note 21).

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. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance. The investments are liquidated, as needed, to make payments to claimants from this fund.

3. Fund Balance with Treasury

($ IN MILLIONS)	APPROPRIATED FUNDS	REVOLVING FUNDS	SPECIAL FUNDS	OTHER FUNDS	TOTAL
			FY 2011		
Unobligated budgetary resources					
Available	$ 5,438	$ 268	$ 561	$ -	$ 6,267
Unavailable (Note 26)	3,291	4,557	-	-	7,848
Obligated balance not yet disbursed					
Unpaid obligations (Note 26)	38,127	15,019	738	-	53,884
Uncollected customer payments from Federal sources	(4,135)	(2,980)	(41)	-	(7,156)
Miscellaneous receipts, deposit funds and clearing accounts	-	-	-	48	48
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	-	(1,288)	-	-	(1,288)
Collections temporarily not available pursuant to public law	47	-	-	-	47
Invested balances - payable - to be transferred	-	34	-	-	34
Unavailable receipt accounts	-	-	913	-	913
Borrowing authority not yet converted to fund balance	-	(12,384)	-	-	(12,384)
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(34)	-	(34)
Uranium Enrichment D&D Fund	-	-	(168)	-	(168)
Power marketing administrations	-	(291)	-	-	(291)
Total fund balance with Treasury	**$ 42,768**	**$ 2,935**	**$ 1,969**	**$ 48**	**$ 47,720**
			FY 2010		
Unobligated budgetary resources					
Available	$ 7,753	$ 287	$ 362	$ -	$ 8,402
Unavailable (Note 26)	47	4,860	-	-	4,907
Obligated balance not yet disbursed					
Unpaid obligations (Note 26)	47,968	8,830	847	-	57,645
Uncollected customer payments from Federal sources	(4,142)	(2,413)	(36)	-	(6,591)
Miscellaneous receipts, deposit funds and clearing accounts	-	-	-	366	366
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	-	(1,153)	-	-	(1,153)
Collections temporarily not available pursuant to public law	7	-	13	-	20
Invested balances - payable - to be transferred	-	26	-	-	26
Unavailable receipt accounts	-	-	879	-	879
Borrowing authority not yet converted to fund balance	-	(6,195)	-	-	(6,195)
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(68)	-	(68)
Uranium Enrichment D&D Fund	-	-	(232)	-	(232)
Power marketing administrations	-	(190)	-	-	(190)
U.S. Enrichment Corporation Fund	-	(1,567)	-	-	(1,567)
Total fund balance with Treasury	**$ 51,633**	**$ 2,485**	**$ 1,765**	**$ 366**	**$ 56,249**

4. Investments and Related Interest, Net

($ IN MILLIONS)	FACE	UNAMORTIZED PREMIUM (DISCOUNT)	INTEREST RECEIVABLE	INVESTMENTS, NET	UNREALIZED MARKET GAINS (LOSSES)	MARKET VALUE
			FY 2011			
Intragovernmental Non-Marketable						
Nuclear Waste Fund	$ 48,611	$ (21,937)	$ 54	$ 26,728	$ 8,415	$ 35,143
D&D Fund	4,372	171	44	4,587	174	4,761
U.S. Enrichment Corporation Fund	1,593	3	10	1,606	1	1,607
Power marketing administrations	291	2	2	295	-	295
Petroleum Pricing Violation Escrow Fund (Note 2)	75	-	-	75	-	75
Subtotal	**$ 54,942**	**$ (21,761)**	**$ 110**	**$ 33,291**	**$ 8,590**	**$ 41,881**
Petroleum Pricing Violation Escrow Fund (Note 2)	181	-	-	181	-	181
Total investments and related interest, net	**$ 55,123**	**$ (21,761)**	**$ 110**	**$ 33,472**	**$ 8,590**	**$ 42,062**
			FY 2010			
Intragovernmental Non-Marketable						
Nuclear Waste Fund	$ 47,578	$ (23,056)	$ 44	$ 24,566	$ 5,890	$ 30,456
D&D Fund	4,761	164	50	4,975	239	5,214
U.S. Enrichment Corporation Fund	1,567	8	26	1,601	-	1,601
Power marketing administrations	190	3	2	195	-	195
Petroleum Pricing Violation Escrow Fund (Note 2)	59	-	-	59	-	59
Subtotal	**$ 54,155**	**$ (22,881)**	**$ 122**	**$ 31,396**	**$ 6,129**	**$ 37,525**
Petroleum Pricing Violation Escrow Fund (Note 2)	195	-	-	195	-	195
Total investments and related interest, net	**$ 54,350**	**$ (22,881)**	**$ 122**	**$ 31,591**	**$ 6,129**	**$ 37,720**

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 (NWF) and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees collected from owners and generators of spent nuclear fuel 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 (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 authority 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.

5. Accounts Receivable, Net

($ IN MILLIONS)	FY 2011			FY 2010		
	RECEIVABLE	ALLOWANCE	NET	RECEIVABLE	ALLOWANCE	NET
Intragovernmental	$ 807	$ -	$ 807	$ 496	$ -	$ 496
Nuclear Waste Fund	3,247	-	3,247	3,407	-	3,407
Power marketing administrations	550	(40)	510	528	(41)	487
Other	199	(63)	136	157	(33)	124
Subtotal	**$ 3,996**	**$ (103)**	**$ 3,893**	**$ 4,092**	**$ (74)**	**$ 4,018**
Total accounts receivable	**$ 4,803**	**$ (103)**	**$ 4,700**	**$ 4,588**	**$ (74)**	**$ 4,514**

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 amounts due for NWF fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. Other receivables due from the public include reimbursable work billings and other trade receivables, and other miscellaneous receivables.

6. Regulatory Assets

($ IN MILLIONS)	FY 2011	FY 2010
Intragovernmental		
Refinanced and additional appropriated capital	$ 5,492	$ 5,468
Non-operating regulatory assets	3,036	3,452
Residential exchange program scheduled and refund amounts	3,640	569
Conservation and fish and wildlife projects	519	351
Other regulatory assets	211	233
Subtotal	**$ 7,406**	**$ 4,605**
Total regulatory assets	**$ 12,898**	**$ 10,073**

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 U.S. Army Corps of Engineers (Corps) and Bureau of Reclamation (Reclamation). BPA defers the cost, which will be recovered through rates during the periods when the cost is scheduled to be repaid. In accordance with regulatory accounting, BPA records a regulatory asset for this deferred cost that must be repaid to Treasury for those assets owned by the Corps and Reclamation. This regulatory asset is amortized between 68 and 75 years on a straight-line method over the service lives of the assets. The *Consolidated Balance Sheets* include a regulatory asset and an offsetting related debt (see Note 12).

NON-OPERATING REGULATORY ASSETS

Prior to completion, BPA acquired all or part of the generating capability of two nuclear facilities and one hydroelectric project that were subsequently terminated or no longer provide power. The contracts to acquire the generating capability of these projects require BPA to pay all or part of the annual projects' budgets, including maintenance expense and debt service. These facilities' costs are recovered through BPA's rates. These assets are amortized as the principal on the outstanding bonds is repaid.

RESIDENTIAL EXCHANGE PROGRAM SCHEDULED AND REFUND AMOUNTS

BPA in prior years over-collected from consumer-owned utilities and over-paid to investor-owned utilities under the Residential Exchange Program. Regulatory assets and corresponding liabilities were established for the future

exchange benefits and refunds associated with the Residential Exchange Program (see Note 14).

CONSERVATION AND FISH AND WILDLIFE PROJECTS
Conservation projects consist of the costs of capitalized conservation measures and are amortized over periods of 5 to 20 years. Fish and wildlife projects consist of the costs of capitalized fish and wildlife measures and are amortized over a period of 15 years.

OTHER REGULATORY ASSETS
Other regulatory assets primarily include Trojan nuclear facility decommissioning and site restoration costs reflecting amounts to be recovered in future rates for funding the Trojan asset retirement obligation liability; settlements reflecting contractual settlement agreements or proposed settlements stemming from litigation, (recovered and amortized through future rates over a period as established by the BPA Administrator); spacer dampers on transmission lines, (amortized over 30 years); and capital bond premiums reflecting losses related to refinanced debt, (amortized over the life of the new debt instruments). In fiscal year 2011, BPA recognized an impairment charge of $20.6 million in deferred spacer damper replacement program costs.

7. Direct Loans and Loan Guarantees, Net

($ IN MILLIONS)	FY 2011	FY 2010
Pre-FCRA loans	$ 7	$ 7
FCRA Direct loans		
ATVM	4,428	2,055
Title XVII	1,297	373
Total direct loans and 100% guarantee loans, net	**$ 5,732**	**$ 2,435**
FCRA Guarantee loans (guaranteed value)		
Title XVII	1,410	79
Total direct loans and loan guarantees, net	**$ 7,142**	**$ 2,514**

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 $26 million as of September 30, 2011 and $30 million as of September 30, 2010.

FCRA DIRECT LOANS AND LOAN GUARANTEES
The Department's direct loan obligations made post-fiscal year 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. These are known as the subsidy costs, which include interest rate differentials, delinquencies, defaults, fees, and other cash flow items. The subsidy costs 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 at September 30. The subsidy re-estimate takes into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the re-estimate is recognized as a subsidy expense.

The net present value of the FCRA direct loans is not necessarily representative of proceeds that might be expected if these loans were sold on the open market.

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 non-performing interest over 90 days.

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

- Advanced Technology Vehicle 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 Incentive 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 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 fiscal year 2009 Continuing Resolution (CR) enacted on September 30, 2008, appropriated $7.5 billion to support a maximum of $25 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 credit 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.

DOE has received warrants in connection with two of the ATVM loans made. The Department has determined that the warrants have no value until the periods of vesting are reached or until certain conditions precedent occur. Once warrants vest, the values of the warrants will be added to the cash flows for re-estimation of the loans with warrants.

As of September 30, 2011, approximately $9.1 billion in loans and conditional commitments for loans has been obligated for six borrowers that have been approved and total disbursements under five loans have amounted to $4.9 billion.

TITLE XVII

The Energy Policy Act of 2005 (EPAct05) 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 EPAct05 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."

Title XVII specifies that the Department must receive either an appropriation for the subsidy cost or the borrower must pay that cost. The full year continuing resolution for FY 2011 (Public Law 112-10) made available $170 million for credit subsidy costs and $1.183 billion in self-pay authority for renewable energy or efficient end-use energy technology projects. For nuclear power, front-end nuclear and advanced fossil projects, Section 1703 continues to operate as "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 $5.965 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 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 and subsidy are obligated at the time the loan 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, DOE also established the Financial Institution Partnership Program (FIPP) which supported loans for conventional renewable energy generation projects with commercial financing. Under FIPP, DOE 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 DOE 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 credit 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.

DOE has received warrants in connection with one of the Title XVII loans made. The Department has determined that the warrants have no value until the periods of vesting are reached or until certain conditions precedent occur. Once warrants vest, the values of the warrants will be added to the cash flows for re-estimation of the loans with warrants.

As of September 30, 2011, conditional commitments to issue guarantees have been issued to four projects totaling $10.6 billion under the Section 1703 program. As of September 30, 2011, approximately $15.7 billion has been obligated to 28 projects under the Section 1705 program.

21 projects with 100% guarantees of loans under the Section 1705 program, totaling approximately $10.1 billion have been obligated, of which $2.0 billion has been disbursed. Seven projects receiving partial guarantees of loans under the Section 1705 FIPP totaling approximately $5.6 billion have been committed, of which $1.8 billion has been disbursed.

Two borrowers of loans guaranteed under Section 1705 are in bankruptcy. The present value of the estimated future cash flows for this loan is reflected in the balance sheet and tables in this footnote.

Direct Loans and 100% Loan Guarantees Obligated and Disbursed After FY 1991

($ IN MILLIONS)	LOANS RECEIVABLE, GROSS	INTEREST RECEIVABLE	ALLOWANCE FOR SUBSIDY COST (PRESENT VALUE)	VALUE OF ASSETS RELATED TO LOANS	DISBURSED IN FISCAL YEAR
	FY 2011				
ATVM	$ 4,912	$ 6	$ (490)	$ 4,428	$ 2,452
Title XVII	2,023	11	(737)	1,297	1,544
Total loans	**$ 6,935**	**$ 17**	**$ (1,227)**	**$ 5,725**	**$ 3,996**
	FY 2010				
ATVM	$ 2,467	$ 3	$ (415)	$ 2,055	$ 1,581
Title XVII	464	1	(92)	373	443
Total loans	**$ 2,931**	**$ 4**	**$ (507)**	**$ 2,428**	**$ 2,024**

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

($ IN MILLIONS)	INTEREST DIFFERENTIAL	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
			FY 2011		
Subsidy expense for new direct loans disbursed					
ATVM	$ -	$ 1,120	$ (2)	$ -	$ 1,118
Title XVII	(52)	287	-	-	235
Total	**$ (52)**	**$ 1,407**	**$ (2)**	**$ -**	**$ 1,353**

	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES		TOTAL DIRECT LOAN SUBSIDY EXPENSE
Re-estimates					
ATVM	$ -	$ (1,027)	$ (1,027)		$ 91
Title XVII	(2)	406	404		639
Total	**$ (2)**	**$ (621)**	**$ (623)**		**$ 730**

($ IN MILLIONS)	INTEREST DIFFERENTIAL	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
			FY 2010		
Subsidy expense for new direct loans disbursed					
ATVM	$ -	$ 754	$ (2)	$ -	$ 752
Title XVII	(7)	41	-	-	34
Total	**$ (7)**	**$ 795**	**$ (2)**	**$ -**	**$ 786**

	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES		TOTAL DIRECT LOAN SUBSIDY EXPENSE
Re-estimates					
ATVM	$ -	$ (828)	$ (828)		$ (76)
Title XVII	-	57	57		91
Total	**$ -**	**$ (771)**	**$ (771)**		**$ 15**

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

	INTEREST DIFFERENTIAL	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
			FY 2011		
ATVM	0.0%	23.03%	(0.10)%	0.0%	22.93%
Title XVII	(3.38)%	18.36%	0.0%	0.0%	14.98%
			FY 2010		
ATVM	0.0%	0.0%	0.0%	0.0%	0.0%
Title XVII	(3.22)%	12.94%	0.0%	0.43%	10.15%

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.

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

($ IN MILLIONS)	FY 2011	FY 2010
Beginning balance of the subsidy cost allowance	$ 507	$ 478
Add: subsidy expense for direct loans disbursed during the reporting years by component		
Interest rate differential costs	(52)	(7)
Default costs (net of recoveries)	1,407	795
Fees and other collections	(2)	(2)
Total of the above subsidy components	$ 1,353	$ 786
Adjustments:		
Fees received	-	1
Subsidy allowance amortization	(10)	13
Ending balance of subsidy cost allowance before re-estimates	$ 1,850	$ 1,278
Add or subtract subsidy re-estimates by component		
Interest rate re-estimates	(2)	-
Technical/default re-estimates	(621)	(771)
Ending balance of subsidy cost allowance	**$ 1,227**	**$ 507**

Guaranteed Loans Outstanding

($ IN MILLIONS)	OUTSTANDING PRINCIPAL OF GUARANTEED LOANS FACE VALUE	AMOUNT OF OUTSTANDING PRINCIPAL GUARANTEED
	FY 2011	
Title XVII	$ 1,762	$ 1,410
	FY 2010	
Title XVII	$ 98	$ 79

New Guaranteed Loans Disbursed

($ IN MILLIONS)	PRINCIPAL OF GUARANTEED LOANS FACE VALUE	AMOUNT OF PRINCIPAL GUARANTEED
	FY 2011	
Title XVII	$ 1,670	$ 1,336
	FY 2010	
Title XVII	$ 99	$ 79

Liability for Loan Guarantees, Present Value Method

($ IN MILLIONS)	FY 2011	FY 2010
Title XVII	$ 86	$ 4

Subsidy Expense for New Loan Guarantees by Program and Component

($ IN MILLIONS)	INTEREST SUPPLEMENTS	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
			FY 2011		
Subsidy expense for new loan guarantees Title XVII	$ -	$ 72	$ -	$ -	$ 72
	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES		TOTAL LOAN GUARANTEE SUBSIDY EXPENSE
Re-estimates Title XVII	$ 2	$ 7	9		$ 81
($ IN MILLIONS)	INTEREST SUPPLEMENTS	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
			FY 2010		
Subsidy expense for new loan guarantees Title XVII	$ -	$ 4	$ -	$ -	$ 4
	INTEREST RE-ESTIMATES	TECHNICAL RE-ESTIMATES	TOTAL RE-ESTIMATES		TOTAL LOAN GUARANTEE SUBSIDY EXPENSE
Re-estimates Title XVII	$ -	$ -	$ -		$ 4

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

($ IN MILLIONS)	INTEREST SUPPLEMENTS	DEFAULTS	FEES AND OTHER COLLECTIONS	OTHER	TOTAL
			FY 2011		
Title XVII	0.0%	7.56%	0.0%	0.0%	7.56%
			FY 2010		
Title XVII	0.0%	3.78%	0.0%	0.0%	3.78%

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 2011	FY 2010
Beginning balance of the loan guarantee liability	$ 4	$ -
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component		
Default costs (net of recoveries)	72	4
Total of the above subsidy components	$ 72	$ 4
Adjustments:		
Interest Accumulation on the liability balance	1	-
Ending balance of loan guarantee liability before re-estimates	$ 77	$ 4
Add or subtract subsidy re-estimates by component		
Interest rate re-estimates	2	-
Technical/default re-estimates	7	-
Ending balance of loan guarantee liability	**$ 86**	**$ 4**

Administrative Expenses

($ IN MILLIONS)	FY 2011	FY 2010
Direct loan program - ATVM	$ 10	$ 18
Loan guarantee program - Title XVII	$ 62	$ 38

8. Inventory, Net

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve (SPR) and the Northeast Home Heating Oil Reserve, nuclear materials, highly enriched uranium, 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, 2011, and September 30, 2010, the SPR contained crude oil with a historical cost of $20,668 million and $21,621 million, respectively. The SPR provides a response mechanism should a severe oil disruption occur. Included in the SPR is six million barrels of crude oil held for future Department of Defense (DoD) use. The fiscal year 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, 2011, and September 30, 2010 (see Notes 2 and 14).

NORTHEAST HOME HEATING OIL RESERVE

The Northeast Home Heating Oil Reserve was established in fiscal year 2000 pursuant to the Energy Policy and Conservation Act. The Reserve contained heating oil in the New England, New York, and New Jersey geographic areas. In March 2011, the entire reserve was sold. The value of the reserve was zero as of September 30, 2011 and $79 million as of September 30, 2010 (see Note 21).

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.

The Department currently has excess Uranium inventories including a total of 15,298 metric tons (MTU) of natural uranium hexafluoride (UF6). As of September 30, 2011, this material can be divided into two stockpiles of U.S.-origin (5,156 MTU of UF6) and Russian origin material (10,142 MTU as UF6).

The Department approved an agreement in 2009 to barter for certain services with natural uranium inventory. Barter for services with USEC totaled 1,473 MTU (UF6). In addition, under the D&D contract awarded in the fall of 2010 and a new Secretarial Determination to comply with the 1996 Privatization Act, an additional 825 MTU was bartered with Fluor, Babcock and Wilcox LLC in FY 2011. The Secretarial determination allows additional MTU to be bartered through fiscal year 2013.

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions for most of these items 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). The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 MTU of the Department's HEU were excess to national security needs. Most of this material (about 153 MTU) will be 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 21 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 an additional 200 MTU of HEU will never again be used 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 next 10 to 30 years.

9. General Property, Plant, and Equipment, Net

($ IN MILLIONS)	ACQUISITION COSTS	ACCUMULATED DEPRECIATION	NET BOOK VALUE	ACQUISITION COSTS	ACCUMULATED DEPRECIATION	NET BOOK VALUE
	FY 2011			FY 2010		
Land and land rights	$ 1,904	$ (910)	$ 994	$ 1,799	$ (854)	$ 945
Structures and facilities	37,763	(24,327)	13,436	38,068	(24,434)	13,634
Internal use software	646	(472)	174	629	(418)	211
Equipment	17,191	(11,087)	6,104	18,057	(11,919)	6,138
Natural resources	103	(14)	89	98	(13)	85
Construction work in process	9,943	-	9,943	8,674	-	8,674
Total general property, plant & equipment	**$ 67,550**	**$ (36,810)**	**$ 30,740**	**$ 67,325**	**$ (37,638)**	**$ 29,687**

10. Other Non-Intragovernmental Assets

($ IN MILLIONS)	FY 2011	FY 2010
Purchased generating capability	$ 2,604	$ 2,450
Prepaid pension plan costs (Note 16)	113	89
Prepayments and advances	538	439
Non-Federal nuclear decommissioning trusts	199	189
Other	386	254
Total other non-intragovernmental assets	**$ 3,840**	**$ 3,421**

PURCHASED GENERATING CAPABILITY

BPA has contracted to acquire all of the generating capability of one nuclear power plant and one hydroelectric project. The contracts to acquire the generating capability of the facilities require BPA to pay all or part of the facilities operating and debt service. BPA recognizes expenses for these projects based upon the total cash required to fund the projects. These assets are amortized as the principal on the outstanding bonds is repaid by the non-federal entities. These assets in the *Consolidated Balance Sheets* are related to non-federal debt associated with the generation of assets.

