

**INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
UNITED STATES SECTION**



**AGENCY FINANCIAL REPORT
FISCAL YEAR 2013**



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MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION, ORGANIZATION AND STRUCTURE

MISSION

Through binational partnerships with Mexico, the United States Section of the International Boundary and Water Commission (U.S. Section) works to preserve the international boundary and improve the quality, conservation, and utilization of transboundary water resources in the border region.

The mission of the U.S. Section of the IBWC is:

"to provide binational solutions to issues that arise during the application of treaties between the United States and Mexico regarding boundary demarcation, national ownership of waters, sanitation, water quality, and flood control in the border region."



PHILOSOPHY

- I – Integrity and Accountability
- B – Binational Diplomacy
- W – Working towards Excellence
- C – Commitment to Stakeholders and the Public

ORGANIZATION

The International Boundary and Water Commission (IBWC) is a binational commission, established to apply boundary and water treaties, and related international agreements between the U.S. and Mexico. The IBWC consists of a U.S. Section and a Mexican Section. Each Section is administered independently of the other, and is headed by an Engineer Commissioner, who is appointed by his respective President. The U.S. Section receives foreign policy guidance from the U.S. Department of State, while the Mexican Section is administratively linked to the Secretariat of Foreign Relations of Mexico.

The U.S. Section and Mexican Section maintain their respective headquarters in the adjoining cities of El Paso, Texas and Ciudad Juárez, Chihuahua. Each Section maintains its own legal counsel, engineering staff, and administrative staff, and has field offices situated along the border to operate and maintain joint works. The Commissioner, two principal engineers, a legal adviser, and a secretary, designated by each Government as members of its Section, are entitled to the privileges and immunities appertaining to diplomatic officers. The Commission meets on a regular basis, alternating the place of meetings between the two countries and the staffs of the two Sections are in frequent contact.

The U.S. Section consists of the U.S. Commissioner, Executive Offices, and three Departments: Operations, Engineering, and Administration. The Executive Offices are comprised of the Compliance, Human Capital, Legal Affairs, Foreign Affairs, Washington DC Liaison, and Public Affairs Offices. The Operations and Engineering Departments carry out and address the core mission requirements of the U.S. Section. Like the Commissioner, the heads of the Engineering and Operations Departments are engineers. The Administration Department performs the necessary support functions for the agency, whereas the Executive Offices provide executive, legal, and foreign policy guidance to the Commissioner. The Heads of the Executive Offices and the three Departments make up the U.S. Section's Executive Staff. The roles of the Executive Offices and Departments are summarized below.

Executive Offices

The Executive Offices consist of the following offices: Office of the Commissioner, Human Resources, Legal Affairs, and Foreign Affairs. In addition to the Commissioner and his executive assistant, the Office of the Commissioner administers the Internal Audit and Equal Employment Opportunity functions of the agency. This office oversees agency policies and practices to ensure compliance with all respective laws, regulations, agency directives, and other requirements.

The Human Resources Office is responsible for recruiting, maintaining and updating personnel information, analyzing positions, and administering employee benefit programs (retirement, insurance, etc.). This office develops and implements policies, programs, and standards for effective management, utilization, and development of human resources in accordance with applicable laws, executive orders, rules and regulations.

The Legal Affairs Office is the in-house counsel that provides all general legal services for the agency, including contracting, realty, employment, and environmental matters. It also

provides legal guidance on bi-national issues, and interprets international law as part of the implementation of the Agency's Foreign Policy Program.

The Foreign Affairs Office is headed by the U.S. Section Secretary, who serves as an expert adviser on Treaty and Minute interpretations, and in cooperation with the Washington, DC Liaison Office at the Department of State, serves as a policy adviser on international relations. The U.S. Section Secretary accompanies the U.S. Commission to binational IBWC meetings and keep records of all discussions and understandings reached at those meetings. The Foreign Affairs Office prepares formal binational agreements, IBWC Minutes, and provides Spanish and English language translation interpretation services. In addition, the Foreign Affairs Office also responds to public concerns, and updates the public about U.S. Section projects and initiatives through citizens' forums, press releases, newsletters, and other publications. This office also provides language interpretation services, maintains all diplomatic communication records, and prepares the formal binational agreements called IBWC Minutes.

Washington DC Liaison Office is headed by a Special Assistant, who serves as a senior foreign policy adviser to the U.S. Commissioner. The Special Assistant is permanently assigned to the Office of Mexican Affairs at the Department of State in Washington, D.C., where he/she functions as the principal liaison between the U.S. Section and the Department of State. The Special Assistant facilitates cooperation and coordination between the agency and the Department of State and other Washington agencies and organizations on U.S. Section issues that have foreign policy implications. The Special Assistant represents the U.S. Section in policy and technical discussions held in Washington, D.C. and acts as the agency's point of contact for congressional offices and representatives of states, local governments, and non-governmental organizations represented or meeting in Washington, D.C.

The Administration Department

The Administration Department is headed by the Chief Administrative Officer. It provides administrative support to all agency functions through its four Divisions: Acquisitions, Budget, Finance and Accounting, and Information Management. The Administration Department will lead the way to implement the President's Management Agenda with the following action plans: (1) identifying potential improvements to eliminate superfluous or overlapping responsibilities in agency programs; (2) instituting an organizational structure that allows for a well coordinated and efficient organization that emphasizes public needs while meeting requirements and empowering employees; (3) developing a performance based budget process that evaluates the effectiveness of all activities to establish successful mission-oriented programs, determine funding requirements and identify efficiencies to eliminate mismanagement, waste, or duplication of efforts. The Department is committed to helping its customers achieve desired results instead of placing impediments to progress. All this will be accomplished by placing utmost importance to achieving agency priorities, and the professional and personal development of each staff member.

The Engineering Department

The Engineering Department is headed by the Principal Engineer of Engineering. Like the Principal Engineer of Operations, the Principal Engineer of Engineering also provides technical and policy advice to the U.S. Commissioner. The Engineering Department provides technical support in planning, engineering, environmental management, construction management, geographical information system, and real property administration to meet agency requirements. The Engineering Department conducts and reviews environmental and cultural studies, water quality monitoring, hydraulic studies, geotechnical investigations, and develops design plans and specifications for construction and renovation of buildings, hydraulic and flood control structures, hydroelectric power plant infrastructure, and wastewater treatment plant infrastructure.

The Operations Department

The Operations Department is headed by the Principal Engineer of Operations. The Principal Engineer of Operations provides technical and policy advice to the U.S. Commissioner, and oversees all U.S. Section operations and maintenance activities to assure adherence with treaty requirements. The Operations Department consists of the following Division: Water Accounting, Planning and Integration, and Operations and Maintenance. The Operations and Maintenance Division, through its field offices, operates and maintains roughly 86 hydrologic gaging stations, 500 miles of levees, 15,400 acres of floodplains, four diversion dams, two International storage dams and associated hydroelectric power plants, over 600 hydraulic structures, two International wastewater treatment plants, and one-half of all boundary monuments and markers on the land boundary and at ports of entry. The Water Accounting Division coordinates and performs the water accounting functions to determine the national ownership of Rio Grande and Colorado River waters jointly with the Mexican Section. The Planning and Integration Division administers the security, safety and health, boundary and realty, graphic information systems, and project planning programs.

OFFICE LOCATIONS AND GENERAL RESPONSIBILITIES

In addition to its headquarters in El Paso, Texas, the U.S. Section has twelve field offices along the southern international boundary, and one diplomatic liaison office located in the Office of Mexican Affairs at the Department of State in Washington DC. Of the twelve field offices, nine are primary area operations offices and three are secondary satellite offices that are an extension of a primary area operations office. The field offices are strategically located along the U.S. and Mexico border region for operations and maintenance of both domestic and international works authorized under treaties.

Below is a map identifying the locations and jurisdictional limits of the nine primary area operations offices managed by the U.S. Section. Descriptions of the responsibilities and functions of these offices are also provided.



San Diego Field Office

Located in San Diego, California, the primary functions of this field office are wastewater treatment and flood control. The San Diego Office addresses boundary and water issues in San Diego County and the adjacent Pacific coast. This field office administers the operations of the South Bay International Wastewater Treatment Plant, which treats an average of 25 million gallons per day of Mexican sewage to advanced primary standards and discharges the effluent into the Pacific Ocean 3.5 miles off the San Diego coast. In addition, it maintains the Tijuana River flood control system (i.e. levees, floodplains, and channel).

Yuma Field Office

Situated in Yuma, Arizona, the jurisdiction of this field office extends from the San Diego and Imperial county line in California, near IBWC Monument No. 230, to the Lukeville, Arizona International Port of Entry, which includes the 24-mile international stretch of the Colorado River. The Yuma Field Office works closely with the U.S. Bureau of Reclamation (USBR) to ensure the delivery and quality of Colorado River waters to Mexico in accordance with the 1944 Treaty and IBWC Minute No. 242. The field office performs water accounting activities, including maintenance of water gaging facilities, and conducts water quality assessments of Colorado River waters. The Yuma Field Office also works jointly with Mexico and the USBR to properly operate and maintain the international segment of Colorado River flood control system, which includes Morelos Dam. Other responsibilities include water quality assessments of the New River, and maintenance of land boundary monuments within their jurisdiction.

Nogales Field Office

Located in Rio Rico, Arizona, this field office's primary function is wastewater treatment. The City of Nogales, Arizona and the U.S. Section are co-owners of the Nogales International Wastewater Treatment Plant (NIWTP), which is located in Rio Rico, AZ and treats sewage from the border communities of Nogales, Sonora, Mexico; Nogales, Arizona; and Rio Rico, Arizona. In addition to operating and maintaining the NIWTP, the Nogales Field Office maintains the land boundary monuments and addresses other transboundary water issues within their jurisdiction, which spans from the Lukeville, Arizona International Port of Entry to the Arizona and New Mexico state line.

Upper Rio Grande Field Office

The Upper Rio Grande Field Office consists of a base station with two satellite offices. The primary field office is situated along the Rio Grande at American Dam in El Paso, Texas. One satellite office is located in Las Cruces, New Mexico, approximately 40 miles north-northwest of American Dam, and the other is about 60 miles south-southeast in Fort Hancock, Texas. The Upper Rio Grande Field Office addresses all mission-related matters in southern New Mexico and western Texas. The jurisdiction of this field office runs along the western land boundary from the Arizona and New Mexico state line to the Rio Grande at El Paso, Texas, and continues downstream along the Rio Grande boundary for approximately 91 miles to the Presidio, Hudspeth and Jefferson Davis tri-county line in Texas. This field office also address all issues along the Rio Grande from El Paso, Texas upstream for about 106 miles to Percha Diversion Dam, approximately two miles south of Caballo Lake in Sierra County, New Mexico. The primary functions of the Upper Rio Grande Field Office are to ensure the distribution of Rio Grande waters between Mexico and the U.S. in accordance with the Convention of 1906, and to provide flood protection to U.S. residents against Rio Grande floods. This is accomplished through the regular operation and maintenance of American Dam and Canal, and an array of water gaging facilities and flood control works along this 197-mile stretch of the Rio Grande. This Upper Rio Grande Field Office occasionally provides assistance to other western region U.S. Section field offices to restore or repair structures or facilities.

Presidio Field Office

Situated in Presidio, Texas, the jurisdictional limits of this field office extends along the Rio Grande from the Presidio, Hudspeth and Jefferson Davis tri-county line to Heath Canyon immediately downstream of Big Bend National Park. The main purpose of the field office is to protect the town of Presidio, Texas by maintaining flood control works along a 15-mile stretch of the Rio Grande. Other responsibilities include preserving the international river boundary, collecting water quality samples, and performing water accounting activities, including operation and maintenance of water gaging facilities, along the Rio Grande within their jurisdiction.

Amistad Dam Field Office

Located in Del Rio, Texas, the primary function of this field office is to effectively operate and maintain the Amistad International Storage Dam and Hydroelectric Power Plant. These operations provide electric power, flood control, and water conservation benefits to both the U.S. and Mexico. The field office also operates and/or maintains water gaging facilities, the boundary demarcation buoys on the reservoir, and performs water quality sampling and accounting of Rio Grande waters. The Amistad Dam Field Office addresses all Rio Grande boundary and water issues from Heath Canyon, just downstream of Big Bend National Park, to the Maverick and Webb county line below Eagle Pass, Texas.

Laredo Field Office

The Laredo Field Office is situated in Laredo, Texas. The jurisdictional limits of this field office extends along the Rio Grande, entirely within Webb County, Texas. The main purpose of the field office is to provide oversight of the operations and maintenance of the Nuevo Laredo International Wastewater Treatment Plant in Mexico, and to coordinate binational issues regarding the Rio Grande with U.S. and Mexican stakeholders.

Falcon Dam Field Office

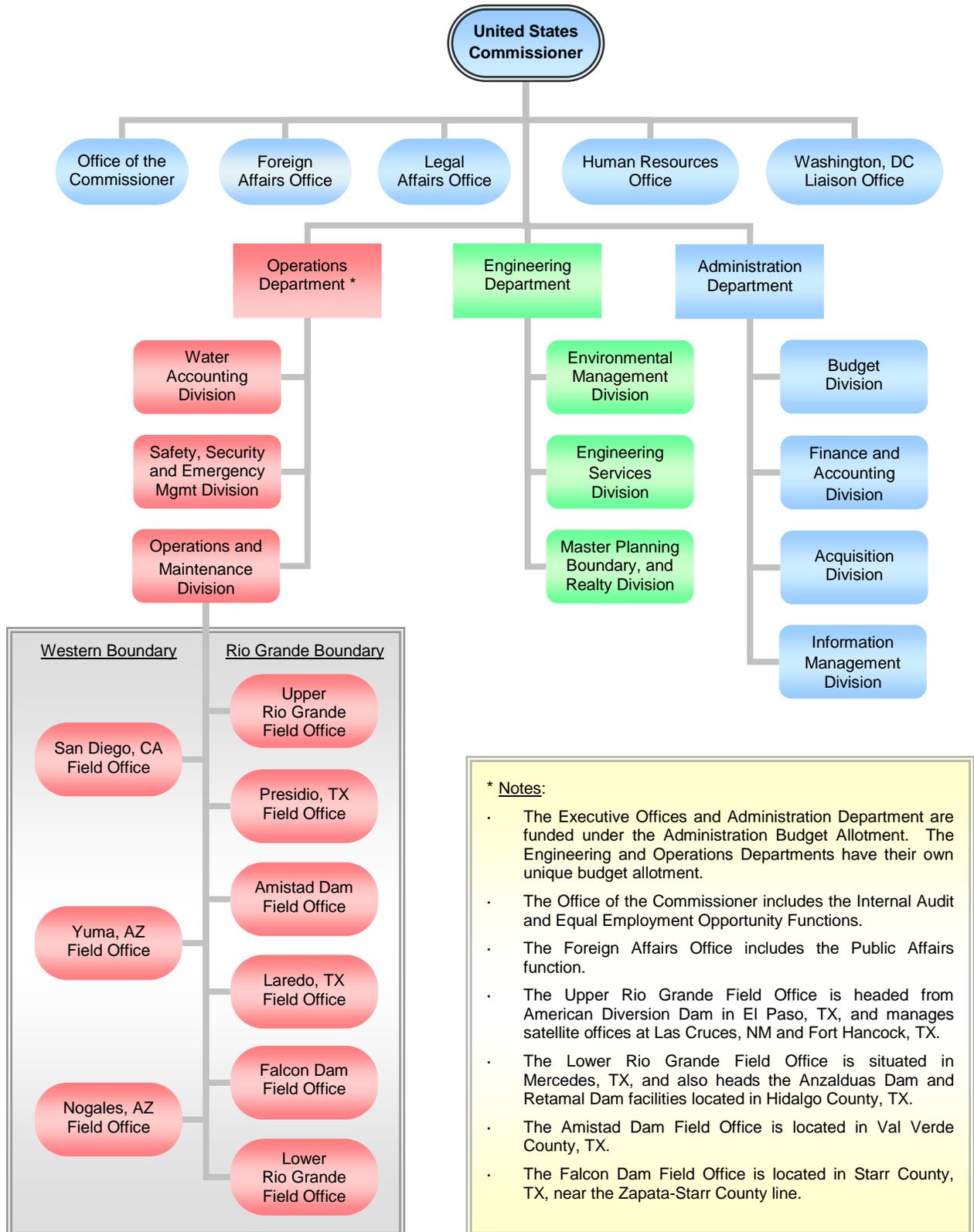
The core role of this field office is to effectively operate and maintain the Falcon International Storage Dam and Hydroelectric Power Plant for welfare of the U.S. and Mexico. In conjunction with irrigation, municipal, and flood releases, the field office operates of the hydroelectric power plant and generates electricity. The field office also operates and/or maintains water gaging facilities, and performs water quality sampling and accounting of Rio Grande waters. The Falcon Dam Field Office is situated in Falcon Heights, Texas. Its jurisdiction extends from the Web and Zapata county line to the Starr and Hidalgo county line.

Lower Rio Grande Field Office

The Lower Rio Grande Field Office consists of a base station and a satellite office. The primary field office is located nearly 40 miles upstream of Brownsville, Texas in Mercedes, Texas. The satellite office is situated south of Mission, Texas at Anzalduas Dam. The primary functions of the Lower Rio Grande Field Office are to ensure the allocation of U.S. waters in accordance with 1944 Treaty and to protect south Texas residents from Rio Grande floods. This is accomplished through the regular operation and maintenance of Anzalduas and Retamal International Dams, river and floodway gaging facilities, irrigation structures, and flood control works along the Rio Grande and its interior floodways from Peñitas to Brownsville, Texas. The field office also performs water accounting and water quality sampling activities on the Rio Grande, oversight of Morillo Drain operations in Mexico, and addresses all binational issues concerning the Rio Grande boundary and its waters in Hidalgo, Cameron and Willacy Counties in Texas.

ORGANIZATIONAL STRUCTURE

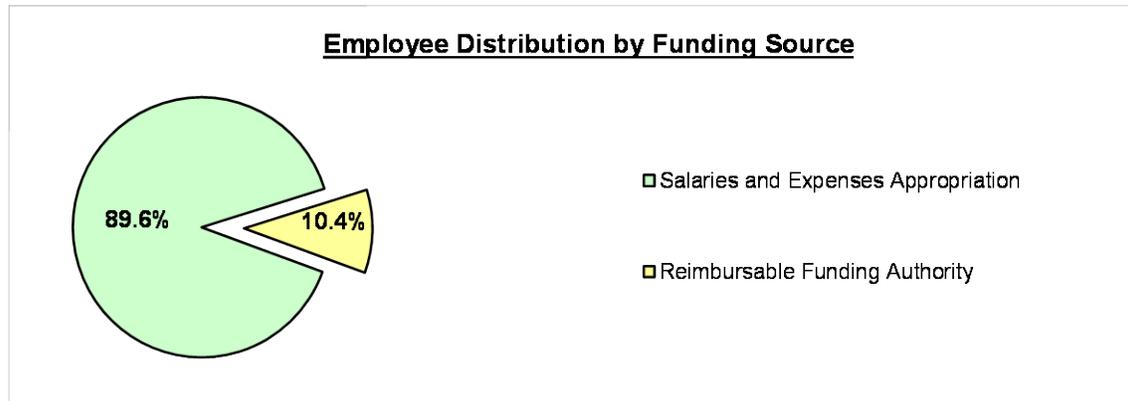
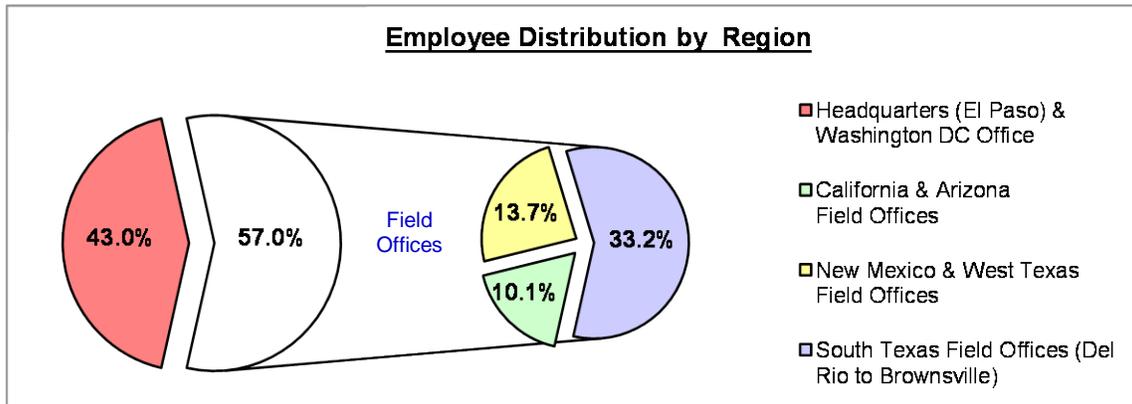
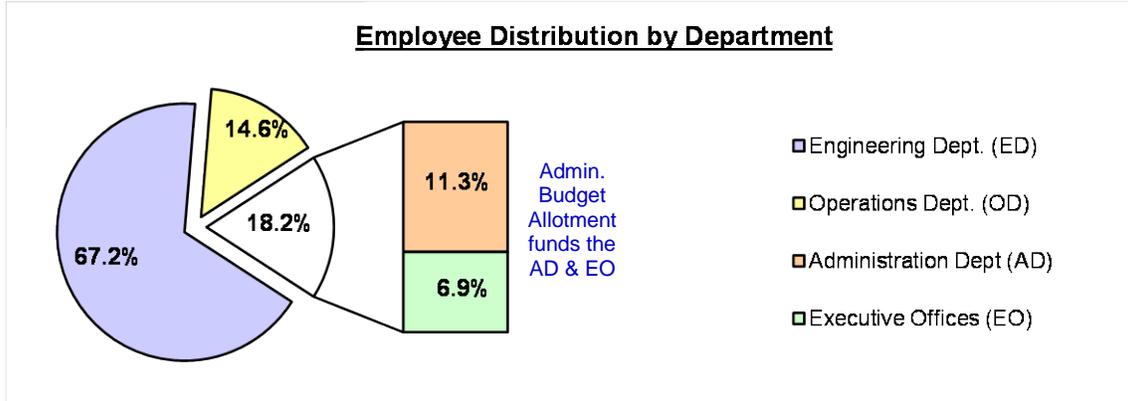
International Boundary and Water Commission, United States Section



International Boundary and Water Commission, United States Section

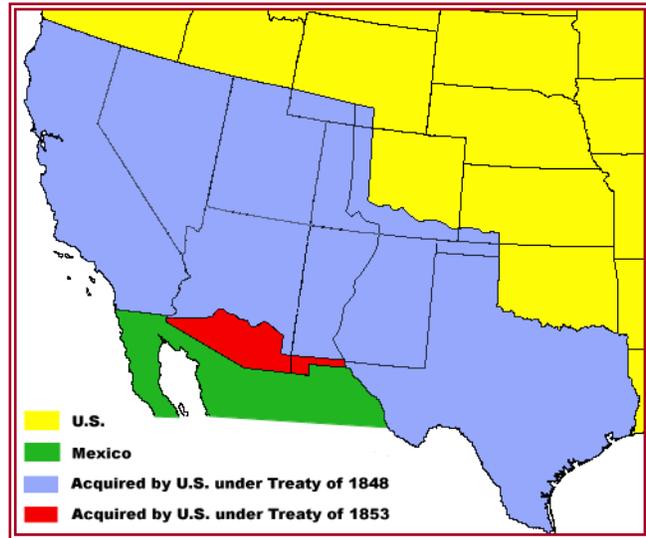
EMPLOYEE DISTRIBUTION

The U.S. Section employed a workforce that was equivalent to 242.3 full time employees in FY 2013. Shown below is the average annual employee distribution by department, location, and funding source. These figures account for hire lag and consist of all U.S. Section personnel, including part-time employees.



