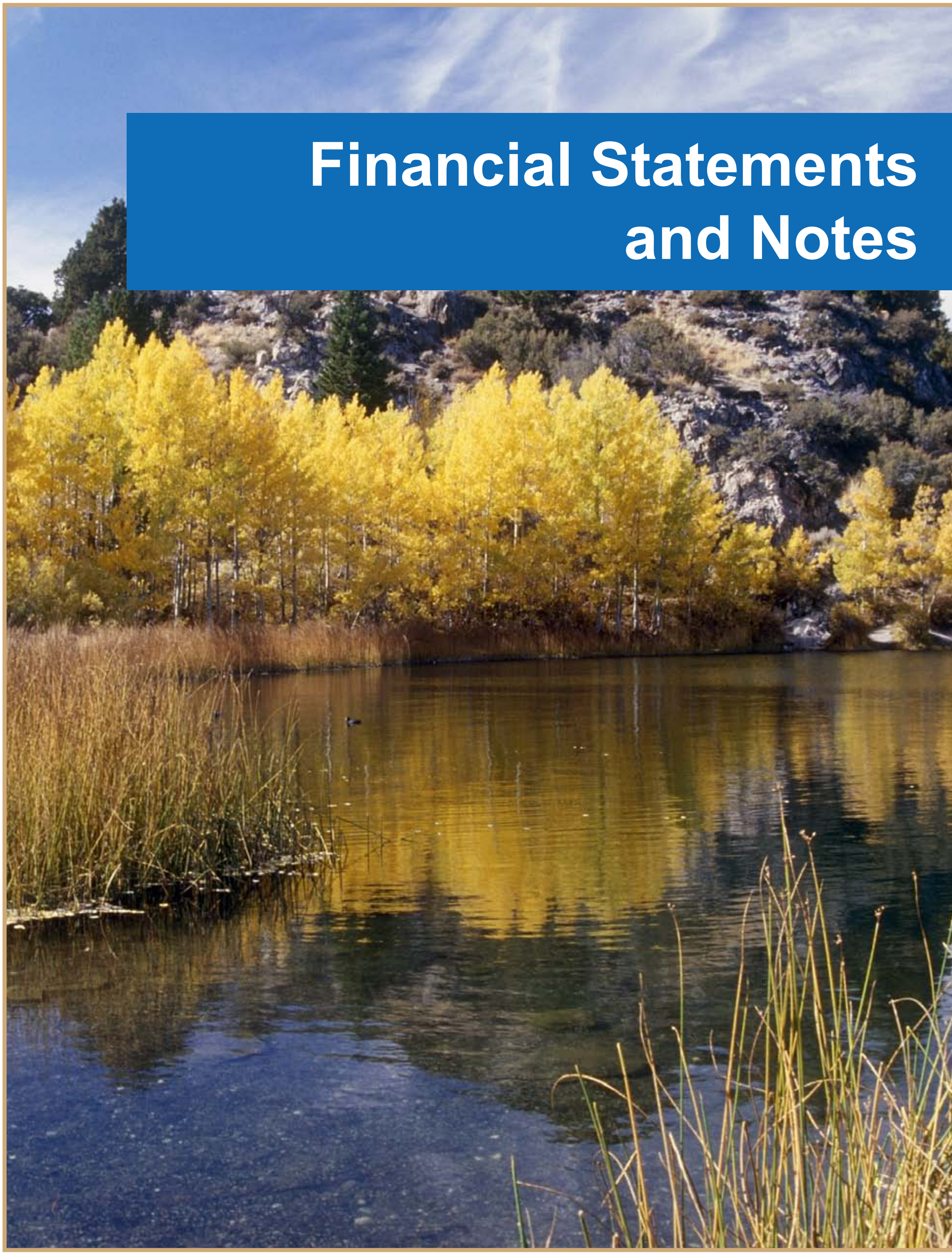
Financial Statements and Notes



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

December 28, 2005

Memorandum

To: Commissioner, Bureau of Reclamation

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

Subject: Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2005 and 2004 (Report No. X-IN-BOR-0013-2005)

Attached is the subject auditors' report prepared by KPMG LLP (Attachment 1). It contains an unqualified opinion on the Bureau of Reclamation's (Reclamation) financial statements. However, KPMG identified five reportable conditions on Reclamation's internal controls over financial reporting; one of the conditions was considered to be a material weakness. KPMG also found significant deficiencies in reporting the condition of heritage and stewardship assets and reporting the amount of stewardship land. In addition, KPMG found instances in which Reclamation's financial management systems did not fully comply with federal accounting standards and with the Federal Financial Management Improvement Act (FFMIA).