NON-FEDERAL NUCLEAR DECOMMISSIONING TRUSTS

BPA recognizes an asset that represents trust fund balances for decommissioning and site restoration costs. Decommissioning costs for Columbia Generating Station (CGS) are charged to operations over the operating life of the project. 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. The plant is licensed to operate until the current operating license termination year of 2024. Trust fund requirements for CGS are based on an NRC decommissioning cost estimate and the license termination date. The trustee is a non-U.S. Treasury bank that certifies the funds for use when needed to retire the asset. The trusts are funded by BPA ratepayers and are managed by BPA in accordance with the NRC requirements and site certification agreements.

OTHER

Includes special purpose corporations' trust funds that are held in separate trust accounts for the construction of transmission assets; a long term investment held in trust with restricted use under BPA's lease purchase agreements; and unrealized gains from BPA's derivative portfolio, which includes physical power purchase and sale contracts, power exchange contracts, and energy commodity option contracts.

11. Liabilities Not Covered By Budgetary Resources

($ IN MILLIONS)	FY 2011	FY 2010
Intragovernmental		
Debt (Note 12)	$ 19,307	$ 14,847
Other	14	13
Total intragovernmental	**$ 19,321**	**$ 14,860**
Debt (Note 12)	5,763	5,915
Nuclear Waste Fund deferred revenues (Note 13)	29,990	27,973
Environmental liabilities (Note 15)	248,297	245,405
Pension and other actuarial liabilities (Note 16)	30,304	28,405
Capital leases (Note 17)	17	54
Other liabilities		
Residential exchange - scheduled amounts (Note 14)	3,075	-
Environment, safety, and health compliance activities (Note 14)	1,860	1,710
Accrued annual leave for Federal employees	148	148
Other	54	55
Contingencies and commitments (Note 18)	19,147	15,448
Total liabilities not covered by budgetary resources	**$ 357,976**	**$ 339,973**
Total liabilities covered by budgetary resources	13,445	15,579
Total liabilities	**$ 371,421**	**$ 355,552**

12. Debt

($ IN MILLIONS)	BEGINNING BALANCE	NET BORROWINGS	ENDING BALANCE	BEGINNING BALANCE	NET BORROWINGS	ENDING BALANCE
	FY 2011			FY 2010		
Intragovernmental (Note 11)						
Borrowing from Treasury	$ 2,601	$ 503	$ 3,104	$ 2,130	$ 471	$ 2,601
Borrowing from FFB	2,931	3,990	6,921	908	2,023	2,931
Appropriated capital	3,817	(45)	3,772	3,966	(149)	3,817
Refinanced & additional appropriations	3,831	77	3,908	3,972	(141)	3,831
Capitalization adjustment	1,667	(65)	1,602	1,732	(65)	1,667
Subtotal	**$ 14,847**	**$ 4,460**	**$ 19,307**	**$ 12,708**	**$ 2,139**	**$ 14,847**
Non-Federal projects (Note 11)	5,915	(152)	5,763	6,166	(251)	5,915
Total debt	**$ 20,762**	**$ 4,308**	**$ 25,070**	**$ 18,874**	**$ 1,888**	**$ 20,762**

BORROWING FROM TREASURY

BPA is authorized by Congress to issue to Treasury and have outstanding at any one time, up to $7.7 billion of interest-bearing debt with terms and conditions comparable to debt issued by U.S. government corporations. The debt may be issued to finance BPA's capital programs, which include Corps and Reclamation direct–funded capital investments. Of the $7.7 billion, $750 million can be issued to finance Northwest Power Act related expenses and $1.25 billion is restricted for conservation and renewable resources. The Western Area Power Administration has authority to borrow up to $3.25 billion from Treasury for planning, constructing, financing, operating, or maintaining new or upgraded electric power transmission lines and facilities; and for delivering or facilitating the delivery of power generated by renewable energy.

BORROWING FROM THE FFB

To finance its loan programs, the Department is required to use the FFB for the ATVM program and the 100% loan guarantees of the Title XVII program. As of September 30, 2011 and September 30, 2010, the maturity range of the debt was from August 15, 2016 to September 28, 2040 and August 15, 2016 to June 17, 2030, respectively. The interest rate range as of September 30, 2011 and September 30, 2010 was from 1.000 percent to 4.723 percent and from 2.810 percent to 4.723 percent, respectively.

APPROPRIATED CAPITAL

Appropriated capital owed represents the balance of appropriations provided to the Department's PMAs for construction, operation, and maintenance of power facilities that will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation 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.
Each of the PMAs, except for BPA, receives an annual appropriation to fund construction, operation, and maintenance expenses. These appropriated funds are repaid to Treasury's General Fund and Interior from the revenues generated from the sale of power and transmission services. 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 treats these appropriations as a debt owed to Treasury's General Fund and Interior, and as such, the *Consolidated Statements of Changes in Net Position* do not reflect these funds as appropriated capital used.

Except for the appropriation refinancing asset described in Note 6 and in the next paragraph, the Department's financial statements do not reflect the federal investment in power generating facilities owned by the U.S. Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's PMAs, except BPA, are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 27). BPA makes annual payments to Treasury from its net proceeds.

REFINANCED AND ADDITIONAL APPROPRIATIONS

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 post-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 Treasury's General Fund and Interior's Reclamation Fund.

CAPITALIZATION ADJUSTMENT

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1996 was $6.6 billion. After refinancing, the appropriations outstanding were $4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over the remaining period of repayment.

NON-FEDERAL PROJECTS

As discussed in Notes 6 and 10, the non-federal projects debt includes both operating and non-operating projects. BPA acquired all of the generating capability and agreed to pay the operating, maintenance and debt service costs of Energy Northwest's three nuclear projects and of Lewis County Public Utility District's (PUD) Cowlitz Falls Hydroelectric Project. Columbia Generating Station (CGS) nuclear plant is still operating, while Nuclear Project No. 1 and Nuclear Project No. 3 were terminated prior to completion. Though terminated, BPA continues to pay debt service to comply with the contracts.

BPA is also required by the Settlement and Termination Agreement between BPA and Northern Wasco PUD to pay annual debt service on the terminated Northern Wasco Hydro Project. Finally, BPA has agreed to fund debt service on Conservation and Renewable Energy System and City of Tacoma Conservation bonds issued to finance conservation programs sponsored by BPA.

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	Non-Federal Projects
2012	$ 426	$ 175	$ 29	$ 25	$ 65	$ 434
2013	123	620	46	18	65	500
2014	103	927	119	19	65	627
2015	80	762	204	55	65	595
2016	30	661	147	-	65	700
2017+	2,342	3,776	3,227	3,791	1,277	2,907
Total	**$ 3,104**	**$ 6,921**	**$ 3,772**	**$ 3,908**	**$ 1,602**	**$ 5,763**

13. Deferred Revenues and Other Credits

($ IN MILLIONS)	FY 2011	FY 2010
Intragovernmental	**$ 64**	**$ 36**
Nuclear Waste Fund (Note 11)	$ 29,990	$ 27,973
Power marketing administrations	1,091	1,011
Reimbursable work advances	321	275
Other	313	236
Subtotal	**$ 31,715**	**$ 29,495**
Total deferred revenues and other credits	**$ 31,779**	**$ 29,531**

NUCLEAR WASTE FUND

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel 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) regular liabilities that reduce future rates; 2) generation interconnection agreement funds held as security for network upgrades that will be returned as credits against future transmission service; 3) customer reimbursable projects that consist of advances received from BPA's customers where either the customer or BPA will own the resulting asset; 4) unearned revenues from customers related to the third alternating current intertie capacity project; 5) derivative instruments 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 2011	FY 2010
Intragovernmental		
Oil held for Department of Defense (Notes 2 and 8)	$ 123	$ 123
Petroleum Pricing Violation Escrow Fund (Note 2)	247	247
Downward re-estimates on loans outstanding	1,071	825
Other	70	86
Total other intragovernmental liabilities	**$ 1,511**	**$ 1,281**
Environment, safety, and health compliance activities (Notes 11 and 25)	$ 1,860	$ 1,710
Accrued payroll, benefits, and withholding taxes	1,316	1,298
Residential exchange	3,732	659
Naval Petroleum Reserve Deposit Fund (Note 2)	-	323
Petroleum Pricing Violation Escrow Fund (Note 2)	9	7
Asset retirement obligations	176	170
Other	280	239
Subtotal	**$ 7,373**	**$ 4,406**
Total other liabilities	**$ 8,884**	**$ 5,687**

DOWNWARD RE-ESTIMATES ON LOANS OUTSTANDING

FCRA requires that the present value of loans outstanding be updated at the end of each fiscal year. 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 Treasury's general fund in the following fiscal year.

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. The September 30, 2011, change in the ES&H liability is due to: (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulations, agreements, and the Department's orders; (2) revised cost estimates for existing ES&H activities; and (3) costs of work performed during the year.

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

BPA in prior years over-collected from consumer-owned utilities (COUs) and over-paid to the investor-owned utilities (IOUs) under the Residential Exchange Settlement Agreements. Regulatory assets and corresponding liabilities were established for the future exchange benefits and refunds associated with these agreements. The liabilities for residential exchange benefit agreements are comprised of scheduled amounts and refund amounts.

The residential exchange scheduled amounts are for specified payments to IOUs required pursuant to the 2012 Residential Exchange Program Settlement Agreement. Under the provisions of this agreement, beginning in FY 2012, the IOUs' residential exchange benefits will be reduced through the rates process to reflect the Scheduled Amounts through FY 2028. The residential exchange schedule amounts liability was $3,075 million as of September 30, 2011 and is offset with a regulatory asset (see Notes 6 and 11).

The 2012 Settlement Agreement also establishes amounts to be provided as credits on COUs' monthly bills through FY 2019. The residential exchange refund amounts liability, which are offset by regulatory assets, were $565 million and $659 million as of September 30, 2011, and September 30, 2010, respectively (see Note 6).

Also included in the FY 2011 Refund Amount balance is $92 million related to interim agreements associated with the Residential Exchange Program.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations (AROs) primarily represent BPA's legal obligations related to dismantlement and restoration costs on non-federally owned or operated nuclear facilities. The AROs relate primarily to CGS decommissioning and site restoration, terminated Energy Northwest Project Nos. 1 and 4 site restoration, and decommissioning costs for the former Trojan nuclear power plant, which has been partially dismantled.

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 2011	FY 2010
Beginning balance	$ 250,209	$ 267,657
Changes to environmental cleanup and disposal liability estimates (Notes 24 and 25)	10,184	(9,030)
Costs applied to reduction of legacy environmental liabilities (Note 23)	(7,881)	(6,515)
Capital expenditures related to remediation activities	(1,943)	(1,903)
Ending environmental cleanup and disposal liabilities	**$ 250,569**	**$ 250,209**
Unfunded environmental liabilities (Note 11)	$ 248,297	$ 245,405
Funded environmental liabilities	2,272	4,804
Total environmental cleanup and disposal liabilities	**$ 250,569**	**$ 250,209**

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, and groundwater. In particular, the environmental legacy of

nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

Furthermore, 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 spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel. The Department's liability does not include the portion of the cost attributable to other owners and generators.

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 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 disposition plans could cause Departmental project costs to increase.
- 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 approach 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 fiscal years 2011 and 2010 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; 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 U.S. Army Corps of Engineers). The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e., through 2086 in fiscal year 2011 and through 2085 in fiscal year 2010. While some post-cleanup monitoring and other long-term stewardship activities post 2086 are included in the liability, there are others the Department expects to continue beyond 2086 for which the costs cannot reasonably be estimated. Also included in these liabilities are estimates for the disposition of various materials; the most significant being surplus plutonium.

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. The estimate is largely based upon a cost-estimating model. Site-specific estimates are used, in lieu of the cost-estimating model, when available. Cost estimates for on-going program facilities are updated each year. For facilities newly contaminated since fiscal year 1997, environmental liability 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 $920 million at September 30, 2011, and $608 million at September 30, 2010. In fiscal year 2011, the Department recorded an additional liability for asbestos mitigation in accordance with Federal Accounting Standards Advisory Board Technical Bulletin 2009-1, *Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs.* This additional asbestos liability totaled $334 million as of September 30, 2011.

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 surrounded by fences 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 Congressional mandates, regulatory direction, 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 levels or unplanned delays in project completion would cause increases in life-cycle costs. All environmental liabilities as of September 30, 2011, and September 30, 2010, are stated in fiscal year 2011 dollars and fiscal year 2010 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 that were built beginning in 1943. The reactors were used from 1944 until 1987 to produce plutonium, a man-made, radioactive, chemical element needed for atomic weapons. Production facilities at Hanford generated billions of gallons of liquid waste and millions of tons of solid waste which must now be cleaned up, removed, or remediated. Hanford cleanup is expected to be completed in 2060, with decontamination and decommissioning through 2066. The major activities comprising the environmental liabilities at Hanford include the following:

- The Waste Treatment Plant (WTP) is a multi-year construction project and once complete will process and treat 53 million gallons of tank waste currently stored in 177 underground tanks.
- River Corridor Closure includes remediation of 820 contaminated waste sites (including liquid waste sites, solid waste sites, and burial grounds), deactivation, decontamination, decommissioning, and demolition of 520 excess facilities/structures that are adjacent to the Columbia River; and the placement of eight reactors into an interim safe storage condition.

SAVANNAH RIVER SITE

The Savannah River Site (SRS), located in South Carolina, is 310 square miles in size with 1,000 facilities concentrated within only 10 percent of the total land area. SRS was constructed during the early 1950s to produce the basic materials used in the fabrication of nuclear weapons, primarily tritium and plutonium-239, in support of our nation's defense programs.

The SRS cleanup strategy is to eliminate or minimize nuclear materials, spent nuclear fuel, and waste through safe stabilization, treatment, and/or disposition; reduce the costs of continuing operations and surveillance and maintenance; and decommission facilities, as well as remediate groundwater and contaminated soils consistent with regulatory agreements. The Department's completion strategy provides a comprehensive risk-based approach to the legacy cleanup project, such as disposition of radioactive liquid waste through vitrification of the high activity component at the site's Defense Waste Processing Facility, the use of existing SRS facilities to receive, store, and disposition aluminum-clad spent nuclear fuel and decommissioning of all facilities that are not required for continuing missions. SRS cleanup is expected to be completed in 2034. 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 currently stored in 49 underground storage tanks.

Surplus plutonium disposition program provides the capability to convert the nation's surplus weapons-grade plutonium 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. The disposition of surplus plutonium from stockpile reductions through the MOX program is an important part of the United States' efforts to make sure that plutonium can no longer be readily used for nuclear weapons purposes. The activities satisfy commitments under treaty with Russia.

IDAHO NATIONAL LABORATORY SITE

The Idaho National Laboratory (Idaho) is an extensive research and engineering complex that has been the center of nuclear energy research since 1949. It occupies 890 square miles in southeastern Idaho. The Idaho Site has fulfilled numerous DOE missions including the design and testing of 52 nuclear reactors, the largest concentration of reactors in the world, and reprocessing spent nuclear fuel to recover fissile materials. The world's first usable electricity from nuclear energy was produced by Idaho in 1951. These activities resulted in an inventory of high-level, transuranic, mixed low-level and low-level wastes. The legacy cleanup scope is scheduled to be completed in 2042. 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 shipments.
- The Radioactive Liquid Tank Waste Stabilization and Disposition Project is treating and disposing the sodium-bearing tank wastes, closing the tank farm

tanks, as well as maintaining the Idaho Nuclear Technology and Engineering Center. This project also includes activities to support the preparation of stored high-level waste calcine for final disposition off-site.

GASEOUS DIFFUSION PLANTS

The Department constructed and operated three gaseous diffusion plants (GDPs) located in Oak Ridge, Tennessee, Portsmouth, Ohio, and Paducah, Kentucky to enrich uranium. The plants had a long history of enriching uranium for defense and commercial nuclear power needs. Their mission was to produce low-assay enriched uranium for use as commercial nuclear reactor fuel and resulted in radioactive and chemical contamination at the sites and beyond the sites' boundaries. Presently, the sites are transitioning from primarily enrichment operations to shared missions with environmental cleanup, waste management, depleted uranium conversion, deactivation and decommissioning, re-industrialization, and long-term stewardship. The cleanup scope is scheduled to be completed in 2044. 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 includes the design, permitting, constructing, and operating 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.
- Both Portsmouth and Paducah Nuclear Facility D&D projects include environmental cleanup and risk reduction through surveillance and maintenance activities, such as decontamination and decommissioning of inactive or excess facilities at the Portsmouth and Paducah sites.
- Oak Ridge D&D of the K-25 and K-27 gaseous diffusion process buildings due to the deteriorating condition of the buildings affecting worker safety.

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, such as soil and groundwater remediation; waste retrieval, treatment, and disposal; nuclear reactor and other facilities decontamination and decommissioning; etc. The Department's environmental liability also includes waste dispositioning; program costs, such as mission support, technology development, and program direction; and post-closure long-term surveillance and maintenance activities.

16. Pension and Other Actuarial Liabilities

($ IN MILLIONS)	FY 2011	FY 2010
Contractor pension plans	$ 16,205	$ 13,489
Contractor postretirement benefits other than pensions	13,988	14,804
Contractor disability and life insurance plans	16	18
Federal Employees' Compensation Act	95	94
Total pension and other actuarial liabilities (Note 11)	**$ 30,304**	**$ 28,405**

Most of the Department's major contractors sponsor defined benefit pension plans which promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. 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. The Department also reimburses these contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

CONTRACTOR PENSION PLANS

The Department follows FASB ASC 715, Compensation – Retirement Benefits, for contractor plans for which the Department has a continuing obligation to reimburse allowable costs. As of September 30, 2011, the Department reports contractor pension assets of $102 million and contractor pension liabilities of $16.205 billion. The Department has a continuing obligation to reimburse allowable costs for a variety of contractor-sponsored pension plans (40 qualified and 11 nonqualified). In this regard, benefit formulas consist of final average pay (38 plans), career average pay (8 plans), and dollar per month of service (5 plans). Eighteen of the plans cover nonunion employees only; 8 cover union employees only; and 25 cover both union and nonunion employees.

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 Departmental direction. For nonqualified plans, the funding policy is pay-as-you-go.

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. 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 fiscal year.

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 for financial reporting purposes, the Department requires the use of certain standardized actuarial assumptions. 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 assumption consistent with an expected long-term inflation rate of 3.0 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 5.0 percent for FY 2011 and 5.5 percent for FY 2010; the weighted average long-term rate of return on assets was 7.60 percent for FY 2011 and 7.88 percent for FY 2010; and the average rate of compensation increase was 4.6 percent for both FY 2011 and FY 2010. 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, 2011, and September 30, 2010, were 4.5 percent and 5.0 percent, respectively.

The aggregate September 30, 2011, accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are $35.690 billion and $23.392 billion, respectively. The aggregate September 30, 2011, projected benefit obligation and aggregate fair value of plan assets for plans with projected benefit obligations in excess of plan assets are $39.597 billion and $23.392 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 net periodic costs are recorded as costs not assigned (See Note 24). 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, $23 million, and $693 million in FY 2011, and ($90) million, $87 million, and $594 million in FY 2010, 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 2012 are $16 million, and $942 million, respectively.

CONTRACTOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Department follows FASB ASC 715, Compensation – Retirement Benefits, for contractor plans for which the Department has a continuing obligation to reimburse allowable costs. The Department accrues the cost of PRB during the years that the employees render service. As of September 30, 2011, the Department reports contractor PRB assets of $11 million and contractor PRB liabilities of $13.988 billion. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are six 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. Benefits consist of medical (41 contractors), dental (18 contractors), life insurance (23 contractors), and Medicare Part B premium reimbursement (4 contractors). Forty-one of the contractors sponsor a point of service plan, a Preferred Provider Organization (PPO), a Health Maintenance Organization (HMO), or similar plan. Seventeen of these also have a traditional indemnity or similar plan.

None of the contractors with assets for PRB has any employer securities.

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, an HMO, a PPO, or similar plan, grade from 10.0 percent in 2011 down to 5.0 percent in 2021 and later for under age 65; 8.0 percent in 2011 down to 5.0 percent in 2017 and later for age 65 and older; or 9.5 percent in 2011 down to 5.0 percent in 2020 and later for any age on a combined basis. The medical trend rates for a traditional indemnity plan, or

similar plan, grade from 10.5 percent in 2011 down to 5.0 percent in 2022 and later. Separate trend rates were used this year for a Medicare Advantage (MA) plan that grade from 31.5 percent in 2011 down to 5.5 percent in 2022 and later; a Part D prescription drug plan (PDP) that grade from 13.0 percent in 2011 down to 5.0 percent in 2020 and later; and a MA plan combined with a PDP that grade from 22.5 percent down to 5.5 percent in 2022 and later. The medical trend rates or combination of rates used to determine the PRB estimates are dependent on each contractor's specific plan design and impact of health care reform if applicable. The dental trend rates at all ages grade down from 6.0 percent in 2011 down to 5.0 percent in 2015 and later.

The weighted average discount rates of 5.0 percent for FY 2011 and 5.5 percent for FY 2010, and the weighted average long-term rate of return on assets of 5.56 percent for FY 2011 and 5.55 percent for FY 2010 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, 2011, and September 30, 2010, were 4.5 percent and 5.0 percent, respectively.