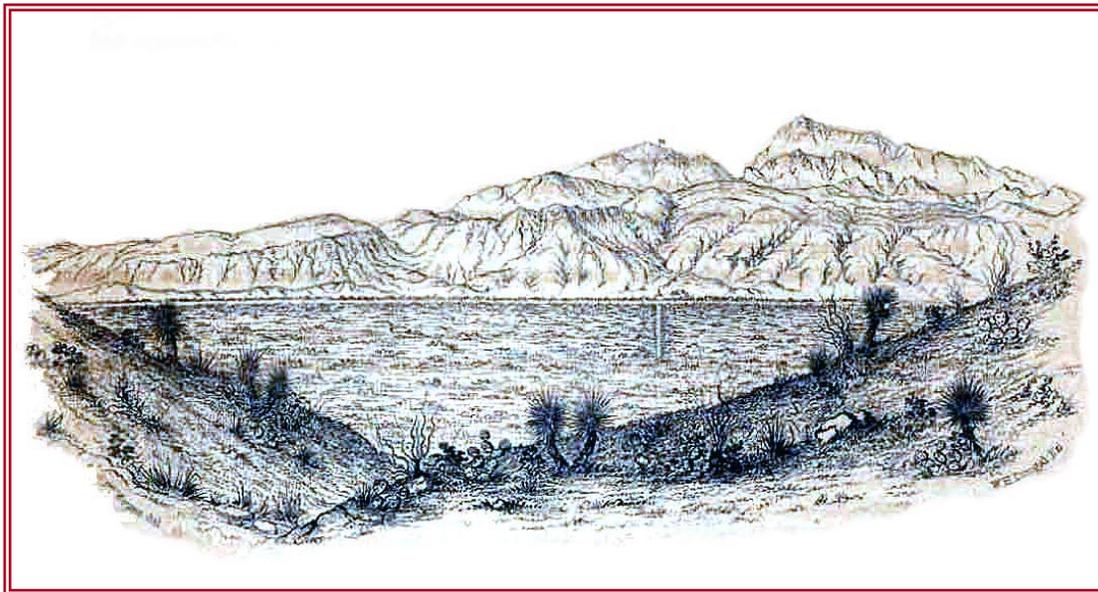
HISTORY

The IBWC traces its roots to the Guadalupe Hidalgo Treaty of 1848 and the Gadsden Treaty of 1853. The *Guadalupe Hidalgo Treaty of February 2, 1848* ended the Mexican-American War and provided for a new international boundary. The resulting boundary extended east in a straight line from the California coast, south of the port of San Diego, to and along the Gila River, and east along the Rio Grande to the Gulf of Mexico. However, disputes over the boundary lingered and a proposal for a southern railroad south of the Gila River added to the turmoil. Therefore, in 1853 the U.S., represented by James Gadsden, negotiated and acquired the necessary land from Mexico for \$10 million U.S. dollars. Known as the Gadsden Purchase, the *Treaty of December 30, 1853* redefined the U.S. – Mexico boundary further south along New Mexico and Arizona to current location.



Historic U.S. – Mexico Boundaries

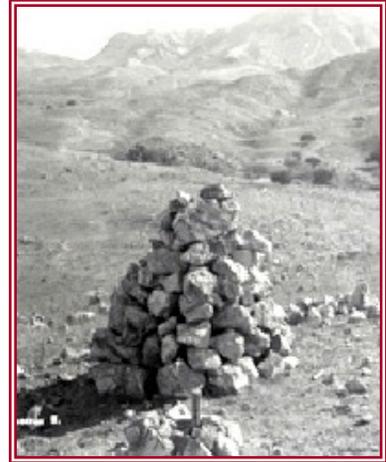
This map illustrates the land that the U.S. acquired from Mexico as a result of the Guadalupe Hidalgo Treaty of 1848 (blue), and the Gadsden Treaty of 1853 (red).



Sketch of Territory acquired by the Treaty of 1853

View of the initial point on the Rio Grande, looking west along the boundary line on parallel 31° 47' N latitude. The flag on the mountain and the boundary monument, situated on the west bank of the Rio Grande, indicate the boundary line west of the Rio Grande.

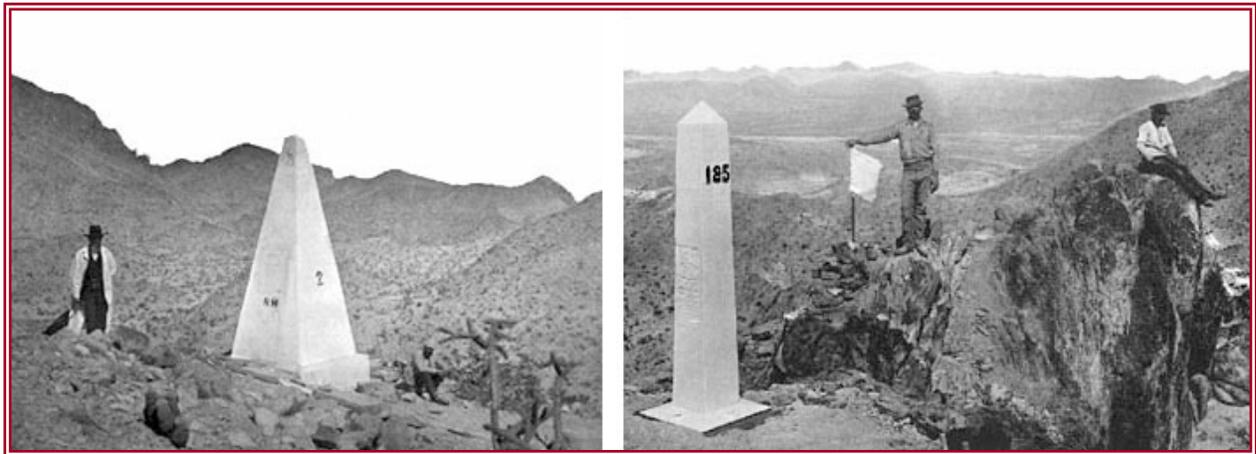
As the settlements grew along the Rio Grande and Colorado River in the late 1800's, settlers began developing adjoining lands for agriculture. In the late Nineteenth Century, questions arose as to the location of the boundary and the jurisdiction of lands when the boundary rivers changed their course and transferred land from one side of the river to the other. Therefore the U.S. and Mexico adopted certain rules designated to deal with these river boundary issues during the Convention of November 12, 1884. To apply the rules of this 1884 Convention, the two countries formed a temporary joint commission. An interim International Boundary Commission (IBC), consisting of a U.S. Section and a Mexican Section, was created by the Convention of March 1, 1889.



Old Monument No. 16

Stone Monument built in the early 1850's to mark the U.S. – Mexico border.

In addition to the river boundaries, the land boundary between the Pacific Ocean and the Rio Grande was another issue that needed to be addressed. The long distances between the boundary monuments coupled with the occasional destruction of a monument made it difficult to determine the physical location of the international border. To resolve this problem, U.S. Commissioner John W. Barlow and Mexican Commissioner Jacobo Blanco embarked on a quest to resurvey and demarcate the western boundary. The survey started at the El Paso, Texas – Ciudad Juárez, Chihuahua border in 1891 and concluded at the San Diego, California – Tijuana, Baja California border in 1894. During this survey, IBC crews reconstructed old monuments and erected new ones; thus increasing the number of monuments from 52 to 258.



Western Land Boundary Monuments

Stone and iron monuments were erected during the resurvey expedition in the early 1890's to demarcate the international boundary. Monument No. 2 (left), composed of stone, was set at the summit of the Mulero Mountains known today as Mount Cristo Rey, in Sunland Park, New Mexico adjacent to El Paso, Texas. Monument No. 185, made of iron, was placed on a high, rough peak of the Tule Mountains in southwestern Arizona.

As border populations increased between the years of 1906 and 1968, the Commission constructed 18 additional boundary monuments for a total of 276. The IBWC later erected 442 smaller concrete markers to enhance demarcation along the western boundary from 1976 to 1986.

In the year 1900, both Governments agreed to make the interim IBC a permanent binational entity by indefinitely extending its existence under the Convention of November 21, 1900. It is this 1889 IBC that is considered to be the direct predecessor to the modern day IBWC. The International Boundary Commission was renamed to the International Boundary and Water Commission in 1944

During the early to mid 1900's as border populations increased, the IBC was faced with more challenges. These challenges included the equitable and efficient distribution of Rio Grande and Colorado River waters between the U.S. and Mexico, Rio Grande flood control and channel stabilization, and border sanitation.

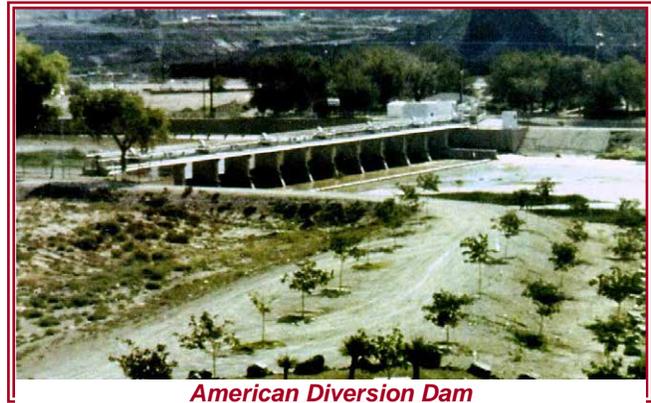
Historically, the Rio Grande was a meandering stream carrying heavy sediment loads through and below the El Paso – Juárez Valley. Channel aggrading occurred due to the flat gradient and low flow velocities, and during flood flows a new channel often formed on lower ground. In the late 1920's, the IBC formulated plans to rectify the Rio Grande and stabilize the boundary line between El Paso, Texas and Little Box Canyon in such a manner that the total areas to be cut from each country were equal. The IBC constructed the rectified Rio Grande channel with necessary grade control works and within a leveed floodway from 1934 to 1938. Thirty years later, the IBWC relocated and concrete-lined 4.35 miles of the Rio Grande channel to resolve a century old boundary dispute, known as the Chamizal Dispute, at El Paso, Texas - Ciudad Juárez, Chihuahua.



Rio Grande Rectification

Photo showing the rectification of the Rio Grande along the El Paso – Ciudad Juárez Valley in 1938 for the purpose of stabilizing the U.S. – Mexico boundary.

The U.S. Section of the IBC built the American Diversion Dam and Canal immediately upstream of the Rio Grande boundary in El Paso, Texas from 1937 to 1938. The purpose of this project was to separate Rio Grande waters allocated to the U.S. from those allocated to Mexico in the El Paso – Juárez Valley. To convey these waters more efficiently and protect U.S. lands from Rio Grande floods, the U.S. Section constructed the Rio Grande Canalization Project. This project provided for a normal-flow, rectified river channel within a leveed floodway from Percha Diversion Dam, located two miles downstream of Caballo Storage Dam, to American Diversion Dam during 1938 to 1943.



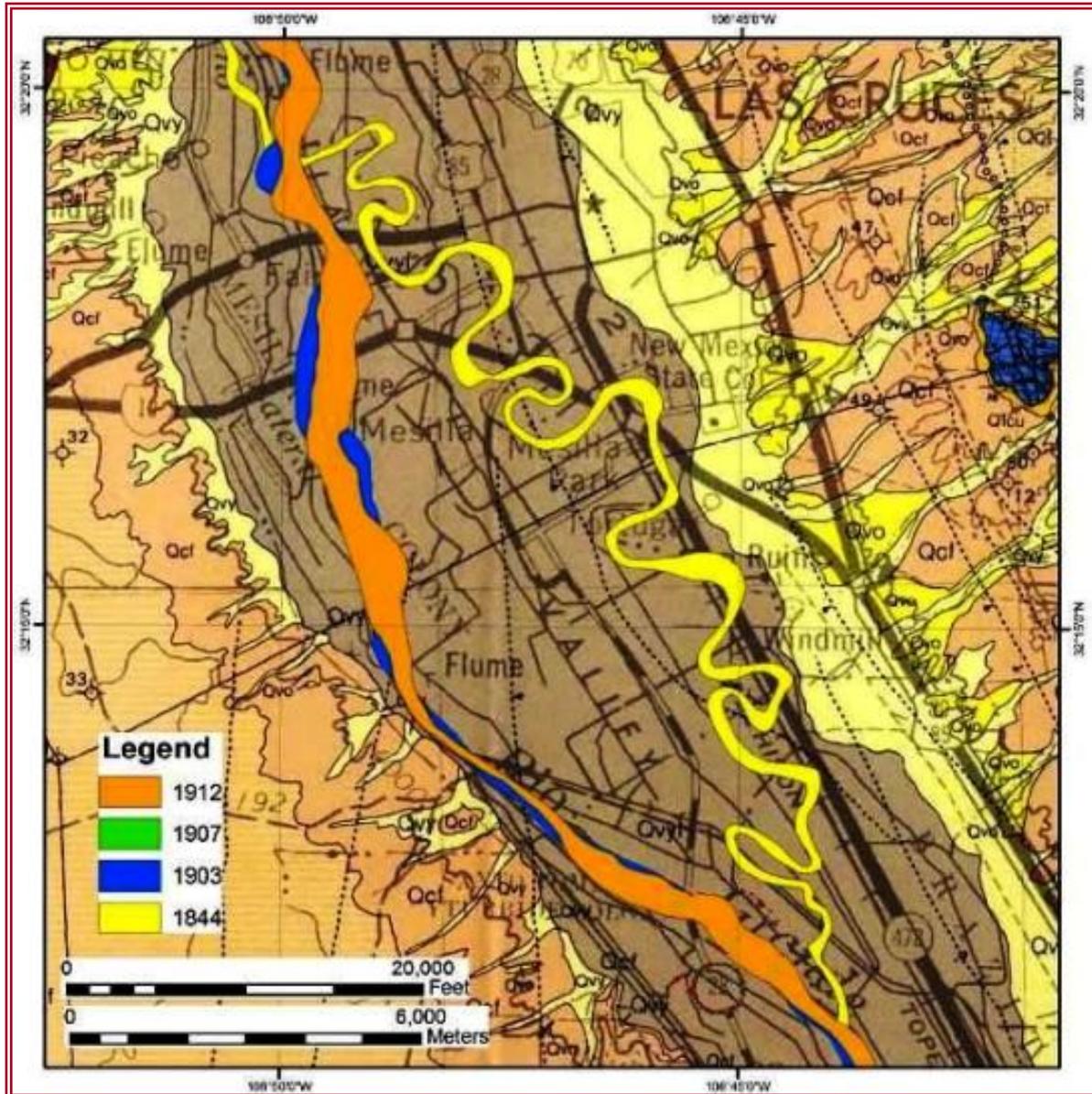
American Diversion Dam

View of American Diversion Dam in El Paso, Texas, which diverts Rio Grande waters allocated to the U.S. under the Convention of 1906.



Territory returned to Mexico, in accordance with the Convention of 1963, by relocation of the Rio Grande was relocated northward.

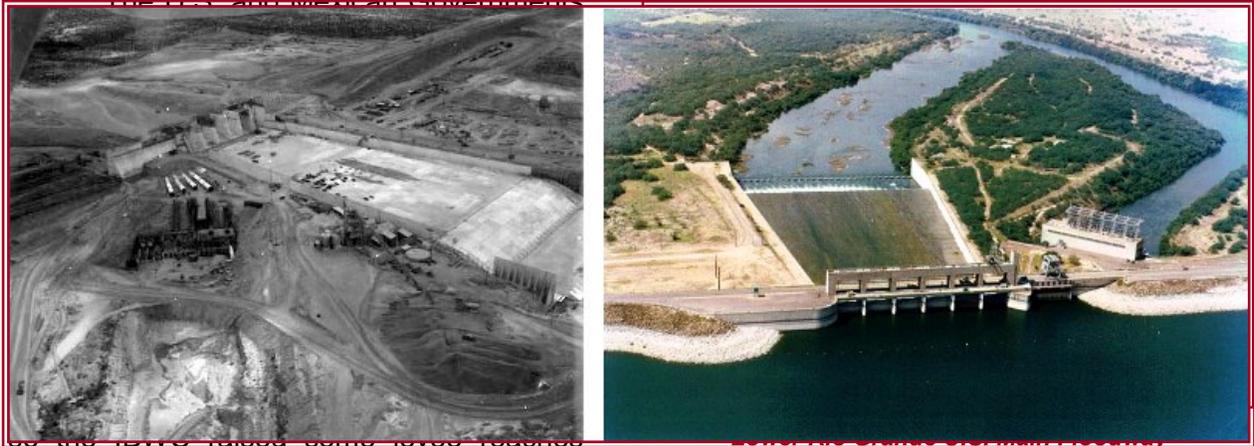
Two decades later, the IBWC relocated a section of the Rio Grande in El Paso, Texas – Ciudad Juárez, Chihuahua to resolve a century old boundary dispute with Mexico. This dispute, known as the Chamizal Dispute, arose when the Rio Grande moved southward, causing Mexico to lose territory in the 1860's. To resolve this issue, the IBWC constructed the Chamizal Project from 1966 to 1969 and returned 437 acres of territory to Mexico. Through this project, the agency relocated and stabilized 4.35 miles of the Rio Grande channel near Cordova Island. It also extended the flood control levees upstream from Cordova Island to immediately below American Dam to protect U.S. lands from river floods.



Historical courses of the Rio Grande in the Mesilla Valley

The historical courses of the Rio Grande, prior to its “straightening” during the Canalization Project from 1938 to 1943, are shown on this geology map. Note the smaller size of river channel between the 1844 course and later channels.

The U.S. and Mexican Governments



and extended the river levee eight miles upstream to Peñitas, Texas from 1958 to 1961. Unfortunately, Hurricane Beulah struck the region in 1967, devastating the Lower Rio Grande watershed with up to 35 inches of rain and causing major damage in both the U.S. and Mexico. The IBWC quickly responded by performing emergency repairs to the flood control system in 1968 and 1969. Soon thereafter in September 1970, the two Governments agreed to further increase the flood conveyance capacity of the system from 187,000 cfs to 250,000 cfs at the head of the valley. Beginning in 1970, the IBWC completed all the necessary flood control improvements by 1977; including levee raising, interior floodway modifications, and construction of Retamal Diversion Dam.

Construction of the south levee along the Main Floodway in the Lower Rio Grande Valley of south Texas during 1934



Hurricane Beulah Flooding

Aerial photograph of a flooded community in Harlingen, Texas after Hurricane Beulah hit the Lower Rio Grande Valley in 1967. Note that only the rooftops were visible.

During the 1940's, the Commission conducted joint studies and investigations to determine the most feasible sites for the construction of major international reservoirs and hydroelectric power plants on the Rio Grande. Construction of international storage dams and power plants would provide flood control, water conservation, recreational, and electrical power benefits to both countries. Since the U.S. and Mexico concluded that two such combinations on the Rio Grande would be feasible, the IBWC proceeded with the construction of the Falcon and Amistad International Storage Dams and Power Plants. The Falcon International Storage Dam and Power Plant was built in 1950 to 1954. Unlike Falcon, the Amistad project was constructed in two separate phases. The storage dam and reservoir was built in 1963 to 1969, and the U.S. and Mexican power plant facilities were constructed from 1980 and 1987.

Falcon International Storage Dam and Hydroelectric Power Plant

Falcon International Dam and the U.S. power plant during construction in 1952 (left), and in operation thirty-nine years later in 1993 (right). The storage dam and power plants provide water conservation, flood protection, power production, and recreational benefits to both the U.S. and Mexico. (Mexican power plant is not shown.)

The U.S. and Mexico, through the IBWC, have worked together to address sanitation issues and improve the environment along the international boundary. Since the 1930's, the IBWC has jointly developed and implemented defensive sanitary works at various locations along the border. The most notable IBWC accomplishments include the construction and operation of three international wastewater treatment plants and related infrastructure on the border region to treat sewage from Mexico. The IBWC built the original Nogales International Wastewater Treatment Plant (NIWTP) at Nogales, Arizona in 1951. The IBWC operated this facility until it constructed, jointly with the City of Nogales, a larger secondary sewage treatment plant outside of the city limits in 1972, to treat both U.S. and Mexican wastewater. Also during the 1990's, the IBWC constructed the Nuevo Laredo International Wastewater Treatment Plant (NLIWTP) at Nuevo Laredo, Tamaulipas, Mexico, and the South Bay International Wastewater Treatment Plant (SBIWTP) at San Diego, California. Construction of the NLIWTP, which began in 1992, was substantially completed and placed into operation 1996. The IBWC started construction of the SBIWTP in 1993, and completed the advanced primary wastewater treatment facilities in 1997. However, wastewater treatment and effluent discharge operations did not commence until completion of the South Bay Ocean Outfall (SBOO) in 1999.



Nuevo Laredo Int'l Wastewater Treatment Plant

This plant, with a capacity of 31 million gallons per day, treats Mexican sewage that would otherwise pollute the Rio Grande to U.S. secondary standards.

International Boundary and Water Commission, United States Section

The IBWC is charged with applying the rights and obligations that the Governments of the U.S. and Mexico assume under various boundary and water treaties and agreements, and to settle disputes that arise in the application of these agreements. The IBWC is committed to exercising this authority in an environmentally sound manner that benefits the social and economic welfare of both countries, and improves relations between the U.S. and Mexico. The IBWC is entrusted with the responsibility of diplomatically addressing boundary preservation, accounting of the national ownership of transboundary surface waters, border sanitation and water quality problems, and affording flood control protection to millions of people on both sides of the nearly 2000-mile, southern international border. This is accomplished through the joint construction, operation, and maintenance of boundary demarcation, water conveyance, and water quality facilities and infrastructure.



1944 Treaty Signing

Signing of the 1944 Treaty in Washington, DC on February 3, 1944. U.S. Secretary of State Cordell Hull, seated at the center, is signing the Treaty. Mexican Foreign Relations Secretary F. Castillo Najera is seated to his right.



1970 Treaty Signing

Signing of the 1970 Treaty in Mexico City on November 23, 1970. Signing the Treaty are U.S. Ambassador Robert H. McBride (left) and Mexican Secretary of Foreign Affairs Antonio Carrillo Flores (right).

UNITED STATES AND MEXICO BOUNDARY



As established by Treaties in 1848, 1853, and 1970, the boundary between the U.S. and Mexico extends 1,954 miles, excluding the maritime boundaries of 18 miles in the Pacific Ocean and 12 miles in the Gulf of Mexico. Beginning at the Gulf of Mexico, the U.S. – Mexico continental boundary follows the centerline of the Rio Grande a distance of 1,255 miles from the Gulf to a point in El Paso, Texas and Ciudad Juárez, Chihuahua. From this point, the boundary follows a westward alignment marked by monuments and markers overland below New Mexico and Arizona a distance of 534 miles to the Colorado River. The boundary continues northward along the centerline of the Colorado River for 24 miles, where it once again follows a westward alignment marked by monuments and markers overland below California to the Pacific Ocean a distance of 141 miles.

The region along the boundary is characterized by deserts, rugged mountains, abundant sunshine, and by two major rivers. These rivers, which make up approximately two-thirds of the international boundary, are the Colorado River and the Rio Grande. The rivers provide life-giving waters to the largely arid, but fertile lands along the rivers in both countries.

Although sparsely settled at the time of the 1848 and 1853 Treaties, the region rapidly developed with the emergence of the railroads in the 1880s and the development of irrigated agriculture after the turn of the century. In 2006, approximately 2.8 million acres of crop land was irrigated with the waters of the Rio Grande (1.8 million acres) and Colorado River (1.0 million acres) on both sides of the border. In addition, the Rio Grande provided 358 thousand acre-feet of water for municipal and industrial needs, which served over border residents in 2006.

Today the boundary is characterized by fifteen pairs of sister cities sustained by agriculture, import-export trade, service and tourism, and by a growing manufacturing sector. The U.S. Section estimates that between 12 and 13 million people presently live and/or work in the U.S. – Mexico border region.

THE BOUNDARY AND WATER TREATIES

Treaty of February 2, 1848

The Treaty of February 2, 1848, commonly known as the “Guadalupe Hidalgo Peace Treaty,” ended Mexican – American War and established the U.S. – Mexico boundary from San Diego, California east along the Gila River, and the Rio Grande.

Treaty of December 30, 1853

The Treaty of December 30, 1853, also referred to as the “Gadsden Treaty,” reestablished the U.S. Mexico boundary after the U.S. purchased the area south of the Gila River from Mexico, which is now southwestern New Mexico and southern Arizona.

Convention of July 29, 1882

The Convention of July 29, 1882 established another temporary commission to resurvey and place additional monuments along the western land boundary from El Paso, Texas – Ciudad Juárez, Chihuahua to San Diego, California-Tijuana, Baja California.

Convention of November 12, 1884

The Convention of November 12, 1884 established the rules for determining the location of the boundary when the meandering rivers transferred tracts of land from one bank of the river to the other.

Convention of March 1, 1889

The Convention of March 1, 1889 established the International Boundary Commission (IBC) to apply the rules in the 1884 Convention. It was later modified by the “Banco Convention” of March 20, 1905 to retain the Rio Grande and the Colorado River as the international boundary.

Convention of May 21, 1906

The Convention of May 21, 1906 provided for the distribution of Rio Grande waters between the U.S. and Mexico for the Rio Grande from El Paso to Fort Quitman, Texas. This Convention allotted to Mexico 60,000 acre-feet annually of the waters of the Rio Grande to be delivered in accordance with a monthly schedule at the headgate to Mexico's Acequia Madre or irrigation canal above Ciudad Juárez, Chihuahua. To facilitate such deliveries, the U.S. constructed, at its expense, the Elephant Butte Dam in its territory. The Convention includes the proviso that in case of extraordinary drought or serious accident to the irrigation system in the U.S., the amount of water delivered to the Mexican Canal shall be diminished in the same proportion as the water delivered to lands under the irrigation system in the U.S. downstream of Elephant Butte Dam.

Convention of February 1, 1933

In the Convention of February 1, 1933, the two Governments agreed to jointly construct and maintain works, through the IBC, to straighten and stabilize the Rio Grande, which serves as the international boundary, from International Dam in the El Paso – Ciudad Juárez Valley to Little Box Canyon below Fort Quitman, Texas. The 1933 Convention required reducing the length of the meandering river from approximately 155 miles to about 88 miles and confining the channel between two parallel levees.