In its November 18, 2005 response to the draft auditors' report (Attachment 2), Reclamation agreed with findings A, B, and C; partially agreed with findings D, E, and G; and disagreed with finding F. Subsequent to issuing the draft auditors' report, management provided additional evidence to clear the portion of finding E related to recommendation E.2. KPMG reaffirmed its position that the remaining findings are valid. Based on the responses, we consider recommendations A.1, A.2, A.3, B.1, B.2, B.3, C.1, C.2, D.1, D.2, D.3, D.4, E.1, and G.1 resolved and not implemented and recommendations D.5, F.1, F.2, F.3, and G.2 unresolved. We will refer the resolved and not implemented recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. The unresolved recommendations will be referred for resolution.

The Department of the Interior contracted with KPMG, an independent certified public accounting firm, to audit Reclamation's financial statements for fiscal years 2005 and 2004. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget's Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency's *Financial Audit Manual.*

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

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

We appreciate the cooperation and assistance of Reclamation personnel during the audit. If you have any questions regarding the report, please contact me at (202) 208-5512.

Attachments (2)

cc: Assistant Secretary for Water and Science
Chief Financial Officer, Bureau of Reclamation
Director, Office of Financial Management
Audit Liaison Officer, Water and Science
Audit Liaison Officer, Bureau of Reclamation
Audit Liaison Officer, Office of Financial Management
Focus Leader for Financial Reporting, Office of Financial Management
Focus Leader for Management Control and Audit Followup, Office of Financial Management

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Bureau of Reclamation (Reclamation) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years then ended (hereinafter referred to as the financial statements). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered Reclamation's internal control over financial reporting and tested Reclamation's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that Reclamation's financial statements as of and for the years ended September 30, 2005 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1N to the financial statements, Reclamation changed its method of accounting for appropriated debt transactions in accordance with the provisions of OMB guidance effective October 1, 2004. Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

Reportable Condition Considered to be a Material Weakness

A. Controls over Implementation of New Accounting Principle

Other Reportable Conditions

B. Security and Internal Control over Information Technology Systems
C. Controls over Charge Card Reviews
D. Controls over Management Review and Approval of Process-level Activities
E. Controls over Credit Reform Loans

Our limited procedures over Required Supplementary Information and Required Supplementary Stewardship Information identified the following significant deficiency:

F. Reporting the Condition of Heritage and Stewardship Assets and Related Deferred Maintenance

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

The results of our tests of FFMIA disclosed two instances where Reclamation's financial management systems did not substantially comply with the following:

G. Federal Accounting Standards

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of Reclamation as of September 30, 2005 and 2004, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reclamation as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1N to the financial statements, Reclamation changed its method of accounting for appropriated debt transactions in accordance with the provisions of OMB guidance effective October 1, 2004.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*, Part A, *Form and Content of the Performance and Accountability Report*. We did not audit this information and, accordingly, we express no opinion on it. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. As a result of such limited procedures, we believe that Reclamation's reporting of the condition of heritage and stewardship assets in Required Supplementary Stewardship Information and deferred maintenance in Required Supplementary Information is not in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

In our fiscal year 2005 audit, we noted certain matters, described below, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable condition A is a material weakness.

A. Controls over Implementation of New Accounting Principle

In March 2005, the OMB issued guidance in response to the Federal Accounting Standards Advisory Board's Accounting and Auditing Policy Committee's Technical Exposure Draft entitled, *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities, and SFFAS 5, Accounting for Liabilities of the Federal Government.* OMB's guidance instructed Reclamation to cease recording appropriations to and subsequent recoveries from Western Area Power Administration (Western) as transfers and to prospectively record a receivable for the balance owed to the Reclamation Fund. In addition, Reclamation applied OMB's guidance to other similar conditions, including amounts due from Bonneville Power Administration (BPA) to the Reclamation Fund and amounts owed by Reclamation to the U.S. Treasury's General Fund (Treasury).