The September 30, 2011, aggregate accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are $14.140 billion and $153 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 24). 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 ($197) million and $121 million in FY 2011, and ($135) million and $159 million in FY 2010, respectively. Additional amortization of $2 million and ($89) million due to curtailments and settlements would also have been included in FY 2011 and 2010, 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 2012 are ($179) million and $174 million, respectively.

The FY 2011 and FY 2010 values reflect the impact of the passage of health care reform legislation in March 2010. Changes in the law that potentially affect contractor postretirement benefit plans include an excise tax on high-cost health plans, closing of the Medicare Part D coverage gap, changes in payments to Medicare Advantage plans, elimination of lifetime benefit maximums, coverage of dependent children to age 26, and temporary federal reimbursement of certain costs under the Early Retiree Reinsurance Program. Adjustments to 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 further as additional guidance is issued under the laws.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. The law provides for a Federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. There are currently 28 contractors that have concluded that their plans are at least actuarially equivalent [including 3 that also have plans providing a Medicare Part D PDP or MA plan]. There are 9 plans that do not benefit retirees over 65, 2 plans have determined they are not actuarially equivalent, and 2 plans provide a PDP or MA plan. Generally, the Department has reflected the impact of the subsidy as a reduction to the employers' cost of the benefits.

($IN MILLIONS)	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	FY 2011	FY 2010	FY 2011	FY 2010
NET AMOUNT RECOGNIZED IN THE BALANCE SHEET				
Accumulated benefit obligation	$ 36,503	$ 33,330		
Effect of future compensation increases	3,930	3,457		
Benefit obligation	**$ 40,433**	**$ 36,787**	$ 14,148	$ 14,962
Plan assets	24,330	23,377	171	168
Net amount recognized in the balance sheet (net funded status)	**$ (16,103)**	**$ (13,410)**	**$ (13,977)**	**$ (14,794)**
RECONCILIATION OF AMOUNTS RECOGNIZED IN THE BALANCE SHEET				
Asset (prepaid pension plan costs) (Note 10)	$ 102	$ 79	$ 11	$ 10
Liability	(16,205)	(13,489)	(13,988)	(14,804)
Net amount recognized in the balance sheet (net funded status)	**$ (16,103)**	**$ (13,410)**	**$ (13,977)**	**$ (14,794)**
COMPONENTS OF NET PERIODIC COSTS				
Service costs (Notes 24 and 25)	$ 904	$ 846	$ 275	$ 290
Interest costs	1,800	1,817	624	696
Expected return on plan assets	(1,815)	(1,776)	(9)	(9)
(Gain)/loss due to curtailments, settlements or special termination benefits	12	-	2	1
Net prior service cost/(credit)	4	(507)	(681)	(168)
Net (gain)/loss	2,757	1,059	(639)	2,490
Total net periodic costs	**$ 3,662**	**$ 1,439**	**$ (428)**	**$ 3,300**
CONTRIBUTIONS AND BENEFIT PAYMENTS				
Employer contributions (Note 25)	$ 972	$ 728	$ 385	$ 385
Participant contributions	25	9	81	83
Benefit payments	1,533	1,385	472*	476*

* Includes $8 million paid from plan assets for FY 2011, and $8 million paid from plan assets for FY 2010. For FY 2011, gross benefit payments were $485 million including $13 million of Federal Medicare subsidy. This resulted in net benefit payments of $472 million for FY 2011. For FY 2010, gross benefit payments were $488 million including $12 million of Federal Medicare subsidy. This resulted in net benefit payments of $476 million for FY 2010.

($ IN MILLIONS)	Pension Benefits	Other Postretirement Benefits
Expected contributions for fiscal year ending September 30, 2012		
Employer contributions	$ 1,461	$ 477
Participant contributions	31	102

($ IN MILLIONS)	PENSION BENEFITS	OTHER POSTRETIREMENT BENEFITS		
		GROSS PAYMENT	LESS FEDERAL MEDICARE PART D SUBSIDY	NET PAYMENT
ESTIMATED FUTURE BENEFIT PAYMENTS				
Fiscal Year 2012	$ 1,650	$ 594	$ 21	$ 573
Fiscal Year 2013	1,737	654	23	631
Fiscal Year 2014	1,841	721	26	695
Fiscal Year 2015	1,957	787	29	758
Fiscal Year 2016	2,056	853	31	822
Fiscal Year 2017 to 2021	11,892	5,205	206	4,999

The following chart shows the average target allocation for the 40 pension benefit plans and six other postretirement benefit plans with assets. The weighted average actual FY 2011 allocations of assets are also shown.

	Pension Benefits			Other Postretirement Benefits		
Asset Category	Target Allocation	Percent of Plan Assets at end FY 2011	Percent of Plan Assets at end FY 2010	Target Allocation	Percent of Plan Assets at end FY 2011	Percent of Plan Assets at end FY 2010
Cash and Equivalents	2.10%	2.90%	2.60%	0.20%	0.20%	0.40%
US Government Bonds	12.70%	16.00%	11.70%	4.70%	4.70%	5.00%
State and Municipal Government Bonds	0.90%	0.50%	0.40%	0.00%	0.00%	0.00%
Foreign Government Bonds	0.30%	0.50%	0.80%	0.10%	0.20%	0.10%
High-yield Corporate Bonds	1.00%	1.40%	7.90%	0.00%	0.00%	0.00%
Corporate Bonds other than high-yield	10.20%	12.80%	5.80%	4.20%	4.20%	4.30%
Small Cap Domestic Equities	3.60%	3.90%	4.80%	0.50%	0.50%	0.30%
Mid Cap Domestic Equities	4.90%	5.10%	7.30%	1.60%	1.60%	2.60%
Large Cap Domestic Equities	27.10%	24.20%	24.80%	3.30%	3.30%	2.50%
International Equities	20.00%	17.10%	19.90%	3.90%	4.80%	4.60%
Real Estate Investment Funds	2.30%	2.60%	2.20%	1.00%	0.00%	0.00%
Other Real Estate	0.40%	0.40%	0.30%	1.10%	0.00%	0.00%
Mortgage-Backed Securities	1.70%	2.70%	2.70%	0.80%	0.80%	0.80%
Asset-Backed Commercial Paper	0.00%	0.10%	0.30%	0.00%	0.00%	0.00%
Derivatives, including Collateralized Debt Obligations and Credit Default Swaps	0.00%	0.90%	(0.10%)	0.00%	0.00%	0.00%
Private Investment Funds, including Hedge Funds	5.00%	6.10%	5.20%	0.00%	0.00%	0.00%
Insurance Contracts (general accounts)	0.10%	0.60%	0.40%	70.50%	70.50%	71.40%
Insurance Contracts (separate accounts)	0.00%	0.10%	0.10%	8.10%	8.10%	7.30%
Employer Securities	0.30%	0.20%	0.20%	0.00%	0.00%	0.00%
Aggregate Bond Index, Long Bond Index	1.10%	1.10%	1.00%	0.00%	0.00%	0.00%
Other	6.30%	0.80%	1.70%	0.00%	1.10%	0.70%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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.

The following chart shows the allocation of the assets for the 40 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	$ 690	$ 195	$ 171	$ 324
US Government Bonds	3,903	1,222	2,485	197
State and Municipal Government Bonds	110	18	92	-
Foreign Government Bonds	129	11	117	-
High-yield Corporate Bonds	334	43	291	-
Corporate Bonds other than high-yield	3,111	244	2,867	-
Small Cap Domestic Equities	958	844	114	-
Mid Cap Domestic Equities	1,235	1,188	47	-
Large Cap Domestic Equities	5,897	3,937	1,960	-
International Equities	4,165	3,092	1,073	-
Real Estate Investment Funds	635	104	26	505
Other Real Estate	93	-	-	93
Mortgage-Backed Securities	649	44	605	-
Asset-Backed Commercial Paper	15	-	15	-
Derivatives	227	241	(14)	-
Private Investment Funds	1,490	410	-	1,080
Insurance Contracts (general account)	141	-	72	70
Insurance Contracts (separate account)	34	-	34	-
Employer Securities	50	50	-	-
Aggregate Bond Index, Long Bond Index	268	-	268	-
Other	196	129	58	9
Total Assets	**$ 24,330**	**$ 11,772**	**$ 10,281**	**$ 2,278**

The following chart shows the reconciliation of the Level 3 assets for FY 2011 for the 40 pension benefit plans with assets.

($ IN MILLIONS)	CASH AND EQUIVA-LENTS	U.S. BONDS	CORPORATE BONDS OTHER THAN HIGH YEILD	REAL ESTATE INVESTMENT FUNDS	DERIVA-TIVES	OTHER REAL ESTATE	PRIVATE INVESTMENT FUNDS	INSURANCE CONTRACTS (GENERAL ACCOUNTS)	OTHER	TOTAL
Beginning Balance	$ 120	$ -	$ 2	$ 243	$ 1	$ 70	$ 821	$ 94	$ 9	$ 1,360
Actual return on plan assets:										
Relating to assets still held at the reporting date	184	(193)	-	62	-	6	95	-	-	154
Relating to assets sold during the period	-	-	-	-	-	1	19	-	-	20
Purchases, sales, and settlements	(29)	-	(2)	85	-	19	176	(1)	-	248
Transfers in and/or out of Level 3	49	390	-	112	(1)	(2)	(32)	(23)	-	493
Other	-	-	-	3	-	(1)	1	-	-	3
Ending Balance	**$ 324**	**$ 197**	**$ -**	**$ 505**	**$ -**	**$ 93**	**$ 1,080**	**$ 70**	**$ 9**	**$ 2,278**

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 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.

The $171 million of assets in the six other postretirement benefit plans include $135 million of investments in insurance contracts of which $119 million is valued using significant unobservable inputs (Level 3). The balance of the Level 3 insurance contracts increased by $1 million during FY 2011 from $118 million to $119 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.

The FASB Accounting Standards Update ("ASU") No. 2009-12, "Fair Value Measurements and Disclosures: Investments in Certain Entities That Calculate Net Asset Value ("NAV") per Share (or Its Equivalent)" was issued in September 2009. This ASU provides guidance on using the NAV per share provided by investees to estimate the fair value of an alternative investment. The ASU requires enhanced disclosures about the nature and risks of investments within its scope. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investee. Investments in investment funds, which are recorded based on the net asset value 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 reasonable 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 the original 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 Department's contractors reported $3.9 billion of assets subject to these disclosures. These investments are distributed 70% in equity funds, 19% in private investment funds, 7% in fixed income funds, 3% in real estate funds, and 1% in short term investment funds of various investment strategies. The investments can be redeemed daily for 52% of these assets, up to monthly for 25%, and quarterly for 2%. The redemption notice period is a week or less in nearly all cases. For 2% of these assets, the investments cannot be redeemed for the life of the fund. There are approximately $50 million in unfunded commitments related to these assets.

17. Capital Leases

($ IN MILLIONS)	FY 2011	FY 2010
SUMMARY OF ASSETS UNDER CAPITAL LEASE		
Power line equipment	$ 367	$ 326
Buildings and improvements	22	24
Automatic Data Processing Equipment	342	338
Contruction work in progress	80	61
Other assets	138	104
Total capital lease assets	**$ 949**	**$ 853**
Less accumulated depreciation	(272)	(216)
Net assets under capital leases	**$ 677**	**$ 637**

FISCAL YEAR	POWER LINE EQUIPMENT	OTHER	TOTAL
2011 3rd Quarter + 2012	$ 29	$ 13	$ 42
2013	29	3	32
2014	119	-	119
2015	224	-	224
2016	160	-	160
2017+	293	2	295
Total future lease payments	**$ 854**	**$ 18**	**$ 872**
Less imputed interest	(262)	-	(262)
Less executory costs	(3)	-	(3)
Net capital lease liability	**$ 589**	**$ 18**	**$ 607**
Lease liabilities covered by budgetary resources			$ (590)
Lease liabilities not covered by budgetary resources			(17)
Total capital lease liability			**$ (607)**

18. Contingencies and Commitments

($ IN MILLIONS)	FY 2011	FY 2010
Unfunded contingencies		
Spent nuclear fuel litigation	$ 19,113	$ 15,382
Other	34	66
Subtotal (Note 11)	**$ 19,147**	**$ 15,448**
Funded contingencies		
Other	28	33
Total contingencies and commitments	**$ 19,175**	**$ 15,481**

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 NWPA, the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the NWF, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, 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.

To date, 23 suits have been settled involving utilities that collectively produce about 60 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 $1.35 billion to the settling utilities for delay damages they have incurred through September 30, 2011. In addition, thirteen cases have been resolved by final judgments. Six of those cases resulted in an award of no damages by the trial court and seven cases resulted in a total of $378 million in damages to be paid for by the Judgment Fund. The Judgment Fund paid $65 million in prior years for two of those cases while four judgments totaling $221 million were paid during FY 2011 including one payment for a partial judgment. A $92 million payment for the thirteenth judgment will occur in FY 2012.

The Department's spent nuclear fuel 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 spent nuclear fuel. The Department believes its assumptions and methodology provide a reasonable basis for the contingent liability estimate.

On March 7, 2011, the Department of Justice (DOJ) notified opposing counsel in the pending SNF cases of the terms and conditions under which DOJ would be willing to settle those cases referred to below as New Settlements. The terms and conditions are significantly different from those contained in the pre-2011 settlements. While there are numerous differences between the pre-2011 settlements and New Settlements, the major difference is the use of the SNF acceptance rate published in the 1987 Draft Mission Plan to establish the government's liability under these settlements, i.e., a 900 MTU annual acceptance rate under the pre-2011 settlements versus a 3000 MTU annual acceptance rate under the New Settlements.

Thirty five 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 49 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 $20.7 billion. After deducting the amount paid as of September 30, 2011, under these settlements and as a result of final judgments, a total of $1.6 billion, the remaining liability is estimated to be approximately $19.1 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. Furthermore, in fiscal year 2009 the President and the Secretary announced that the repository at Yucca Mountain would not be opened and established a Blue Ribbon Commission in January 2010 to evaluate alternatives. Future determinations on how the Department will meet its obligations under the standard contracts could materially decrease or increase the spent nuclear fuel litigation liability.

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; Mound, Ohio; and Brookhaven, New York. Collectively, in these cases, damages in excess of $103 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 on terms favorable to the defendants. The plaintiffs filed a petition for a writ of certiorari in the United States Supreme Court which defendants opposed. The Court recently called for the views of the Solicitor General. In the Hanford litigation, the parties agreed on trial for 12 "bellwether" plaintiffs. Six "bellwether" plaintiffs' claims were dismissed on pre-trial dispositive motions. Following the "bellwether" trials, the jury found in favor of two plaintiffs, and found in favor of the defendants with respect to the remaining four plaintiffs. The court of appeals affirmed the relatively small judgments in favor of two successful "bellwether" plaintiffs, vacated defense verdicts in favor of three "bellwether" plaintiffs' claims, and remanded to the district court for further proceedings. Proceedings on the remaining Hanford plaintiffs' claims are now continuing through court-ordered mediation and trials.

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 (NRD) in the 1100 area of the Hanford site. The Yakama have 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 the Confederated Tribes of the Umatilla and the Nez Perce tribe, have joined the suit. The case is in pre-trial phase. The district court has denied the government's motion to dismiss two of the plaintiffs' claims on the ground that they are not ripe, but has stayed any proceedings on one of those claims. The case remains stayed while settlement negotiations continue. Potential losses to the Department cannot be estimated at this time.

CLEANUP AND WASTE DISPOSAL AT WEST VALLEY

The State of New York filed a complaint for a declaratory judgment and monetary relief, raising claims under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the West Valley Demonstration Project Act (WVDPA), and the NWPA. This case involves a dispute between the Department and the State of New York concerning their respective obligations for cleanup and waste disposal at West Valley. The parties have recently agreed upon a tentative settlement of these claims that includes claims under the WVDPA for which Congress previously allocated a 90% share for the federal

government in 1980. Additionally, the settlement only determines cost allocation and not actual clean-up costs, as those decisions will be made pursuant to separate processes.

On July 1, 2010, the parties filed respective motions to approve and enter the Consent Decree which the court later approved. The Consent Decree makes no decisions with respect to the actual cleanup actions for the West Valley Demonstration Project (WVDP) and/or the Western New York Nuclear Services Center (Center). Instead, the Consent Decree commits the United States and New York to follow a complex cost allocation formula for all future actions at the WVDP and the Center, based entirely on the final actions selected by the parties via the appropriate public process. The Consent Decree did not resolve a claim for liability of the high-level radioactive waste disposal fee pursuant to NWPA. Briefing of this claim has been stayed pending scheduling of briefing by the court. If the State of New York pursues this claim, the United States will file a Motion to Dismiss on multiple grounds. While we are confident that our Motion to Dismiss will prevail, it is extremely difficult to estimate the possible financial risks to the Department. If an adverse outcome occurs, the estimated loss could be approximately $325 million.

REFUNDS TO UTILITY COMPANIES

The Bonneville Power Administration (BPA) and the Western Area Power Administration (WAPA) were parties to proceedings at the Federal Energy Regulatory Commission (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 Court found that governmental utilities, like BPA and WAPA, were not subject to FERC's statutory refund authority. As a consequence of the Court's decision, three California investor-owned utilities along with the State of California filed breach of contract claims in the U.S. Court of Federal Claims against BPA and WAPA. The complaints, filed in March of 2007, alleged that BPA and WAPA were contractually obligated to pay refunds on transactions where the agencies received amounts in excess of mitigated market clearing prices established by FERC. The plaintiffs' contractual breach is premised upon a FERC finding that it retroactively reset the prices under the ISO and PX tariffs when it established these mitigated market clearing prices. BPA and WAPA have separately appealed to the Ninth Circuit Court the FERC finding that it retroactively reset the tariff prices. The plaintiffs' claims for relief exceed $300 million. A trial on the liability portion of plaintiff's contractual breach claim commenced in July 2010 and concluded in August 2010. Post trial briefs were filed during fall 2010 and closing arguments were held in February 2011. The damages phase of the case will be tried only after the Court rules on the liability portion. No date has been scheduled for the damages phase.

EASEMENT ON GOVERNMENT LAND TO CREATE A WIND FARM

Plaintiff MNS Wind Company filed a complaint in the U.S. Court of Federal Claims alleging that the Department unlawfully terminated an agreement that would have granted MNS an easement on government land to construct turbines for the purpose of creating a wind farm at the Nevada Test Site. On June 22, 2011, following a 2009 opinion of the court finding the government liable, but prior to the anticipated scheduling of a trial on damages, the case was settled for $1.8 million.

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 DOE under CERCLA for damages to natural resource (e.g., ground water) caused by such releases. DOE 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.

LITIGATION ARISING FROM THE ADMINISTRATION'S DECISION TO ABANDON THE YUCCA MOUNTAIN REPOSITORY LICENSING

Actions were filed relating to the Department's decision to withdraw with prejudice its pending application before the Nuclear Regulatory Commission (NRC) for a construction authorization to build a repository at Yucca Mountain, Nevada. One of these actions was filed with the NRC challenging the Department's motion to withdraw with prejudice the license application for construction of Yucca Mountain. The other six actions were filed in the U.S. Court of Appeals for the District of Columbia.

The NRC's hearing tribunal, the Atomic Safety and Licensing Board, issued an order that denied DOE's motion to withdraw its license application. In June of 2010, the Commission, the body with final authority over NRC decision-making invited briefing from the Department and others on whether it should review and reverse, or uphold, the Board's decision. On September 9, 2011, the Commission issued its decision in which the Commission (1) announced it was split evenly on the question whether the NRC's Atomic Safety and Licensing Board had properly

refused to allow the Department's motion to withdraw the Yucca Mountain construction license application with prejudice, and (2) unanimously held that "budgetary limitations" required the Board to dispose of pending matters by the end of the 2011 fiscal year and to document the history of the adjudicatory process. On September 30, 2011, the Board issued a memorandum and order suspending the licensing proceeding due to uncertainty regarding the availability of future appropriations from the Nuclear Waste Fund to pay for future proceedings and a lack of staff to continue the proceeding since the President's fiscal year 2012 budget request for Yucca Mountain high-level waste activities did not include a request for any full-time equivalent positions.

In 2010, four petitions for review were filed in the U.S. Court of Appeals for the District of Columbia Circuit relating to the Department's withdrawal motion filed with the NRC, which the court later consolidated for future litigation. The petitioners alleged they suffered harm so long as high level nuclear waste is stored at DOE facilities located in the States of South Carolina and Washington (the Savannah River and Hanford facilities, respectively). They alleged that, if a permanent geologic repository at Yucca Mountain, Nevada, were constructed and operated, the waste stored in South Carolina and Washington would eventually be transported to, and disposed of in, the Yucca Mountain repository.

In those actions, the government's response brief was due July 28, 2010, but that same day, the court granted the government's motion to vacate the briefing schedule until resolution of the administrative litigation pending before the NRC. The court later set a briefing schedule and on January 3, 2011, the government filed its brief. Oral argument was held on March 22, 2011 and on July 1, 2011, the court ruled that because the petitioners' claims were not ripe for adjudication, the court could not decide the claims and dismissed all petitions for lack of jurisdiction.