Treaty of February 3, 1944

The Treaty of February 3, 1944 entitled, “Utilization of Waters of the Colorado and Tijuana Rivers and of the Rio Grande” distributed the waters of the Colorado River and of the Rio Grande below Fort Quitman, Texas between the U.S. and Mexico. This Treaty, also referred to as the “Water Treaty”, changed the name of the International Boundary Commission (IBC) to the International Boundary and Water Commission (IBWC), and expanded its authority by entrusting the IBWC to address all border sanitation problems. The 1944 Treaty provided for joint construction, operation, and maintenance of storage dams, diversions dams, and hydroelectric power plants on the Rio Grande. It also provided provisions for flood control works to protect adjacent lands from flood waters of the Rio Grande, Colorado River, and Tijuana River.

Convention of August 29, 1963

The Convention of August 29, 1963, referred to as the “Chamizal Convention,” resolved a century-old boundary problem at El Paso, Texas – Ciudad Juárez, Chihuahua, known as the Chamizal Dispute, involving some 600 acres of territory which were transferred from the south to the north bank of the Rio Grande by movement of the river during the latter part of the Nineteenth Century. By this Convention, the two Governments gave effect to a 1911 arbitration award under 1963 conditions. It provided for the relocation by the IBWC of 4.35 miles of Rio Grande channel as to transfer a net amount of 437 acres from the north to the south side of the river. President Lyndon Johnson met Mexican President Adolfo Lopez Mateos in El Paso, Texas on September 24, 1964 to commemorate the ratification of the Chamizal Convention.

Treaty of November 23, 1970

The Treaty of November 23, 1970 resolved all pending boundary differences and provided for maintaining the Rio Grande and the Colorado River as the international boundary between the U.S. and Mexico. This Treaty, known as the “Boundary Treaty,” superseded the Conventions of 1884 and 1905. The 1970 Treaty reestablished the Rio Grande as the boundary throughout its 1,254-mile limitrophe section and provided a different method for resolving changes in the boundary and transfers of territory due to changes in the course of the river. The Treaty includes provisions for restoring and preserving the character of the Rio Grande and the Colorado River as the international boundary where that character has been lost, to minimize changes in the channel, and to resolve problems of sovereignty that might arise due to future changes in the channel of the Rio Grande. It provides for procedures designed to avoid the loss of territory by either country incidental to future changes in the river's course due to causes other than lateral movement, incident to eroding one of its banks and depositing alluvium on the opposite bank. This Treaty, too, charged the IBWC with carrying out its provisions.

PROCEDURES FOR SOLUTION OF BOUNDARY AND WATER PROBLEMS

Prior to addressing a problem, the U.S. Section must ensure that the necessary authorities are in place to execute a solution. Implementation of broad provisions of treaties and other international agreements frequently require specific agreements by the IBWC for planning, cost sharing, construction, and operation and maintenance of joint works. IBWC decisions are subject to the approval of the two Governments and are recorded in the form of Minutes. Once approved by both Governments, the Minutes enter into force as binding obligations of the U.S. and Mexican Governments.

When a new or anticipated boundary or water problem is identified, the U.S. and Mexican Commissioners make recommendations to their respective Governments for its resolution. Early detection and evaluation of the problem and the development of measures for resolution are a part of the mission of the IBWC. Most problems are resolved by the development of new projects. The need for development of new cooperative projects may also be brought to the attention of the IBWC by one or both Governments, or by state or local authorities through their respective Section of the IBWC. If the findings of the IBWC joint investigations, often recorded in a joint report of the Principal Engineers of the two Sections, show that a cooperative project is needed, is feasible and can be justified as an international project, the IBWC may endorse the findings in a Minute and recommend the project to the two Governments.

Once the project is authorized and funded by both Governments, each Government through its Section proceeds to perform under the joint supervision of the IBWC, its share of the works, as determined in the approved agreement.

The two Governments generally share the total costs of the projects in proportion to their respective benefits in cases of projects for mutual control and utilization of the waters of a boundary river, unless the Governments have predetermined by treaty the division of costs according to the nature of a project. In cases of man-made works in one country or operations in one country causing or threatening to cause damage in the other country, the cost is borne by the Government in whose territory the problem originated. The U.S. Section prepares its assigned part of the plans for works or contracts for their preparation with other federal agencies or with private consulting engineers, awards contracts for, and supervises its part of the construction of a project under the overall supervision of the IBWC. The United States Section operates and maintains the part of the project assigned to the U.S. Government.

PERFORMANCE GOALS, OBJECTIVES AND RESULTS

STRATEGIC GOAL 1 – BOUNDARY PRESERVATION

Preserve the U.S. and Mexico boundary, through binational cooperation, in accordance with international agreements.

The 1848 Treaty of Guadalupe Hidalgo, which ended the Mexican – American War, and the 1853 Gadsden Treaty established the international boundary between the U.S. and Mexico. In addition, both Conventions established temporary joint Commissions to designate and demarcate the boundary line with ground landmarks. A binational survey and demarcation effort undertaken from 1849 to 1855 established the land boundary with 52 obelisk and stone mound monuments between the Pacific Ocean and the Rio Grande. The International Boundary Commission was established under the Convention of 1889 to apply the rules adopted under an 1884 Convention for resolving boundary issues resulting from the meandering of the Rio Grande and the Colorado River. It was made a permanent body in 1900. Pursuant to the 1882 Convention that addressed the land boundary, the Barlow – Blanco Survey resurveyed the borderline from 1891 to 1894 and increased the number of boundary monuments from 52 to 258. Later, as border populations increased during the 1900's, the Commission installed 18 additional boundary monuments for a total of 276.

The 1944 Treaty expanded the jurisdiction and responsibilities of the Commission and allocated the waters of the Rio Grande from Fort Quitman, Texas to the Gulf of Mexico and the Colorado River. The Convention of 1933 rectified the Rio Grande channel and provided a new river boundary between El Paso, Texas and Fort Quitman, Texas. The Chamizal Convention of 1963 relocated approximately 4.35 miles of the Rio Grande boundary to resolve boundary issues resulting from the southward movement of the river in the El Paso, Texas – Ciudad Juárez, Chihuahua Valley from 1852 to 1895. The 1970 Treaty, which superseded the 1884 Convention, resolved all pending boundary differences between the two countries, and provided for maintaining the Rio Grande and the Colorado River as the international boundary by authorizing works to protect against bank erosion. The 1970 Treaty also provided procedures to avoid the loss of territory by either country incident to future changes in a river's course.

IBWC Minute No. 244, signed in December 1973, provided for a permanent maintenance program for boundary monuments. Later in July 1975, IBWC Minute No. 249 introduced smaller, intermediate concrete markers between the boundary monuments to provide better demarcation of the international boundary in critical border areas. Records indicate that 442 markers were erected, mostly around areas experiencing population growth. IBWC Minute No. 302 in December 1999 provided for enhanced boundary demarcation at border ports of entry.

The 1970 Treaty mandated the delineation of the international boundary on maps or aerial mosaic photos for the Rio Grande and Colorado River Boundary. It also established the frequency to update these maps at intervals not greater than 10 years. IBWC Minute No. 278, dated March 1989, jointly approved the current boundary maps developed from photographic surveys conducted in 1982 and 1983.

Accomplishments

The U.S. Section continued its efforts to map and demarcate the Land and Colorado River Boundaries between the United States and Mexico, from Pacific Coast to the Rio Grande. This mapping process started in November 2010. An initial draft sets of eighty-five boundary photomaps was produced FY 2012. These maps depict the boundary line, location of boundary monuments, and other key geographic features. This fiscal year, the U.S. Section continued this effort by collaboratively working with the Mexican Section to review and edit the draft maps. The Commission also continued to work on resolving issues regarding the differences between the alignment of the 1972 Colorado River boundary and that of the current river channel.

The U.S. Section repainted and replaced demarcation markers (buttons) at one (1) International Land Port of Entry in California¹, at two (2) International Land Ports of Entry in Arizona² and at four (5) International Bridge Ports of Entry in Texas³. The agency also refurbished seven (7) international land boundary monuments⁴ on the border in Arizona.

Plan

The U.S. Section will collaborate with the Mexican Section to determine a strategy to resolve the international boundary issues concerning the Colorado River boundary, and proceed with the production of the final sets of western boundary photomaps, which delineates the land and Colorado River boundaries. The Commission will jointly approve the final set of Western Boundary maps via an IBWC Minute, which should be concluded during FY 2014.

The U.S. Section will continue to inspect and refurbish accessible international land boundary on the Arizona border that need restoration. The Commission will also continue to make a reasonable effort to maintain all boundary plaques and pavement markers at all border ports of entry. The U.S. Section will also inspect and maintain the buoys and markers, which identify the jurisdictional line at Amistad and Falcon International Reservoirs.

The U.S. Section will also continue to work diplomatically with the Mexican Section to resolve any and all international boundary issues.

¹ The U.S. Section performed demarcation work at the Andrade International Land Port of Entry.

² The U.S. Section performed demarcation work at the San Luis I and San Luis II International Land Ports of Entry

³ The U.S. Section performed demarcation work at the Del Rio, Laredo I, Lincoln-Juarez (Laredo II) Solidarity (Laredo III), and Laredo IV International Bridge Ports of Entry.

⁴ The U.S. Section refurbished IBWC Monuments 80, 81, 83, 84, and 84A near Douglas, AZ, and IBWC Monuments 199 and 203 near Yuma, AZ.

STRATEGIC GOAL 2 – WATER QUANTITY OPERATIONS

Provide flood protection to U.S. residents and ensure the efficient conveyance, utilization, and accounting of boundary and transboundary river waters through the operation and maintenance of dams, reservoirs, power plants, and flood control projects in accordance with domestic law and international agreements.

The Convention of 1906 provided for the distribution of Rio Grande waters between the U.S. and Mexico in the international segment of the river from El Paso to Fort Quitman, Texas. Barring extraordinary drought or serious accident to the U.S. irrigation system, the U.S. agreed to deliver 60,000 acre-feet of water annually to Mexico at the Acequia Madre head works, adjacent to the International Dam in El Paso, Texas. To facilitate compliance with the 1906 Convention, the U.S. Congress passed the Acts of August 29, 1935 and June 4, 1936. The 1935 Act provided for the construction and operation of the American Dam and Canal for the purpose of diverting U.S. waters and releasing Mexican waters. The 1936 Act shortened the Rio Grande to reduce the conveyance losses of irrigation waters by straightening the channel between Caballo Storage Dam and American Dam.

The 1944 Treaty distributed the waters of the Colorado River, and the Rio Grande from Fort Quitman to the Gulf of Mexico. Under this Treaty, the U.S. was allotted all waters from the Pecos River, Devils River, and five other U.S. tributaries reaching the Rio Grande, as well as one-third of the flow reaching the Rio Grande from the Conchos River and five other named Mexican tributaries, provided that this third is not less than 1,750,000 acre-feet over a 5-year cycle (annual average of 350,000 acre-feet). The Treaty further provided one-half of the flows of the Rio Grande below the lowest storage dam, and one-half of the flows from the unmeasured tributaries to the U.S. In regards to the Colorado River, the U.S. agreed to provide an annual volume of 1,500,000 acre-feet to Mexico, unless extraordinary drought or accident to the irrigation system in the U.S. make it difficult to deliver the guaranteed quantity. In years of surplus waters in excess of the amount necessary to supply uses in the U.S., the Treaty guarantees up to an additional 200,000 acre-feet to Mexico. The distribution of Tijuana River waters was not concluded between the two countries in the 1944 Treaty, but was to be subject to the study and investigation of the IBWC.

The Convention of 1933 not only provided for rectification of the Rio Grande, but also entrusted the IBWC with the construction, operation, and maintenance of river structures and flood control levees between El Paso and Fort Quitman. The 1944 Treaty and subsequent IBWC Minutes authorized the U.S. and Mexico to construct, operate and maintain works for storage and conveyance of water, flood control, and stream gaging on the Tijuana and Colorado Rivers, and on the Rio Grande from Fort Quitman to the Gulf of Mexico. In addition, the treaty authorized the joint construction, operation, and maintenance of up to three large storage dams and hydroelectric power plants on the Rio Grande, two of which have been built. The 1970 Treaty requires the IBWC to maintain the conveyance of established normal flows and design flood flows by prohibiting obstructions within the international segments of the Rio Grande and Colorado River.

Accomplishments

Throughout the period, the U.S. Section regularly operated and maintained its hydrologic gaging stations and telemetry system equipment; used to collect, measure, transmit, compile, and account for the allocation of Rio Grande and Colorado River waters between the U.S. and Mexico. The U.S. Section collaborated with the Mexican Section to allocate, compute and account for the delivery of Rio Grande and Colorado River waters in accordance with the 1906 and 1944 Treaties.

The U.S. Section continued its efforts to evaluate and improve deficient levee segments and associated structures in the Upper Rio Grande, Presidio Valley, and Lower Rio Grande Flood Control Systems. In addition to initiating and/or continuing the required environmental, engineering, permitting, and design work, the agency performed the following construction work:

Upper Rio Grande

- Continued construction of 21.5 miles of levee improvements on the following levee segments:
 - Mesilla Phase 2: 9.6 miles
 - Sunland Park Levee:..... 11.9 milesCompletion of the Sunland Park levee segment has been postponed until material performance issues are resolved.

Presidio Valley

- Completed construction of 5.9 miles of flood control system improvements on the lower segment of the Rio Grande levee at Presidio.
- Continued construction of 9.0 miles of levee improvements on the upper segment of the Rio Grande levee at Presidio.

Lower Rio Grande

- Completed construction of 27.1 miles of flood control system improvements on the following levee and/or floodwall segments:
 - Hidalgo Levee Phases 1 & 2: 1.1 miles
 - Lateral A to Retamal Dam: 13.5 miles
 - Lower Brownsville: 12.5 miles
- Continued construction of 72.5 miles of flood control system improvements on the following levee segments:
 - North Floodway Phases 1 & 2 (Hidalgo County): 37.8 miles
 - Arroyo Colorado Phases 1 & 2 (North Levee): 10.2 miles
 - Upper Brownsville: 12.0 miles
- Halted construction of 0.2 miles of flood control system improvements across the Edinburg Pumphouse Intake Channel as a result of differing site conditions uncovered on the project site, which were determined to be outside of the project scope. This project will be completed after it is redesigned to incorporate the expanded scope of requirements.

In addition to levee improvement efforts, the agency maintained the capacities of its Rio Grande Flood Control Systems by mowing vegetation on the floodplain and levee slopes, removing sediment from the river and floodway channels, and resurfacing the levee as follows:

Flood Control System	Vegetation Mowing (Acres)	Sediment Removal (Cubic Yards)	Levee Regrading (Miles)	Levee Resurfacing (Miles)
Upper Rio Grande	6,248	0	152	1.5 ⁵
Presidio Valley	1,066 ⁶	0	0	0
Lower Rio Grande	4,300	17,500	0	18 ⁷
Total	11,614	17,500	152	19.5

The Upper Rio Grande Flood Control System protects one million U.S. residents in the metropolitan statistical areas of Las Cruces, New Mexico and El Paso, Texas with its 223 miles of levees. The fifteen-mile long Presidio Valley Flood Control System provides flood protection to nearly 5,000 people in Presidio, Texas. The Lower Rio Grande Flood Control System, with its 270 miles of river and interior floodway levees, protects one million U.S. residents in the following metropolitan statistical areas of Brownsville-Harlingen and McAllen-Edinburg-Mission in south Texas.

The agency continued its daily operation and maintenance of its diversion and storage dams, and hydroelectric power plants. The Commission completed the preliminary evaluation and risk analysis study of Falcon International Storage Dam. Inundation maps were also develop for the Emergency Action Plan at Falcon Dam. The Commission continued working on a dam modification study at the Amistad International Storage Dam to evaluate and select the best alternative that will reduce the risk of dam failure. These studies are being performed by a panel of experts from both countries. The U.S. Section also completed the design for a new administration building at the Falcon field office, because the existing building is dilapidated and lacks adequate space and safety, health, and security features.

Plan

The U.S. Section will continue to maintain its flood control levees, floodplains, and channels to ensure proper conveyance of river waters within the established flood control parameters. Levee maintenance will consist of grading, spot repairs, and resurfacing. The agency will maintain its floodplains and channels through mowing and sediment removal activities. The U.S. Section will acquire the necessary permits and environmental documentation prior to commencing any of the silt removal activities.

The Commission will continue to operate and maintain its dams for the purpose of diversion, conservation, flood control, and generation of hydroelectric power. Safety inspections of dams will be conducted as required to identify deficiencies. The IBWC will implement corrective measures and/or construct improvement to reduce the risk of operational failure and comply with the requirements of the Federal Safety of Dams Program. Furthermore, the U.S. Section will continue to renovate, upgrade, or replace field office facilities that support water

⁵ Resurfacing was performed downstream of Rincon Bridge on the east levee in Hatch, New Mexico.

⁶ The annual mowing requirement is 800 acres (two cycles of 400 acres).

⁷ Resurfacing was performed on 8 miles of Rio Grande levee, and 10 miles of North Floodway levees.

conveyance operations to meet agency needs and ensure compliance with environmental, occupational safety and health, and other regulatory requirements.

The agency will continue to improve deficient levee segments and structures in the Upper Rio Grande, Presidio, and Lower Rio Grande Flood Control Systems to ensure the conveyance of the design flood and compliance with FEMA certification criteria. Deficient levee segments will be improved in order of priority by risk, population, and development. The U.S. Section will continue its close coordination with its stakeholders to address conveyance, storage and diversion issues concerning the waters of the Rio Grande, Colorado River, and Tijuana River.

STRATEGIC GOAL 3 – WATER QUALITY MANAGEMENT

Improve the quality of boundary and transboundary waters, in concert with Mexico, to address salinity and border sanitation problems pursuant to international agreements and applicable U.S. law.

The 1944 Treaty directed the IBWC to give preferential attention to the solution of all border sanitation problems concerning boundary and transboundary waters, and granted authority to provide any necessary sanitary measures or works to satisfy that requirement. Under IBWC Minute No. 261, dated September 1979, both governments agreed to identify border sanitation problems and solutions. This applied to waters crossing the border, including coastal waters, as well as those flowing along the Rio Grande and Colorado River boundary. Subsequent IBWC Minutes individually addressed specific border sanitation issues at many border communities including: San Diego/Tijuana, Calexico/Mexicali, Naco/Naco, Nogales/Nogales, Del Rio/Ciudad Acuña, Eagle Pass/Piedras Negras, Laredo/Nuevo Laredo, Hidalgo/Reynosa, and Brownsville/Matamoros.

In an effort to resolve the border sanitation problems in San Diego, California and Tijuana, Baja California, the IBWC concluded IBWC Minutes No. 270, 283 and 311. These Minutes provide the framework for treatment of sewage inflows from Tijuana, Mexico to U.S. secondary standards. The *Tijuana River Valley Estuary and Beach Cleanup Act of 2000*, further authorized the U.S. Section to provide secondary treatment of Tijuana sewage. The U.S. Section has constructed and is operating the advanced primary treatment facilities at the South Bay International Wastewater Treatment Plant (SBIWTP), and is currently developing options for secondary treatment of the advanced primary effluent.

By authority of the 1944 Treaty, the IBWC constructed the Nogales International Wastewater Treatment Plant (NIWTP) in 1951 at Nogales, Arizona to address sewage treatment needs on both sides of border. The Commission jointly operates and maintains this plant in accordance with IBWC Minute No. 206. The IBWC later relocated the NIWTP to Rio Rico, Arizona as agreed upon under IBWC Minute No. 227. The NIWTP is co-owned by the City of Nogales, Arizona and IBWC.

The Commission agreed under IBWC Minute No. 279 to improve the quality of the Rio Grande waters at the sister cities of Laredo, Texas and Nuevo Laredo, Tamaulipas. This was accomplished through the joint construction of the Nuevo Laredo International Wastewater

Treatment Plant (NLIWTP) at Nuevo Laredo, Tamaulipas, Mexico. IBWC Minute No. 297 provides the operation and maintenance obligations of both Sections.

In 1993, the U.S. and Mexico established the Border Environment Cooperation Commission (BECC) and the North American Development Bank to assist states, localities, and private entities in development of border environmental infrastructure projects. The IBWC agreed in IBWC Minute No. 299 to provide support to BECC for development of projects to resolve border sanitation issues.

The 1944 Treaty is the primary authority that grants the IBWC the right to address and resolve water quality issues at boundary and transboundary rivers and streams. IBWC Minutes No. 241 and 242 provided for measures to improve the quality of Colorado River water made available to Mexico at the Northerly International Boundary. Furthermore, the U.S. agreed in IBWC Minute No. 242 to deliver flows to Mexico upstream of Morelos Dam having an annual average salinity of no more than 115+/-30 parts per million U.S. count over the flow-weighted annual average salinity of Colorado River waters that arrive at Imperial Dam.

In an effort to address growing water quality issues along the border, the IBWC concluded Minutes No. 279 and No. 289. The adoption of these Minutes facilitated the development of binational multi-phase and multi-agency efforts to characterize the extent of contamination within both countries' shared water resources. The following studies were conducted in the Rio Grande, Colorado River, and New River to identify the level of contamination in areas of concern such as expanding urban areas that depend on these water resources for multiple uses such as a domestic water supply, agriculture, and recreation.

- Binational Study Regarding the Intensive Monitoring of the Rio Grande Waters in the vicinity of Laredo/Nuevo Laredo Along the Boundary Portion Between the United States and Mexico (July 1997). A follow-up study was conducted after the completion of the Nuevo Laredo International Wastewater Treatment Plant in November 2000.
- Binational Study Regarding the Presence of Toxic Substances in the Rio Grande/Rio Bravo and its Tributaries Along the Boundary Portion Between the United States and Mexico (1992), Second Phase (1997), Third Phase (1998).
- Binational Study Regarding the Presence of Toxic Substances in the Lower Colorado and New Rivers (1995).

The Texas Legislature passed the Texas Clean Rivers Act and established the Texas Clean Rivers Program in 1991. The goal of the program is to maintain and improve the quality of water within each river basin in Texas through an ongoing partnership involving the Texas Commission on Environmental Quality, river authorities (program partners), other agencies, regional entities, local and state governments, industry, and citizens. The program uses a watershed management approach to identify and evaluate water quality issues, establish priorities for corrective actions, and work to implement those actions. Due to the international nature of the Rio Grande, the State of Texas contracted with the U.S. Section in October 1998 to administer the Texas Clean Rivers Program for the Rio Grande Basin.

Accomplishments

The U.S. Section continued its efforts to improve and sustain the water quality of boundary and transboundary rivers by collaborating with stakeholders to monitor, compile, and exchange water quality data on the mouth of the Tijuana River (Pacific Ocean) and on the Rio Grande, Colorado, and New Rivers. In addition, the agency continued to work with stakeholders to develop and implement solutions to reduce the discharge of untreated wastewater into the New River. Both Sections continued conducting binational technical meetings to jointly evaluate water quality sampling, and measurement and data collection procedures to address salinity issues on the Colorado River.

The U.S. Section operated and maintained the South Bay International Wastewater Treatment Plant (SBIWTP) and Nogales International Wastewater Treatment Plant (NIWTP) on a daily basis to treat wastewater from Mexico and prevent unsanitary conditions along the border. The U.S. Section treated an average of 25.0 million gallons per day (Mgd) of sewage from the city of Tijuana, Baja California at the SBIWTP. The agency also treated an average of 11.0 Mgd of sewage from the city of Nogales, Sonora at the NIWTP, which is 1.1 Mgd above Mexico's allotted capacity of 9.9 Mgd. Furthermore, the U.S. Section also continues to provide technical assistance and financial support to the Mexican Section to ensure the proper operation and maintenance of the Nuevo Laredo International Wastewater Treatment Plant (NLIWTP), which discharges into the international reach of the Rio Grande.

The U.S. Section also completed construction of an administration and maintenance building to support treatment plant operations at the NIWTP. This building replaced a trailer that was used as the administration office, and provided the much needed maintenance facility that the field office lacked.

Plan

The U.S. Section will continue to work with its stakeholders to monitor, compile, and exchange water quality data along the Rio Grande, Colorado, Tijuana and New Rivers and related tributaries. The agency will continue to operate and maintain the SBIWTP and NIWTP, and provide support to the Mexican Section for operation and maintenance of the NLIWTP. The agency will also continue to renovate, upgrade, or replace field office facilities that support water quality operations to meet agency needs and ensure compliance with environmental, occupational safety and health, and other regulatory requirements.

STRATEGIC GOAL 4 – RESOURCE AND ASSET MANAGEMENT

Maximize organizational effectiveness through innovative management and accountability of human, physical, and fiscal resources.

To ensure that scarce public resources are wisely invested, federal agencies must manage their allocated resources and portfolio of capital assets in the most effective and efficient manner possible. Agencies must follow a capital programming process that integrates the planning, acquisition, and management of capital assets into the budget decision-making process. Capital programming is intended to assist agencies in improving asset management and in complying with all mandatory and regulatory requirements.