In implementing OMB's guidance, Reclamation applied significant resources and effort, including a coordinated effort with Western, BPA, the U.S. Department of Energy, the U.S. Department of the Interior (DOI), the U.S. Treasury, and OMB.

Western's appropriations from the Reclamation Fund are used for capital investment and operations and maintenance activities related to those functions. Associated recoveries received by Western are deposited into the Reclamation Fund. Unlike Western, BPA does not receive appropriations from the Reclamation Fund; however, BPA has legislatively assumed the repayment obligation to the Reclamation Fund for the appropriations used to construct certain Reclamation facilities. The amounts owed by Reclamation to Treasury consist of appropriations received to construct, operate, and maintain various multipurpose projects, a large portion of which are reimbursable and require subsequent repayment to Treasury.

In accordance with the change in accounting guidance, Reclamation calculated and recorded the September 30, 2004 receivables due from Western and BPA and a liability balance due to Treasury. These balances were recorded prospectively in fiscal year 2005 as an approximate $1.724 billion, $617 million, and $1.936 billion, respectively, cumulative effect on beginning equity balances as of October 1, 2004.

Despite Reclamation's efforts with regards to the Western receivable, at September 30, 2005, there existed an unreconciled amount of approximately $1.97 million (net) between Reclamation's receivable and Western's payable. Reclamation's receivable balance was approximately $1.97 million less than Western's payable, comprised of $39.78 million in positive differences and $41.75 million in negative differences. In addition, our testwork revealed that approximately $205.5 million of repayments received prior to fiscal year 2004 were recorded as current year repayments to the Reclamation Fund, misstating the cumulative effect on beginning equity. Both differences were corrected by management in the 2005 financial statements.

Our testwork over the Treasury liability revealed that: (1) repayments made to Treasury during the current fiscal year were recorded as prior-period activity, and (2) the repayments of one project were not appropriately allocated between Reclamation and other project sponsors, misstating the cumulative effect on beginning equity and the ending liability balance by $261.2 million and $111.9 million, respectively. In addition, we identified one project for which the beginning liability balance was understated by approximately $26.6 million. These differences were corrected by management in the 2005 financial statements. Further, we identified approximately $314,000 not recorded to the Treasury liability due to a miscommunication between Reclamation regional offices.

These deficiencies are partially a result of underdeveloped accounting policies and procedures and U.S. Treasury account posting models not implemented as of September 30, 2005.

Recommendations

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

1. Improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures and improved coordination with the U.S. Treasury regarding appropriate account posting models, as necessary.

2. Implement controls to ensure current-year additions to and repayments against the Treasury liability are properly recorded in the standard general ledger, including sufficient management oversight and review.

3. Implement controls, including sufficient management oversight and review, to ensure current-year appropriations to and repayments from Western are properly recorded in the standard general ledger and budgetary and proprietary balances are properly reported. Further, Reclamation should continue to resolve the unreconciled differences between Reclamation's receivable and Western's liability and continue to improve coordination between Western, the U.S. Department of Energy, DOI, and OMB.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and will improve its policies, procedures, and controls in accordance with the recommendations. The target date for implementation of the improvements is June 30, 2006.

B. Security and Internal Control over Information Technology Systems

Security and general controls over Reclamation's financial management systems have not been fully implemented. Improvement is needed in the area described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. The condition identified below could affect Reclamation's ability to prevent or detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources.

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that: (1) only authorized users have access to data and resources, (2) users have the minimum access necessary to perform their job functions, (3) access to very sensitive resources, such as security software programs, is limited to very few individuals, and (4) network security configurations are optimized to provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. Our audit found that Reclamation's user access authorization, user restriction, and termination procedures are not sufficient to minimize the risks of unauthorized access to its systems and its data.