In two additional matters related to the Yucca Mountain license withdrawal, two nuclear utility trade groups sought to review, remand or vacate the Department's decision (1) not to suspend the utility quarterly payments into the Nuclear Waste Fund until there was a final program to implement spent nuclear waste disposal and (2) not to undertake a prompt review of the fee adequacy in light of the termination of the Yucca Mountain licensing. The court consolidated these petitions and set oral argument for December 6, 2010. However, on November 1, 2010, Secretary Chu issued his determination that based on review of the fee adequacy, there was no "reasonable basis at this time" to propose an adjustment to the fee. The court cancelled oral argument and dismissed the action as moot on December 13, 2010.

After the court dismissed the trade groups' first fee review challenge, in 2011, they filed new petitions that were later consolidated, this time seeking review of the Secretary's November 1, 2010 determination that no adjustment to the fee was required. In these actions, the petitioners and the government have filed their opening briefs and oral arguments are set for January 12, 2012.

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 based on expected obligations and the historical record, they take a variety of steps to cover the shortage. 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 legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability 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. Accordingly, these distributions are recorded as program costs when paid. Future irrigation assistance payments are scheduled over a maximum of 66 years since the time the irrigation facilities were completed and placed in service. BPA is required by the Grand Coulee Dam - Third Power Plant Act to demonstrate that reimbursable costs will be returned to the Treasury from BPA within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects to the extent the costs have been determined to be beyond the irrigators' ability to repay. These requirements are met by conducting power repayment studies including schedules of distributions at the proposed rates to demonstrate repayment of principal within the allowable repayment period. Irrigation assistance excludes $40.3 million for Teton Dam, which failed prior to completion and for which BPA has no obligation to recover these costs.

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.

FISCAL YEAR ($ IN MILLIONS)	PURCHASE POWER AND TRANSMISSION	IRRIGATION ASSISTANCE
2012	258	1
2013	236	139
2014	159	62
2015	101	85
2016	86	117
2017+	219	2,599
Total	**$ 1,059**	**$ 3,003**

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 (NOAA) 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. However, the current estimate of long-term fish and wildlife agreements with a contractual commitment which BPA has entered is $1.03 billion. These agreements will expire at various dates between fiscal years 2018 and 2025.

19. Earmarked Funds

($ IN MILLIONS)	FY 2011					
	NUCLEAR WASTE FUND	D&D FUND	USEC	PMAs	OTHER	TOTAL
BALANCE SHEET						
ASSETS						
Fund balance with Treasury	$ 2	$ 5	$ -	$ 1,535	$ 1,328	$ 2,870
Investments and related interest, net	26,728	4,587	1,606	294	2	33,217
Accounts receivable, net	3,261	-	-	829	3	4,093
Direct loans and loan guarantees, net	-	-	-	1	-	1
Inventory, net	-	-	-	113	10	123
General property plant and equipment, net	-	-	-	7,458	27	7,485
Regulatory assets	-	-	-	12,898	-	12,898
Other assets	2	50	-	3,316	2	3,370
Total Assets	**$ 29,993**	**$ 4,642**	**$ 1,606**	**$ 26,444**	**$ 1,372**	**$ 64,057**
LIABILITIES AND NET POSITION						
Accounts payable	$ 2	$ 127	$ -	$ 516	$ 14	$ 659
Debt	-	-	-	18,149	-	18,149
Deferred revenues and other credits	29,990	-	-	1,193	3	31,186
Environmental cleanup and disposal liabilities	-	14,377	-	12	-	14,389
Pensions and other actuarial liabilities	1	-	-	57	1	59
Obligations under capital leases	-	-	-	590	-	590
Other liabilities	-	1	-	4,035	18	4,054
Contingencies and commitments	-	-	-	33	-	33
Unexpended appropriations	-	-	-	3	18	21
Cumulative results of operations	-	(9,863)	1,606	1,856	1,318	(5,083)
Total Liabilities and Net Position	**$ 29,993**	**$ 4,642**	**$ 1,606**	**$ 26,444**	**$ 1,372**	**$ 64,057**
STATEMENT OF NET COST						
Program costs	$ 18	$ (112)	$ -	$ 4,113	$ 161	$ 4,180
Less earned revenues	(29)	(317)	-	(4,854)	(3,371)	(8,571)
Net program costs	$ (11)	$ (429)	$ -	$ (741)	$ (3,210)	$ (4,391)
Costs not assigned	(2)	904	-	13	-	915
Net cost of operations	**$ (13)**	**$ 475**	**$ -**	**$ (728)**	**$ (3,210)**	**$ (3,476)**
STATEMENT OF CHANGES IN NET POSITION						
Cumulative results of operations, beginning balance	$ -	$ (9,463)	$ 1,601	$ 2,093	$ 1,147	$ (4,622)
Appropriations used	-	-	-	4	5	9
Non-exchange revenue	-	-	5	-	2	7
Donations and forfeitures of cash	-	-	-	9	-	9
Transfers - in/(out) without reimbursement	(13)	40	-	(993)	276	(690)
Imputed financing	-	-	-	1	-	1
Other	-	35	-	14	(3,322)	(3,273)
Net cost of operations	13	(475)	-	728	3,210	3,476
Cumulative results of operations, ending balance	**$ -**	**$ (9,863)**	**$ 1,606**	**$ 1,856**	**$ 1,318**	**$ (5,083)**
Unexpended appropriations, beginning balance	$ -	$ -	$ -	$ 6	$ 12	$ 18
Appropriations received	-	-	-	-	11	11
Other adjustments	-	-	-	1	(1)	-
Appropriations used	-	-	-	(4)	(4)	(8)
Unexpended appropriations, ending balance	**$ -**	**$ -**	**$ -**	**$ 3**	**$ 18**	**$ 21**

($ IN MILLIONS)	FY 2010					
	NUCLEAR WASTE FUND	D&D FUND	USEC	PMAs	OTHER	TOTAL
BALANCE SHEET						
ASSETS						
Fund balance with Treasury	$ 4	$ 5	$ -	$ 1,677	$ 1,068	$ 2,754
Investments and related interest, net	24,566	4,975	1,601	195	-	31,337
Accounts receivable, net	3,419	-	-	528	18	3,965
Direct loans and loan guarantees, net	-	-	-	1	-	1
Inventory, net	-	-	-	103	88	191
General property plant and equipment, net	-	-	-	7,610	22	7,632
Regulatory assets	-	-	-	10,073	-	10,073
Other assets	1	-	-	2,982	-	2,983
Total Assets	**$ 27,990**	**$ 4,980**	**$ 1,601**	**$ 23,169**	**$ 1,196**	**$ 58,936**
LIABILITIES AND NET POSITION						
Accounts payable	$ 6	$ 125	$ -	$ 614	$ 16	$ 761
Debt	-	-	-	17,831	-	17,831
Deferred revenues and other credits	27,973	-	-	1,098	5	29,076
Environmental cleanup and disposal liabilities	-	14,308	-	6	-	14,314
Pensions and other actuarial liabilities	10	-	-	58	-	68
Obligations under capital leases	-	-	-	485	-	485
Other liabilities	1	10	-	949	16	976
Contingencies and commitments	-	-	-	29	-	29
Unexpended appropriations	-	-	-	6	12	18
Cumulative results of operations	-	(9,463)	1,601	2,093	1,147	(4,622)
Total Liabilities and Net Position	**$ 27,990**	**$ 4,980**	**$ 1,601**	**$ 23,169**	**$ 1,196**	**$ 58,936**
STATEMENT OF NET COST						
Program costs	$ 99	$ (135)	$ -	$ 4,245	$ 100	$ 4,309
Less earned revenues	(130)	(242)	-	(4,269)	(26)	(4,667)
Net program costs	$ (31)	$ (377)	$ -	$ (24)	$ 74	$ (358)
Costs not assigned	(2)	864	-	(13)	-	849
Net cost of operations	**$ (33)**	**$ 487**	**$ -**	**$ (37)**	**$ 74**	**$ 491**
STATEMENT OF CHANGES IN NET POSITION						
Cumulative results of operations, beginning balance	$ -	$ (9,463)	$ 1,594	$ 2,036	$ 1,145	$ (4,688)
Appropriations used	-	-	-	3	10	13
Non-exchange revenue	-	-	7	-	-	7
Donations and forfeitures of cash	-	-	-	27	-	27
Transfers - in/(out) without reimbursement	(33)	25	-	(23)	51	20
Imputed financing	1	-	-	1	-	2
Other	(1)	462	-	12	15	488
Net cost of operations	33	(487)	-	37	(74)	(491)
Cumulative results of operations, ending balance	**$ -**	**$ (9,463)**	**$ 1,601**	**$ 2,093**	**$ 1,147**	**$ (4,622)**
Unexpended appropriations, beginning balance	$ -	$ -	$ -	$ 9	$ 11	$ 20
Appropriations received	-	-	-	-	11	11
Appropriations used	-	-	-	(3)	(10)	(13)
Unexpended appropriations, ending balance	**$ -**	**$ -**	**$ -**	**$ 6**	**$ 12**	**$ 18**

NUCLEAR WASTE FUND

The NWPA requires the owners and generators of nuclear waste to pay their share of 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 fees. Fees are invested in Treasury

securities and any interest earned is available to pay costs incurred by the NWF. The NWPA requires annual financial statements to be prepared as well as reporting of financial performance measures such as the maintenance of liquid reserves and investment strategies.

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. The Energy Policy Act requires annual financial statements to be prepared as well as periodic reporting of financial performance measures relating to fee receipt and investment income.

U.S. ENRICHMENT CORPORATION

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, annual appropriations from the Department of the Interior's Reclamation Fund, and appropriations from Treasury's General Fund. In most instances, the annual appropriations from the Reclamation Fund and the General Fund are repaid to Interior and Treasury, respectively, from the receipts generated from power sales.

20. Statement of Net Cost - Gross Cost by Strategic Objective

($ IN MILLIONS)	FY 2011	FY 2010
Transform Our Energy Systems		
Deploy the technologies we have	$ 13,116	$ 8,731
Discover the new solutions we need	4,004	2,968
Lead the National conversation on energy	195	225
Total program costs for transform our energy systems	$ 17,315	$ 11,924
The Science and Engineering Enterprise		
Extend our knowledge of the natural world	$ 3,512	$ 3,134
Deliver new technologies to advance our mission	1,338	1,142
Sustain a world-leading technical workforce	22	18
Total program costs for the science and engineering enterprise	$ 4,872	$ 4,294
Secure Our Nation		
Support the U.S. nuclear stockpile and future military needs	$ 6,187	$ 5,048
Reduce global nuclear dangers	1,751	1,715
Apply our capabilities for other critical national security missions	1,192	1,187
Support responsible civilian nuclear power development and fuel cycle management	221	336
Complete environmental remediation of our legacy and active sites	7,347	7,405
Total program costs for secure our nation	$ 16,698	$ 15,691
Total program costs for strategic objectives	$ 38,885	$ 31,909

TRANSFORM OUR ENERGY SYSTEMS

Goal: Catalyze the timely, material, and efficient transformation of the nation's energy system and secure U.S. leadership in clean energy technologies. Objectives include:

- **Deploy the technologies we have** - Advance new approaches for improving the efficiency of our nation's homes, buildings, facilities and vehicles.
- **Discover the new solutions we need** – Pursue technologies that can have the greatest impact on national energy goals and avoid technologies of limited applicability or resource.
- **Lead the national conversation on energy** – Ensure the processes of informing, shaping, and supporting energy and related environmental policies are underpinned by sound techno-economic principles and analyses.

THE SCIENCE AND ENGINEERING ENTERPRISE

Goal: Maintain a vibrant U.S. effort in science and engineering as a cornerstone of our economic prosperity with clear leadership in strategic areas. Objectives include:

- **Extend our knowledge of the natural world –** Address fundamental questions in the physical sciences and produce novel hardware and theoretical and analytical tools with applications well beyond the specific science.
- **Deliver new technologies to advance our mission –** Foster the development of new technologies to make major contributions to our energy, environment, and security missions.
- **Sustain a world-leading technical workforce –** Invest in current and future scientists by creating conditions that allow today's researchers to be as productive as possible, as well as ensure an adequate supply of tomorrow's researchers.

SECURE OUR NATION

Goal: Enhance nuclear security through defense, nonproliferation, and environmental efforts. Objectives include:

- **Support the U.S. nuclear stockpile and future military needs –** Keep the U.S. stockpile safe and reliable without further nuclear testing.
- **Reduce global nuclear dangers –** Maintain effective and credible international nuclear safeguards and export controls.
- **Apply our capabilities for other critical national security missions –** Provide the scientific and technical knowledge to enable national security agencies to understand and counter dangers arising from foreign nuclear weapons programs, the spread of nuclear capabilities to additional countries, and the potential exploitation of nuclear materials by terrorists.
- **Support responsible civilian nuclear power development and fuel cycle management –** Support the development of a new International framework for nuclear cooperation and strengthen International safeguards and export controls to support safe and secure deployment of nuclear power globally.
- **Complete environmental remediation of our legacy and active sites –** Reduce the footprint of our contaminated sites while bringing to bear the Department's formidable research and development assets to develop and deploy transformational technologies.

21. Earned Revenues

($ IN MILLIONS)	INTRA-GOVERNMENTAL	PUBLIC	DEFERRED REVENUE ADJUSTMENT	TOTAL
	FY 2011			
Transform Our Energy Systems				
Power Marketing Administrations	$ (268)	$ (4,229)	$ -	$ (4,497)
Loan Programs	(161)	(164)	(11)	(336)
Petroleum reserve oil sales	-	(3,566)	-	(3,566)
Other	-	(1)	-	(1)
Earned revenues for transform our energy systems	**(429)**	**(7,960)**	**(11)**	**(8,400)**
The Science and Engineering Enterprise				
Isotopes program	**(1)**	(31)	-	(32)
Earned Revenue for the science and engineering enterprise	**(1)**	**(31)**	**-**	**(32)**
Secure Our Nation				
Nuclear Waste Fund	(1,340)	(707)	2,018	(29)
D&D Fund	(142)	(175)	-	(317)
Other	(23)	(6)	-	(29)
Earned revenues for secure our nation	**(1,505)**	**(888)**	**2,018**	**(375)**
Reimbursable programs	(3,533)	(635)	-	(4,168)
Other programs				
FERC (Note 22)	-	(317)	-	(317)
Other (Note 22)	(3)	(37)	-	(40)
Earned revenues for other programs	**(3)**	**(354)**	**-**	**(357)**
Total earned revenues	**$ (5,471)**	**$ (9,868)**	**$ 2,007**	**$ (13,332)**
	FY 2010			
Transform Our Energy Systems				
Power Marketing Administrations	$ (149)	$ (3,690)	$ -	$ (3,839)
Loan Programs	(94)	(78)	13	(159)
Petroleum reserve oil sales	-	(6)	-	(6)
Other	-	(11)	-	(11)
Earned revenues for transform our energy systems	**(243)**	**(3,785)**	**13**	**(4,015)**
The Science and Engineering Enterprise				
Isotopes program	-	(22)	-	(22)
Earned Revenue for the science and engineering enterprise	**-**	**(22)**	**-**	**(22)**
Secure Our Nation				
Nuclear Waste Fund	(1,245)	(706)	1,821	(130)
D&D Fund	(169)	(73)	-	(242)
Other	(13)	(2)	-	(15)
Earned revenues for secure our nation	**(1,427)**	**(781)**	**1,821**	**(387)**
Reimbursable programs	(3,507)	(662)	-	(4,169)
Other programs				
FERC (Note 22)	-	(303)	-	(303)
Other (Note 22)	(2)	(58)	-	(60)
Earned revenues for other programs	**(2)**	**(361)**	**-**	**(363)**
Total earned revenues	**$ (5,179)**	**$ (5,611)**	**$ 1,834**	**$ (8,956)**

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 27).

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 $36 million and $25 million were earned as of September 30, 2011 and September 30, 2010, 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 $161 million and $94 million and on loans from the borrower of $128 million and $53 million were earned as of September 30, 2011 and September 30, 2010, respectively. Amortization of the subsidy (see Note 7) is an adjustment made to the earned revenue and was ($11) million and $13 million as of September 30, 2011 and September 30, 2010, respectively.

NUCLEAR WASTE FUND

The NWPA requires the Department to assess fees against owners and generators of high-level radioactive waste and spent nuclear fuel to fund the costs associated with management and disposal activities under the Act. Fees of $749 million and $754 million were assessed as of September 30, 2011, and September 30, 2010, respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled $1,296 million and $1,197 million as of September 30, 2011, and September 30, 2010, respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., when costs are incurred) for the Civilian Radioactive Waste Management program.

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 $142 million and $169 million as of September 30, 2011 and September 30, 2010, respectively. Gains on the transfer of Uranium to USEC in exchange for environmental clean-up services totaled $175 million as of September 30, 2011, and $73 million as of September 30, 2010 respectively.

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 Fiscal Year 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 $3,692 million and $3,688 million as of September 30, 2011, and September 30, 2010, 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 most of its administrative program costs as an annual charge to each regulated entity (see Note 22).

PETROLEUM RESERVE OIL SALES

In FY 2011, the President ordered a drawdown of the Strategic Petroleum Reserve to offset the disruption in global oil supplies caused by unrest in Libya and other countries. The result was a sale of 30 million barrels of crude oil. The crude oil had a historical cost of $954 million and was sold for $3.2 billion. In FY 2011, the Department also sold all of the approximate 2 million barrels of heating oil from the Northeast Home Heating Oil Reserve storage sites. This heating oil had a historical cost of $79 million and was sold for $227 million. These sales receipts are being used to purchase a cleaner burning, ultra-low sulfur diesel. FY 2011 revenues also include an additional gain of $93 million resulting from the final settlement of equity interests from the Department's FY 1998 sale of the Naval Petroleum Reserve No. 1, Elk Hills.

22. Other Programs

($ IN MILLIONS)	FY 2011		FY 2010	
Federal Energy Regulatory Commission				
Program costs	$ 317		$ 303	
Less earned revenues (Note 21)	(317)		(303)	
		$ -		$ -
Environment, safety and health		439		441
Inspector General		49		48
Other programs				
Program costs	$ 21		$ 14	
Less earned revenues (Note 21)	(40)		(60)	
		(19)		(46)
Total net cost for other programs		**$ 469**		**$ 443**

23. 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 program expenses since the expense was accrued in prior years when the Department recorded the environmental liabilities.

24. Costs Not Assigned

($ IN MILLIONS)	FY 2011	FY 2010
Spent nuclear fuel contingency (Notes 18)		
Judgment Fund payments (Note 25)	$ 798	$ 275
Change in estimates (Note 25)	3,731	2,235
Current year spent nuclear fuel contingency costs	$ 4,529	$ 2,510
Change in environmental liability estimates (Notes 15 and 25)	10,184	(9,030)
Changes in contractor pension and PRB estimates (Note 25)	2,052	3,605
Change in unfunded safety and health liabilities (Notes 14 and 25)	150	123
Change in occupational illness program (Note 25)		
Subtitle B	1,996	4,430
Subtitle E	2,304	666
Other Judgment Fund payments (Note 25)	24	-
Other	(4)	73
Total costs not assigned	**$ 21,235**	**$ 2,377**

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 25).

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. Subtitle B 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 include Subtitle E, Contractor Employee Compensation. This amendment replaces Subtitle D of the EEOICPA, which provided assistance for the Department in obtaining state workers' compensation benefits. The amendment grants 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 under Subtitle E 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. The liability estimate increased due to an increased emergence of cancer SEC claims, increased number of projected approvals for Part E cases, higher projected medical costs, and a lower interest rate used to discount losses.

25. Reconciliation of Net Cost of Operations to Budget

($ IN MILLIONS)	FY 2011		FY 2010	
RESOURCES USED TO FINANCE ACTIVITIES				
Obligations incurred (Note 26)	$ 48,906		$ 53,341	
Less spending authority from offsetting collections and recoveries	(11,254)		(9,753)	
Less offsetting receipts (Note 26)	(7,306)		(3,305)	
Net obligations		**$ 30,346**		**$ 40,283**
Imputed financing from costs absorbed by others				
Increase in occupational illnesses liability (Note 24)	$ 4,300		$ 5,096	
OPM imputed costs	116		123	
Payments made from Treasury's Judgment Fund (Note 24)	822		275	
Total imputed costs absorbed by others		$ 5,238		$ 5,494
Transfers-in/(out) without reimbursement		(742)		201
Nuclear Waste Fund offsetting receipts, deferred		3,240		2,860
Other		10		6
Total resources used to finance activities		**$ 38,092**		**$ 48,844**
RESOURCES USED TO FINANCE ACTIVITIES NOT PART OF NET COST OF OPERATIONS				
Change in budgetary resources obligated for orders but not yet provided	$ 4,457		$ (7,819)	
Resources that finance the acquisition of assets	(9,050)		(7,159)	
Credit program collection and receipts that increase liabilities	1,489		804	
Resources that fund expenses recognized in prior periods	(7,843)		(6,507)	
Other resources and adjustments	2,710		(50)	
Total resources used to finance items not part of Net Cost of Operations		**$ (8,237)**		**$ (20,731)**
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD				
Contractor Pension and PRB plans				
Contractor pension and PRB estimate changes (Note 24)	$ 2,052		$ 3,605	
Current year pension and PRB service costs (Notes 16 and 24)	1,179		1,136	
Current year pension and PRB employer contributions (Note 16)	(1,357)		(1,113)	
Total pension and PRB plans	$ 1,874		$ 3,628	
Change in environmental liability estimates (Notes 15 and 24)	10,184		(9,030)	
Change in spent nuclear fuel contingency (Note 24)	3,731		2,235	
Change in unfunded safety and health liabilities (Notes 11, 14 and 24)	150		123	
Change in other unfunded liabilities	171		(603)	
Depreciation of property, plant and equipment	1,743		1,765	
Amortization of premiums and discounts on Treasury investments	(997)		(1,039)	
Revaluation of assets and liabilities for loans	(10)		13	
Other amortization	185		166	
Gain on sale of SPRO oil (Note 21)	(2,284)		-	
Other	(612)		(1,548)	
Total net cost of items that do not require or generate resources in current period		**$ 14,135**		**$ (4,290)**
NET COST OF OPERATIONS		**$ 43,990**		**$ 23,823**

NUCLEAR WASTE FUND OFFSETTING RECEIPTS, DEFERRED

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, 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 spent nuclear fuel 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.