In today's world, agencies must abide by many results-oriented Acts. Some of the most commonly referenced include:

- **The Government Performance and Results Act of 1993** establishes the foundation for federal agencies to be successful by creating a performance planning and accountability process in which agencies clarify their mission, develop goals, measure performance, and submit annual progress reports.
- **The Federal Managers Financial Integrity Act of 1982** mandates that federal agencies develop cost-effective internal controls, and provide an annual statement of assurance that identifies material weaknesses.
- **Chief Financial Officers Act of 1990** establishes a leadership structure, provides for long-range planning, requires audited financial statements, and strengthens accountability reporting.
- **Federal Financial Management Improvement Act of 1996** requires federal financial management to provide accurate, reliable, and timely financial management information to the government's managers, and to publish audited financial reports.
- **The Energy Policy Act of 2005** sets energy reduction goals for federal agencies from 2006 to 2015, and requires new federal buildings to be at least 30% more energy efficient than standards established in 2004, if life-cycle cost-effective.
- **The Paperwork Reduction Act of 1995** requires agencies to perform their information resources management activities in an efficient, effective, and economical manner.
- **The Clinger-Cohen Act of 1996** calls for agencies to use a disciplined capital planning and investment control process to acquire, use, maintain and dispose of Information Technology (IT) in alignment with the Agency's enterprise architecture planning processes.

- **The Federal Acquisition Streamlining Act of 1994, Title V (FASA V)** streamlines and simplifies federal procurement procedures for acquiring goods and services.
- **The Federal Information Security Management Act** directs agencies to integrate IT security into their capital planning and enterprise architecture processes, conduct annual IT security reviews of all programs and systems, and report the results of those reviews to OMB.
- **The E-Government Act of 2002** requires agencies to improve customer service, and save tax dollars by implementing initiatives that will improve the methods by which Government information, including information on the Internet, is organized, preserved, and made accessible to the public.

There are also numerous laws, regulations, executive orders, and other mandates with which federal agencies must comply. Many requirements are direct, while others indirect. For instance, agencies must ensure that their employees, as well as contractors, follow Occupational Safety and Health Administration regulations. Agencies are also obligated to operate in an environmentally friendly manner, and must apply the requirements set forth in the National Environmental Policy Act of 1969 to any action involving federal resources or assets. The U.S. Section will comply with all applicable requirements, and keep the public and its stakeholders informed of its intentions and progress.

Accomplishments

The U.S. Section continued developing policy and implementing the necessary measures to meet new and updated federal mandates. The U.S. Section continued its advancement towards FISMA compliance establishing necessary policies, transitioning to PIV card logical access, established a virtual testing environment and laid the groundwork for a comprehensive continuous monitoring program. Soon an expanded IT server room will house equipment and appliances that will launch the agency's public portal to our GIS program. Implementation of Voice over IP at HQ marks the beginning of our transition from analog phone capabilities to digital, allowing for virtual meetings, internet fax services and four digit dialing throughout the agency. Smart phones were upgraded and the ability to centrally manage all of our mobile assets will be complete by the end of this year. The agency continues to evaluate and upgrade its technological capabilities and is staying on the cutting edge of technological advancements. The U.S. Section utilized Geographic Information System (GIS) resources to improve its emergency response planning by compiling LiDAR survey and imagery data to develop and produce flood inundation maps for Falcon International Storage Dam under various scenarios. Flood inundation maps for Falcon Dam were completed this fiscal year. Similar maps were produced last year for Amistad Dam. The agency continued the development and testing of a GIS-based web-portal for public data access and tracking of license, lease, and permit applications.

The U.S. Section conducted its annual comprehensive property inventory at headquarters and at each field office to accurately identify and record all "accountable" property as well as 100% of all capitalized property. In addition, it has acquired an electronic Document Management System (eDMS) to begin the transition of hundreds of historical photos, survey books, maps and records to a more efficient archiving system that will provide all employees access to vital documents from their workstations. Hundreds more cubic feet of records at

American Dam were retired or disposed of and a comprehensive inventory of all records over 30 years were identified agency wide and indexed in preparation for their disposal in accordance with the latest NARA requirements.

The agency continued its coordination and information exchange with stakeholders by conducting periodic Citizens' Forums at four regional areas (San Diego, Lower Colorado River, El Paso/Las Cruces, and Lower Rio Grande Valley). The U.S. Section held Commission meetings with the Mexican Section on a recurring basis (usually every 4 to 8 weeks) to surface binational concerns, address issues, and resolve problems, and send regular reports (typically every 2 to 8 weeks) to the U.S. Department of State.

The U.S. Section performed an internal audit enterprise risk analysis, conducted an audit on contract payables issued to the Mexican Section, addressed contractor claims, and continued to examine internal policies and procedures to address recommendations provided by the Office of Inspector General. The agency addressed various legal issues, and produced and submitted all annual compliance reports.

Plan

The U.S. Section will continue to develop policy and take the necessary steps to comply with current federal requirements. The agency will provide training to its employees and begin the implementation of a new electronic HR system to ensure optimal efficiency and improve many current HR business practices. It will continue to address all legal and compliance related issues, and submit required compliance reports. The U.S. Section will prepare and implement an annual audit plan that will focus on the highest risks areas identified in the agency's internal audit enterprise risk analysis, and proceed with an internal audit of contract receivables received from the Mexican Section.

The agency will continue the strict application of Federal IT system security standards to all four USIBWC IT Systems and submit Assessment and Authorization (A&A) packages for approval by the Commissioner in January of 2014. This will serve to provide Authority to Operate (ATO) designations for each System and allow for the funding and resource planning required to improve our overall IT security posture. The recent inspection by the Department of State's Office of Inspector General shows that the IBWC is moving in the right direction towards FISMA compliance, closing some recommendations throughout the year and obtaining less recommendation this year than last. Additional assistance from contracted IT services and a contract issued for our continuous monitoring requirements, should prove to show significantly more improvement in our 2014 inspection than this year.

To enhance our existing Continuity of Operations capabilities, the agency email services are being transitioned to a secure, managed cloud environment that will ensure all IBWC employees remain in contact with each other and our stakeholders during an emergency or inclement weather situation. The U.S. Section will continue to inventory, appraise, retire or dispose of agency records that have reached their retention limits, and continue to provide records management training and guidance to employees.

The agency will launch the GIS-based public web portals for access to binational water quality and flow data, and tracking of licenses, leases, and permit applications, after development and testing of the web portals are completed. Afterwards, the U.S. Section will begin development of mobile GIS-based portals to facilitate monitoring and tracking of mission

International Boundary and Water Commission, United States Section

operations. The U.S. Section will explore partnering with the U.S. Department of Agriculture on the collection of U.S. – Mexico border ortho-imagery for mapping purposes, and will also explore the possibility of implementing a cloud-based system for sharing of binational data between the U.S. and Mexican Sections.

The U.S. Section will continue to increase public awareness and involvement by conducting periodic Citizens' Forum meetings at the following five regional areas: San Diego, Lower Colorado River, Southeastern Arizona, El Paso/Las Cruces, and Lower Rio Grande Valley. It will also continue to surface binational concerns, address issues, and resolve problems with the Mexican Section by conducting Commission meetings on a regularly. The agency will improve collaboration with its stakeholders by conducting a binational summit to evaluate the planning and effectiveness of sanitation projects along the U.S. – Mexico border region.

ANALYSIS OF ENTITY'S FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The Office of Management and Budget (OMB), in conjunction with the Chief Financial Officers (CFO) Council, provides the guidelines for financial reporting in OMB Circular A-136, Financial Reporting Requirements. OMB Circular A-136 is the central reference point for Executive Branch agencies that are required to submit audited financial statements.

The U.S. General Accounting Office requires the U.S. Section to prepare and submit audited financial statements for inclusion into the Department of State's Financial Audit Report. The U.S. Section prepares its financial statements in accordance with the accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB). These statements were audited by the independent certified public accounting firm of Kearney and Company.

FINANCIAL HIGHLIGHTS

International Boundary and Water Commission, United States Section

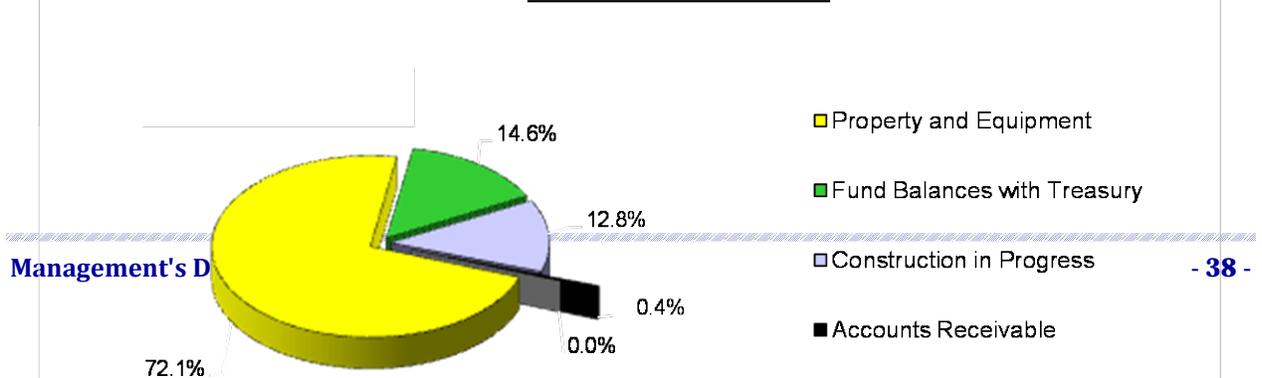
**CONSOLIDATED BALANCE SHEET DATA
AS OF SEPTEMBER 30, 2013 (CY) AND 2012 (PY)**
(Dollars in Thousands)

	<u>FY2013</u> <u>(CY)</u>	<u>FY2012</u> <u>(PY)</u>	<u>Net</u> <u>Change</u>	<u>%</u> <u>Change</u>
ASSETS				
Fund balance with treasury	\$ 147,320	\$ 149,987	\$ (2,667)	(1.8%)
Accounts receivable, net	4,196	3,188	1,007	31.6%
Land	50,028	50,028	0	0.0%
Structures, net	672,716	637,844	34,872	5.5%
Construction in progress	129,432	156,284	(26,852)	(17.2%)
Equipment, net	4,812	4,345	468	10.8%
Other assets	2	5	(3)	(66.9%)
Total assets	\$ 1,008,506	\$ 1,001,682	\$ 6,824	0.7%
LIABILITIES				
Accounts Payable	\$ 234	\$ 223	\$ 11	5.0%
Contract Accruals	5,835	6,440	(605)	(9.4%)
Accrued Payroll	1,336	1,324	12	0.9%
Accrued Workers Compensation	1,086	822	264	32.1%
Workers Compensation Actuarial	4,397	3,462	935	27.0%
Accrued Annual Leave	1,253	1,306	(53)	(4.0%)
Estimated cleanup cost liability	4,654	0	4,654	100.0%
Other Liabilities	1,164	373	791	212.4%
Total Liabilities	\$ 19,959	\$ 13,950	\$ 6,009	43.1%

ASSETS

The U.S. Section had total assets of \$1.008 billion at year-end FY 2013, which is \$6.8 million more than in FY 2012. The increase is due to the capitalized construction costs that were completed during the year on the levee rehabilitation project. Fund Balance with Treasury decreased during the period by \$2.6 million and Construction in Progress decreased by \$27 million. The decrease in Construction in Progress is the result of the work that was finished on the levee rehabilitation project along the Rio Grande River in Texas and New Mexico.

FY 2013 ASSETS BY TYPE



RESULTS OF OPERATIONS

The net results of operations for the U.S. Section are reported in the Consolidated Statement of Net Cost shown below.

International Boundary and Water Commission, United States Section

**INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
U.S. SECTION
STATEMENTS OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2013 (CY) AND 2012 (PY)**

	FY 2013 (CY)	FY 2012 (PY)
PROGRAM COSTS		
Operating expenses	\$ 72,216,637.36	\$ 49,418,276.47
Operating expenses, intragovernmental	1,515,316.07	3,792,415.94
Benefits expenses	<u>5,700,918.63</u>	<u>4,845,908.90</u>
Subtotal	\$ 79,432,872.06	\$ 58,056,601.31
Depreciation	20,244,818.06	17,948,243.88
Accrued pension costs	1,520,748.92	1,697,468.58
Workers compensation	1,198,218.19	(188,632.63)
Future funded expenses	544,888.55	0.00
Loss on disposition of equipment	77,422.24	4,300.00
Interest expense	10,144.60	4,180.15
Accrued annual leave	(52,676.29)	(28,060.08)
Capitalized cost offset	<u>(29,190,011.63)</u>	<u>(7,645,563.55)</u>
Total costs incurred in support of agency's mission of flood control, water quality, and boundary demarcation	\$ 73,786,424.70	\$ 69,848,537.66
LESS EARNED REVENUE		
Wastewater treatment plants - O&M	\$ 5,501,113.68	\$ 4,495,585.77
Department of Energy - power plant O&M	2,822,585.24	2,639,183.09
Department of Homeland Security - floodwalls	258,799.30	423,236.40
State of Texas - Clean Rivers Project	191,429.84	226,349.23
Corps of Engineers - Nogales Stairwell	169,685.00	0.00
Quarters rental	81,222.44	105,445.65
GSA - vehicle maintenance	63,729.87	32,708.31
Leases/Licenses	28,062.65	41,345.67
LRGWC - Morillo Drain O&M	21,007.05	(200,000.00)
Mexico - O&M Cordova Bridge	12,000.00	0.00
Mexico - Anzalduas Dam Stoplogs O&M	5,763.30	5,774.65
Water Bulletins/FOIA/Other	4,604.08	581.50
Other Services Rendered to Mexico	<u>1,916.03</u>	<u>(3,000.00)</u>
Total earned revenue in support of agency's mission of flood control, water quality, and boundary demarcation	\$ 9,161,918.48	\$ 7,767,210.27
NET COST OF OPERATIONS	<u>\$ 64,624,506.22</u>	<u>\$ 62,081,327.39</u>

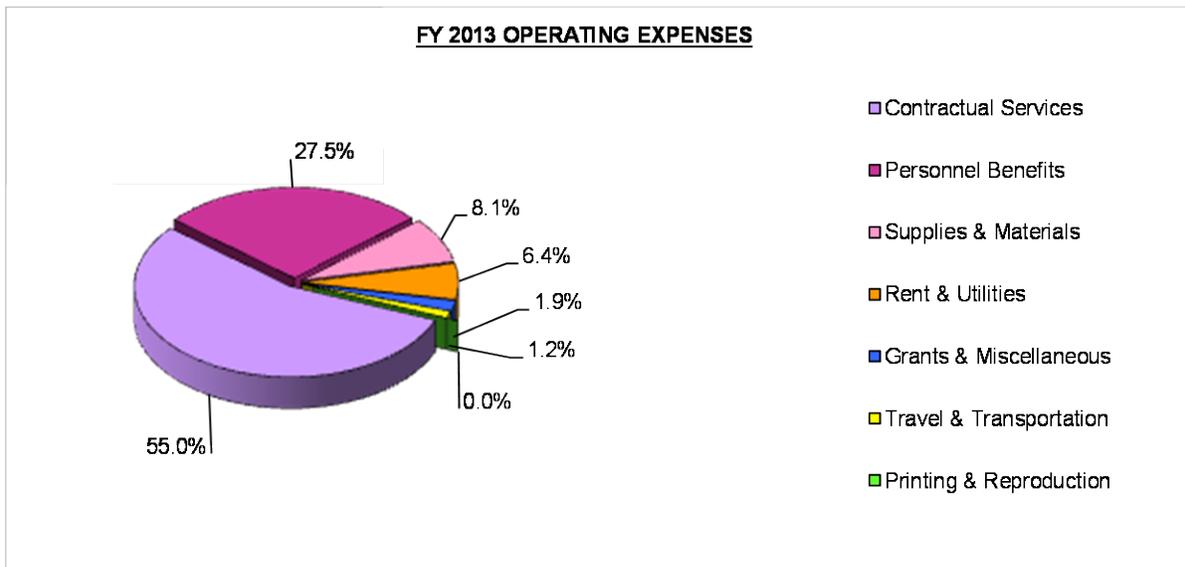
The accompanying notes are an integral part of these statements

Below are a table and a graph, summarizing the U.S. Section's operating expenses. Operating expenses increased \$21.3 million, from \$58.1 million to \$79.4 million in FY 2013.

International Boundary and Water Commission, United States Section

This increase in capitalized costs was due to the construction work that was accomplished on the levee rehabilitation project as the project is nearing completion.

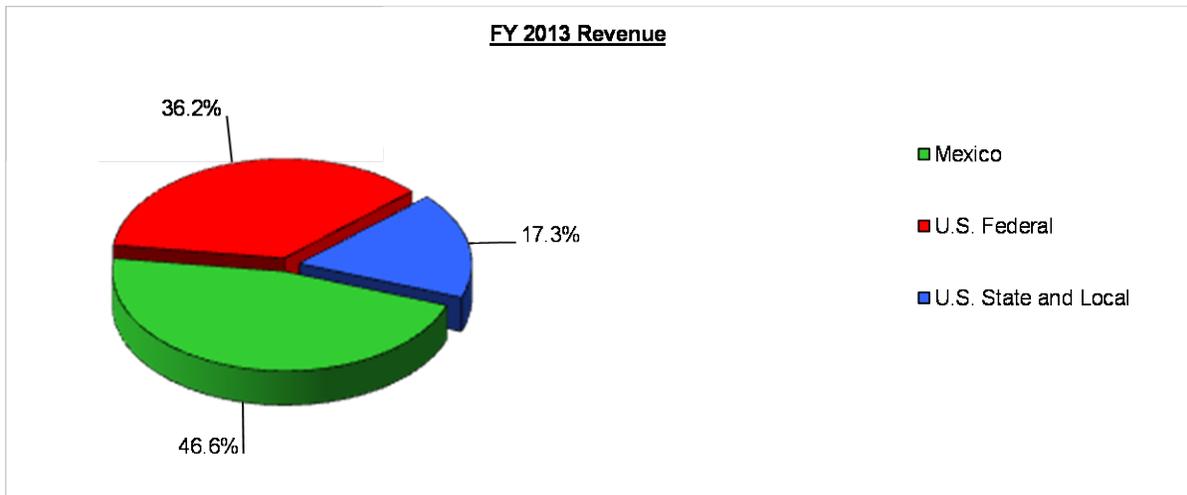
ANNUAL OPERATING EXPENSE DATA				
AS OF SEPTEMBER 30, 2013 (CY) AND 2012 (PY)				
(Dollars in Thousands)				
	<u>FY2013</u>	<u>FY2012</u>	<u>Net</u>	<u>%</u>
	<u>(CY)</u>	<u>(PY)</u>	<u>Change</u>	<u>Change</u>
ANNUAL OPERATING EXPENSES				
Personnel services & benefits	\$ 21,829	\$ 20,956	\$ 873	4.2%
Travel & transportation costs	962	1,503	(541)	(36.0%)
Rent, communication & utilities	5,084	4,977	107	2.2%
Printing & reproduction	11	15	(4)	(24.5%)
Contractual services	43,673	21,358	22,315	104.5%
Supplies & materials	6,402	6,606	(204)	(3.1%)
Grants & miscellaneous	1,471	2,641	(1,170)	(44.3%)
Total annual operating expenses	<u>\$ 79,433</u>	<u>\$ 58,056</u>	<u>\$ 21,377</u>	<u>36.8%</u>



REVENUES AND FINANCING SOURCES

The U.S. Section received \$9.2 million in revenues for FY 2013. This was an increase of \$1.4 million versus the FY 2012 revenues of \$7.8 million. The Department of Energy contributed \$2.8 million in earned revenues for the operation and maintenance of the Amistad and Falcon Hydroelectric Power Plants. The Mexican Section was also a significant contributor of revenue for the U.S. Section. It provided the U.S. Section with \$4.3 million for the operation and maintenance of the South Bay and Nogales International Wastewater Treatment Plants, and other joint works. These and other revenues received are summarized below.

REVENUE & FINANCING SOURCES				
AS OF SEPTEMBER 30, 2013 (CY) AND 2012 (PY)				
<i>(Dollars in Thousands)</i>				
	FY2013	FY2012	Net	%
	(CY)	(PY)	Change	Change
FINANCING SOURCES				
Dept. of Energy (O&M of Power Plants)	\$ 2,823	\$ 2,639	\$ 184	7.0%
Mexico (O&M of SBIWTP)	1,974	1,892	82	4.3%
Mexico (O&M of NIWTP)	2,271	1,501	770	51.3%
City of Nogales (O&M of NIWTP)	1,256	1,102	154	14.0%
Dept. of Homeland Security (Floodwalls)	259	423	(164)	(38.8%)
State of Texas (Clean Rivers Project)	191	226	(35)	(15.3%)
Corps of Engineers - Nogales Stairwell	170	0	170	100.0%
Other Sources	218	(16)	234	(1464.4%)
Total financing sources	\$ 9,162	\$ 7,767	\$ 1,395	18.0%



BUDGET INFORMATION

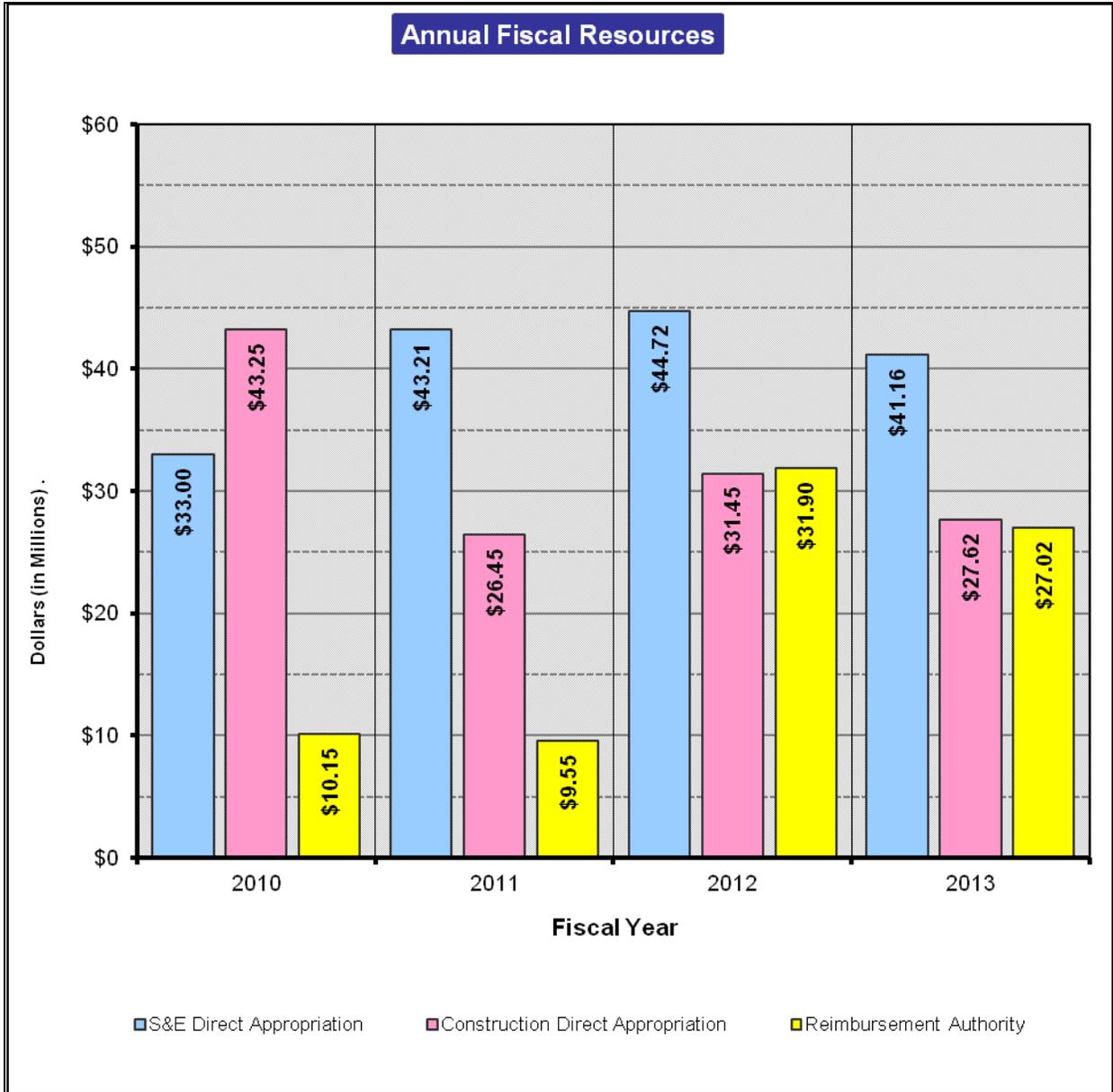
The U.S. Section receives funding for its programs, projects, and initiatives through direct Congressional appropriations and reimbursements from other sources. The agency receives these funds under two separate appropriations – the Salaries and Expenses (S&E) Appropriation and the Construction Appropriation. The S&E and Construction Appropriations consist of direct and indirect funds. Indirect funds, commonly referred to as “reimbursable funds,” are provided to the agency to fund requirements of the Mexican Section and other federal, state, and local agencies. Reimbursable funding covers the incremental costs incurred by the U.S. Section to provide the increased level of support services.