Specifically, our audit identified 15 combined instances within the Water Operating and Record Keeping System (WORKS) and the Interior Department Electronic Acquisition System – Procurement Desktop (IDEAS-PD) where access granted was not evidenced by supervisor approval. In addition, we identified 71 combined instances within those systems where the user had inappropriate access for their specific job function. Our audit further identified 46 combined instances within the Moveable Property System (MPS) and IDEAS-PD where access rights for terminated employees were not removed. We noted, however, that the network accounts for the terminated employees were properly removed, which minimizes the risk of the user gaining access to the applications.

Recommendations

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

1. Implement policies and procedures and related controls over the retention of new user authorization and access change documentation.

2. Ensure administrators and system managers receive adequate training to ensure responsible personnel are aware of existing policies and procedures governing user access. Reclamation should monitor personnel to ensure that policies and procedures are followed.

3. Monitor the process to ensure that periodic reviews of user access, including reviews at the Sys Operations task level, are performed at the designated intervals and that action is taken in a timely manner to investigate and modify or remove access as a result of the review. Supplement existing guidance to state explicit criteria that should be considered in the periodic review of user access listings and the appropriate personnel to perform the review. Specifically, someone familiar with the users and their current roles/responsibilities should perform the periodic review; an effective review may require involvement at the regional and/or office level. Further, the objectives of the review are two-fold: 1) to ensure users' access remains appropriate, and 2) to identify any terminated users.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and has updated and distributed user administration procedures in accordance with the recommendations. The target dates for implementation of the improvements are April 30, 2006, June 30, 2006, and May 30, 2006 for recommendations B.1, B.2, and B.3, respectively.

C. Controls over Charge Card Reviews

Reclamation, through DOI, has provided charge cards to its employees in order to streamline acquisition and payment procedures and to reduce the administrative burden associated with traditional purchasing of travel items, supplies, and services. In conjunction with the issuance of charge cards, DOI has published guidance and instructions on charge card utilization through the Integrated Charge Card Program Guide. This policy sets forth restrictions on the use of the charge cards as well as certain internal control procedures, including timely and complete reconciliation of the billing statements by the cardholders and approving officials. During fiscal year 2005, Reclamation had approximately 7,200 active charge cards, which include purchase, travel, fleet, and corporate cards and incurred approximately 241,370 transactions for approximately $60.3 million. Our audit identified control exceptions in eight of 22 statements tested, resulting in a total of 12 exceptions. These exceptions were as follows:

- One statement was not signed by the approving official.
- Two statements were not dated by the cardholder.
- Two statements were not dated by the approving official.

- Two statements were not reviewed by the approving official in a timely manner.
- One statement was not reviewed by the cardholder in a timely manner.
- Four statements did not include receipts to support all of the charges on the sampled statement.

Recommendations

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

1. Ensure compliance with its established charge card policies. To help ensure compliance, Reclamation management at all regional, area, and field office locations should be more diligent in monitoring and enforcing compliance with DOI charge card policies.
2. Design and implement policies to monitor the results of internal reviews of charge card statements to ensure that the internal reviews are effective in ensuring compliance with charge card policies.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and will improve its policies, procedures, and controls in accordance with the recommendations. The target date for implementation of the improvements is June 30, 2006.

D. Controls over Management Review and Approval of Process-level Activities

OMB Circular A-123 (revised June 21, 1995), *Management's Accountability and Control*, Section II, bullet *Recording and Documentation,* states: "transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination." Lack of documented policies and procedures for preparing and reviewing journal entries and standard vouchers could result in improper amounts being reported, either due to intentional or unintentional errors. Further, ineffective management review of controls over key, process-level activities could result in ineffective controls and misstatements within the financial statements and related notes.

During our audit, we tested manual journal entries and key, risk-mitigating controls to determine if the activities and associated outputs were initiated by an appropriate individual, properly reviewed, supported by sufficient documentation, properly recorded, consistent with accounting principles, and consistent with Reclamation policy. Our testing of over 150 journal entries and process-level activities and controls identified the following:

Journal Entries

- Two instances in which there was insufficient supporting documentation for journal entries made to record anticipated budgetary resources.
- One instance in which the preparer and approver of a journal entry were the essentially same individual (the preparer, although a different individual, was asked by the approver to prepare an entry for which the preparer did not understand).

- Three instances where the journal entry was not approved prior to being entered into the Federal Financial System (FFS).