26. Combined Statements of Budgetary Resources

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

DETAILS OF OBLIGATIONS INCURRED ($ IN MILLIONS)	FY 2011	FY 2010
Direct		
Category A (by quarter)	$ 14,564	$ 11,904
Category B (by project)	25,884	32,868
Sub-total direct obligations incurred	**$ 40,448**	**$ 44,772**
Exempt from apportionment	3,721	3,773
Reimbursable		
Category A (by quarter)	39	25
Category B (by project)	4,698	4,771
Sub-total reimbursable obligations incurred	**$ 4,737**	**$ 4,796**
Total obligations incurred (Note 25)	**$ 48,906**	**$ 53,341**

UNOBLIGATED BALANCES NOT AVAILABLE ($ IN MILLIONS)	FY 2011	FY 2010
Loan funds reserved for future defaults	$ 4,555	$ 3,292
U.S. Enrichment Corporation Fund	-	1,567
Strategic Petroleum Reserve mandatory appropriations not apportioned	3,238	-
Prior year deobligations in excess of apportioned amount	27	44
Energy Supply and Conservation unapportioned balances	11	-
Reimbursable work/collections in excess of amount anticipated	4	-
Expired appropriations and other amounts not apportioned	13	4
Total unobligated balances not available (Note 3)	**$ 7,848**	**$ 4,907**

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

DETAILS OF UNPAID OBLIGATIONS ($ IN MILLIONS)	FY 2011	FY 2010
Undelivered orders	$ 45,709	$ 49,594
Accounts payable and other liabilities	8,175	8,051
Total unpaid obligations (Note 3)	**$ 53,884**	**$ 57,645**

RECONCILIATION TO APPROPRIATIONS RECEIVED ON THE STATEMENT OF CHANGES IN NET POSITION ($ IN MILLIONS)	FY 2011	FY 2010
Appropriations received on the Combined Statements of Budgetary Resources	$ 29,947	$ 27,065
Less:		
Special and trust fund appropriated receipts	(900)	(862)
Appropriated capital owed	(13)	(13)
Other	(3)	(3)
Appropriations received on the Statements of Changes in Net Position	**$ 29,031**	**$ 26,187**

RECONCILIATION TO THE BUDGET (FY 2010) ($ IN MILLIONS)	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	DISTRIBUTED OFFSETTING RECEIPTS	NET OUTLAYS
Combined Statements of Budgetary Resources as published	$ 66,650	$ 53,341	$ (3,305)	$ 31,997
OMB adjustments made to exclude:				
U.S. Enrichment Corporation	(1,567)	-	-	(2)
Financing disbursements	-	-	-	(1,221)
Other	2	4	2	4
Budget of the United States Government	**$ 65,085**	**$ 53,345**	**$ (3,303)**	**$ 30,778**

The fiscal year 2010 *Combined Statements of Budgetary Resources* are reconciled to the President's Budget that was published in February 2011. The President's Budget containing actual fiscal year 2011 balances is expected to be published and available on the OMB web site, www.whitehouse.gov/omb/budget, in February 2012. 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.

BORROWING AUTHORITY

The Department's borrowing authority reflected in the *Combined Statements of Budgetary Resources* represents the amount of borrowing authority for the current fiscal year's obligations, which may or may not have been converted to cash. The borrowing authority available at September 30, 2011 and September 30, 2010, is $12.27 billion and $6.14 billion for the Department's loan program, $4.76 billion and $5.19 billion for BPA, and $3.09 billion and $3.16 billion for WAPA, respectively. The amounts available are authority that has not been converted to cash.

27. Custodial Activities

POWER MARKETING ADMINISTRATIONS

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to Treasury and the Department of the Interior revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, the Corps; the Department of the Interior, Bureau of Reclamation; and the Department of State, 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 Corps 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) Bureau of Reclamation 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.

Consolidating Schedules

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

As of September 30, 2011 and 2010 *(See independent auditors' report)*

($ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
	FY 2011				
ASSETS:					
Intragovernmental Assets:					
Fund Balance with Treasury	$ 55	$ 1,535	$ 46,130	$ -	$ 47,720
Investments and Related Interest, Net	-	294	32,997	-	33,291
Accounts Receivable, Net	-	318	2,106	(1,617)	807
Regulatory Assets	-	5,492	-	-	5,492
Other Assets	-	-	73	(40)	33
Total Intragovernmental Assets	**$ 55**	**$ 7,639**	**$ 81,306**	**$ (1,657)**	**$ 87,343**
Investments and Related Interest, Net	-	-	181	-	181
Accounts Receivable, Net	10	511	3,372	-	3,893
Direct Loans and Loan Guarantees, Net	-	1	5,731	-	5,732
Inventory, Net:					
Strategic Petroleum and Home Heating Oil Reserve	-	-	20,668	-	20,668
Nuclear Materials	-	-	21,642	-	21,642
Other Inventory	-	113	423	-	536
General Property, Plant, and Equipment, Net	7	7,458	23,275	-	30,740
Regulatory Assets	-	7,406	-	-	7,406
Other Non-Intragovernmental Assets	-	3,316	524	-	3,840
Total Assets	**$ 72**	**$ 26,444**	**$ 157,122**	**$ (1,657)**	**$ 181,981**
LIABILITIES:					
Intragovernmental Liabilities:					
Accounts Payable	$ 4	$ 63	$ 578	$ (541)	$ 104
Debt	-	12,386	6,921	-	19,307
Deferred Revenues and Other Credits	-	4	101	(41)	64
Other Liabilities	3	33	2,550	(1,075)	1,511
Total Intragovernmental Liabilities	$ 7	$ 12,486	$ 10,150	$ (1,657)	$ 20,986
Accounts Payable	17	453	4,373	-	4,843
Loan Guarantee Liability	-	-	86	-	86
Debt Held by the Public	-	5,763	-	-	5,763
Deferred Revenues and Other Credits	-	1,189	30,526	-	31,715
Environmental Cleanup and Disposal Liabilities	-	12	250,557	-	250,569
Pension and Other Actuarial Liabilities	2	57	30,245	-	30,304
Obligations Under Capital Leases	-	590	17	-	607
Other Non-Intragovernmental Liabilities	27	4,002	3,344	-	7,373
Contingencies and Commitments	-	33	19,142	-	19,175
Total Liabilities	**$ 53**	**$ 24,585**	**$ 348,440**	**$ (1,657)**	**$ 371,421**
NET POSITION:					
Unexpended Appropriations					
Unexpended Appropriations- Earmarked Funds	$ -	$ 3	$ 18	$ -	$ 21
Unexpended Appropriations- Other Funds	29	-	37,712	-	37,741
Cumulative Results of Operations					
Cumulative Results of Operations - Earmarked Funds	-	1,856	(6,939)	-	(5,083)
Cumulative Results of Operations - Other Funds	(10)	-	(222,109)	-	(222,119)
Total Net Position	**$ 19**	**$ 1,859**	**$ (191,318)**	**$ -**	**$ (189,440)**
Total Liabilities and Net Position	**$ 72**	**$ 26,444**	**$ 157,122**	**$ (1,657)**	**$ 181,981**

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
		FY 2010		
$ 65	$ 1,677	$ 54,507	$ -	$ 56,249
-	195	31,201	-	31,396
3	41	1,463	(1,011)	496
-	5,468	-	-	5,468
-	-	104	(43)	61
$ 68	**$ 7,381**	**$ 87,275**	**$ (1,054)**	**$ 93,670**
-	-	195	-	195
36	487	3,495	-	4,018
-	1	2,434	-	2,435
-	-	21,700	-	21,700
-	-	21,454	-	21,454
-	103	410	-	513
8	7,610	22,069	-	29,687
-	4,605	-	-	4,605
-	2,982	439	-	3,421
$ 112	**$ 23,169**	**$ 159,471**	**$ (1,054)**	**$ 181,698**
$ 2	$ 59	$ 226	$ (186)	$ 101
-	11,916	2,931	-	14,847
-	2	76	(42)	36
21	32	2,054	(826)	1,281
$ 23	$ 12,009	$ 5,287	$ (1,054)	$ 16,265
12	555	4,265	-	4,832
-	-	4	-	4
-	5,915	-	-	5,915
-	1,096	28,399	-	29,495
-	6	250,203	-	250,209
2	58	28,345	-	28,405
-	485	55	-	540
52	917	3,437	-	4,406
-	29	15,452	-	15,481
$ 89	**$ 21,070**	**$ 335,447**	**$ (1,054)**	**$ 355,552**
$ -	$ 6	$ 12	$ -	$ 18
32	-	46,949	-	46,981
-	2,093	(6,715)	-	(4,622)
(9)	-	(216,222)	-	(216,231)
$ 23	**$ 2,099**	**$ (175,976)**	**$ -**	**$ (173,854)**
$ 112	**$ 23,169**	**$ 159,471**	**$ (1,054)**	**$ 181,698**

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

For the Years Ended September 30, 2011 and 2010
(See independent auditors' report)

($ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
			FY 2011		
STRATEGIC GOALS:					
Transform Our Energy Systems					
Program Costs	$ -	$ 3,840	$ 13,502	$ (27)	$ 17,315
Less: Earned Revenues	-	(4,512)	(3,915)	27	(8,400)
Net Cost of Transform Our Energy Systems	-	**(672)**	**9,587**	-	**8,915**
The Science and Engineering Enterprise					
Program Costs	-	-	4,892	(20)	4,872
Less: Earned Revenues	-	-	(32)	-	(32)
Net Cost of Science and Engineering Enterprise	-	-	**4,860**	**(20)**	**4,840**
Secure Our Nation					
Program Costs	-	-	16,731	(33)	16,698
Less: Earned Revenues	-	-	(375)	-	(375)
Net Cost of Secure Our Nation	-	-	**16,356**	**(33)**	**16,323**
Net Cost of Strategic Goals	-	**(672)**	**30,803**	**(53)**	**30,078**
OTHER PROGRAMS:					
Reimbursable Programs:					
Program Costs	-	279	4,018	(40)	4,257
Less: Earned Revenues	-	(342)	(3,866)	40	(4,168)
Net Cost of Reimbursable Programs	-	**(63)**	**152**	-	**89**
Other Programs:					
Program Costs	317	-	678	(169)	826
Less: Earned Revenues	(317)	-	(209)	169	(357)
Net Cost of Other Programs	-	-	**469**	-	**469**
Costs Applied to Reduction of Legacy Environmental Liabilities	-	(6)	(7,875)	-	(7,881)
Costs Not Assigned	-	13	21,222	-	21,235
Net Cost of Operations	**$ -**	**$ (728)**	**$ 44,771**	**$ (53)**	**$ 43,990**

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
		FY 2010		
$ -	$ 3,954	$ 8,027	$ (57)	$ 11,924
-	(3,882)	(190)	57	(4,015)
-	**72**	**7,837**	**-**	**7,909**
-	-	4,313	(19)	4,294
-	-	(22)	-	(22)
-	**-**	**4,291**	**(19)**	**4,272**
-	-	16,154	(463)	15,691
-	-	(387)	-	(387)
-	**-**	**15,767**	**(463)**	**15,304**
-	**72**	**27,895**	**(482)**	**27,485**
-	291	3,915	(4)	4,202
-	(387)	(3,786)	4	(4,169)
-	**(96)**	**129**	**-**	**33**
303	-	664	(161)	806
(303)	-	(221)	161	(363)
-	**-**	**443**	**-**	**443**
-	-	(6,515)	-	(6,515)
-	(13)	2,390	-	2,377
$ -	**$ (37)**	**$ 24,342**	**$ (482)**	**$ 23,823**

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

For the Years Ended September 30, 2011 and 2010

(See independent auditors' report)

($ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
	FY 2011				
CUMULATIVE RESULTS OF OPERATIONS:					
Beginning Balances	$ (9)	$ 2,093	$ (222,937)	$ -	$ (220,853)
Budgetary Financing Sources:					
Appropriations Used	$ 2	$ 4	$ 37,716	$ -	$ 37,722
Non-Exchange Revenue	-	-	59	-	59
Donations and Forfeitures of Cash	-	-	15	-	15
Transfers - In/(Out) Without Reimbursement	-	(288)	(14)	-	(302)
Other Financing Sources (Non-Exchange):					
Donations and Forfeitures of Cash	-	9	6	-	15
Transfers - In/(Out) Without Reimbursement	(19)	(705)	(18)	-	(742)
Imputed Financing from Costs Absorbed by Others	16	1	5,221	-	5,238
Other	-	14	(4,325)	(53)	(4,364)
Total Financing Sources	**$ (1)**	**$ (965)**	**$ 38,660**	**$ (53)**	**$ 37,641**
Net Cost of Operations	-	728	(44,771)	53	(43,990)
Net Change	**$ (1)**	**$ (237)**	**$ (6,111)**	**$ -**	**$ (6,349)**
Total Cumulative Results of Operations	**$ (10)**	**$ 1,856**	**$ (229,048)**	**$ -**	**$ (227,202)**
UNEXPENDED APPROPRIATIONS:					
Beginning Balances	$ 32	$ 6	$ 46,961	$ -	$ 46,999
Budgetary Financing Sources:					
Appropriations Received	$ -	$ -	$ 29,031	$ -	$ 29,031
Appropriations Transferred - In/(Out)	-	-	3	-	3
Other Adjustments	(1)	1	(549)	-	(549)
Appropriations Used	(2)	(4)	(37,716)	-	(37,722)
Total Budgetary Financing Sources	**$ (3)**	**$ (3)**	**$ (9,231)**	**$ -**	**$ (9,237)**
Total Unexpended Appropriations	**$ 29**	**$ 3**	**$ 37,730**	**$ -**	**$ 37,762**
Net Position	**$ 19**	**$ 1,859**	**$ (191,318)**	**$ -**	**$ (189,440)**

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
FY 2010				
$ (4)	$ 2,036	$ (236,989)	$ -	$ (234,957)
$ (12)	$ 3	$ 33,084	$ -	$ 33,075
-	-	61	-	61
-	-	1	-	1
-	(229)	196	-	(33)
-	27	2	-	29
3	206	(8)	-	201
16	1	5,477	-	5,494
(12)	12	(419)	(482)	(901)
$ (5)	**$ 20**	**$ 38,394**	**$ (482)**	**$ 37,927**
-	37	(24,342)	482	(23,823)
$ (5)	**$ 57**	**$ 14,052**	**$ -**	**$ 14,104**
$ (9)	**$ 2,093**	**$ (222,937)**	**$ -**	**$ (220,853)**
$ 20	$ 9	$ 55,378	$ -	$ 55,407
$ -	$ -	$ 26,187	$ -	$ 26,187
-	-	3	-	3
-	-	(1,523)	-	(1,523)
12	(3)	(33,084)	-	(33,075)
$ 12	**$ (3)**	**$ (8,417)**	**$ -**	**$ (8,408)**
$ 32	**$ 6**	**$ 46,961**	**$ -**	**$ 46,999**
$ 23	**$ 2,099**	**$ (175,976)**	**$ -**	**$ (173,854)**

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

For the Years Ended September 30, 2011 and 2010

(See independent auditors' report)

($ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	COMBINED
		FY 2011		
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ 12	$ 488	$ 12,809	$ 13,309
Recoveries of Prior Year Unpaid Obligations	3	-	184	187
Budget Authority:				
Appropriations	$ 5	$ 122	$ 29,820	$ 29,947
Borrowing Authority	-	1,048	10,152	11,200
Contract Authority	-	1,288	-	1,288
Spending Authority from Offsetting Collections:				
Earned:				
Collected	298	4,139	5,986	10,423
Change in Receivables from Federal Sources	-	5	26	31
Change in Unfilled Customer Orders:				
Advances Received	-	21	58	79
Without Advance from Federal Sources	-	6	528	534
Subtotal	$ 303	$ 6,629	$ 46,570	$ 53,502
Nonexpenditure Transfers, Net, Actual	-	(94)	2	(92)
Temporarily not Available Pursuant to Public Law	-	-	(1,647)	(1,647)
Permanently not Available	-	(1,649)	(589)	(2,238)
Total Budgetary Resources	$ 318	$ 5,374	$ 57,329	$ 63,021
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred:				
Direct	$ 298	$ 539	$ 39,611	$ 40,448
Exempt from Apportionment	-	3,707	14	3,721
Reimbursable	-	628	4,109	4,737
Total Obligations Incurred	$ 298	$ 4,874	$ 43,734	$ 48,906
Unobligated Balance:				
Apportioned	19	484	5,735	6,238
Exempt from Apportionment	-	15	14	29
Unobligated Balance not Available	1	1	7,846	7,848
Total Status of Budgetary Resources	$ 318	$ 5,374	$ 57,329	$ 63,021
CHANGE IN OBLIGATED BALANCE:				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	$ 46	$ 2,898	$ 54,701	$ 57,645
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	-	(357)	(6,234)	(6,591)
Total Unpaid Obligated Balance, Net, October 1	$ 46	$ 2,541	$ 48,467	$ 51,054
Obligations Incurred	298	4,874	43,734	48,906
Less: Gross Outlays	(307)	(4,712)	(47,461)	(52,480)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(3)	-	(184)	(187)
Change in Uncollected Customer Payments from Federal Sources	-	(11)	(554)	(565)
	$ 34	$ 2,692	$ 44,002	$ 46,728
Obligated Balance, Net, End of Period:				
Unpaid Obligations	$ 34	$ 3,060	$ 50,790	$ 53,884
Less: Uncollected Customer Payments from Federal Sources	-	(368)	(6,788)	(7,156)
Total, Unpaid Obligated Balance, Net, End of Period	$ 34	$ 2,692	$ 44,002	$ 46,728
NET OUTLAYS:				
Gross Outlays	$ 307	$ 4,712	$ 47,461	$ 52,480
Less: Offsetting Collections	(298)	(4,160)	(6,044)	(10,502)
Less: Distributed Offsetting Receipts	(40)	(622)	(6,644)	(7,306)
Net Outlays	$ (31)	$ (70)	$ 34,773	$ 34,672

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	COMBINED
	FY 2010		
$ 8	$ 446	$ 30,144	$ 30,598
2	-	1,184	1,186
$ -	$ 153	$ 26,912	$ 27,065
-	838	160	998
-	1,135	-	1,135
298	3,972	5,020	9,290
-	45	(22)	23
-	(23)	32	9
-	3	(758)	(755)
$ 298	$ 6,123	$ 31,344	$ 37,765
-	(90)	3	(87)
-	-	-	-
-	(1,102)	(1,710)	(2,812)
$ 308	$ 5,377	$ 60,965	$ 66,650
$ 296	$ 533	$ 43,943	$ 44,772
-	3,691	82	3,773
-	665	4,131	4,796
$ 296	$ 4,889	$ 48,156	$ 53,341
12	466	7,871	8,349
-	21	32	53
-	1	4,906	4,907
$ 308	$ 5,377	$ 60,965	$ 66,650
$ 40	$ 2,691	$ 47,360	$ 50,091
-	(309)	(7,014)	(7,323)
$ 40	$ 2,382	$ 40,346	$ 42,768
296	4,889	48,156	53,341
(288)	(4,682)	(39,631)	(44,601)
(2)	-	(1,184)	(1,186)
-	(48)	780	732
$ 46	$ 2,541	$ 48,467	$ 51,054
$ 46	$ 2,898	$ 54,701	$ 57,645
-	(357)	(6,234)	(6,591)
$ 46	$ 2,541	$ 48,467	$ 51,054
$ 288	$ 4,682	$ 39,631	$ 44,601
(298)	(3,949)	(5,052)	(9,299)
(34)	(628)	(2,643)	(3,305)
$ (44)	$ 105	$ 31,936	$ 31,997

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

For the Years Ended September 30, 2011 and 2010

(See independent auditors' report)

($ IN MILLIONS)	FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
		FY 2011			
SOURCES OF COLLECTIONS:					
Cash Collections:					
Power Marketing Administrations	$ -	$ 819	$ -	$ -	$ 819
Federal Energy Regulatory Commission	48	-	-	-	48
Total Cash Collections	**$ 48**	**$ 819**	**$ -**	**$ -**	**$ 867**
Accrual Adjustment	(20)	-	-	-	(20)
Total Custodial Revenue	**$ 28**	**$ 819**	**$ -**	**$ -**	**$ 847**
DISPOSITION OF REVENUE:					
Transferred to Others:					
Bureau of Reclamation	(13)	(478)	-	-	(491)
Department of the Treasury	(19)	(287)	-	-	(306)
Army Corps of Engineers	(9)	(54)	-	-	(63)
Others	(6)	-	-	-	(6)
Decrease/(Increase) in Amounts to be Transferred	19	-	-	-	19
Net Custodial Activity	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

FEDERAL ENERGY REGULATORY COMMISSION	POWER MARKETING ADMINISTRATIONS	ALL OTHER DOE PROGRAMS	ELIMINATIONS	CONSOLIDATED
	FY 2010			
$ -	$ 899	$ -	$ -	$ 899
41	-	-	-	41
$ 41	**$ 899**	**$ -**	**$ -**	**$ 940**
14	(27)	-	-	(13)
$ 55	**$ 872**	**$ -**	**$ -**	**$ 927**
(1)	(470)	-	-	(471)
(35)	(316)	-	-	(351)
(4)	(83)	-	-	(87)
-	-	-	-	-
(15)	(3)	-	-	(18)
$ -	**$ -**	**$ -**	**$ -**	**$ -**

Required Supplementary Stewardship Information (RSSI)

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years 2011 through 2009

UNAUDITED – See accompanying Auditors' Report.