Over the previous four years, the total direct and indirect funding provided to the U.S. Section is as follows:⁸

✚ FY 2010	
◆ S&E Direct Appropriation:	\$33.00 Million
◆ Construction Direct Appropriation:	\$43.25 Million
◆ Reimbursement Authority:	\$10.15 Million
◆ Total Fiscal Resources:	\$86.40 Million
✚ FY 2011	
◆ S&E Direct Appropriation:	\$43.21 Million
◆ Construction Direct Appropriation:	\$26.45 Million
◆ Reimbursement Authority:	\$9.55 Million
◆ Total Fiscal Resources:	\$79.21 Million
FY 2012	
◆ S&E Direct Appropriation:	\$44.72 Million
◆ Construction Direct Appropriation:	\$31.45 Million
◆ Reimbursement Authority:	\$31.90 Million
◆ Total Fiscal Resources:	\$108.07 Million
FY 2013	
◆ S&E Direct Appropriation:	\$41.16 Million
◆ Construction Direct Appropriation:	\$27.62 Million
◆ Reimbursement Authority:	\$27.02 Million
◆ Total Fiscal Resources:	\$95.80 Million

⁸ Figures of direct appropriations include applicable rescissions.

The graph below illustrates the various fiscal resources granted to the U.S. Section.



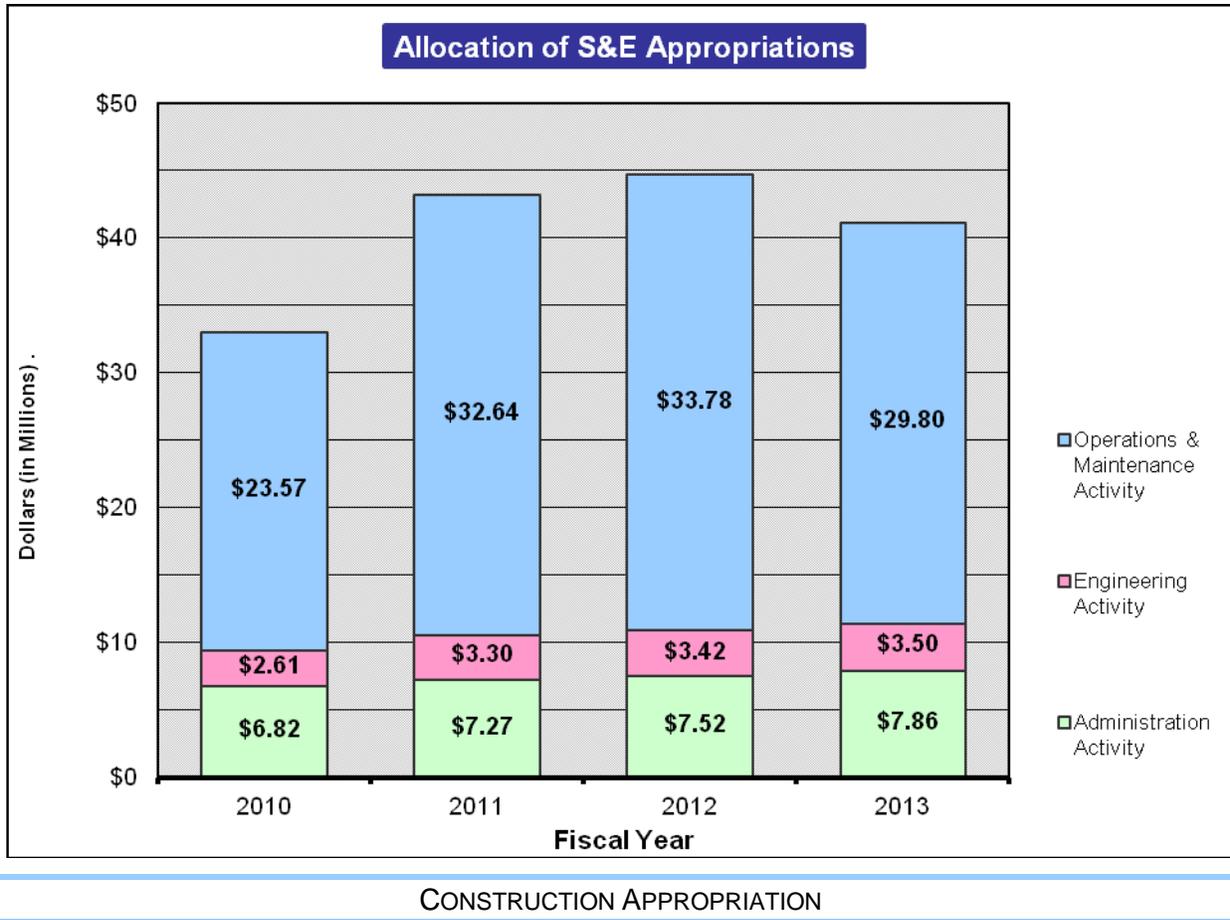
SALARIES AND EXPENSES APPROPRIATION

The U.S. Section's normal operating expenses, including labor, are funded through the S&E Appropriation. The S&E Appropriation is a one-year appropriation provided to fund annual steady-state requirements. This means that unobligated funds cannot be carried forward for use the following fiscal year.

The S&E Appropriation is distributed among three primary agency activities: Administration, Engineering, and Operations. The Commissioner, the Executive Offices, and the Administration Department are all funded within the Administration Activity. The Engineering activity provides the resources for planning and environmental studies, water quality assessments, geotechnical and structural investigations, and engineering studies and designs to meet mission requirements. The Operations Activity funds the resources for operation and maintenance of all agency works and facilities, including water gaging stations, water storage and diversion dams, flood control levees, floodplains and channels, hydroelectric power plants, wastewater treatment plants, and field office facilities.

S&E Direct Appropriation:

-  FY 2010: \$33.00 Million
-  FY 2011: \$43.21 Million
-  FY 2012: \$44.72 Million
-  FY 2013: \$41.16 Million



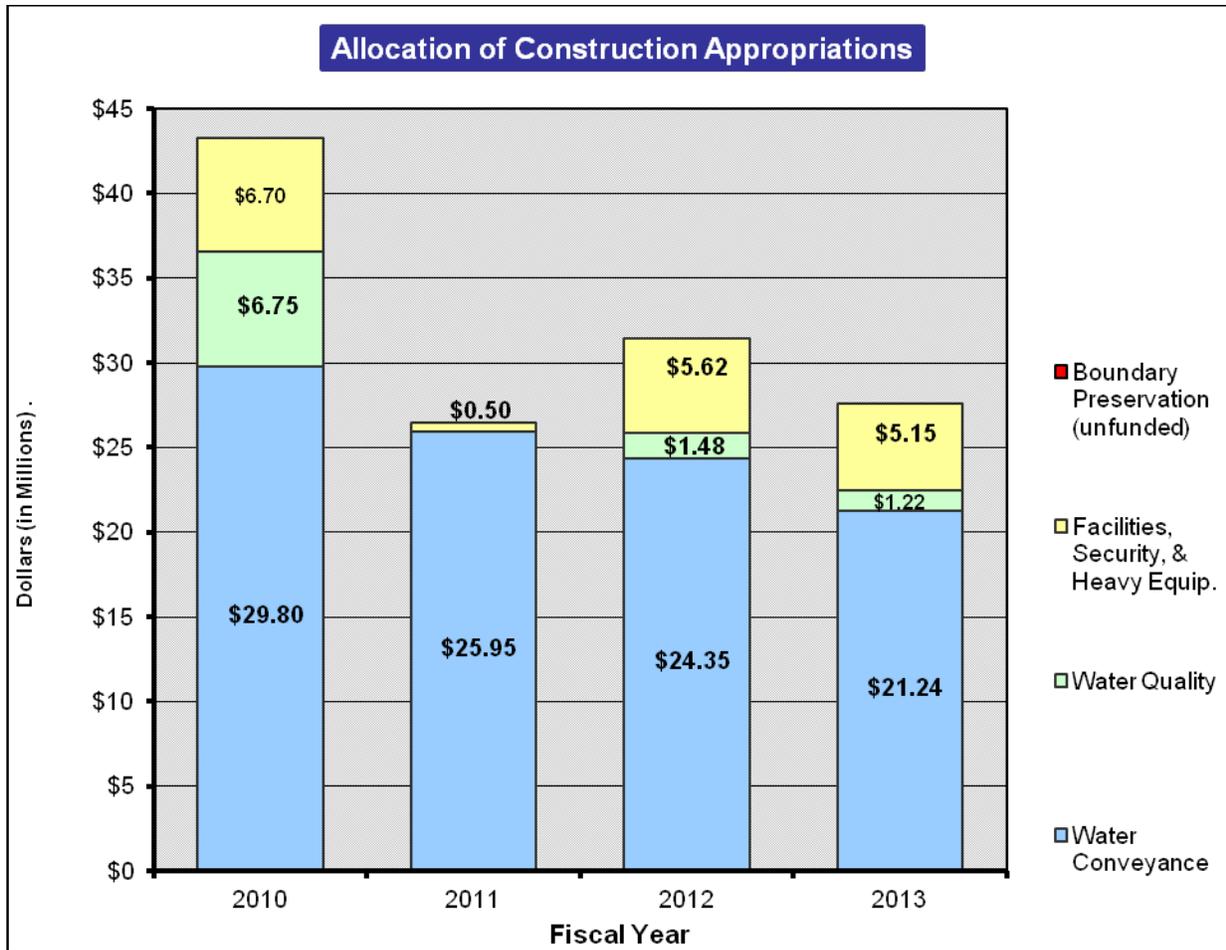
CONSTRUCTION APPROPRIATION

The U.S. Section’s major construction or rehabilitation projects are funded by Congress through the Construction Appropriation. This appropriation provides the resources for the agency to provide improvements to land, facilities, and infrastructure.

The Construction Appropriation is a no-year appropriation, that is allocated among various capital asset projects that support the agency’s four strategic goals: Boundary Preservation, Water Conveyance, Water Quality, and Resource and Asset Management. Some capital asset projects such as *Facilities Renovations*, *Critical Infrastructure Protection*, and *Heavy Equipment Replacement* support multiple strategic goals. However, other capital asset projects like *Safety of Dams*, *Rio Grande Flood Control System Rehabilitation*, and *Secondary Treatment of Tijuana Sewage* apply to only one strategic goal.

Construction Direct Appropriation:

- ✚ FY 2010: \$43.25 Million
- ✚ FY 2011: \$26.45 Million
- ✚ FY 2012: \$31.45 Million
- ✚ FY 2013: \$27.62 Million



REIMBURSEMENT FUNDING

As previously stated, the U.S. Section receives reimbursable funding for services and improvements it provides to Mexico or other domestic governmental entities. Although these reimbursable services and improvements directly support the mission of the funding entity, the U.S. Section also shares an interest in these initiatives. These reimbursable resources are utilized to fund both labor and non-labor requirements. All support and capital generated with reimbursable funds are limited to the extent of the U.S. Section’s authority, and the amount received from the funding entity in accordance with the allotment provided by Department of State.

The primary sources of reimbursable funding consist of the following:

- Mexican Section – for purchases and expenses applied to Mexico for operation and maintenance of international wastewater treatment plants, power plants, and dams.
- State of Texas – to sample and assess the water quality of the Rio Grande at established sites under the Texas Clean Rivers Program.
- Western Area Power Administration, U.S. Department of Energy – to operate and maintain the Falcon and Amistad international hydroelectric power plants for the production of power in conjunction with water supply releases at their respective storage dams.

- Department of Homeland Security – to incorporate border security features during construction of flood control levees and floodwalls improvements.

It should be noted that the Reimbursement Authority allotted to the U.S. Section indicates the ceiling of reimbursable funding that may be expended and obligated in a fiscal year. Over the last four years, actual reimbursements have ranged from a low of 24% of the allotted authority in FY 2012, to a high of 79% of the allotted authority in FY 2010. Each fiscal year, reimbursement authority for the U.S. Section must be apportioned by the Office of Management and Budget (OMB) and allocated by the Department of State (DOS).

Reimbursement Authority (Allotment):

✚ FY 2010:		
◆ S&E Reimbursement Funds:		\$7.65 Million
◆ Construction Reimbursement Funds:		\$2.50 Million
◆ <i>Total Fiscal Resources:</i>		<i>\$10.15 Million</i>
✚ FY 2011:		
◆ S&E Reimbursement Funds:		\$8.55 Million
◆ Construction Reimbursement Funds:		\$1.00 Million
◆ <i>Total Fiscal Resources:</i>		<i>\$9.55 Million</i>

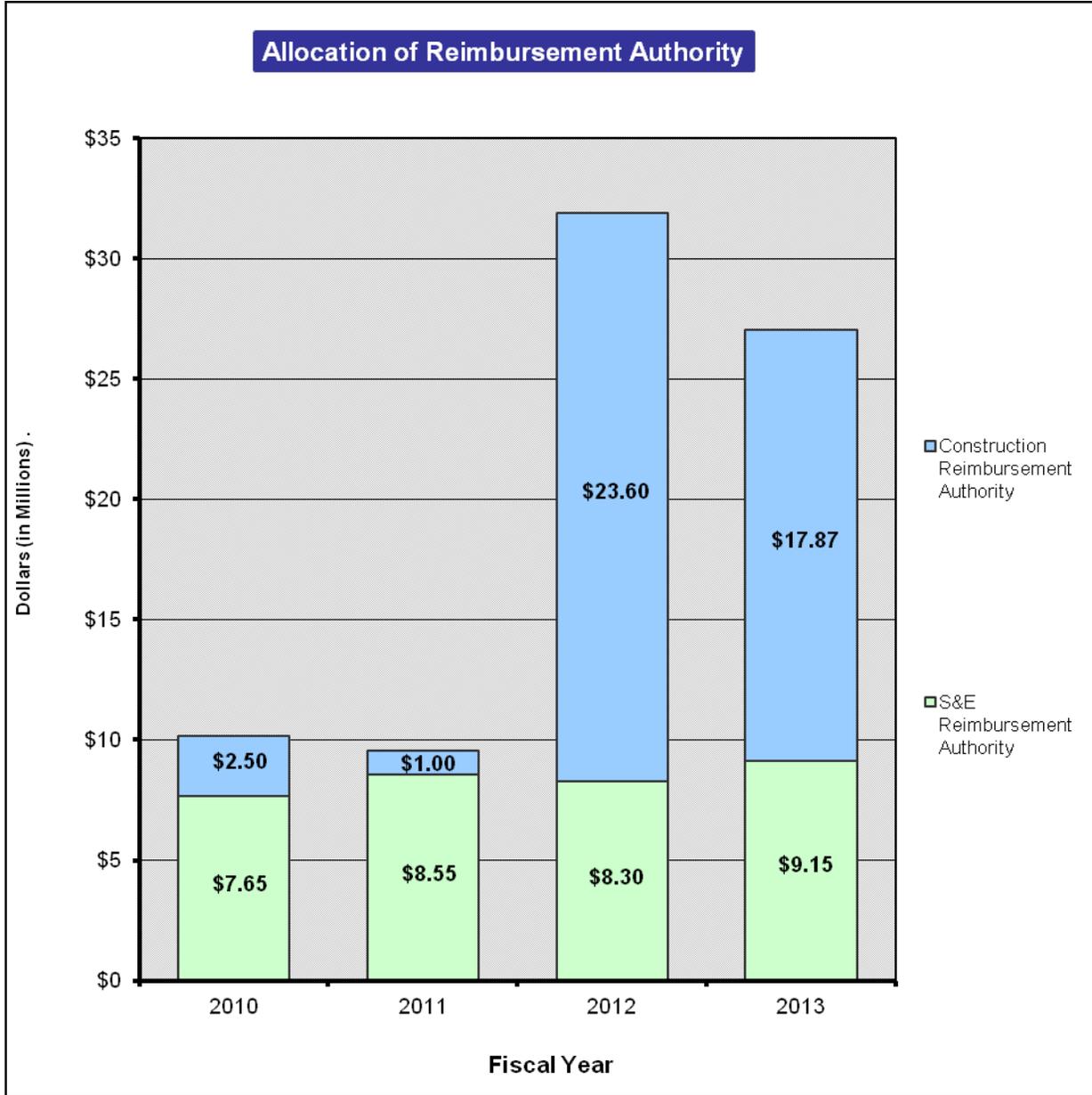
International Boundary and Water Commission, United States Section

✚ FY 2012

◆ S&E Reimbursement Funds:	\$8.30 Million
◆ Construction Reimbursement Funds:	\$23.60 Million
◆ <i>Total Fiscal Resources:</i>	<i>\$31.90 Million</i>

✚ FY 2013

◆ S&E Reimbursement Funds:	\$9.15 Million
◆ Construction Reimbursement Funds:	\$17.87 Million
◆ <i>Total Fiscal Resources:</i>	<i>\$27.02 Million</i>



FUNDING AMONG MISSION PROGRAMS

In addition to tracking fiscal resources among the agency’s administration, engineering, operations and maintenance, and construction activities, the U.S. Section tracks the utilization of funds against its mission areas. These areas consist of:

- Strategic Goal 1: Boundary Preservation – Includes activities associated with the preservation and demarcation of the U.S. – Mexico border.
 - Erection, replacement, and/or restoration of monuments, markers, and buoys to demarcate the international boundary.
 - Demarcation of the boundary line at international bridges and ports of entry.
 - Mapping of the Rio Grande, Colorado River, and Western Land boundaries.

- Strategic Goal 2: Water Conveyance – Involves the control, containment, and utilization of the boundary and transboundary river waters.
 - Measurement and accounting of river waters and tributaries, including operations and maintenance of water gaging stations.
 - Operation of diversion and storage dams.
 - Construction and maintenance of flood control works and related water conveyance structures.
 - Operation and maintenance of the hydroelectric power plants to ensure uninterrupted power generation.
 - Construction, renovation, and maintenance of facilities that support “water conveyance” operations.
 - Implementation and maintenance of security improvements including deterrents, controls, and detection systems at key infrastructure and facilities that support “water conveyance” operations.
 - Acquisition and maintenance of heavy mobile equipment and tractor-mowers used in support of “water conveyance” operations.

- Strategic Goal 3: Water Quality – Involves all water quality efforts activities.
 - Water quality monitoring of the Rio Grande, Colorado, and Tijuana Rivers, their tributaries, and the Pacific Ocean coastal waters.
 - Construction, operation and maintenance of wastewater treatment facilities and associated infrastructure.
 - Construction, renovation, and maintenance of facilities that support “water quality” operations.
 - Implementation and maintenance of security improvements including deterrents, controls, and detection systems at key infrastructure and facilities that support “water quality” operations.
 - Acquisition and maintenance of heavy mobile equipment and shop equipment used in support of “water quality” operations.

- Strategic Goal 4: Resource and Asset Management – Entails the strategic management of assets and human and fiscal resources to support agency functions and ensure compliance with all mandatory requirements.
 - Maintenance of headquarters facilities, including general equipment and support systems.
 - Operations and maintenance of land and mobile radio communication systems, financial systems, information technology computer systems, etc.
 - Development and maintenance of the enterprise geographic information system.
 - Execution of stakeholder outreach, foreign affairs, and administrative support functions.

Utilization of fiscal resources is tracked through obligations. An obligation is a binding commitment made by an agency official, which creates a legal liability of the Government for the

International Boundary and Water Commission, United States Section

payment of funds for goods and services ordered or received. Representations of the agency's annual obligations, by direct and reimbursable funding sources, incurred among their respective strategic goals are displayed below for the last four fiscal years.

Total Annual Obligations⁹:

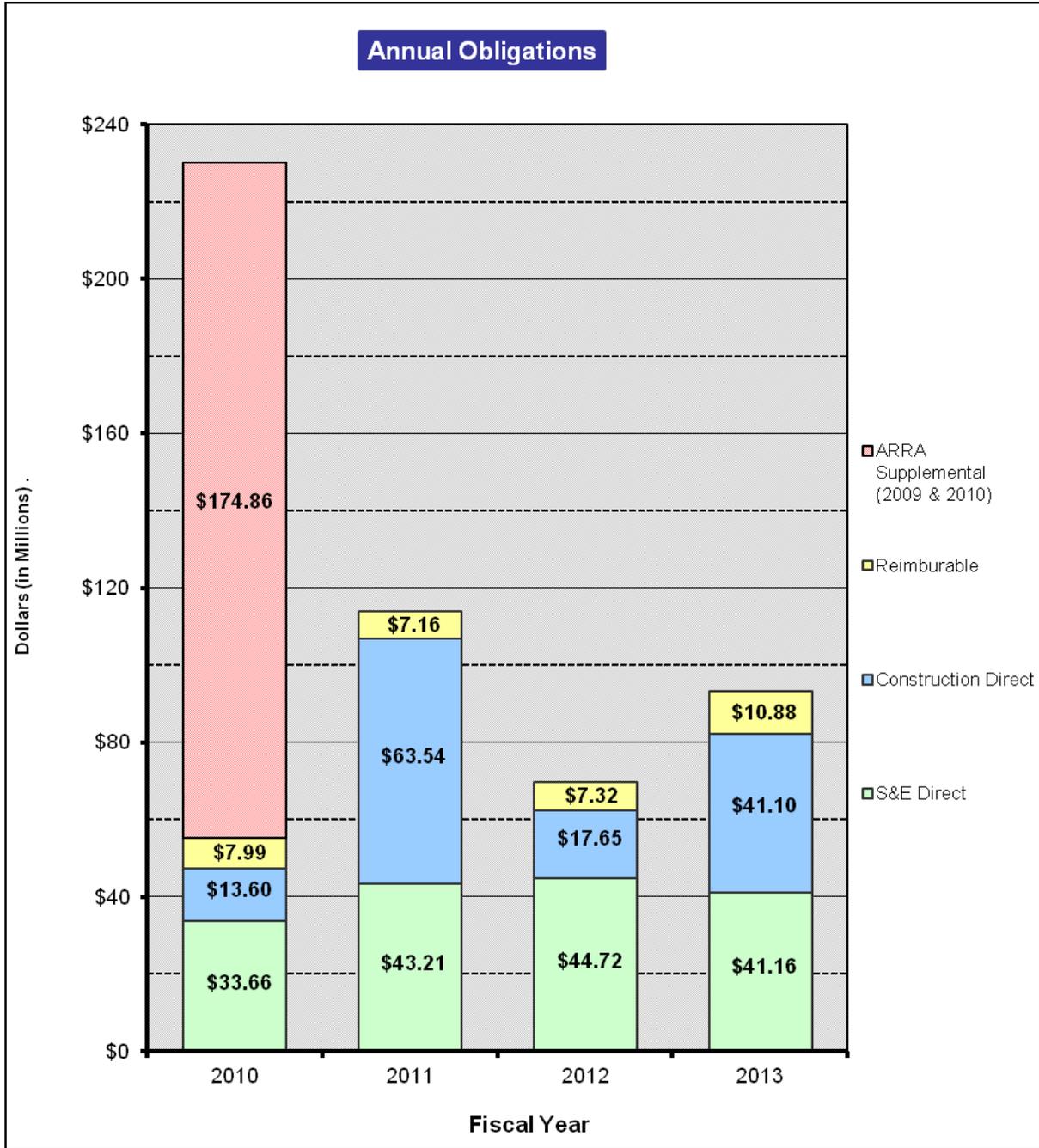
✚ FY 2010	
◆ S&E Direct Obligations :	\$ 33.66 Million
◆ Construction Direct Obligations :	\$ 13.60 Million
◆ ARRA Direct Obligations :	\$ 174.86 Million
◆ Reimbursable Obligations	\$ 7.99 Million
◆ Total Obligations:	\$ 230.11 Million
✚ FY 2011	
◆ S&E Direct Obligations :	\$ 43.21 Million
◆ Construction Direct Obligations :	\$ 63.54 Million
◆ S&E Reimbursable Obligations	\$ 7.16 Million
◆ Total Obligations:	\$ 113.91 Million
✚ FY 2012	
◆ S&E Direct Obligations :	\$ 44.72 Million
◆ Construction Direct Obligations :	\$ 17.65 Million
◆ Reimbursable Obligations	\$ 7.32 Million
◆ Total Obligations:	\$ 69.69 Million

⁹ As reported in SF 133, "Report on Budget Execution" for FY 2010, FY 2011, and FY 2012, and in the "Statement of Budgetary Resources" for FY 2013.