($ IN MILLIONS)	STRATEGIC GOALS	STRATEGIC OBJECTIVES	GPRA UNIT	FY2011 DIRECT COST	FY2011 DEPRECIATION & OTHER	FY2011 TOTAL
BASIC	Transform Our Energy Systems	Discover the new solutions we need	Geothermal Technology	$ -	$ -	$ -
			Biomass and Biorefinery	4	1	5
			Clean Coal	6	2	8
		Deploy the technologies we have	Natural Gas Technology	-	-	-
			Petroleum Technologies	-	-	-
			Electricity Delivery and Energy Reliability	4	1	5
			Bonneville Power Administration	8	-	8
	The Science and Engineering Enterprise	Extend Our Knowledge of the Natural World	High Energy Physics	723	129	852
			Basic Energy Sciences	1,280	277	1,557
			Biological and Environmental Research	301	46	347
			Nuclear Physics	417	145	562
			Isotope Program	12	-	12
		Deliver new technologies to advance our mission	Advanced Scientific Computing	383	97	480
			Biological and Environmental Research	481	54	535
			Fusion Energy	276	39	315
	Secure Our Nation	Reduce global nuclear dangers	Nonproliferation and Verification R&D	42	2	44
TOTAL BASIC				**$ 3,937**	**$ 793**	**$ 4,730**
APPLIED	Transform Our Energy Systems	Discover the new solutions we need	Solar Energy	$ 33	$ 1	$ 34
			Wind Energy	28	4	32
			Geothermal Technology	43	3	46
			Hydrogen and Fuel Cell Technologies	89	14	103
			Advanced Research Projects Agency - Energy	64	-	64
			Biomass and Biorefinery	79	8	87
			Water Power	19	2	21
			Vehicle Technologies	100	13	113
			New Nuclear Generation Technologies	55	8	63
			Clean Coal	250	74	324
		Deploy the technologies we have	Advanced Manufacturing Office	52	5	57
			Building Technologies	74	11	85
			Natural Gas Technology	10	3	13
			Petroleum Technologies	3	1	4
			Electricity Delivery and Energy Reliability	35	5	40
			Bonneville Power Administration	4	-	4
	Secure Our Nation	Support responsible civilian nuclear power development and fuel cycle management	Fuel Cycle R&D and International Framework	139	21	160
			Nuclear Waste Disposal	-	-	-
		Support the U.S. nuclear stockpile and future mililtary needs	Directed Stockpile Work	419	29	448
			Science Campaign	247	22	269
			Engineering Campaign	108	8	116
			Inertial Confinement Fusion Ignition	57	26	83
			Advanced Simulation and Computing Campaign	411	72	483
			Readiness Campaign	-	-	-
			Readiness in Technical Base and Facilities	-	-	-
			Pit Manufacturing and Certification Campaign	-	2	2
		Reduce global nuclear dangers	Nonproliferation and Verification	189	18	207
		Apply our capabilities for other critical national security missions	Nuclear Counterterrorism Incident Response	59	3	62
		Complete environmental remediation of our legacy and active sites	Legacy Footprint Reduction	30	1	31
			Tank Waste Completed	116	1	117
TOTAL APPLIED				**$ 2,713**	**$ 355**	**$ 3,068**
DEVELOPMENT	Transform Our Energy Systems	Discover the new solutions we need	Solar Energy	$ 46	$ 2	$ 48
			Wind Energy	36	7	43
			Geothermal Technology	25	2	27
			Hydrogen and Fuel Cell Technologies	29	5	34
			Advanced Research Projects Agency - Energy	59	-	59
			Biomass and Biorefinery	53	4	57
			Water Power	36	5	41
			Vehicle Technologies	101	14	115
			New Nuclear Generation Technologies	28	5	33
			Clean Coal	313	92	405
		Deploy the technologies we have	Advance Manufacturing Office	62	7	69
			Building Technologies	96	15	111
			Natural Gas Technology	13	4	17
			Petroleum Technologies	4	1	5
			Electricity Delivery and Energy Reliability	15	2	17
			Bonneville Power Administration	1	-	1
	Secure Our Nation	Support responsible civilian nuclear power development and fuel cycle management	Fuel Cycle R&D and International Framework	-	-	-
		Support the U.S. nuclear stockpile and future military needs	Readiness and Technical Base and Facilities	502	235	737
		Reduce global nuclear dangers	Nonproliferation and Verification R&D	43	3	46
			Nuclear Counterterrorism Incident Response	-	-	-
		Apply our capabilities for other critical national security missions	Naval Reactors	812	42	854
		Complete environmental remediation of our legacy and active sites	Legacy Footprint Reduction	60	3	63
			Tank Waste Completed	235	3	238
TOTAL DEVELOPMENT				**$ 2,569**	**$ 451**	**$ 3,020**
TOTAL R&D				**$ 9,219**	**$ 1,599**	**$ 10,818**

R&D totals for FY 2008 and FY 2007 were $8,940 and $8,271, respectively.

FY2010 DIRECT COST	FY2010 DEPRECIATION & OTHER	FY2010 TOTAL	FY2009 DIRECT COST	FY2009 DEPRECIATION & OTHER	FY2009 TOTAL
$ -	$ -	$ -	$ 3	$ 1	$ 4
2	-	2	1	-	1
5	1	6	3	1	4
-	-	-	10	3	13
-	-	-	-	-	-
1	-	1	-	-	-
-	-	-	-	-	-
659	109	768	648	133	781
1,170	204	1,374	1,012	194	1,206
282	28	310	250	21	271
414	116	530	391	84	475
10	-	10	-	-	-
269	82	351	248	77	325
428	48	476	406	41	447
265	29	294	244	44	288
30	3	33	133	10	143
$ 3,535	**$ 620**	**$ 4,155**	**$ 3,349**	**$ 609**	**$ 3,958**
$ 44	$ 3	$ 47	$ 36	$ 4	$ 40
20	1	21	9	1	10
22	2	24	5	1	6
107	8	115	107	14	121
16	-	16	3	-	3
67	7	74	56	6	62
12	1	13	2	1	3
71	7	78	70	7	77
113	64	177	52	23	75
200	55	255	112	37	149
51	3	54	20	2	22
38	2	40	27	3	30
5	2	7	10	3	13
4	1	5	3	1	4
11	-	11	37	2	39
3	-	3	7	-	7
135	55	190	68	18	86
-	-	-	2	-	2
334	26	360	295	20	315
275	23	298	310	20	330
149	8	157	121	10	131
137	53	190	120	-	120
475	69	544	418	112	530
-	-	-	2	-	2
-	-	-	-	5	5
1	2	3	21	4	25
144	12	156	30	2	32
-	-	-	46	2	48
16	2	18	11	2	13
125	2	127	-	-	-
$ 2,575	**$ 408**	**$ 2,983**	**$ 2,000**	**$ 300**	**$ 2,300**
$ 41	$ 3	$ 44	$ 44	$ 6	$ 50
29	1	30	9	1	10
16	1	17	9	2	11
29	2	31	29	3	32
15	-	15	3	-	3
46	3	49	40	4	44
22	1	23	2	1	3
124	11	135	107	10	117
40	23	63	-	-	-
251	68	319	146	48	194
61	4	65	25	3	28
55	4	59	47	5	52
7	2	9	-	-	-
5	2	7	4	1	5
6	-	6	34	1	35
-	-	-	1	-	1
-	-	-	1	1	2
431	271	702	714	232	946
86	10	96	77	7	84
-	-	-	10	1	11
821	70	891	728	61	789
32	4	36	22	3	25
243	4	247	-	-	-
$ 2,360	**$ 484**	**$ 2,844**	**$ 2,052**	**$ 390**	**$ 2,442**
$ 8,470	**$ 1,512**	**$ 9,982**	**$ 7,401**	**$ 1,299**	**$ 8,700**

Investment in Research and Development

The Department's research and development programs are classified: 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.

Goal 1: Transform Our Energy Systems

(Basic, Applied, and Development)

The Office of Energy Efficiency and Renewable Energy (EERE) invests in high-risk, high-value research and development, as well as deployment and promotion 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 technologies and practices through efficiency mechanisms such as appliance efficiency standards, building codes, federal fleet initiatives, energy education activities, and financial assistance grants. Program activities include: Hydrogen Technology, Biomass & Biorefinery Systems R&D, Solar Energy, Wind Energy, Geothermal Technology, Water Power, Vehicle Technologies, Building Technologies, Industrial Technologies, Federal Energy Management Program, and Weatherization and Intergovernmental Activities.

The 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. The Industrial Technologies program connects basic and applied sciences and re-energizes the national labs by bringing together industry, national laboratories, and academia to spur innovations that work in real industrial environments to save energy and reduce emissions. 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 Office of Fossil Energy (FE) coal research, development, and demonstration program consists of key integrated strategies needed for carbon capture and storage (CCS) to become a viable option for reducing greenhouse gases in the United States and globally. This program advances power generation technology for reasonable-cost CCS, including Advanced Turbines, Gasification Technology, Fuels, and Carbon Sequestration (which includes researching ways to separate and permanently store greenhouse gas from stationary sources through its Regional Carbon Sequestration Program). The Advanced Research program is comprised of a set of cross-cutting, long-term research projects that can potentially contribute to aspects of the coal research portfolio. Commercial-scale projects are operated through the Clean Coal Power Initiative, a cost-shared commercial demonstration program for advanced cost-reduction technologies for new and retrofit CCS applications and through FutureGen, which will demonstrate the capability to integrate electricity generation from coal with carbon capture, compression, transportation, and geologic storage. FE research supports concepts for various technologies for central systems; research and development in the area of Carbon Sequestration to lower the costs of CO_2 capture, provide fundamental scientific information on engineered terrestrial sequestration approaches, and develop advanced instrumentation to measure and validate terrestrially sequestered carbon; and research and development in the area of Advanced Research to model mineral sequestration and develop hydrogen separation membranes. The Department has proposed to phase out activities of the FE natural gas hydrates research and development program that focused on the two major technical constraints to production which industry has both the resources and incentive to do itself—the need to detect and quantify methane hydrate deposits prior to drilling and the demonstration of methane production from hydrate at commercial volumes. Instead, the Department is attempting to focus these resources on research aimed at reducing the environmental impact of shale gas development.

The Office of Nuclear Energy (NE) supports the diverse civilian nuclear energy programs of the U.S. Government, leading Federal efforts to research and develop nuclear energy technologies, including generation, safety, waste storage and management, and security technologies to help meet energy security, proliferation resistance, and climate goals. 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) develop sustainable 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 technologies that can improve the reliability, efficiency, and security of the nations' electricity delivery systems. Transmission Reliability research is expected to result in reduced frequency and duration of operational disturbances on the electric grid. Energy Storage and

Renewables Integration research activities could reduce peak prices of electricity and increase asset utilization as well as improve accessibility to a variety of energy sources for generation. Cyber Security for Energy Delivery Systems research focuses on hardening our energy infrastructure and mitigating cyber vulnerabilities in the energy sector. Smart grid research is aimed at advancing interoperability, communication standards and system engineering to balance greater intermittent energy supplies with a potentially growing volatility in demand as consumers engage in energy management.

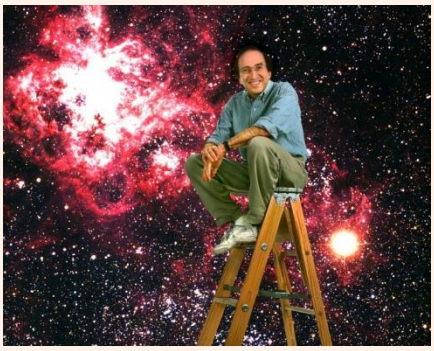
A Technology Innovation office within the Bonneville Power Administration (BPA) is used to focus and manage technology initiatives, as well as to help guide the development of a robust research and development portfolio, drawing from staff that are already engaged in BPA's dispersed research and development 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. Recent outcomes supported by DOE R&D investments in energy systems:

- Solar Technology – Supported by the National Renewable Energy Laboratory's PV Incubator Program, Alta Devices single-junction thin-film Gallium Arsenide (GaAs) photovoltaic technology recently achieved a world record 28.2% conversion efficiency.
- Battery Technology – General Electric is using DOE advanced light sources to develop a revolutionary battery technology. The new batteries, based on sodium metal halide technology, boast three times the energy density and charging power of the lead-acid batteries they are designed to replace.
- Smart Grid Technology – DOE has partnered with key stakeholders from industry, academia, and state governments to modernize the nation's electricity grid using digital technology for remote sensing and control, enabling two-way communication between the utility and customer. Research priorities address challenges and accelerate transformation to a smarter grid.
- Coal Technology – DOE funding is helping to build one of the world's most advanced and cleanest coal-based power plants in Texas. The plant will produce power by converting subbituminous coal into hydrogen-rich synthesis gas (syngas) and carbon dioxide. The syngas and high-quality steam will be fed to the combined-cycle combustion and steam turbine generator to produce electricity. CO_2 will be captured and used for enhanced oil recovery.

Goal 2: The Science and Engineering Enterprise

(Basic)

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 science, chemistry, geosciences, and physical biosciences; Biological and Environmental Research, which provides the foundational science for alternative fuels, advanced climate predictions, terrestrial carbon sequestration, subsurface bio-geo-processes, and radiobiology at a range of scales from the molecular to the whole Earth; Fusion Energy Sciences, including broad-based fundamental research efforts aimed at producing the knowledge needed for a fusion energy source, and to be a world leader 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. Recent outcomes supported by DOE R&D investments in science and engineering:



Dr. Saul Perlmutter, who won the 2011 Nobel Prize in Physics, heads Berkeley's Supernova Cosmology Project.

- Solar Research – A new solar cell design for the thin-film silicon solar cell was developed using advanced optics and nanotechnology to maximize performance and minimize cost. This work was assisted by a $1-million incubator grant from DOE.
- Biomass Research – Team of researchers at the BioEnergy Science Center pinpointed the exact, single gene that controls ethanol production capacity in a microorganism found in many types of biomass crops.
- Computer Research – Computer scientists at the DOE's Lawrence Berkeley National Laboratory developed a new approach to searching massive databases. Embodied in open-source software called FastBit, the new method can search massive databases 10 to 100

times faster than large commercial database software, depending on the specific application.

- Vehicle Research - Pacific Northwest National Laboratory's catalysis research program performed research that led to a better understanding of how a catalyst functions and enabled improvements in conventional catalytic converters; this will enable the fuel efficient, lean-burn engine to become a commercial reality.

Goal 3: Secure Our Nation

(Basic, Applied, and Development)

Although critical to the U.S. nuclear deterrent strategy, the nation has not deployed a new nuclear weapon in over 20 years, nor conducted an underground nuclear test since 1992. Instead, scientists at the National Nuclear Security Administration (NNSA) maintain the warheads in the stockpile well beyond their originally intended life 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 Proliferation Detection program provides technical expertise and leadership toward the development of next-generation nuclear detection technologies and methods to detect foreign nuclear materials and weapons production. This program develops the tools, technologies, and techniques used to detect, locate, and analyze the global proliferation of nuclear weapons technology with special emphasis on technology to detect the illicit diversion of special nuclear materials and support for U.S. commitments to international treaties such as the Nonproliferation Treaty.

The NNSA Nuclear Detonation Detection program develops and builds the nation's operational space-based sensors to detect and report world-wide nuclear detonations; produces and delivers advanced technology that enable operation of the nation's ground-based nuclear detection networks and develops tools, technologies, and related science for collecting and analyzing forensic information related to nuclear detonations.

The NNSA Naval Reactor 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.

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

This 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 information is a requirement under SFFAS No.6, Accounting for Property, Plant and Equipment, and SFFAS No. 14, Amendments to Deferred Maintenance, which requires deferred maintenance to be disclosed as of the end of each FY. Deferred maintenance is defined in SFFAS No. 6 as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." Estimates were developed for:

Buildings and Other Structures and Facilities	$4,207 million
Capital Equipment	112 million
Total	$4,319 million

Buildings and Other Structures and Facilities

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

The Department determines deferred maintenance and acceptable operating condition through various methods, including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods.

As of September 30, 2011, an amount of $4,207 million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at 69 percent.

Capital Equipment

Pursuant to the cost/benefit considerations provided in SFFAS No. 6, 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 $112 million of deferred maintenance was estimated to be needed as of September 30, 2011, to return capital equipment assets to acceptable operating condition.

Budgetary Resources by Major Account for Recovery Act (RA) & Non-Recovery Act Accounts - As of September 30, 2011

($ IN MILLIONS)	Recovery Act Accounts				
	Innovative Tech LG, RA 019-20-0208	Fossil Energy R&D, RA 019-20-0213	Departmental Admin, RA 019-60-0228	Inspector General, RA 019-60-0236	Defense Environ Cleanup, RA 019-10-0251
BUDGETARY RESOURCES:					
Unobligated Balance, Brought Forward, Oct 1	$ 2,380	$ -	$ 94	$ 8	$ -
Recoveries of Prior Year Unpaid Obligations	-	-	3	-	1
Budget Authority	-	-	-	-	-
Nonexpenditure Transfers, Net	-	-	-	-	-
Authority not Available	-	-	-	-	-
Total Budgetary Resources	$ 2,380	$ -	$ 97	$ 8	$ 1
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred	$ 1,829	$ -	$ 66	$ 4	$ -
Unobligated Balances Available	551	-	31	4	-
Unobligated Balances not Available	-	-	-	-	1
Total Status of Budgetary Resources	$ 2,380	$ -	$ 97	$ 8	$ 1
CHANGE IN OBLIGATED BALANCE:					
Obligated Balance, Brought Forward, Oct 1	$ 29	$ 3,284	$ 22	$ 4	$ 2,641
Obligations Incurred	1,829	-	66	4	-
Less: Gross Outlays	(320)	(268)	(52)	(6)	(2,059)
Obligated Balance Transferred, Net	-	-	-	-	-
Less: Recoveries of PY Obligations, Actual	-	-	(3)	-	(1)
Change in Uncollected Customer Payments, Federal	-	-	-	-	-
Obligated Balance, Net, End of Period	$ 1,538	$ 3,016	$ 33	$ 2	$ 581
NET OUTLAYS	$ 320	$ 268	$ 52	$ 6	$ 2,059

	Energy Efficiency & Renewable Energy, 019-20-0321	Adv Tech Vehicles Manufact LP, RA 019-20-0322	Energy Transformation Acceleration, RA 019-20-0336	Bonneville Power Administration Fund, RA 019-50-4045	WAPA, Borrowing Authority, RA 019-50-4404
BUDGETARY RESOURCES:					
Unobligated Balance, Brought Forward, Oct 1	$ 1	$ 1	$ -	$ -	$ -
Recoveries of Prior Year Unpaid Obligations	10	1	-	-	-
Budget Authority	-	-	-	542	137
Nonexpenditure Transfers, Net	-	-	-	-	-
Authority not Available	-	-	-	-	-
Total Budgetary Resources	$ 11	$ 2	$ -	$ 542	$ 137
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred	$ -	$ 1	$ -	$ 542	$ 137
Unobligated Balances Available	-	1	-	-	-
Unobligated Balances not Available	11	-	-	-	-
Total Status of Budgetary Resources	$ 11	$ 2	$ -	$ 542	$ 137
CHANGE IN OBLIGATED BALANCE:					
Obligated Balance, Brought Forward, Oct 1	$ 12,773	$ 1	$ 352	$ -	$ 73
Obligations Incurred	-	1	-	542	137
Less: Gross Outlays	(5,707)	(1)	(132)	(542)	(84)
Obligated Balance Transferred, Net	-	-	-	-	-
Less: Recoveries of PY Obligations, Actual	(10)	(1)	-	-	-
Change in Uncollected Customer Payments, Federal	-	-	-	-	-
Obligated Balance, Net, End of Period	$ 7,056	$ -	$ 220	$ -	$ 126
NET OUTLAYS	$ 5,707	$ 1	$ 132	$ 542	$ 84

	Construction, Rehab, Operation & Maint, WAPA, RA 019-50-5068	Other Recovery Act Accounts	Innovative Tech Direct Loan Fin Acct, RA Non-Budgetary 019-20-4455	T17 Innovative Tech Guar Loan Fin Acct, RA Non-Budgetary 019-20-4577	Subtotal of Recovery Act Accounts
BUDGETARY RESOURCES:					
Unobligated Balance, Brought Forward, Oct 1	$ 4	$ -	$ 54	$ 4	$ 2,546
Recoveries of Prior Year Unpaid Obligations	-	-	-	-	15
Budget Authority	-	-	10,885	420	11,984
Nonexpenditure Transfers, Net	-	-	-	-	-
Authority not Available	-	-	-	-	-
Total Budgetary Resources	$ 4	$ -	$ 10,939	$ 424	$ 14,545
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred	$ 3	$ -	$ 9,441	$ -	$ 12,023
Unobligated Balances Available	1	-	27	-	615
Unobligated Balances not Available	-	-	1,471	424	1,907
Total Status of Budgetary Resources	$ 4	$ -	$ 10,939	$ 424	$ 14,545
CHANGE IN OBLIGATED BALANCE:					
Obligated Balance, Brought Forward, Oct 1	$ 2	$ 5,435	$ 210	$ -	$ 24,826
Obligations Incurred	3	-	9,441	-	12,023
Less: Gross Outlays	(3)	(2,150)	(1,614)	-	(12,938)
Obligated Balance Transferred, Net	-	-	-	-	-
Less: Recoveries of PY Obligations, Actual	-	-	-	-	(15)
Change in Uncollected Customer Payments, Federal	-	-	(1,169)	(347)	(1,516)
Obligated Balance, Net, End of Period	$ 2	$ 3,285	$ 6,868	$ (347)	$ 22,380
NET OUTLAYS	$ 3	$ 2,150	$ 1,269	$ (73)	$ 12,520

Non-Recovery Act Accounts				
Science 019-20-0222	SPR Petroleum Account 019-20-0233	Weapons Activities 019-05-0240	Other Defense Activities 019-10-0243	Defense Environ Cleanup 019-10-0251
$ 49	$ 16	$ 138	$ 34	$ 35
5	-	26	14	2
5,469	3,238	8,231	2,461	5,004
55	-	(35)	11	(2)
(25)	-	(64)	(5)	(22)
$ 5,553	$ 3,254	$ 8,296	$ 2,515	$ 5,017
$ 5,515	$ 11	$ 8,270	$ 2,490	$ 4,998
37	5	26	24	19
1	3,238	-	1	-
$ 5,553	$ 3,254	$ 8,296	$ 2,515	$ 5,017
$ 3,853	$ 22	$ 3,131	$ 200	$ 2,370
5,515	11	8,270	2,490	4,998
(5,411)	(8)	(8,232)	(2,404)	(5,311)
-	-	-	-	(3)
(5)	-	(26)	(14)	(2)
(25)	-	115	(85)	-
$ 3,927	$ 25	$ 3,258	$ 187	$ 2,052
$ 4,833	$ 8	$ 6,847	$ 818	$ 5,310

Defense Nuclear Nonproliferation 019-05-0309	Naval Reactors 019-05-0314	Energy Efficiency & Renewable Energy 019-20-0321	Adv Tech Vehicles Manufact LP 019-20-0322	Bonneville Power Administration Fund 019-50-4045
$ 84	$ 5	$ 164	$ 4,229	$ 21
4	-	37	15	-
2,339	962	2,036	10	4,886
(8)	26	(28)	-	(94)
(50)	(3)	(34)	-	(1,633)
$ 2,369	$ 990	$ 2,175	$ 4,254	$ 3,180
$ 2,344	$ 985	$ 2,056	$ 190	$ 3,165
23	5	111	4,064	15
2	-	8	-	-
$ 2,369	$ 990	$ 2,175	$ 4,254	$ 3,180
$ 1,954	$ 215	$ 2,524	$ 2,081	$ 2,140
2,344	985	2,056	190	3,165
(2,205)	(931)	(2,002)	(1,128)	(3,150)
-	-	61	-	-
(4)	-	(37)	(15)	-
-	-	(18)	-	(7)
$ 2,089	$ 269	$ 2,584	$ 1,128	$ 2,148
$ 2,190	$ 931	$ 1,813	$ 1,128	$ (74)

Construction, Rehab, Operation & Maintenance, WAPA 019-50-5068	Other Non-Recovery Act Budgetary Accounts	Subtotal of Non-Recovery Act Budgetary Accounts	Adv Tech Vehicles Manufact Direct Loan Fin Acct Non-Budgetary 019-20-4579	Combined Statement of Budgetary Resources Total
$ 306	$ 2,377	$ 7,458	$ 3,305	$ 13,309
-	39	142	30	187
738	4,984	40,358	1,160	53,502
-	(17)	(92)	-	(92)
-	(2,013)	(3,849)	(36)	(3,885)
$ 1,044	$ 5,370	$ 44,017	$ 4,459	$ 63,021
$ 734	$ 4,337	$ 35,095	$ 1,788	$ 48,906
310	1,001	5,640	12	6,267
-	32	3,282	2,659	7,848
$ 1,044	$ 5,370	$ 44,017	$ 4,459	$ 63,021
$ 204	$ 3,695	$ 22,389	$ 3,839	$ 51,054
734	4,337	35,095	1,788	48,906
(661)	(4,640)	(36,083)	(3,459)	(52,480)
-	(58)	-	-	-
-	(39)	(142)	(30)	(187)
(5)	22	(3)	954	(565)
$ 272	$ 3,317	$ 21,256	$ 3,092	$ 46,728
$ 37	$ (3,814)	$ 20,027	$ 2,125	$ 34,672

Auditors' Report

Memorandum from the Inspector General

Department of Energy
Washington, DC 20585

November 15, 2011

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Report on the Department of Energy's Fiscal Year 2011 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 (Department) Fiscal Year (FY) 2011 Consolidated Financial Statements.

KPMG audited the consolidated balance sheets of the Department as of September 30, 2011 and 2010, 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 U.S. generally accepted accounting principles and has issued an unqualified opinion based on its audits and the reports of other auditors for the year ended September 30, 2011.

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 over financial reporting 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 enhance its unclassified cyber security program, including oversight of cyber security reform efforts, issuing guidance, and the development of a cyber security management architecture framework to support the Department's mission-based risk management approach.

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

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
Under Secretary of Energy
Under Secretary for Science
Chief of Staff
Acting Chief Financial Officer

Audit Report: OAS-FS-12-02

Independent Auditors' Report

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of the United States Department of Energy (Department) as of September 30, 2011 and 2010, 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 (hereinafter referred to as "consolidated financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2011 audit, we also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

As discussed in this report, a Power Marketing Administration of the Department, whose Department-related financial data is included in the accompanying consolidated financial statements, was audited by other auditors whose report has been furnished to us and was considered in forming our overall opinion on the Department's consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, based upon our audits and the report of the other auditors, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our opinion emphasizes that: (1) the Department has loans and loan guarantees issued under the Federal Credit Reform Act of 1990 and that subsidy costs of the loans and loan guarantees include interest rate differentials, delinquencies, defaults, fees and other cash flow items; (2) the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control; and (3) 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.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies related to unclassified network and information systems security, that we consider to be a significant deficiency, as defined in the Internal Control Over Financial Reporting section of this report.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported herein

under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin Number (No.) 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the United States Department of Energy as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

We did not audit the financial statements of Bonneville Power Administration as of and for the years ended September 30, 2011 and 2010, whose Department-related financial data reflect total assets constituting 12.2 percent and 10.7 percent and total net costs constituting (0.6) percent and (0.2) percent, respectively, of the related consolidated totals. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Bonneville Power Administration, is based solely upon the report of the other auditors.

In our opinion, based on our audits and the report of the other auditors, 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, 2011 and 2010, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the consolidated financial statements, the Department has total direct loans and loan guarantees, net, of $7.1 billion and $2.5 billion as of September 30, 2011 and 2010, respectively, which are issued under the Federal Credit Reform Act of 1990. Subsidy costs of the loan 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.

As discussed in Note 15 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of $251 billion and $250 billion as of September 30, 2011 and 2010, respectively, are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control.

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 $19 billion and $15 billion as of September 30, 2011 and 2010, respectively.

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules section of the Department's 2011 *Agency Financial Report* is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and custodial activity of the Department's components individually. The September 30, 2011 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, based upon our audits and the report of the other auditors, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

The information in the Message from the Secretary and Other Accompanying Information section of the Department's 2011 *Agency Financial Report* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. This report also includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors' testing, is based solely on the report of the other auditors.

In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting related to unclassified network and information systems security, as described below and in more detail in Exhibit I, that we consider to be a significant deficiency in internal control over financial reporting. 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.

- *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 fully implement policies and procedures to improve its network and information systems security.

Exhibit II presents the status of the prior year significant deficiency.

We noted certain additional matters involving internal control over financial reporting and internal control over financial management systems that we will report to management in separate letters.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended. This report also includes our consideration of the results of the other auditors' testing of compliance and other matters that are reported on separately by the other auditors. However, this report, insofar as it relates to the results of the other auditors' testing, is based solely on the report of the other auditors.

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.

RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the Department.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2011 and 2010 consolidated financial statements of the Department based on our audits and the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

- Evaluating the overall consolidated financial statement presentation.

We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2011 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. Furthermore, we did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2011 consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

The Department's response to the findings identified in our audit is presented in Exhibit I. We did not audit the Department's response and, accordingly, we express no opinion on it.

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

KPMG LLP

November 14, 2011

Independent Auditors' Report
Exhibit I – Significant Deficiency

Unclassified Network and Information Systems Security

The United States Department of Energy (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 Health, Safety and Security, reviewed in prior years. However, at the time of our testing, these corrective actions had not been completed. The frequency of network security weaknesses reported by KPMG LLP has increased when compared to the prior year weaknesses, although the severity of these weaknesses remains consistent with prior year weaknesses. The Department recognizes the need to enhance its unclassified cyber security program and has categorized unclassified cyber security as a leadership challenge in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2011. Improvements are still needed in the areas of system and application access and related access privileges, password management, configuration management, and restriction of network services.

Our fiscal year 2011 audit disclosed information system security deficiencies similar in type and risk level to our findings in prior years. Specifically, we noted weaknesses within layered security controls for network servers, desktop systems, and business 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 found weak account management and monitoring controls for approval, provisioning, and termination of administrative and user accounts that may increase the risk of malicious or unauthorized access to systems and data.

In the area of configuration and vulnerability management, we identified deficiencies in the patch management process for timely and secure installation of critical software patches, with numerous instances in which security patches had not been applied to correct known vulnerabilities more than three months after the patches became available. We also noted numerous weaknesses in web application integrity as a result of design flaws in those applications. We identified web applications that did not properly validate input data or utilize safe database queries, which could result in unauthorized access to application functionality, sensitive data stored in the applications, and other network systems and applications.

While many of these cyber security weaknesses were corrected immediately after we identified and reported them to site management, deficiencies in the process for identifying, monitoring, and remediating such deficiencies have continued from prior years. We also identified inconsistent risk management practices at several sites and noted that site management had not established a risk acceptance process to fully document acceptance of risk. We further noted that multiple sites were continuing to develop and implement the Department's revised risk management framework to address these weaknesses. However, these risk management enhancements were incomplete at the time of our testing.

The Department's Office of Inspector General (OIG) reported on these deficiencies in its evaluation report on *The Department's Unclassified Cyber Security Program - 2011*, dated October 20, 2011. The OIG noted that identified weaknesses occurred, in part, because Departmental entities had not ensured that cyber security requirements included all necessary elements and were properly implemented. The OIG reported that program elements did not always utilize effective performance monitoring activities to ensure that appropriate security controls were in place. The OIG also reported deficiencies in configuration management programs at several sites where, even when policies and procedures were established, implementation of those policies and procedures were sometimes inconsistent. At other sites,

policies were not aligned with Federal requirements related to access controls and vulnerability and configuration management.

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 fiscal year 2011, the Department had taken steps to enhance its unclassified cyber security program, including oversight of continuing cyber security reform efforts from the Computer Security Governance Council at the Under Secretary level; issuance of additional guidance related to continuous monitoring and assessment of the risk management process in the new cyber directive, DOE Order 205.1B, *Department of Energy Cyber Security Program;* and development of a cyber security management architecture framework to support the Department's mission-based risk management approach.

Recommendation:

While some progress has been made, continued efforts are needed to effectively manage the evolving nature of cyber security threats, including strengthening the management review process and monitoring of field sites to ensure the adequacy of cyber security program performance; fully implementing revised and ongoing risk management processes; and expanding the use of automated tools in the resolution of the vulnerabilities and control weaknesses described above to ensure that systems are properly configured, implemented and updated throughout the lifetime of those systems.

Therefore, we recommend that the Under Secretary for Nuclear Security, Under Secretary of Energy, and Under Secretary for Science, in coordination with the Department and National Nuclear Security Administration Chief Information Officers, fully implement policies and procedures to ensure that the Federal cyber security standards are met, that networks and information systems are adequately protected against unauthorized access, and that an adequate performance monitoring program is implemented, such as the use of periodic evaluations by Headquarters management, to ensure the effectiveness of sites' cyber security program implementation. Detailed recommendations to address the issues discussed above have been separately reported to the cognizant management officials.

Management's Response:

During FY 2011, the Office of the Chief Information Officer (OCIO) made good progress towards institutionalizing a Departmental risk-based approach to cybersecurity, including the issuance of DOE Order 205.1B, which codifies the governance structure and risk-managed implementation and measurement. In the Order, the responsibility for defining the risk profile and implementation requirements for Departmental operating units falls to the Under Secretary-level organizations, which are grouped for the sake of cybersecurity as Senior DOE Management (SDM). The SDM organizations are also responsible, through the deployment of contractor assurance systems (CAS), for graded oversight of their operating units' cybersecurity programs based on risk and past performance. Through these mechanisms, the operating unit implementation of Federal cybersecurity standards and mission-related risk management are monitored and assessed. In the few months since the Order was issued, work has been completed within the SDM organizations to prepare the Risk Management Approach (RMA) Implementation Plans that will bring both common policies and procedures to the operating units but also initiate oversight of cybersecurity program performance. The SDM level programs are still maturing; when fully documented and deployed, however, the CAS and oversight by local Federal managers will

allow for closer monitoring of risk-based cybersecurity, better assessment of its effectiveness, and prompt remediation of program performance issues.

Energy Information Technology Services (EITS), operated by the OCIO, is included in the OCIO SDM RMA Implementation Plan.

Throughout FY 2012, the OCIO will continue to refine the policy that defines the Departmental cybersecurity program, develop and maintain the Departmental risk management approach, and will begin to issue supplemental implementing guidance and requested assistance, as required by DOE O 205.1B, to the SDMs.

Independent Auditors' Report
Exhibit II – Status of Prior Year Audit Findings

Fiscal Year 2010 Audit Findings (with parenthetical disclosure of year first reported)	Status at September 30, 2011
Unclassified Information Systems Security – Considered a Significant Deficiency (1999)	Not fully implemented – Unclassified network and information systems security issues continue to be reported in Exhibit I as a significant deficiency.

Other Accompanying Information

Hanford Department of Energy Site, from Saddle Mountain looking toward Rattlesnake Mountain, Columbia River in foreground. It's been recommended as a National Historic Park.

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. Consistent with our mission, 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.

As noted in previous reports, many of the Department's most significant management challenges are not amenable to immediate resolution and must, therefore, be addressed through a concerted effort over time. Given this fact, and based on the results of our body of work over the last year, the management challenge list for Fiscal Year (FY) 2012 remains largely consistent with that of 2011. However, given the current economic environment and associated budgetary concerns, we have added the area of Operational Efficiency and Cost Savings as a new management challenge. Additionally, due to the decision to terminate the Yucca Mountain Project and the remaining uncertainty as to the path forward for disposing of spent commercial nuclear waste and high level defense waste, we have elevated Nuclear Waste Disposal from its prior status on the "watch list" to a significant management challenge. Finally, as a result of Department efforts, Safeguards and Security has been downgraded from the management challenges to the watch list.

Thus, with these considerations in mind, the Office of Inspector General's management challenges list for FY 2012 includes:

- Operational Efficiency and Cost Savings
- Contract and Financial Assistance Award Management
- Cyber Security
- Energy Supply
- Environmental Cleanup
- Human Capital Management
- Nuclear Waste Disposal
- Stockpile Stewardship

In addition, as noted previously, we develop an annual "watch list" that consists of significant issues that do not meet the threshold of a management challenge, yet, in our view, warrant special attention by Department officials. For FY 2012, the watch list includes the areas of Infrastructure Modernization, Safeguards and Security, and Worker and Community Safety. Further, we have added the Department's Loan Guarantee Program to the watch list.

Operational Efficiency and Cost Savings

While the wise expenditure of taxpayer funds has always been of vital importance, the current U.S. budget and debt crises and overall economic climate facing the United States have raised the bar. The Department is likely to feel the impact of this situation and face some level of budget cuts. We know of no other time in recent memory when there was such a broad and bipartisan consensus concerning the need to reduce Federal spending and address the Nation's mounting debt. While the elements of various budget reduction plans under consideration differ on key details, dramatic change appears very likely and the impact on the Department's operations could be equally dramatic. Given this atmosphere, as noted previously, we have designated Operational Efficiency and Cost Savings as a special management challenge facing the Department of Energy for FY 2012. In this context, the environment may be right for a conversation concerning the fundamentals of how the Department goes about its business. In this process, it is apparent that any realistic discussion of meaningful change in the operational efficiency of the Department or significant reductions in the cost of operations will be difficult, complex, and require a great deal of introspection.

Contract and Financial Assistance Award Management

The largest civilian contracting agency in the Federal government, the Department awards contracts to industrial companies, academic institutions, and non-profit organizations that operate a broad range of Department facilities. In fact, a substantial portion of the Department's operations are carried out through contracts. With the addition of Recovery Act funding in 2009, successful contract administration within the Department has taken on even greater importance. In addition to contracting, the Department administers and manages an array of grants and cooperative agreements, the number of which increased sharply as a result of Recovery Act programs. Given the number of contracts handled by the Department and the complexity and importance of the Department's numerous multi-million dollar projects, we believe that the area of Contract and Financial Assistance Award Management remains a significant management challenge.

Cyber Security

Given the importance and sensitivity of the Department's activities, along with the vast array of data it processes and maintains, cyber security has become a crucial aspect of the Department's overall security posture. Although the Department has implemented numerous counter measures 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. As such, it is critical that cyber security 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 Cyber Security as a continuing and significant management challenge.

Energy Supply

Fundamental concerns related to the availability of energy supply in the U.S. have had a dramatic impact on consumers and the U.S. economy in recent years, with implications for our national security. Through its role in areas of scientific discovery and innovation, the national laboratory complex, and the Loan Guarantee Program, there is an expectation that the Department will play a leadership role in ensuring that the Nation's energy needs are met through the development, implementation, and execution of sound energy policy. Providing the leadership to ensure reliable, affordable, and environmentally sound energy supply represents a significant management challenge for the Department. Addressing these issues will require both short-term and long-term solutions. For example, the Department is tasked with helping to modernize our national energy infrastructure; invest in clean energy technologies such as hydropower, wind, solar, and cellulosic biomass; and promote conservation in our homes and businesses. Along with provisions of the Energy Policy Act of 2005, the Recovery Act has had a significant impact on the Department's involvement and prioritization of these issues.

Environmental Cleanup

Since its establishment, the Department has had an important environmental mission. With the end of the Cold War, this mission took on even greater importance 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 located in 35 states and employs more than 30,000 Federal and contractor employees. The disposal and cleanup costs associated with these efforts are projected to be in the hundreds of billions of dollars 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.

Human Capital Management

For a number of years, strategic management of human capital has been recognized by various government authorities and oversight organizations as one of the Government's most significant challenges. In the past, officials have recognized that the Department's staff lacked adequate project and contract management skills required to oversee large projects. Subsequently, the Department undertook an effort to perform a critical skills gap analysis to review and evaluate specific critical skill needs. These actions led to our removal, in FY 2009, of the human capital focus area from our management challenges. As Recovery Act funding winds down, in conjunction with smaller bottom lines as a result of the current budgetary environment, the Department must address the challenge of maintaining a highly skilled workforce with the technical knowledge to perform its new and expanded mission. We continue to believe that this challenge represents a critical area that will affect nearly all major program elements. As a result, Human Capital Management will continue to be a key challenge area that will require considerable attention in the near term.

Nuclear Waste Disposal

Under the Nuclear Waste Policy Act of 1982, 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 was established at the direction of the President to conduct a comprehensive review of policies for managing the back end of the nuclear fuel cycle, which includes alternative storage sites. In July 2011, the Commission issued a draft report on its findings to the Secretary of Energy. A final report is expected in January 2012. 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 outlined, the area of Nuclear Waste Disposal will be recognized as a significant challenge facing the Department.