International Boundary and Water Commission, United States Section

FY 2013

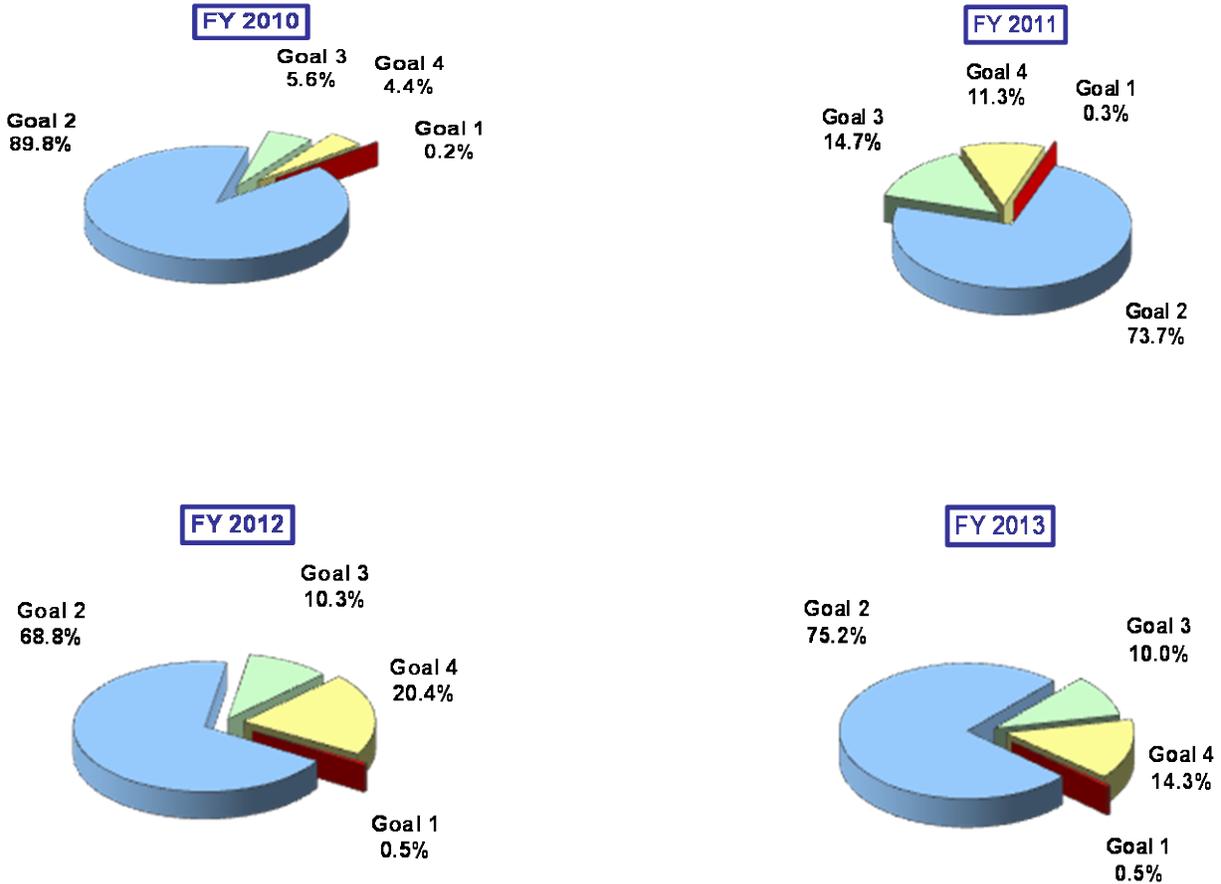
◆ S&E Direct Obligations :	\$ 41.16 Million
◆ Construction Direct Obligations :	\$ 41.10 Million
◆ Reimbursable Obligations	\$ 10.88 Million
◆ Total Obligations:	\$ 93.14 Million



International Boundary and Water Commission, United States Section

The graphs below illustrate the application and redistribution of annual fiscal resources among the agency's Strategic Goals to meet mission requirements over the last four years. Construction of several flood control system improvement projects in the upper and lower Rio Grande regions account for the significant amount of resources allocated to the Water Conveyance Program (Strategic Goal 2). The slight decrease in FY 2011 is due to the conclusion of supplemental funding provided by the ARRA for Rio Grande flood control system improvements.

Annual Obligations among the Strategic Goals



Strategic Goals:

- Goal 1: Boundary Preservation
- Goal 2: Water Conveyance
- Goal 3: Water Quality
- Goal 4: Resource and Asset Management

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal 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). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

< < < End of Section 1: *Management's Discussion and Analysis* > > >

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FINANCIAL SECTION

INDEPENDENT FINANCIAL AUDIT

The U.S. Section contracted with the independent certified public accounting firm of Kearney and Company, P. C. (Kearney) to audit the agency's financial statements for the years ending as of 30 September 2013 and 2012, in accordance with generally accepted federal government auditing standards, Office of Management and Budget audit guidance, and the Financial Audit Manual issued by the Government Accountability Office and the President's Council on Integrity and Efficiency. Kearney was charged with assessing the agency's internal control pertaining to compliance with federal financial laws, regulations and reporting. In addition, Kearney was tasked to confirm whether the U.S. Section's financial management systems substantially met the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and to disclose any noncompliance with laws and regulations.

Included below is the following documentation resulting from the independent financial audit for FY 2013:

- Transmittal letter dated January 16, 2014 from the Inspector General to the U.S. Commissioner accompanying the Financial Audit Report;
- Independent Auditor's Report dated December 20, 2013 on:
 - Financial Statements;
 - Internal Control on Financial Reporting;
 - Compliance with Applicable Provisions of Laws, Regulations and Contracts;
- Response letter to the audit findings from the U.S. Commissioner to the Deputy Inspector General dated December 23, 2013.

TRANSMITTAL OF INDEPENDENT AUDITOR'S REPORT BY INSPECTOR GENERAL



United States Department of State

The Inspector General

JAN 16 2014

The Honorable Edward Drusina, U.S. Commissioner
International Boundary and Water Commission
United States and Mexico, U.S. Section
4171 North Mesa Street, Suite C-100
El Paso, TX 79902-1441

Dear Commissioner Drusina:

An independent certified public accounting firm, Kearney & Company, P.C., was engaged to audit the financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC) as of September 30, 2013 and 2012, and for the years then ended; to provide a report on internal control over financial reporting; and to report any reportable noncompliance with laws, regulations, and contracts it tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance.

In its *Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section 2013 and 2012 Financial Statements (AUD-FM-14-12)*, Kearney & Company found

- the consolidated financial statements present fairly, in all material respects, the financial position of USIBWC as of September 30, 2013 and 2012, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America;
- no material weaknesses¹ in internal control over financial reporting; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

Kearney & Company is responsible for the attached auditor's report, which includes the Independent Auditor's Report, the Report on Internal Control Over Financial Reporting, and the Report on Compliance With Applicable Provisions of Laws, Regulations, and Contracts, and the conclusions expressed in the report. The Office of Inspector General (OIG) does not express an opinion on the USIBWC financial statements or conclusions on internal control over financial reporting and compliance with laws, regulations, and contracts.

¹ A material weakness is a deficiency or 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.

USIBWC's comments on the auditor's report are attached to the report.

OIG appreciates the cooperation extended to it and Kearney & Company by USIBWC managers and staff during the conduct of this audit.

Sincerely,



Steve A. Linick
Inspector General

Enclosure: As stated.

cc: WHA/MEX – Russell L. Frisbie
Kearney & Company, P.C. – Kelly E. Gorrell

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS



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INDEPENDENT AUDITOR'S REPORT
AUD-FM-14-12

To the United States Commissioner and the Inspector General of the International Boundary and Water Commission, United States and Mexico, U.S. Section

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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



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

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USIBWC as of September 30, 2013 and 2012, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 6 to the financial statements, in FY 2013, USIBWC adopted new accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB)—specifically, Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, condition assessments of Heritage Assets and Stewardship Land, Combining Schedule of Budgetary Resources, and Deferred Maintenance (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, and FASAB, which consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued reports, dated December 20, 2013, on our consideration of USIBWC's internal control over financial reporting and on our tests of USIBWC's compliance with certain provisions of laws, regulations, and contracts for the year ended September 30, 2013. The purpose of those



reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 14-02, in considering USIBWC's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Kearney & Company".

Alexandria, Virginia
December 20, 2013

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING**

To the United States Commissioner and the Inspector General of the International Boundary and Water Commission, United States and Mexico, U.S. Section

We have audited the consolidated financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC) as of and for the year ended September 30, 2013, and have issued our report thereon dated December 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered USIBWC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of USIBWC's internal control. Accordingly, we do not express an opinion on the effectiveness of USIBWC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

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 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 was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant. A significant deficiency is a deficiency, or 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. We consider the following deficiencies in USIBWC's internal control to be significant deficiencies.

Significant Deficiencies

I. Property and Equipment

USIBWC owns a significant amount of diverse property and equipment. As of September 30, 2013, USIBWC reported \$857 million in property and equipment, which included real and personal property. Since USIBWC owns and maintains assets at multiple locations along the border between the United States and Mexico, it is essential for USIBWC to have controls in place to monitor and maintain these assets. We identified control deficiencies with USIBWC's property and equipment processes that, when aggregated, constituted a significant deficiency in internal control. Property and equipment was also reported as a significant deficiency in our audit of USIBWC's FY 2012 financial statements. The individual deficiencies we identified are summarized as follows:

- **Recording Construction-in-Progress Transactions** – Construction costs should be recorded as construction-in-progress (CIP) until the asset being constructed is placed in service, at which time the balance should be transferred to a general property and equipment account. We found that 9 of 26 operating expenses tested were construction costs that should have been classified as CIP. After we identified these errors, USIBWC performed an analysis of operating expense activity and identified a number of additional instances in which CIP was improperly classified as operating expenses. Additionally, we identified a CIP project with a negative balance, which required a manual adjusting entry. As a result of audit work and USIBWC management's analysis, more than \$15.9 million in operating expenses were reclassified as CIP during FY 2013. Because USIBWC does not always process payments to construction vendors using system codes that will automatically record payments as CIP, USIBWC had implemented a process to manually review transactions recorded to CIP and operating expenses each quarter to identify and correct items that were not recorded correctly. However, because of the manual nature and timing of this review, not all transactions that were improperly recorded had been identified by the time of our audit. Due to the size of several active USIBWC CIP projects, significant amounts may be misclassified and not detected.
- **Depreciation Expense Errors** – Depreciation expense should be calculated through the systematic and rational allocation of the cost of property and equipment, less its estimated salvage or residual value, over the estimated useful life of an asset. During our review of depreciation expense, we identified unusual account activity, which USIBWC officials confirmed was erroneous. During FY 2013, USIBWC transferred property account balances between two appropriations. When the transfer was processed, the Global Financial Management System (GFMS) treated the assets as newly acquired, and depreciation expense was recorded back to the date that the assets were placed into service. However, the system had already recorded depreciation expense for the assets, which was not reversed when the assets were transferred. The error resulted in a \$7.3



million overstatement of expenses. Because USIBWC does not routinely transfer assets between appropriations, USIBWC officials were unaware of how GFMS would process the adjustment. Although USIBWC had a control in place to review and analyze account balances at the financial statement level, the control was not designed to identify and resolve errors in individual accounts, such as depreciation expenses. Without effective routine account-level reviews, errors, anomalies, or unexpected account fluctuations may go unidentified.

II. Information Technology

USIBWC uses key information systems maintained by the U.S. Department of State (Department), including the general support systems and applications for accounting, budget execution, procurement, and logistics. The Department is responsible for maintaining an adequate general and application control environment over these systems. We evaluated the Department's internal control structure surrounding the general support system and key financial applications that are used by USIBWC. In general, our audit and an audit performed by the Office of Inspector General (OIG) found that the Department had not implemented effective standards, policies, processes, and procedures over its information security program and its financial applications.

We noted weaknesses and vulnerabilities in the general support system and several key applications maintained by the Department. These deficiencies are inherited by USIBWC and present a risk to financial and other data, which, in aggregate, we consider to be a significant deficiency in internal control. While we noted that USIBWC had developed some processes and controls to compensate for the deficiencies identified in the Department's systems, not all risks and deficiencies related to the systems shared with the Department were fully mitigated by those compensating controls. Information technology was also reported as a significant deficiency in our audit of USIBWC's FY 2012 financial statements. The following weaknesses, identified during Department audits, impact USIBWC:

- Information Security Program – The Department's OIG performed an audit of the Department's information security program for FY 2013 in accordance with the Federal Information Security Management Act of 2002 (FISMA).¹ OIG identified numerous weaknesses in the Department's information security program, which, in aggregate, was reported as a FISMA significant deficiency. OIG reported weaknesses in the areas of risk management, configuration management, plans of action and milestones, and the continuous monitoring program. A significant deficiency is the highest level of severity under FISMA. These control weaknesses impact the Department's general support system, OpenNet. The key Department financial applications used by USIBWC reside on OpenNet, inheriting many of the systems controls. Limitations with information technology security controls increase the risk that sensitive information could be accessed by unauthorized individuals and that financial transactions could be altered or compromised.

¹ *Audit of the Department of State Information Security Program* (AUD-IT-14-03, Nov. 2013).



- Audit Logs for Financial Applications** – During the audit of the Department’s FY 2012 financial statements, we performed risk-based testing procedures of the Department’s financial applications. We identified deficiencies for GFMS, which is used by USIBWC as its core accounting system. Specifically, the Department did not regularly review audit logs for suspicious behavior or malfunctions. For example, the Department did not have an effective process to log and independently monitor changes to the permissions granted to user accounts. In FY 2013, the Department took steps to remediate this condition. However, the Department had not completed several steps to effectively implement application monitoring controls. By not reviewing the audit logs on a regular basis, the Department did not have reasonable assurance that inappropriate access or changes to user accounts would be identified in a timely manner.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to USIBWC’s management in a separate letter.

Summary of Significant Internal Control Deficiencies

In the Report on Internal Control included in the audit report on USIBWC’s FY 2012 financial statements,² we noted several issues that were related to internal control over financial reporting. The status of each issue is summarized in Table 1.

Table 1. Summary of Significant Internal Control Deficiencies

Control Deficiency	FY 2012 Status	FY 2013 Status
Property and Equipment	Significant Deficiency	Significant Deficiency
Budgetary Accounting	Significant Deficiency	Management Letter
Information Technology	Significant Deficiency	Significant Deficiency

USIBWC’s Response to Findings

USIBWC management has provided its response to our findings in a separate memorandum attached to this report. We did not audit management’s response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of USIBWC’s internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America,

² *Independent Auditor’s Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section, 2012 Financial Statements* (AUD-FM-13-10, Dec. 2012).



Government Auditing Standards, and OMB Bulletin No. 14-02 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company".

Alexandria, Virginia
December 20, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE
PROVISIONS OF LAWS, REGULATIONS, AND CONTRACTS**

To the United States Commissioner and the Inspector General of the International Boundary and Water Commission, United States and Mexico, U.S. Section

We have audited the consolidated financial statements of the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC) as of and for the year ended September 30, 2013, and have issued our report thereon dated December 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Compliance

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of USIBWC's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 14-02 in considering USIBWC's compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company".

Alexandria, Virginia
December 20, 2013

RESPONSE LETTER TO AUDIT FINDINGS FROM THE U.S. COMMISSIONER



OFFICE OF THE COMMISSIONER
UNITED STATES SECTION

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

December 23, 2013

Mr. Harold W. Geisel
United States Department of State
Deputy Inspector General
Office of Inspector General
Washington, D. C. 20520

Subject: Independent Auditor's Report to the audit of the United States Commissioner and the Inspector General of the International Boundary and Water Commission, United States and Mexico, U.S. Section

Dear Mr. Geisel:

We received and have reviewed the draft Independent Auditor's Report of the United States Section, International Boundary and Water Commission (IBWC), 2013 and 2012 financial statements. Thank you for the opportunity to comment on your audit recommendations.

Attached please find our responses to each of the recommendations as reported in the draft Independent Auditor's Report. Please advise if you have any questions or if we may be of any assistance.

Sincerely,

A handwritten signature in blue ink that reads 'Edward Drusina'.

Edward Drusina, P.E.
Commissioner

The Commons, Building C, Suite 100 • 4171 N. Mesa Street • El Paso, Texas 79902-1441
(915) 832-4100 • Fax: (915) 832-4190 • <http://www.ibwc.gov>

Independent Auditor's Report on Internal Control over Financial Reporting

Significant Deficiencies

I. Property and Equipment

Recording Construction-in-Progress Transactions – Construction costs should be recorded as construction-in-progress (CIP) until the asset being constructed is placed in service, at which time the balance should be transferred to a general property and equipment account. We found that 9 of 26 operating expenses tested were construction costs that should have been classified as CIP. After we identified these errors, USIBWC performed an analysis of operating expense activity and identified a number of additional instances in which CIP was improperly classified as operating expenses. Additionally, we identified a CIP project with a negative balance, which required a manual adjusting entry. As a result of audit work and USIBWC management's analysis, more than \$15.9 million in operating expenses were reclassified as CIP during FY 2013. Because USIBWC does not always process payments to construction vendors using system codes that will automatically record payments as CIP, USIBWC had implemented a process to manually review transactions recorded to CIP and operating expenses each quarter to identify and correct items that were not recorded correctly. However, because of the manual nature and timing of this review, not all transactions that were improperly recorded had been identified by the time of our audit. Due to the size of several active USIBWC CIP projects, significant amounts may be misclassified and not detected.

Response: Concur

The USIBWC Accounting Officer will work with the Department of State management officials responsible for the GFMS system to see if the posting logic for recording CIP transactions can be modified to require the project code for construction projects. Until the issue with the posting logic can be resolved, the USIBWC will review construction-in-progress and operating expense transactions prior to posting to ensure the transactions are posted with a project code.

If the requested modification to the GFMS posting logic cannot be implemented, USIBWC will ensure project codes are assigned for each capital project when the contract award and obligation are recorded and ensure all capital project payments are processed against the correct project code. Quarterly, the USIBWC will review the construction-in-progress projects and ensure the balances are appropriate as well as continue to review posted transactions to ensure they are recorded correctly.

Depreciation Expense Errors – Depreciation expense should be calculated through the systematic and rational allocation of the cost of property and equipment, less its estimated salvage or residual value, over the estimated useful life of an asset. During our review of depreciation expense, we identified unusual account activity, which USIBWC officials confirmed was erroneous. During FY 2013, USIBWC transferred property account balances between two appropriations. When the transfer was processed, the Global Financial Management System (GFMS) treated the assets as newly acquired, and depreciation expense was recorded back to the date that the assets were placed into service. However, the system had already recorded depreciation expense for the assets, which was not reversed when the assets were transferred. The error resulted in a \$7.3 million overstatement of expenses. Because USIBWC does not routinely transfer assets between appropriations, USIBWC officials were unaware of how GFMS would process the adjustment. Although USIBWC had a control in place to review and analyze account balances at the financial statement level, the control was not designed to identify and

resolve errors in individual accounts, such as depreciation expenses. Without effective routine account-level reviews, errors, anomalies, or unexpected account fluctuations may go unidentified.

Response: Concur

The transfer of assets from the S&E appropriation to the Construction appropriation was a nonrecurring, one-time event and USIBWC does not foresee doing this in the future except to correct an error. Going forward, all PP&E transactions will be funded by the Construction appropriation and there should be no need to make such a transfer in the future. In the event that such a transfer of PP&E is necessary, IBWC is now aware of the effect the transfer will have on depreciation and will make the necessary correcting entries to bring the depreciation expense back to the correct balance. USIBWC will conduct a review of all accounts involved prior to and after the transfer.

Additionally, USIBWC will conduct analytical reviews at the individual account level, in addition to the financial statement level, to identify errors in account balances that may not otherwise be identified.

II. Information Technology

Information Security Program – The Department’s OIG performed an audit of the Department’s information security program for FY 2013 in accordance with the Federal Information Security Management Act of 2002 (FISMA). OIG identified numerous weaknesses in the Department’s information security program, which, in aggregate, was reported as a FISMA significant deficiency. OIG reported weaknesses in the areas of risk management, configuration management, plans of action and milestones, and the continuous monitoring program. A significant deficiency is the highest level of severity under FISMA. These control weaknesses impact the Department’s general support system, OpenNet. The key Department financial applications used by USIBWC reside on OpenNet, inheriting many of the systems controls. Limitations with information technology security controls increase the risk that sensitive information could be accessed by unauthorized individuals, and that financial transactions could be altered or compromised.

Audit Logs for Financial Applications – During the audit of the Department’s FY 2012 financial statements, we performed risk-based testing procedures of the Department’s financial applications. We identified deficiencies for GFMS, which is used by USIBWC as its core accounting system. Specifically, the Department did not regularly review audit logs for suspicious behavior or malfunctions. For example, the Department did not have an effective process to log and independently monitor changes to the permissions granted to user accounts. In FY 2013, the Department took steps to remediate this condition. However, the Department had not completed several steps to effectively implement application monitoring controls. By not reviewing the audit logs on a regular basis, the Department does not have reasonable assurance that inappropriate access or changes to user accounts would be identified in a timely manner.

Response: Concur

The USIBWC will work with management officials from the Department of State over the general support system and financial applications to work closely in implementing compensating controls as recommended under this finding, with the objective of mitigating potential unauthorized access or changes to user accounts in a timely manner.

PRINCIPAL FINANCIAL STATEMENTS

The *Principal Financial Statements* have been prepared to report the financial position and results of operations of the International Boundary and Water Commission, U.S. Section. The Financial Statements have been prepared from the books and records of the U.S. Section in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, Financial Reporting Requirements. The Financial Statements are in addition to financial reports prepared by the U.S. Section in accordance with OMB and U.S. Department of Treasury directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Financial Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The U.S. Section has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. The Financial Statements present data for FY 2013 and FY 2012 in comparative formats.

The *Consolidated Balance Sheet* provides information on assets, liabilities, and net position similar to balance sheets reported in the private sector. The Balance Sheet presents amounts of future benefits owned or managed (assets), amounts owed (liabilities), and amounts that comprise the difference (net position). Intra-Governmental balances have been identified and will be eliminated when consolidated with the department-wide statements prepared by the Department of State.

The *Consolidated Statement of Net Cost* reports the components of net costs of the U.S. Section's operations for the period. Net cost of operations is the gross cost incurred by the Agency less any exchange revenue earned from its activities.

The *Consolidated Statement of Changes in Net Position* reports the beginning net position, the transactions that affect net position for the period, and the ending net position. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations.

The *Combined Statement of Budgetary Resources* provides information on how budgetary resources were made available and their status at the end of the year. It is the only financial statement predominantly derived from the U.S. Section's budgetary general ledger in accordance with budgetary accounting rules. Information on the Statement of Budgetary Resources is consistent with the budget execution information reported on the Report on Budget Execution and Budgetary Resources (SF133).

International Boundary and Water Commission, United States Section

BALANCE SHEETS

**INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
U.S. SECTION
BALANCE SHEETS
AS OF SEPTEMBER 30, 2013 (CY) AND 2012 (PY)**

	FY2013	FY2012
	(CY)	(PY)
	<hr/>	<hr/>
ASSETS		
Intragovernmental:		
Fund balance with treasury (Note 2)	\$ 147,320,300.99	\$ 149,986,889.64
Accounts receivable, net (Note 3)	330,962.68	816,195.61
Total intragovernmental	147,651,263.67	150,803,085.25
Cash and other monetary assets	0.00	0.00
Accounts receivable, net (Note 3)	3,864,760.57	2,372,162.81
Advances	1,715.33	5,185.57
Property, plant, and equipment, net (Note 4)	856,988,619.50	848,502,529.29
Total assets	\$ 1,008,506,359.07	\$ 1,001,682,962.92
	<hr/>	<hr/>
LIABILITIES		
Intragovernmental:		
Accounts payable	\$ 0.00	\$ 0.00
Accrued payroll	318,222.81	295,219.43
Accrued workers compensation (Note 6)	1,085,516.81	822,006.75
Workers compensation actuarial (Note 6)	4,397,070.40	3,462,362.27
Contract accruals	1,387,511.86	678,076.10
Total intragovernmental	7,188,321.88	5,257,664.55
Accounts payable	233,918.84	222,831.59
Contract accruals	4,447,929.78	5,762,280.64
Accrued payroll	1,017,775.69	1,029,008.95
Accrued annual leave	1,253,000.82	1,305,677.11
Advances	211,696.63	113,614.80
Deposit accounts	407,377.66	259,018.41
Estimated cleanup cost liability (Note 7)	4,653,580.00	0.00
Other liabilities	544,888.55	0.00
Total liabilities	19,958,489.85	13,950,096.05
	<hr/>	<hr/>
NET POSITION		
Unexpended appropriations - all other funds	153,264,470.10	156,366,103.60
Cumulative results of operations - all other funds	835,283,399.12	831,366,763.27
Total net position	988,547,869.22	987,732,866.87
	<hr/>	<hr/>
Total liabilities & net position	\$ 1,008,506,359.07	\$ 1,001,682,962.92
	<hr/>	<hr/>

The accompanying notes are an integral part of these statements

International Boundary and Water Commission, United States Section

STATEMENTS OF NET COST

INTERNATIONAL BOUNDARY AND WATER COMMISSION UNITED STATES AND MEXICO U.S. SECTION STATEMENTS OF NET COST FOR THE YEARS ENDED SEPTEMBER 30, 2013 (CY) AND 2012 (PY)		
	FY 2013 (CY)	FY 2012 (PY)
<u>Boundary Preservation</u>		
Gross cost	\$ 491,304.80	\$ 353,146.59
Less: earned revenue	(28,062.65)	(41,345.67)
Net program cost	\$ 463,242.15	\$ 311,800.92
<u>Water Quantity Operations</u>		
Gross cost	\$ 42,566,255.35	\$ 43,704,926.62
Less: earned revenue	(3,271,627.31)	(3,003,929.60)
Net program cost	\$ 39,294,628.04	\$ 40,700,997.02
<u>Water Quality Management</u>		
Gross cost	\$ 15,584,032.35	\$ 12,720,495.76
Less: earned revenue	(5,862,228.52)	(4,721,935.00)
Net program cost	\$ 9,721,803.83	\$ 7,998,560.76
<u>Resource & Asset Management</u>		
Gross cost	\$ 15,144,832.20	\$ 13,069,968.69
Less: earned revenue	0.00	0.00
Net program cost	\$ 15,144,832.20	\$ 13,069,968.69
Net cost of operations	\$ 64,624,506.22	\$ 62,081,327.39

The accompanying notes are an integral part of these statements

International Boundary and Water Commission, United States Section

STATEMENT OF CHANGES IN NET POSITION (CY)

**INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
U.S. SECTION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013 (CY)**

	FY 2013 (CY)	FY 2013 (CY)	FY 2013 (CY)	FY 2013 (CY)
	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning balances	\$ 0.00	\$ 831,366,763.27	\$ 0.00	\$ 831,366,763.27
Adjustments	0.00	(4,316,092.29)	0.00	(4,316,092.29)
Beginning balances, adjusted	0.00	827,050,670.98	0.00	827,050,670.98
Budgetary Financing Sources:				
Other adjustments	0.00	0.00	0.00	0.00
Appropriations used	0.00	71,416,102.46	0.00	71,416,102.46
Non-Exchange revenue	0.00	0.00	0.00	0.00
Transfers in/out	0.00	(79,617.02)	0.00	(79,617.02)
Other Financing Sources(Non-Exchange):				
Donations of property	0.00	0.00	0.00	0.00
Imputed financing	0.00	1,520,748.92	0.00	1,520,748.92
Net cost of operations	0.00	(64,624,506.22)	0.00	(64,624,506.22)
Net change	0.00	0.00	0.00	0.00
Cumulative Results of Operations	\$ 0.00	\$ 835,283,399.12	\$ 0.00	\$ 835,283,399.12
Unexpended Appropriations:				
Beginning balance	\$ 0.00	\$ 156,366,103.60	\$ 0.00	\$ 156,366,103.60
Adjustments	0.00	0.00	0.00	0.00
Beginning balance, adjusted	0.00	156,366,103.60	0.00	156,366,103.60
Budgetary Financing Sources:				
Appropriations received	0.00	71,174,000.00	0.00	71,174,000.00
Other adjustments	0.00	(2,859,531.04)	0.00	(2,859,531.04)
Appropriations used	0.00	(71,416,102.46)	0.00	(71,416,102.46)
Total budgetary financing sources	0.00	(3,101,633.50)	0.00	(3,101,633.50)
Total Unexpended Appropriations	0.00	153,264,470.10	0.00	153,264,470.10
Net Position	\$ 0.00	\$ 988,547,869.22	\$ 0.00	\$ 988,547,869.22

The accompanying notes are an integral part of these statements

International Boundary and Water Commission, United States Section

STATEMENT OF CHANGES IN NET POSITION (PY)

INTERNATIONAL BOUNDARY AND WATER COMMISSION UNITED STATES AND MEXICO U.S. SECTION STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2012 (PY)				
	FY 2012 (PY)	FY 2012 (PY)	FY 2012 (PY)	FY 2012 (PY)
	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning balances	\$ 0.00	\$ 780,673,940.19	\$ 0.00	\$ 780,673,940.19
Adjustments	0.00	1,135,622.00	0.00	1,135,622.00
Beginning balances, adjusted	0.00	781,809,562.19	0.00	781,809,562.19
Budgetary Financing Sources:				
Other adjustments	0.00	0.00	0.00	0.00
Appropriations used	0.00	76,118,317.33	0.00	76,118,317.33
Non-Exchange revenue	0.00	21,686,271.10	0.00	21,686,271.10
Transfers in/out	0.00	(58,822.54)	0.00	(58,822.54)
Other Financing Sources(Non-Exchange):				
Donations of property	0.00	12,195,294.00	0.00	12,195,294.00
Imputed financing	0.00	1,697,468.58	0.00	1,697,468.58
Net cost of operations	0.00	(62,081,327.39)	0.00	(62,081,327.39)
Net change	0.00	0.00	0.00	0.00
Cumulative Results of Operations	\$ 0.00	\$ 831,366,763.27	\$ 0.00	\$ 831,366,763.27
Unexpended Appropriations:				
Beginning balance	\$ 0.00	\$ 156,525,271.81	\$ 0.00	\$ 156,525,271.81
Adjustments	0.00	0.00	0.00	0.00
Beginning balance, adjusted	0.00	156,525,271.81	0.00	156,525,271.81
Budgetary Financing Sources:				
Appropriations received	0.00	76,175,000.00	0.00	76,175,000.00
Other adjustments	0.00	(215,850.88)	0.00	(215,850.88)
Appropriations used	0.00	(76,118,317.33)	0.00	(76,118,317.33)
Total budgetary financing sources	0.00	(159,168.21)	0.00	(159,168.21)
Total Unexpended Appropriations	0.00	156,366,103.60	0.00	156,366,103.60
Net Position	\$ 0.00	\$ 987,732,866.87	\$ 0.00	\$ 987,732,866.87

The accompanying notes are an integral part of these statements

International Boundary and Water Commission, United States Section

STATEMENT OF BUDGETARY RESOURCES

INTERNATIONAL BOUNDARY AND WATER COMMISSION
 UNITED STATES AND MEXICO
 U.S. SECTION
 STATEMENT OF BUDGETARY RESOURCES
 AS OF SEPTEMBER 30, 2013 (CY) and 2012 (PY)

	FY2013 (CY)	FY2012 (PY)
	<u>Budgetary</u>	<u>Budgetary</u>
BUDGETARY RESOURCES		
Unobligated balance brought forward, Oct. 1	\$ 88,677,027.95	\$ 50,560,794.81
Recoveries of prior year unpaid obligations	9,236,757.19	5,257,727.70
Unobligated balance withdrawn	<u>(467,398.04)</u>	<u>(215,850.88)</u>
Total unobligated balance	97,446,387.10	55,602,671.63
 Budget Authority:		
Appropriations	71,174,000.00	76,175,000.00
Appropriations permanently reduced	<u>(2,392,133.00)</u>	<u>0.00</u>
Total appropriations	68,781,867.00	76,175,000.00
Spending authority: collected	8,173,018.46	28,892,821.61
Change in uncollected payments - Federal	<u>(697,023.48)</u>	<u>(114,219.17)</u>
Total spending authority from offsetting collections	7,475,994.98	28,778,602.44
Total budget authority	76,257,861.98	104,953,602.44
 Total budgetary resources	<u>\$ 173,704,249.08</u>	<u>\$ 160,556,274.07</u>
 STATUS OF BUDGETARY RESOURCES		
Obligations incurred, direct:		
Direct obligations incurred, category A	\$ 43,507,900.45	\$ 45,091,786.02
Direct obligations incurred, category B	44,102,160.15	19,479,896.73
Total direct obligations	87,610,060.60	64,571,682.75
Obligations incurred, reimbursable:		
Reimbursable obligations, category A	7,053,043.82	7,254,000.52
Reimbursable obligations, category B	<u>3,363,254.30</u>	<u>53,562.85</u>
Total reimbursable obligations	10,416,298.12	7,307,563.37
Unobligated balance apportioned:		
Available in current period	70,052,261.67	85,309,447.59
 Other	5,625,628.69	3,367,580.36
 Total budgetary resources	<u>\$ 173,704,249.08</u>	<u>\$ 160,556,274.07</u>

The accompanying notes are an integral part of these statements

International Boundary and Water Commission, United States Section

INTERNATIONAL BOUNDARY AND WATER COMMISSION
 UNITED STATES AND MEXICO
 U.S. SECTION
 STATEMENT OF BUDGETARY RESOURCES (CONTINUED)
 AS OF SEPTEMBER 30, 2013 (CY) and 2012 (PY)

	FY2013 (CY)	FY2012 (PY)
	<u>Budgetary</u>	<u>Budgetary</u>
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct. 1	\$ 63,839,185.88	\$ 98,777,965.25
Obligations incurred, unexpired accounts	93,141,725.40	69,696,065.94
Obligations incurred, expired accounts	4,884,633.32	2,183,180.18
Outlays, gross	(79,302,435.32)	(101,560,297.79)
Recoveries of prior year unpaid obligations unexpired accts.	(\$2,766,634.21)	(\$4,125,797.45)
Recoveries of prior year unpaid obligations expired accts.	<u>(6,470,122.98)</u>	<u>(1,131,930.25)</u>
Unpaid obligations, end of year	73,326,352.09	63,839,185.88
Uncollected payments		
Uncollected pymts, Fed Sources, brought forward, Oct. 1	(2,788,342.60)	(2,902,561.77)
Change in uncollected pymts, Fed sources unexpired accts.	(435,970.23)	(660,531.24)
Change in uncollected pymts, Fed sources expired accts.	1,132,993.71	774,750.41
Uncollected pymts, Fed sources, end of year	<u>(2,091,319.12)</u>	<u>(2,788,342.60)</u>
Memorandum (non-add) entries:		
Obligated balance, start of year	<u>\$ 61,050,843.28</u>	<u>\$ 95,875,403.48</u>
Obligated balance, end of year	<u>\$ 71,235,032.97</u>	<u>\$ 61,050,843.28</u>
BUDGET AUTHORITY & OUTLAYS, NET		
Budget authority, gross	\$ 76,257,861.98	\$ 104,953,602.44
Offsetting collections - Federal sources	<u>(8,173,018.46)</u>	<u>(28,892,821.61)</u>
Offsets against budget authority & outlays	(8,173,018.46)	(28,892,821.61)
Change in uncollected pymts - Fed sources unexpired accts.	(435,970.23)	(660,531.24)
Change in uncollected pymts - Fed sources expired accts.	1,132,993.71	774,750.41
Total additional offsets against budget authority only	<u>697,023.48</u>	<u>114,219.17</u>
Budgetary authority, net	<u>\$ 68,781,867.00</u>	<u>\$ 76,175,000.00</u>
Outlays from new authority	\$ 44,298,405.24	\$ 41,724,725.21
Outlays from balances	<u>35,004,030.08</u>	<u>59,835,572.58</u>
Total outlays, gross	79,302,435.32	101,560,297.79
Actual offsetting collections	<u>(8,173,018.46)</u>	<u>(28,892,821.61)</u>
Total outlays, net	<u>\$ 71,129,416.86</u>	<u>\$ 72,667,476.18</u>

The accompanying notes are an integral part of these statements

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying principal financial statements present the financial activity of the International Boundary and Water Commission, U.S. Section (U.S. Section). The statements are presented in accordance with form and content requirements contained in Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. OMB Circular A-136 establishes the central reference point for all Federal financial reporting guidance for Executive Branch departments that are required to submit audited financial statements and Performance and Accountability Reports under the Chief Financial Officers Act of 1990, the Accountability of Tax Dollars Act of 2002, and Annual Management Reports under the Government Corporations Control Act. The financial statements presented herein are in addition to the financial reports prepared by U.S. Section in accordance with OMB and U.S. Treasury directives to monitor and control the status and use of budgetary resources.

The financial statements have been prepared from U.S. Section's books and records, and in accordance with its accounting policies, of which the significant policies are summarized in this Note. The agency's accounting policies follow generally accepted accounting principles (GAAP) accepted in the United States of America for Federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, incorporates the GAAP hierarchy into FASAB's authoritative literature.

B. Reporting Entity

As previously noted, the International Boundary and Water Commission (The Commission) consists of two sections, a U.S. Section and a Mexican Section. Each Section, administered independent of the other, reports to its respective government's foreign affairs entity. The Commission is charged with applying a series of boundary and water treaties between the United States and Mexico, and exercise the rights and obligations that the two governments have jointly assumed for the solution of boundary and water problems. The U.S. Section is headquartered in El Paso, Texas and operates under the foreign policy guidance of the Department of State. The financial statements include the accounts of all funds under U.S. Section's control.

C. Basis of Accounting

Transactions are recorded on both the accrual accounting basis and the budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

D. Revenue and Other Financing Sources

U.S. Section receives most of the funding needed to support its programs through appropriations from the U.S. Government. U.S. Section receives both annual and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures, primarily for equipment and construction projects. Other amounts are obtained through reimbursements for services performed for other federal agencies, state and local governments, and the Mexican Section.

E. Fund Balance with Treasury and Cash

U.S. Section does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Fund Balances with the Treasury and cash are primarily appropriated funds that are available to pay current liabilities and finance authorized purchase and contractual commitments.

F. Property and Equipment

The land, buildings, and equipment are capitalized at cost, if the initial cost is \$25,000 or more. Expenditures that increase the useful life of the assets are capitalized. Normal repairs and maintenance costs are expensed when purchased.

G. Liabilities

Liabilities represent monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. However, no liability can be paid by the U.S. Section absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as unfunded, and there is no certainty that the appropriation will be enacted. Also, liabilities arising from other than contracts can be abrogated by the U.S. Government, acting in its sovereign capacity.

H. Accrued Liabilities

Expenses or obligations incurred for personnel compensation, services, supplies, and materials that have not been paid during the fiscal year.

I. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned, but not taken; financing will be obtained from future funding sources. Sick leave and other types of non-vested leave are expensed as taken.

J. Retirement Plans

The U.S. Section's employees participated in the Civil Service Retirement System (CSRS), to which it makes matching contributions equal to seven percent of pay. The agency does not report CSRS assets, accrued plan benefits, or unfounded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management.

On January 01, 1987, the Federal Employees Retirement System (FERS) became effective under Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security (FIAC). Employees hired prior to January 01, 1984, had the option to join FERS and Social Security or remain in CSRS. The primary feature of FERS is that it offers a savings plan that automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For employees hired after December 31, 1983, the U.S. Section also contributes the employer's matching share for Social Security.

K. Change in Accounting Principle

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities for Federal Government*; SFFAS 6, *Accounting for Property, Plant and Equipment*, Chapter 4 Cleanup Costs; and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, and Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment*, the U.S. Section recorded an FY13 liability for those costs that are both probable and reasonably estimable for both friable and nonfriable asbestos related clean-up cost. See note 7: Environmental and Disposal Liabilities for additional information.

International Boundary and Water Commission, United States Section

NOTE 2: FUND BALANCE WITH TREASURY

A summary of the fund balances with the U.S. Treasury as of September 30, 2013, and 2012, are provided below.

	As of September 30,	
	<u>FY2013</u>	<u>FY2012</u>
Fund Balances:		
Trust Funds	\$ 0.00	\$ 0.00
Special Funds	0.00	0.00
Revolving Funds	0.00	0.00
General Funds	146,912,923.33	149,727,871.23
Other Fund Types	407,377.66	259,018.41
Total	<u>\$ 147,320,300.99</u>	<u>\$ 149,986,889.64</u>
Status of Fund Balances with Treasury:		
Unobligated Balance:		
Available	\$ 74,447,314.71	\$ 85,309,447.59
Unavailable	5,625,628.69	3,367,580.36
Obligated balance not yet disbursed	66,839,979.93	61,050,843.28
Non-Budgetary FBWT	407,377.66	259,018.41
Total	<u>\$ 147,320,300.99</u>	<u>\$ 149,986,889.64</u>

NOTE 3: ACCOUNTS RECEIVABLE, NET

Accounts receivable consist primarily of amounts due from state, local, and foreign governments and are comprised of the following as of September 30, 2013 and 2012:

	As of September 30,	
	FY2013	FY2012
Intra-Governmental Receivables:		
Current:		
Accounts receivable-billed	\$ 0.00	\$ 0.00
Accounts receivable-unbilled	330,962.68	816,195.61
Governmental Receivables		
Current:		
Accounts receivable-billed	4,881.67	99,741.13
Accounts receivable-unbilled	3,859,878.90	2,272,421.68
Long Term:		
Accounts receivable-unbilled	0.00	0.00
Total	\$ 4,195,723.25	\$ 3,188,358.42
Mexico owes the U.S. Section the following amounts:		
O&M Nogales Wastewater Treatment Plant	\$ 3,054,980.76	\$ 1,744,143.62
O&M Tijuana Sanitation Plant	500,000.00	500,000.00
O&M Anzalduas Dam Stoplogs & utilities	7,215.33	5,763.30
O&M Cordova Bridge	6,000.00	0.00
Total	\$ 3,568,196.09	\$ 2,249,906.92

All of the accounts receivables are current and none are passed due as of September 30, 2013. The majority of the receivables are due from Mexico, local, state and county government entities. There is no allowance for uncollectible accounts calculated on Federal receivables and receivables of the Mexican Section. The receivables for leases and licenses are paid at the beginning of the lease term. If payment is not received, the lease/license is cancelled, and therefore no allowance for uncollectible accounts was established as of September 30, 2013.

NOTE 4: GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment as of September 30, 2013 and 2012, consisted of the following:

	FY2013 Acquisition Value	FY2013 Accumulated Depreciation	FY2013 Net Value	FY2012 Net Value
Classes of Fixed Assets:				
Land	\$ 50,027,860.72	\$ 0.00	\$ 50,027,860.72	\$ 50,027,860.72
Structures, facilities & leasehold improvements	904,603,876.20	(231,887,687.89)	672,716,188.31	637,845,421.14
Equipment	19,472,787.15	(14,660,525.11)	4,812,262.04	4,344,758.62
Construction in Progress	129,432,308.43	0.00	129,432,308.43	156,284,488.81
Total	\$ 1,103,536,832.50	\$ (246,548,213.00)	\$ 856,988,619.50	\$ 848,502,529.29

Depreciation and amortization of property and equipment is calculated on a straight-line basis. Leasehold improvements are amortized over the shorter of the assets' useful life or the lease term. The agency's capitalization threshold is \$25,000.00. There are no restrictions on use or convertibility of the agency's property, plant, and equipment.

A table of the ranges of depreciable and amortizable lives of the U.S. Section's assets follows.

Category:	<u>Depreciable or Amortizable Life</u>
Structures and facilities	10 to 100 Years
Vehicles	5 Years
ADP equipment	3 Years
Reproduction equipment	8 Years
Communication equipment	15 Years
Other equipment	4 to 20 Years

NOTE 5: STEWARDSHIP PP&E

A. Heritage Assets

Heritage assets are plant, property, and equipment that possess one or more of the following characteristics: historical or natural significance; cultural, educational or aesthetic value; or significant architectural characteristics. Heritage assets consist of (1) collection type heritage assets, such as objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections; and (2) non-collection-type heritage assets, such as parks, memorials, monuments, and buildings. Heritage assets are generally expected to be preserved indefinitely.

One of the primary mission requirements for the International Boundary and Water Commission (IBWC) is the demarcation and preservation of the international boundary between the United States and Mexico, as concluded under the Treaties of 1848 and 1853. Roughly 1300 miles of this border are demarcated by the Rio Grande and the Colorado River, and the other 700 miles of border are demarcated by international monuments along the land boundary. The IBWC has erected a total of 276 monuments along the international land boundary, which extends from the Pacific Ocean to the Rio Grande. These monuments are jointly owned and maintained by the United States and Mexico.

The stewardship policy for inspection and maintenance of these land boundary monuments is concluded in IBWC Minute No. 244 and associated Joint Report dated November 8, 1973. This binational agreement evenly distributes the maintenance responsibilities between the United States and Mexico, and provides for the periodical inspection and restoration of all international land boundary monuments at intervals of not more than ten years.

There are 276 monuments, each identified alphanumerically from 1 to 258. Each country is responsible for 138 monuments. The U.S. Section is responsible for Monuments No. 80 to 204-A. The Mexican Section is responsible for Monuments No. 1 to 79, and 206 to 258. The IBWC has not added nor withdrawn any land boundary monuments during this reporting period.

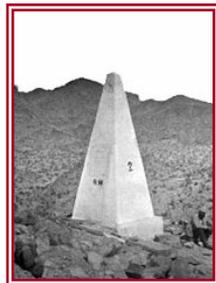
Although the monuments are all obelisk in shape, they vary in composition and appearance. Of the 276 monuments, 238 are composed of iron, 36 of masonry, one of granite, and one of marble. The iron monuments have a narrower base with a steeper-sloped shaft than the granite and masonry monuments. The marble monument has a wide base with a shorter vertical shaft and a taller pointed pyramidal apex. Photographs identifying the typical varieties of obelisk monuments found along the international land boundary are shown below.



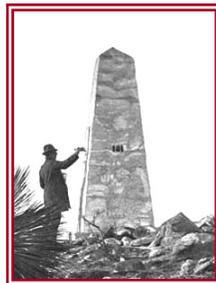
Mon. No. 258
Marble



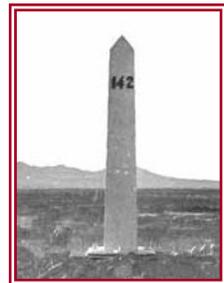
Mon. No. 255
Granite



Mon. No. 2
Masonry



Mon. No. 141
Masonry



Mon. No. 142
Iron

B. Multi-use Heritage Assets

Heritage assets may in some cases be used to serve two purposes – a heritage function and general government operations. In cases where a heritage asset serves two purposes, the heritage asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations (i.e. the main Treasury building used as an office building). Heritage assets having an incidental use in government operations are not multi-use heritage assets; they are simply heritage assets.

Falcon International Storage Dam and Hydroelectric Power Plants are Multi-use Heritage Assets. These were constructed jointly by the U.S. and Mexico pursuant to Water Treaty of 1944 for the mission purposes of flood control, water conservation, and hydroelectric power generation. The project also provided a secondary benefit of recreation for the public.

The international dam is approximately two miles wide in the U.S. and three miles wide in Mexico. The dam and each country's power plants are located about 75 miles downstream (southeast) of Laredo, Texas and approximately 150 miles above the mouth of the Rio Grande. The reservoir has a storage capacity of nearly 4 million acre-feet and extends roughly 30 miles across Starr and Zapata Counties in Texas, and the State of Tamaulipas, Mexico.

The construction of the international dam, reservoir (lake), and hydroelectric power plants (one in each country) is historically significant, because Presidents Dwight D. Eisenhower of the United States and President Adolfo Ruiz Cortines of Mexico met on October 19, 1953 at the center of Falcon International Dam to dedicate it to the well-being of the residents of both countries. Both presidents recognized the importance of the storage dam for water conservation, power generation, flood control, recreation, and as a symbol of friendship and cooperation between the U.S. and Mexico. Construction of the dam and reservoir resulted in the submersion and relocation of 5 townships in the both countries.

In accordance with IBWC Minute No. 202, the maintenance of the international works was prorated to equally reflect the benefits and costs borne by each country. The U.S. is responsible for 58.6% of the maintenance of the international storage dam, which includes: the embankment and intake on the U.S. side, the spillway, and the jurisdictional markers and buoys in the reservoir. Mexico is responsible for 41.4% of the international storage dam, which includes: the embankment and intake in Mexico, the international monument on the dam, and the revetment of the riverbank opposite the spillway channel. Each country is fully responsible for the maintenance of its own power house, because the two powerhouses are identical in construction and generate equal quantities of power.

C. Stewardship Land

Stewardship land is land and land rights owned by the Federal Government, but not acquired for or in connection with items of general plant, property, and equipment. Examples of stewardship land include land used as forests and parks, and land used for wildlife and grazing. "Land" is defined as the solid part of the surface of the earth. Excluded from the definition are the natural resources (that is, depletable resources, such as mineral deposits and petroleum; renewable resources, such as timber; and the outer-continental shelf resources) related to land. Land and land rights owned by the Federal Government and acquired for or in connection with items of general plant, property, and equipment should be accounted for and reported as

general plant, property, and equipment. Land and land rights owned by the Federal Government and not acquired for or in connection with items of general plant, property, and equipment should be reported as stewardship land.

The U.S. Section does not own nor maintain stewardship land. Recreational facilities at Falcon Reservoir were developed in December 1954 by the State of Texas, Starr County, and by private interests. The Texas Parks and Wildlife Department operates the 548.6-acre Falcon State Park, located on the reservoir, about one mile upstream of the darn in Starr and Zapata Counties. This property was transferred on January 21, 1974, to the State of Texas for the perpetual use for a public park and recreation area.

D. Inventory Summary

The cost of heritage assets is not often relevant or determinable. In addition, the useful life of heritage assets is generally not reasonably estimable for depreciation purposes. The most relevant information about heritage assets is their existence and condition. Therefore, heritage assets are reported in terms of physical units.