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. Along these lines, a recent FY 2011 continuing resolution passed by Congress provides for a $624 million funding increase for the purpose of beginning the planned modernization of the Department's nuclear weapons complex. While we recognize that 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

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Total Material Weaknesses	***0***	***0***	***0***	***0***	***0***

Effectiveness of Internal Control over Financial Reporting (FMFIA Section II)						
Statement of Assurance	Unqualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
No Material Weaknesses reported						
Total Material Weaknesses	***0***	***0***	***0***	***0***	***0***	***0***
Effectiveness of Internal Control over Operations (FMFIA Section II)						
Statement of Assurance	Unqualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
No material Weaknesses reported						
Total Material Weaknesses	***0***	***0***	***0***	***0***	***0***	***0***
Conformance with financial management system requirements (FMFIA Section IV)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
No non-conformances reported						
Total non-conformance	***0***	***0***	***0***	***0***	***0***	***0***

Conformance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

Financial Management Systems Plan

iManage

iManage is the Department's solution for managing enterprise-wide corporate business systems and information. The primary objectives of iManage are to improve financial and business system and processing efficiencies, enhance decision making capabilities, deploy collaboration and social networking tools, and expand transparent electronic government in support of Presidential priorities. The iManage strategic theme is "Connecting our People", "Simplifying our Work", and "Liberating our Data."

iManage is a collaborative effort to modernize, consolidate, streamline, and integrate financial, budgetary, procurement, personnel, program and performance information. The program is supported at the core by a portal/central data warehouse that links common data elements from each of the Department's business systems and supports both external and internal reporting. The major system components that comprise iManage are:

- iManage Data Warehouse (IDW)/iPortal
- Standard Accounting and Reporting System (STARS)
- Corporate Human Resources Information System (CHRIS)
- Strategic Integrated Procurement Enterprise System (STRIPES)
- Budget Formulation-Publication-Execution (iBudget)

iManage also includes travel and payroll processing. Travel processing services are provided by General Services Administration eTravel Services using a system called GovTrip. Payroll processing services are outsourced to the Defense Finance and Accounting Service.

iManage 1.0 was primarily focused on the modernization, integration and implementation of the Department's corporate financial and business systems. Significant accomplishments have been made in this area and additional work is in progress to complete the modernization of all business systems. iManage 2.0 is now shifting much of the focus to the value of providing products and services to support the Department's strategic vision, mission and decision-making, and interactive peer-to-peer participation. iManage must also address future workforce needs, specifically, decreased learning curve and improved access to training; increased access to experts and peers; more work using the web and remote access; and improved access to systems and information.

Current Systems

iManage Data Warehouse (IDW)iPortal - IDW is a central data warehouse linking common data elements from multiple DOE/ iManage corporate business applications providing reporting and decision-making capabilities to DOE executives, managers, and staff. iPortal is the iManage "face" to its customers/users. It provides access to iManage applications, personalized dashboards, messaging, discussion boards, collaboration capabilities, news, reporting, web conferencing, graphing and data exchange capabilities to DOE executives, managers and staff. IDW/iPortal continued to support the Department's ARRA responsibilities and traditional project reporting requirements via new Business Intelligence dashboards and reports. iPortal services were expanded to include wikis, blogs and iPages. In addition, a comprehensive training program with classroom, webinars, and on-line videos was developed and the system interfaces between IDW/iPortal and STARS were upgraded.

Standard Accounting and Reporting System – STARS provides the Department with a modern, comprehensive and responsive financial management system that provides the foundation for linking budget formulation, budget execution, financial accounting, financial reporting, cost accounting and performance measurement. The financial management component is integrated with the other major corporate business systems, procurement, funds distribution, travel, and human resources. STARS implemented enhancements to support Trading Partner reporting, implemented Business Intelligence (BI) to replace Discoverer, and developed a Payments dashboard.

Corporate Human Resource Information System – CHRIS is a single, integrated Human Resource (HR) system created through a phased approach to provide the highest quality HR information and services to the Department's executives, managers and staff. The primary objectives for CHRIS are to enhance operational efficiencies; reduce paperwork; eliminate redundant information systems; eliminate non-value added work; and provide strategic information necessary to make informed human resource management decisions. The Department's GS and SES performance appraisal process was automated. The ePerformance System was configured, tested and implemented during FY 2011 in preparation for the FY 2012 rollout.

Strategic Integrated Procurement Enterprise System – STRIPES is the procurement and contracts management component of iManage, automating all procurement and contract activities required or directly associated with planning, awarding and administering various unclassified acquisition and financial assistance instruments. STRIPES replaced and consolidated federal corporate, regional and local procurement-related systems across the Department. The STRIPES application connects DOE with the Integrated Acquisition Environment which includes Central Contractor Registration (CCR), Federal Procurement Data

System – Next Generation (FPDS-NG), Federal Business Opportunities (FedBizOpps), and the Online Representations and Certifications Application (ORCA), as well as Grants.gov and FedConnect. In addition, STRIPES is integrated with other iManage projects such as STARS and IDW. STRIPES upgraded to PRISM 6.5 to match the upgrade of GSA's FPDS-NG. STRIPES was deployed to Southwestern Power Administration in FY 2011 and the last rollout to Western Area Power Administration is scheduled for FY 2012.

Systems Underway

iBudget – iBudget will standardize budget formulation process/templates, automatically publish the budget documents, streamline budget execution processes, integrate budget and performance data, and consolidate corporate budget data. iBudget loaded FY 2010-2012 Congressional budget figures and a FY 2013 fully loaded integrated Priority List was loaded in parallel with existing production systems.

The funds distribution process was reviewed using Lean Six Sigma to analyze all of the steps required to control and distribute funding with a goal of identifying short and long-term actions to reduce the cycle time. As a result of this activity, several steps have begun to improve Funds Distribution System and the processes supporting the distribution of funds.

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 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. The 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. As allowed by implementing guidance, OMB granted DOE approval to report FY 2010 improper payments information in the following section.

The Department performs risk assessments and conducts statistical sampling (utilizing a statistically determined sample size at the 90 percent level of confidence) at least once every three years to determine whether programs are susceptible to significant improper payments, unless programs experience significant change when frequency is accelerated. The risk assessments performed are required to include the following risk factors: if a new program or activity; if complexity of program or activity impacts payment determinations; and the annual volume of payments. Based on risk assessments and statistical sampling of FY 2010 information, the Department currently does not have any programs susceptible to significant improper payments.

Improper Payments

Improper payments are monitored by the Department on an annual basis to ensure our error rates remain at

Improper Payment Rates and Outlook Based on FY 2010 Payments ($ in millions)

	FY 2009			FY 2010*			FY 2011			FY 2012			FY 2013		
PAYMENT TYPE	OUTLAYS	IMPROPER OUTLAYS*	% OF IMPROPER OUTLAYS	OUTLAYS	IMPROPER OUTLAYS	% of IMPROPER OUTLAYS	ESTIMATED OUTLAYS	IMPROPER OUTLAYS	% OF IMPROPER OUTLAYS	ESTIMATED OUTLAYS	IMPROPER OUTLAYS	% OF IMPROPER OUTLAYS	ESTIMATED OUTLAYS	IMPROPER OUTLAYS	% of IMPROPER OUTLAYS
Vendor/ Contracts	$ 17,394	$12.1	0.07	$ 23,988	$13.4	0.06	$20,935	$12.6	0.06	$21,777	$13.1	0.06	$21,777	$13.1	0.06
Payroll	7,268	1.4	0.02	7,357	1.1	0.02	6,700	1.3	0.02	6,970	1.4	0.02	6,970	1.4	0.02
Travel	313	0.5	0.16	272	2.8	1.01	248	2.5	1.01	258	2.6	1.01	258	2.6	1.01
Other	423	0.1	0.02	572	0.2	0.04	521	0.2	0.2	542	0.2	0.02	542	0.2	0.02
Total	$25,398	$14.1	0.06	$31,190	$17.5	0.06	$28,404	$16.6	0.06	$29,547	$17.3	0.04	$29,547	$17.3	0.04

Loans	$2,023
Grants	$7,788

*(OMB granted DOE approval to report FY 2010 improper payment information for FY 2011 reporting. Payroll includes only major contractor payroll. For FY 2010, outlay information is available for Loans and Grants, but future reporting will incorporate additional data.)

FY 2010	
ACTUAL OVER-PAYMENTS	ACTUAL UNDER-PAYMENTS
$11.5	$0.4

minimal levels. The Departmental erroneous payment rate has remained below one percent since the inception of our tracking program in FY 2002. For FY 2010, the Department's gross estimate of the annual amount of improper payments from statistical sampling was $ 17.5 million and the actual amount of improper payments identified was $ 11.9 million and consisted of $ 11.5 million in overpayments and $ .4 in underpayments.

There are three categories of errors: Documentation and Administrative Errors, Authentication and Medical Necessity Errors, and Verification Errors. Due to the nature of the Department's mission, all errors associated with improper payments are considered documentation and administrative errors.

The Department operates a loans program and administers grants to primary recipients. Previously, the loans and grants activity was excluded from improper payment reporting, but is incorporated where information is available. DOE is working closely with OMB to determine a consistent approach for grant-making agencies to utilize in conducting funds stewardship past the primary recipient for future reporting.

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 statistical sampling for improper payments and error rates, post-payment reviews, internal audits and utilizing the results of cost allowability audits of integrated contractors. An analysis of the Department's FY 2010 payment activities confirmed an overall low actual overpayment rate of .04 percent and a high payment recapture rate of 91 percent. The Department's on-going and integrated relationship with its contractors enables the recapture of a high percentage of overpayments. As a result, the Department does not identify payment recapture targets. The cumulative amount determined not collectible by the Department since FY 2004 is $ .09 million and is deemed uncollectible due to amounts being below a minimal threshold established for pursuing recapture and lost discounts. The Department has identified improper payment activity as a focus area within our internal control program and will continue to emphasize, evaluate and strengthen controls where needed to maintain our record of low payment errors and ensure effective stewardship of public funds.

Payment Recapture Audit Reporting for FY 2010 Payments ($ in millions)

FY 2010								
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
$71,915	$56,556	$11.51	$10.44	90.7%	$0.98	8.5%	$0.09	.8%

FY 2004-2009		FY 2004-2010			FY 2010 & PRIOR
AMOUNTS IDENTIFIED FOR RECOVERY	AMOUNTS RECOVERED	CUMULATIVE AMOUNTS IDENTIFIED FOR RECOVERY	CUMULATIVE AMOUNTS RECOVERED	CUMULATIVE AMOUNT PENDING RECOVERY	CUMULATIVE AMOUNT DETERMINED NOT COLLECTABLE
$76.74	$67.89	$88.24	$78.34	$1.14	$0.09

OTHER ACCOMPANYING INFORMATION

Payment Recapture Rates and Targets ($ in millions)

PROGRAMS	TYPE OF PAYMENT	FY 2010 AMOUNT IDENTIFIED	FY 2010 AMOUNT RECOVERED	FY 2010 RECOVERY RATE	FY 2011 RECOVERY RATE TARGET	FY 2012 RECOVERY RATE TARGET	FY 2013 RECOVERY RATE TARGET
All	All	$11.51	$10.44	90.7%	92%	93%	94%

FY 2010 & PRIOR AMOUNTS IDENTIFIED	FY 2010 & PRIOR AMOUNT RECOVERED	FY 2010 & PRIOR RECOVERY RATE
$13.02	$11.79	90.6%

Aging of Outstanding Overpayments ($ in millions)

PROGRAMS	TYPE OF PAYMENT	FY 2010 AMOUNT OUTSTANDING (0-6 months)	FY 2010 AMOUNT OUTSTANDING (6 months-1 yr)	FY 2010 AMOUNT OUTSTANDING (Over 1 yr)
All	All	N/A	$0.98	$0.16

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	$9.49	N/A	$0.81

Overpayments Recaptured ($ in millions)

SOURCE OF RECOVERY ($ in millions)	AMOUNT IDENTIFIED FY 2010	AMOUNT RECOVERED FY 2010	% OF AMOUNT RECOVERED OUT OF AMOUNT IDENTIFIED	AMOUNT IDENTIFIED FY 2009	AMOUNT RECOVERED FY 2009	CUMULATIVE AMOUNT IDENTIFIED (FY 2010-2004)	CUMULATIVE AMOUNT RECOVERED (FY 2010-2004)
Statistical Sample under IPIA	$0.49	$0.49	99.6%	N/A	$4.49	N/A	N/A
Post-payment review	$3.98	$3.54	88.8%	N/A	$2.39	N/A	N/A
Payment Recapture Audits	$0.52	$0.52	99.9%	N/A	$1.33	N/A	N/A
IG Audits/Reviews	$0.09	$0.09	100%	N/A	$0.00	N/A	N/A
Self-reported Overpayments	$3.80	$3.78	99.6%	N/A	$2.10	N/A	N/A
Contract Close-Out Reviews	$0.56	$0.03	5.2%	N/A	$0.0	N/A	N/A
Single Audit Reports	$0.05	$0.02	35.3%	N/A	$0.0	N/A	N/A
Other Monitoring Activities/Reviews	$2.02	$1.98	97.9%	N/A	$0.98	N/A	N/A
Total	$11.51	$10.44	90.7%	$11.34	$11.29	$88.2	$78.3

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 IG that provides information on audit reports issued during the period and on the status of management decisions made on previously issued IG audit reports.

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 both the efficiency and effectiveness of our operations and strengthen our standards of accountability.

During FY 2011, the Department took final action on 29 IG reports with the agreed-upon actions including final action on four IG operational, financial and pre-award audit reports with funds put to better use. At the end of the period, 129 reports awaited final action.

Status of Final Action on IG Audit Reports for FY 2011

The following chart provides more detail on the audit reports with open actions and the dollar value of recommendations and funds "put to better use" that were agreed to by management.

AUDIT REPORTS	NUMBER OF REPORTS	AGREED UPON FUNDS TO BETTER USE ($ IN MILLIONS)
Pending final action at start of FY 2011	109	$17.3
With actions agreed upon	49	$1.3
Total pending final action	158	$18.6
Achieving final action	29	$8.4
Requiring final action at end of FY 2011	129	$10.1

Inspector General's Contract Audit Reports

During FY 2011, there were no IG contract audit reports pending final action.

FY 2011 Contract Audit Reports Statistical Table

The total number of IG Contract Audit Reports (Contract and Financial Assistance) and the dollar value of disallowed costs:

AUDIT REPORTS	NUMBER OF REPORTS	AGREED UPON FUNDS TO BETTER USE ($ IN MILLIONS)
Pending final action at start of FY 2011	0	$0
With actions agreed upon	0	$0
Total pending final action	0	$0
Achieving final action	0	$0
Recoveries	0	
Restatements	0	
Requiring final action at end of FY 2011	0	$0

** The amount of costs questioned in the audit report with which the contracting officer concurs and has disallowed as a claim against the contract. Recoveries of disallowed costs are usually obtained by offset against current claims for payment and subsequently used for payment of other eligible costs under the contract.*

Government Accountability Office Audit Reports

The GAO audits are a major component of the Department's audit follow-up program. At the beginning of FY 2011 there were 51 GAO audit reports awaiting final action. During FY 2011, the Department received 39 additional final GAO audit reports, of which 23 required tracking of corrective actions and 16 did not because the reports did not include actions to be taken by the Department. The Department completed agreed-upon corrective actions on seven audit reports during FY 2011, leaving 67 GAO reports awaiting final action at year-end.

Glossary of Acronyms

ADS	Associate Deputy Secretary
AFCI	Advanced Fuel Cycle Initiative
AFR	Agency Financial Report
AMIP	Adaptive Management Implementation Plan
AMWTP	The Advanced Mixed Waste Treatment Project
APR	Annual Performance Report
ARO	Asset Retirement Obligations
ARPA	The Advanced Research Projects Agency-Energy
ARRA	American Recovery and Reinvestment Act
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATVM	Advanced Technology Vehicle Manufacturing
BI	Business Intelligence
BPA	Bonneville Power Administration
CAP	Corrective Action Plan
CASL	Consortium for Advanced Simulation of Light Water Reactors
CCPI	Clean Coal Power Initiative
CCR	Central Contractor Registration
CCS	Carbon Capture and Storage
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CGS	Columbia Generating Station
CHCO	The Chief Human Capital Officer
CHRIS	Corporate Human Resources Information System
CIO	Office of the Chief Information Officer
CIP	Corporate Implementation Plan
CO2	Carbon Dioxide
CPMI	Contract and Project Management Improvement
CR	Continuing Resolution
CSRS	Civil Service Retirement System
CWIP	Construction Work in Process
DOD	Department of Defense
DOE	Department of Energy
DOJ	Department of Justice
EEOICPA	Energy Employees Occupational Illness Compensation Program Act
EERE	Office of Energy Efficiency and Renewable Energy
EFRC	Energy Frontier Research Centers
EM	Environmental Management
ENR	Enrichment and Reprocessing
ERISA	Employee Retirement Income Security Act
ES&H	Environment, Safety, and Health
ESA	Endangered Species Act
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FCRA	Federal Credit Reform Act of 1990
FCRPS	Federal Columbia River Power System
FE	Office of Fossil Energy
FERC	Federal Energy Regulatory Commission
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FIMS	Facilities Information Management System
FIPP	Financial Institution Partnership Program
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FOA	Funding Opportunity Announcement
FPDS	Federal Procurement Data System
FY	Fiscal Year
GAO	Government Accountability Office
GMRA	Government Management Reform Act
GNEP	Global Nuclear Energy Partnership

GSP	Graded Security Protection
GTRI	Global Threat Reduction Initiative
HEP	Office of High Energy Physics
HEU	Highly Enriched Uranium
HEV	Hybrid-Electric Vehicles
HMO	Health Maintenance Organization
HQ	Headquarters
HSS	Office of Health, Safety and Security
HTS	High Temperature Superconductivity
HWMA	Hazardous Waste Management Act
iBudget	iManage Budget
ICAM	Identity Credentialing and Access Management program
IDP	Individual Development Plans
IDW	iManage Data Warehouse
IG	Inspector General
IGCC	Superclean Integrated Gasification Combined
IOU	Investor Owned Utility
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
ISO	California Independent System Operator
LCLS	Linac Coherent Light Source
LEU	Low Enriched Uranium
LM	Office of Legacy Management
MA	Office of Management
M&O	Management and Operating
MFFF	The Mixed Oxide Fuel Fabrication Facility
MMS	Mineral Management Service
MOU	Memorandum of Understanding
MOX	Mixed Oxide
MTU	Metric Tons of Uranium
NE	Office of Nuclear Energy
NGNP	Next Generation Nuclear Plant
NIF	National Ignition Facility
NNSA	National Nuclear Security Administration
NOAA	National Oceanic and Atmospheric Administration
NP	Office of Nuclear Physics
NRC	Nuclear Regulatory Commission
NRD	Natural Resources Damages
NREL	National Renewable Energy Laboratory
NSG	Nuclear Suppliers Group
NWF	Nuclear Waste Fund
NWPA	Nuclear Waste Policy Act
OCRWM	Office of Civilian Radioactive Waste Management
OECD	Organization for Economic Co-operation & Development
OPAM	Office of Procurement and Assistance Management
OPM	Office of Personnel Management
ORCA	Online Representations and Certifications Application
ORNL	Oak Ridge National Laboratory
P.L.	Public Law
PAR	Performance and Accountability Report
PARS	Project Assessment and Reporting System
PDP	Medicare Part D prescription drug plan
PHEV	Plug-in Hybrid Electric Vehicles
P.L.	Public Law
PP&E	Property, Plant, and Equipment
PMA	Power Marketing Administrations
PPO	Preferred Provider Organization
PRB	Post Retirement Benefits Other Than Pensions
PUD	Public Utility District
PV	Solar pholtovoltaic
PX	California Power Exchange
RA	Recovery Act
RCA	Root Cause Analysis
RCSP	Regional Carbon Sequestration Partnership
R&D	Research and Development
RD&D	Research, Development & Deployment

REP	Residential Exchange Program
RIK	Royalty-in-Kind
ROD	Record of Decision
RPSA	Residential Purchase and Sale Agreements
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship
SBIR	Small Business Innovative Research
SC	Office of Science
SFAS	Statement of Financial Accounting Standards
SFFAS	Statement of Federal Financial Accounting
SLD	Second Line of Defense
SNF	Spent Nuclear Fuel
SPR	Strategic Petroleum Reserve
SRS	Savannah River Site
STARS	Standard Accounting and Reporting System
STRIPES	Strategic Integrated Procurement Enterprise
U.S.C.	United States Code
UCSD	University of California at San Diego
USEC	United States Enrichment Corporation
WAPA	Western Area Power Administration
WIPP	Waste Isolation Pilot Plan
WTP	Waste Treatment Plant
WVDPA	West Valley Demonstration Project Act

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Front Cover:

Top Photo: The SunShot initiative will bring the cost of solar energy down by about 75 percent, making it cost competitive with fossil fuels, like coal, by the end of the decade.

Center Left Photo: A National Renewable Energy Laboratory researcher balancing on a board dips samples of algae from a marshy creek in Golden, Colorado. Photo credit: National Renewable Energy Laboratory staff photographer Dennis Schroeder.

Center Right Photo: A Turbine is installed at the Rosebud Sioux Reservation in South Dakota. Photo is courtesy of the Intertribal Council on Utility Policy Corporation.

Bottom Photo: Dillon Wind Power Project.

Back Cover:

Top Photo: Hybrid vehicles circle the track at Indianapolis Motor Speedway as part of the inaugural Clean Cities Stakeholder Summit. DOE's Assistant Secretary for Policy & International Affairs drove a Chevy Volt – General Motors' new "plug-in hybrid electric vehicle".

Center Left Photo: Solar Panels. Photo is courtesy of ARPA-E.

Bottom Photo: Dillon Wind Power Project.

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