Description	Physical Units	
	FY 2013	FY 2012
Heritage Assets		
International Western Land Boundary Monuments		
▪ Monuments Maintained by the U.S.	138	138
▪ Total Maintained by both Countries	276	276
Multi-use Heritage Assets		
Falcon International Storage Dam & Power Plant		
▪ Dam Spillway and Gates (All Maintained by U.S.)	1	1
▪ U.S Side Reservoir Embankment	1	1
▪ U.S. Power Plant (Includes Penstock Intakes)	1	1

NOTE 6: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2013, and 2012, are provided below.

	As of September 30,	
	FY2013	FY2012
Liabilities not covered by budgetary resources		
Intragovernmental:		
Workers compensation liability	\$ 1,085,516.81	\$ 822,006.75
FECA actuarial liability	4,397,070.40	3,462,362.27
Total Intragovernmental	5,482,587.21	4,284,369.02
Unfunded annual leave	1,253,000.82	1,305,677.11
Estimated cleanup cost liability	4,653,580.00	0.00
Total liabilities not covered by budgetary resources	11,389,168.03	5,590,046.13
Total liabilities covered by budgetary resources	8,569,321.82	8,360,049.92
Total liabilities	\$ 19,958,489.85	\$ 13,950,096.05

NOTE 7: ENVIRONMENTAL AND DISPOSAL LIABILITIES

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities for Federal Government; SFFAS 6, Accounting for Property, Plant and Equipment, Chapter 4 Cleanup Costs; and Technical Release (TR) 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government, Technical Release 10, Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment, and Technical Release 11, Implementation Guidance on Cleanup Costs Associated with Equipment, federal agencies are required to recognize liabilities for environmental clean-up costs when the future outflow or sacrifice of resources is probable and reasonably estimable.

In FY13, the U.S. Section conducted a review of its real property to provide an estimate of assets with friable and nonfriable asbestos containing material as of September 30, 2013. Assets with asbestos containing materials were categorized by type of material. A costing model was used to develop estimated cleanup costs by applying the Department of State's Overseas Building Operations cleanup rates to the asbestos containing material categories.

At September 30, 2013, the U.S. Section recorded an estimated cleanup cost liability of \$4,653,580, of which \$2,014,910 is related to friable asbestos and \$2,638,670 is related to nonfriable asbestos. There are no unrecognized cleanup amounts to disclose at September 30, 2013.

The estimated asbestos cleanup liability is subject to change due to changes in inflation, deflation, technology or applicable laws and regulations.

International Boundary and Water Commission, United States Section

NOTE 8: OTHER LIABILITIES

In the table below is a listing of the U.S. Section's liabilities as of September 30, 2013, and 2012.

			2013 (CY)
	Non-Current	Current	Total
Intragovernmental			
Contract accruals	\$ 0.00	\$ 1,387,511.86	\$ 1,387,511.86
Accrued payroll - fringe benefits	0.00	318,222.81	318,222.81
Total intragovernmental	0.00	1,705,734.67	1,705,734.67
Contract accruals	0.00	4,447,929.78	4,447,929.78
Accrued payroll - labor	0.00	1,017,775.69	1,017,775.69
Deposit funds	0.00	407,377.66	407,377.66
Accounts payable	0.00	233,918.84	233,918.84
Advances	0.00	211,696.63	211,696.63
Other Liabilities	0.00	544,888.55	544,888.55
Total other liabilities	\$ 0.00	\$ 8,569,321.82	\$ 8,569,321.82
			2012 (PY)
	Non-Current	Current	Total
Intragovernmental			
Contract accruals	\$ 0.00	\$ 678,076.10	\$ 678,076.10
Accrued payroll - fringe benefits	0.00	295,219.43	295,219.43
Total intragovernmental	0.00	973,295.53	973,295.53
Contract accruals	0.00	5,762,280.64	5,762,280.64
Accrued payroll - labor	0.00	1,029,008.95	1,029,008.95
Deposit funds	0.00	259,018.41	259,018.41
Accounts payable	0.00	222,831.59	222,831.59
Advances	0.00	113,614.80	113,614.80
Total other liabilities	\$ 0.00	\$ 8,360,049.92	\$ 8,360,049.92

NOTE 9: LEASES

During FY13 and FY12, the agency did not have any assets under capital lease, but did have FY13 operating leases as described below.

The agency leased 85 vans, pickup trucks, and passenger vehicles from GSA at a cost of \$548,079.22. The leased vehicles were utilized by the Headquarters staff located in El Paso, Texas and the staff at the twelve field office locations in Texas, New Mexico, Arizona, and California. The lease term with GSA is one year and renewed annually.

The agency leased 10 copiers at a cost of \$36,726.20. The copiers included Xerox and Kyocera brand machines located in Headquarters and the field offices. In FY13 the agency entered into a five year lease agreement for the copiers at a fixed annual cost.

The agency also leased radio communication tower space for its antennas to support two way radio communications between the field offices and employees working in remote areas along the border. In FY13, the cost of these leases was \$21,364.04. Generally, the lease terms are one year and renewed annually as needed.

The agency leased miscellaneous types of equipment such as cranes, air compressors and chlorine cylinders at a cost of \$23,580.11. Lease terms varied.

Future projected payments of operating leases are as follows:

	OPERATING LEASES				
	GSA Vehicles	Copiers	Radio Tower Space	Other	Total
<u>Estimated Future Payments:</u>					
FY 2014	\$ 550,000	\$ 37,000	\$ 21,000	\$ 25,000	\$ 633,000
FY 2015	550,000	37,000	21,000	25,000	633,000
FY 2016	550,000	37,000	21,000	25,000	633,000
FY 2017	550,000	37,000	21,000	25,000	633,000
FY 2018	550,000	37,000	21,000	25,000	633,000
Total estimated future payments	<u>\$2,750,000</u>	<u>\$ 185,000</u>	<u>\$ 105,000</u>	<u>\$ 125,000</u>	<u>\$3,165,000</u>

International Boundary and Water Commission, United States Section

NOTE 10: INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental expenses are the actual direct costs incurred for labor, materials, supplies, etc. in providing the services to other federal agencies. No indirect costs or overhead is being charged to these federal agencies. Intragovernmental revenues are the reimbursements received from these federal agencies that are being provided the services. The agency is only receiving reimbursement for the direct costs incurred in providing services to these federal agencies.

	As of September 30,	
	FY2013	FY2012
<u>Boundary Preservation</u>		
Intragovernmental cost	\$ 169,545.26	\$ 97,301.24
Public cost	321,759.54	255,845.35
Total Boundary Preservation Costs	<u>\$ 491,304.80</u>	<u>\$ 353,146.59</u>
Intragovernmental revenue	\$ 0.00	\$ 0.00
Public revenue	(28,062.65)	(41,345.67)
Total Boundary Preservation Revenue	<u>\$ (28,062.65)</u>	<u>\$ (41,345.67)</u>
<u>Water Quantity</u>		
Intragovernmental cost	\$ 6,583,185.77	\$ 5,359,017.67
Public cost	35,983,069.58	38,345,908.95
Total Water Quantity Costs	<u>\$ 42,566,255.35</u>	<u>\$ 43,704,926.62</u>
Intragovernmental revenue	\$ (3,145,114.41)	\$ (3,095,127.80)
Public revenue	(126,512.90)	91,198.20
Total Water Quantity Revenue	<u>\$ (3,271,627.31)</u>	<u>\$ (3,003,929.60)</u>
<u>Water Quality</u>		
Intragovernmental cost	\$ 789,846.35	\$ 585,589.07
Public cost	14,794,186.00	12,134,906.69
Total Water Quality Costs	<u>\$ 15,584,032.35</u>	<u>\$ 12,720,495.76</u>
Intragovernmental revenue	\$ (169,685.00)	\$ 0.00
Public revenue	(5,692,543.52)	(4,721,935.00)
Total Water Quality Revenue	<u>\$ (5,862,228.52)</u>	<u>\$ (4,721,935.00)</u>
<u>Resource & Asset Management</u>		
Intragovernmental cost	\$ 3,313,714.57	\$ 4,105,252.81
Public cost	11,831,117.63	8,964,715.88
Total Resource & Asset Mgt Costs	<u>\$ 15,144,832.20</u>	<u>\$ 13,069,968.69</u>
Intragovernmental revenue	\$ 0.00	\$ 0.00
Public revenue	0.00	0.00
Total Resource & Asset Mgt Revenue	<u>\$ 0.00</u>	<u>\$ 0.00</u>

NOTE 11: EXCHANGE REVENUES

For the years ended September 30, 2013 and 2012, revenues from services provided and other revenues and financial sources consisted of the following:

	As of September 30,	
	FY2013	FY2012
Exchange Revenues:		
Wastewater treatment plants - O&M	\$ (5,501,113.68)	\$ (4,495,585.77)
Department of Energy - power plant O&M	(2,822,585.24)	(2,639,183.09)
Department of Homeland Security - floodwalls	(258,799.30)	(423,236.40)
State of Texas - Clean Rivers Project	(191,429.84)	(226,349.23)
Corps of Engineers - Nogales Stairwell	(169,685.00)	0.00
Quarters rental	(81,222.44)	(105,445.65)
GSA - vehicle maintenance	(63,729.87)	(32,708.31)
Leases/Licenses	(28,062.65)	(41,345.67)
LRGWC - Morillo Drain O&M	(21,007.05)	200,000.00
Mexico - O&M Cordova Bridge	(12,000.00)	0.00
Mexico - Anzalduas Dam Stoplogs O&M	(5,763.30)	(5,774.65)
Water Bulletins/FOIA/Other	(4,604.08)	(581.50)
Other Services Rendered to Mexico	(1,916.03)	3,000.00
Total earned revenue	<u>\$ (9,161,918.48)</u>	<u>\$ (7,767,210.27)</u>

Pricing Policy

The agency does not have the authority to make a profit on any of the revenue it receives from outside sources. Therefore, the agency bills and recovers only the direct costs incurred in providing services to these third parties.

NOTE 12: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

Below are the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A and B for the years ended September 30, 2013 and 2012.

	As of September 30,	
	FY2013	FY2012
<u>Salary & Expense (Category A) Appropriation:</u>		
Direct obligations	\$ 43,507,900.45	\$ 45,091,786.02
Reimbursable obligations	7,053,043.82	7,254,000.52
Total obligations category A	<u>\$ 50,560,944.27</u>	<u>\$ 52,345,786.54</u>
<u>Construction (Category B) Appropriation:</u>		
Direct obligations	\$ 44,102,160.15	\$ 19,479,896.73
Reimbursable obligations	3,363,254.30	53,562.85
Total obligations category B	<u>\$ 47,465,414.45</u>	<u>\$ 19,533,459.58</u>

NOTE 13: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary resources obligated for undelivered orders for the years ended September 30, 2013 and 2012 are shown below.

	As of September 30,	
	FY2013	FY2012
<u>Salary & Expense Appropriations:</u>		
Fund 1981069	\$ 0.00	\$ 229,567.57
Fund 1991069	36,351.50	275,938.42
Fund 1901069	63,182.38	163,927.05
Fund 1911069	1,076,925.90	1,438,085.27
Fund 1921069	2,662,878.74	13,263,274.73
Fund 1931069	9,956,112.68	0.00
Total salary & expense appropriation	<u>\$ 13,795,451.20</u>	<u>\$ 15,370,793.04</u>
<u>Construction Appropriations:</u>		
Fund 19X1078	\$ 52,180,594.37	\$ 33,468,957.27
Fund 199/X1079	6,948,580.76	14,839,011.44
Total construction appropriation	<u>\$ 59,129,175.13</u>	<u>\$ 48,307,968.71</u>

International Boundary and Water Commission, United States Section

NOTE 14: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The reconciliation of net cost of operations to budget for the years ending September 30, 2013 and 2012 is as follows:

INTERNATIONAL BOUNDARY AND WATER COMMISSION UNITED STATES AND MEXICO U.S. SECTION RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET FOR THE YEARS ENDED SEPTEMBER 30, 2013 (CY) AND 2012 (PY)		
	FY 2013 (CY)	FY 2012 (PY)
Resources Used to Finance Activities :		
Budgetary Resources Obligated		
1. Obligations Incurred	\$ 98,026,358.72	\$ 71,879,246.12
2. Less Spending Authority from Offsetting Collections\Recoveries	<u>(16,712,752.17)</u>	<u>(34,036,330.14)</u>
3. Obligations Net of Offsetting Collections and Recoveries	81,313,606.55	37,842,915.98
4. Less : Offsetting Receipts	0.00	0.00
5. Net Obligations	<u>81,313,606.55</u>	<u>37,842,915.98</u>
Other Resources		
6. Donations and Forfeitures of Property	0.00	0.00
7. Transfers In/Out without Reimbursement	0.00	0.00
8. Imputed Financing from Costs Absorbed by Others	1,520,748.92	1,697,468.58
9. Other Resources Used to Finance Activities	0.00	0.00
10. Net Other Resources Used to Finance Activities	<u>1,520,748.92</u>	<u>1,697,468.58</u>
11. Total Resources Used to Finance Activities	<u>\$ 82,834,355.47</u>	<u>\$ 39,540,384.56</u>
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in Budgetary Resources Obligated for Goods Services and benefits Ordered but not Yet Provided	\$ (9,245,864.58)	\$ 35,035,055.73
13. Resources that Fund Expenses Recognized in Prior Periods	0.00	(514,328.02)
14. Budgetary offsetting Collections and Receipts that do not Affect net cost of operations		
14a. Net Change Unfilled Orders	0.00	0.00
14b. Other	0.00	21,686,271.10
15. Resources that finance the acquisition of assets	(29,190,011.63)	(51,400,472.10)
16. Other Resources or Adjustments to net obligated resources that do not affect net cost of operations	0.00	0.00
	<u>0.00</u>	<u>0.00</u>
17. Total Resources Used to Finance items Not Part of the Net Cost of Operations	<u>(38,435,876.21)</u>	<u>4,806,526.71</u>
18. Total Resources Used to Finance the Net Cost of Operations	<u>\$ 44,398,479.26</u>	<u>\$ 44,346,911.27</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period :		
Components Requiring or Generating Resources in Future Periods:		
19. Increase in Annual leave Liability	\$ (52,676.29)	\$ (28,060.08)
20. Increase in Workmen's Compensation Liability	1,198,218.19	(188,632.63)
21. Labor Estimates	0.00	0.00
22. Contract Accruals	0.00	26,345.07
23. Contingent and Environmental Liabilities	544,888.55	0.00
25. Net Change in Revenue Estimates	<u>(1,685,923.50)</u>	<u>0.00</u>
24. Total Components of Net Cost of Operations that will require or generate resources in future periods	4,506.95	(190,347.64)
Components Not Requiring or Generating Resources:		
26. Depreciation and Amortization	20,244,818.06	17,948,243.88
27. Revaluation of Assets or Liabilities	77,422.24	4,300.00
28. Other	<u>(100,720.29)</u>	<u>(27,780.12)</u>
29. Total Components of Net Cost of Operations that will not require or Generate Resources	20,221,520.01	17,924,763.76
30. Total Components of Net Cost of Operations that will require or Generate Resources in the current period	<u>\$ 20,226,026.96</u>	<u>\$ 17,734,416.12</u>
31. Net Cost of Operations	<u>\$ 64,624,506.22</u>	<u>\$ 62,081,327.39</u>

REQUIRED SUPPLEMENTARY INFORMATION

DEFERRED MAINTENANCE AND REPAIR

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, but delayed until a future period. Under Statement of Federal Financial Accounting Standards (SFFAS) No. 6, maintenance is defined as “the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance *excludes* activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.”

Deferred maintenance costs were calculated and compiled for all agency assets. Common assets and heritage assets incurring deferred maintenance were grouped into mission-related categories. Care was employed to ensure that these amounts are strictly deferred maintenance and are neither asset values nor costs associated with the replacement, expansion, or upgrade of an asset. Deferred maintenance costs, which are separated into “critical maintenance” and “non-critical maintenance,” are summarized in the table at the end of this section.

The U.S. Section defines *critical maintenance* as the maintenance that must be done by the agency to fulfill its core mission objectives and avoid the adverse risks to the public, the environment, and employees. Critical maintenance, if not performed, may result in significant safety, economic, and environmental impacts. Critical maintenance involve: necessary maintenance of flood control levees, diversion and storage dams, wastewater treatment plants, hydroelectric power plants, etc. to sustain mission requirements.

The agency defines *non-critical maintenance* as the maintenance that is performed by the agency, which has minimal impact on its core mission objectives and does not place significant risks on the public and the environment. Non-critical Maintenance includes: grounds maintenance at field offices, painting and re-carpeting offices, and other non-mission-essential maintenance.

Deferred maintenance can have significant future effects on the structural integrity of agency structures and facilities, which can considerably impact our ability to protect human life, property, and the environment. Therefore, the U.S. Section applies the condition assessment survey method to rate the condition of its assets. Condition assessment surveys are periodic inspections of property, plants, and equipment to determine the current condition and estimated cost to correct any deficiencies. As in the previous section, these assets were rated using the following scale:

- A = Excellent
- B = Good
- C = Fair
- D = Poor
- F = Very Poor

International Boundary and Water Commission, United States Section

DEFERRED MAINTENANCE AND REPAIR				
Asset Category:	Condition of Assets	Critical Cost of DM&R	Non-critical Maint. Cost.	Total Cost
Water Conveyance Assets:				
Amistad Dam & Power Plant	C	1,200,000	75,000	1,275,000
Gaging/Telemetry Systems	A to D	85,000	100,000	185,000
Levee systems, Floodplains, & Channels	A to D	4,902,000	727,000	5,629,000
Diversion Dams & Grade Control Structures	B to C	0	100,000	100,000
Other Structures (bridges, canals, culverts)	A to C	3,812,000	13,000	3,825,000
Subtotal	A to D	9,999,000	1,015,000	11,014,000
Water Quality Assets:				
Wastewater Treatment Plant & Infrastructure	A to D	165,000	889,400	1,054,000
Falcon Water Treatment Plant & Infrastructure	A to D	250,000	0	250,000
Subtotal	A to D	415,000	889,400	1,304,000
Field Office Buildings and Grounds				
Office Buildings	A to D	816,000	530,500	1,346,500
Warehouses & Service Buildings	C to D	0	393,500	393,500
Family Housing	C to D	74,000	179,500	253,500
Other (grounds, fencing, etc.)	B to C	0	0	0
Subtotal	A to D	890,000	1,103,500	1,993,500
Heritage Assets:				
Land Boundary Monuments #80 to #204A	A to D	15,125	21,660	36,785
Falcon Internat'l Storage Dam & Power Plant	C	1,900,000	0	1,900,000
Subtotal - Heritage Assets	A to D	\$1,915,125	\$21,660	\$1,936,785
Total Deferred Maintenance	A to D	\$13,219,125	\$3,029,560	\$16,248,685

International Boundary and Water Commission, United States Section

COMBINING STATEMENT OF BUDGETARY RESOURCES

INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
U.S. SECTION
COMBINING STATEMENT OF BUDGETARY RESOURCES
AS OF SEPTEMBER 30, 2013 (CY)

	FY2013 (CY) <u>S&E</u>	FY2013 (CY) <u>Construction</u>	FY2013 (CY) <u>Consolidated</u>
BUDGETARY RESOURCES			
Unobligated balance brought forward, Oct. 1	\$ 1,072,100.30	\$ 87,604,927.65	\$ 88,677,027.95
Recoveries of prior year unpaid obligations	3,017,801.89	6,218,955.30	9,236,757.19
Unobligated balance withdrawn	<u>(467,398.04)</u>	<u>0.00</u>	<u>(467,398.04)</u>
Total unobligated balance	\$3,622,504.15	\$93,823,882.95	\$97,446,387.10
Budget Authority:			
Appropriations	43,499,000.00	27,675,000.00	71,174,000.00
Appropriations permanently reduced	<u>(2,336,783.00)</u>	<u>(55,350.00)</u>	<u>(2,392,133.00)</u>
Total appropriations	41,162,217.00	\$27,619,650.00	\$68,781,867.00
Spending authority: collected	7,099,461.23	1,073,557.23	8,173,018.46
Change in uncollected payments - Federal	<u>(15,084.44)</u>	<u>(681,939.04)</u>	<u>(697,023.48)</u>
Total spending authority from offsetting collections	<u>7,084,376.79</u>	<u>391,618.19</u>	<u>7,475,994.98</u>
Total budget authority	48,246,593.79	28,011,268.19	76,257,861.98
Total budgetary resources	<u>\$ 51,869,097.94</u>	<u>\$ 121,835,151.14</u>	<u>\$ 173,704,249.08</u>
STATUS OF BUDGETARY RESOURCES			
Obligations incurred, direct:			
Direct obligations incurred, category A	\$ 43,507,900.45	\$ 0.00	\$ 43,507,900.45
Direct obligations incurred, category B	<u>0.00</u>	<u>44,102,160.15</u>	<u>44,102,160.15</u>
Total direct obligations	43,507,900.45	44,102,160.15	87,610,060.60
Obligations incurred, reimbursable:			
Reimbursable obligations, category A	7,053,043.82	0.00	7,053,043.82
Reimbursable obligations, category B	<u>0.00</u>	<u>3,363,254.30</u>	<u>3,363,254.30</u>
Total reimbursable obligations	7,053,043.82	3,363,254.30	10,416,298.12
Unobligated balance apportioned:			
Available in current period	6,697.81	70,045,563.86	70,052,261.67
Other	1,301,455.86	4,324,172.83	5,625,628.69
Total budgetary resources	<u>\$ 51,869,097.94</u>	<u>\$ 121,835,151.14</u>	<u>\$ 173,704,249.08</u>

International Boundary and Water Commission, United States Section

INTERNATIONAL BOUNDARY AND WATER COMMISSION
 UNITED STATES AND MEXICO
 U.S. SECTION
 COMBINING STATEMENT OF BUDGETARY RESOURCES (CONTINUED)
 AS OF SEPTEMBER 30, 2013 (CY)

	FY2013 (CY) S&E	FY2013 (CY) Construction	FY2013 (CY) Consolidated
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations:			
Unpaid obligations, brought forward, Oct. 1	\$ 15,391,479.69	\$ 48,447,706.19	\$ 63,839,185.88
Obligations incurred, unexpired accounts	48,675,689.96	44,466,035.44	93,141,725.40
Obligations incurred, expired accounts	1,885,254.31	2,999,379.01	4,884,633.32
Outlays, gross	(48,934,488.02)	(30,367,947.30)	(79,302,435.32)
Recoveries of prior year unpaid obligations unexpired acct	0.00	(2,766,634.21)	(2,766,634.21)
Recoveries of prior year unpaid obligations expired acct	<u>(3,017,801.89)</u>	<u>(3,452,321.09)</u>	<u>(6,470,122.98)</u>
Unpaid obligations, end of year	14,000,134.05	59,326,218.04	73,326,352.09
Uncollected payments			
Uncollected pymts, Fed Sources, brought forward, Oct.	(1,174,989.47)	(1,613,353.13)	(2,788,342.60)
Change in uncollected pymts, Fed sources unexpired acct	(1,117,909.27)	681,939.04	(435,970.23)
Change in uncollected pymts, Fed sources expired acct:	1,132,993.71	0.00	1,132,993.71
Uncollected pymts, Fed sources, end of year	<u>(1,159,905.03)</u>	<u>(931,414.09)</u>	<u>(2,091,319.12)</u>
Memorandum (non-add) entries:			
Obligated balance, start of year	<u>\$ 14,216,490.22</u>	<u>\$ 46,834,353.06</u>	<u>\$ 61,050,843.28</u>
Obligated balance, end of year	<u>\$ 12,840,229.02</u>	<u>\$ 58,394,803.95</u>	<u>\$ 71,235,032.97</u>
BUDGET AUTHORITY & OUTLAYS, NET			
Budget authority, gross	\$ 48,246,593.79	\$ 28,011,268.19	\$ 76,257,861.98
Offsetting collections - Federal sources	<u>(7,099,461.23)</u>	<u>(1,073,557.23)</u>	<u>(8,173,018.46)</u>
Offsets against budget authority & outlays	(7,099,461.23)	(1,073,557.23)	(8,173,018.46)
Change in uncollected pymts - Fed sources unexpired acct	(1,117,909.27)	681,939.04	(435,970.23)
Change in uncollected pymts - Fed sources expired acct:	1,132,993.71	0.00	1,132,993.71
Total additional offsets against budget authority only	15,084.44	681,939.04	697,023.48
Budgetary authority, net	<u>\$ 41,162,217.00</u>	<u>\$ 27,619,650.00</u>	<u>\$ 68,781,867.00</u>
Outlays from new authority	\$ 38,514,894.43	\$ 5,783,510.81	\$ 44,298,405.24
Outlays from balances	10,419,593.59	24,584,436.49	35,004,030.08
Total outlays, gross	48,934,488.02	30,367,947.30	79,302,435.32
Actual offsetting collections	<u>(7,099,461.23)</u>	<u>(1,073,557.23)</u>	<u>(8,173,018.46)</u>
Total outlays, net	<u>\$ 41,835,026.79</u>	<u>\$ 29,294,390.07</u>	<u>\$ 71,129,416.86</u>

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