- Four instances in which there was no indication of the individual responsible for preparing the tested journal entry.

Process-level Activities

- Three of 26 billing documents totaling $319,015 were not reviewed prior to being mailed to the customer.

- Twenty of 20 Form 528 documents, which are used in support of certain land balances in the Foundation Information for Real Property Management (FIRM) database, were not reviewed when the transactions were initiated.

- Two of two monthly reconciliations lacked evidence that an investigation of the FMS 6652 differences was performed, nor was there any evidence of difference resolution as a part of the reconciliations performed in subsequent months.

Recommendations

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

1. Establish and document policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews.

2. Design and implement procedures and controls consistent across all regions for reviewing and approving billing documents. These procedures and controls should be designed to ensure that billing documents are accurate and properly supported, which will mitigate the risk of misstatement of accounts receivable and related revenues.

3. Design and implement a process and controls for reviewing and approving information entered onto the Form 528, which will ensure that the Form 528, which is used to support FIRM, is accurate and properly supported.

4. Improve its internal control environment to ensure that all controls performed are properly documented, including improved training of personnel to ensure awareness and knowledge of requirements and an internal assessment of controls to verify controls are being performed and are operating effectively.

5. Improve its reconciliation procedures over the FMS 6652 to ensure all differences are investigated. Improvements should include:

   a. Documentation of the investigation and resolution of each difference

   b. Signature and date of the person performing the investigation

   c. Documentation of follow-up procedures performed in instances where the difference was not cleared in the original month reported

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with recommendations D.1 through D.4 and will improve its policies, procedures, and controls in accordance with the recommendations by a target date of June 30, 2006. Management partially agreed with recommendation D.5 to improve its reconciliation procedures over the FMS 6652 to ensure all differences are investigated. Reclamation agreed that non-timing differences requiring investigation should be well-documented with pertinent details. The target date for implementation of the improvements is June 30, 2006. However, management indicated that the recommendation to document every difference is neither an efficient nor an effective use of Reclamation resources, as the majority of differences are temporary due to month-end timing differences.

Auditors' Response to Management's Response

The Treasury Financial Manual (TFM), Part 2, Chapter 5100, requires agencies to reconcile Fund Balance with Treasury on a monthly basis, including the FMS 6652 Statement of Differences. The TFM further requires agencies to investigate all Treasury-reported differences and research and trace all adjustments to supporting documents. The key focus of this finding is that Reclamation does not have sufficient policies, procedures, and controls in place to identify and document the nature and cause of stated differences and to ensure differences are due solely to timing.

E. Controls over Credit Reform Loans

Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, provides accounting standards for Federal direct loans. The standard requires that the cost of direct loans obligated after September 30, 1991 be accounted for on a present value basis consistent with the Federal Credit Reform Act of 1990. SFFAS No. 2, paragraph 22 states, "The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance." Further, paragraph 30 states, "The subsidy allowance for direct loans is amortized by the interest method...the amortized amount is recognized as an increase or decrease in interest income" and paragraph 32 states, "The subsidy cost for direct loans... [is] re-estimated each year as of the date of the financial statements...any increase or decrease in the subsidy cost allowance...resulting from the re-estimates is recognized as a subsidy expense."

Further, Section 502(5)(A) of the Federal Credit Reform Act states, "The term 'cost' means the estimated long-term cost to the Government of a direct loan or loan guarantee or modification thereof, calculated on a net present value basis, excluding administrative costs and any incidental effects on government receipts or outlays."

Reclamation does not have sufficient controls in place to ensure the subsidy re-estimate is accurately recorded and that all relevant factors, including cohort year, year-to-date loan disbursements, and associated subsidy rates are properly applied to the re-estimate calculation. As a result, the subsidy allowance and related subsidy amortization was misstated by an estimated $10.4 million in fiscal year 2005.

Recommendation

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

1. Develop and implement controls to ensure the subsidy re-estimate is accurately recorded based on all relevant factors. Also, the subsidy re-estimation should be revised and approved by appropriate management.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with the recommendations and will improve its policies, procedures, and controls in accordance with the recommendations. The target date for implementation of the improvements is June 30, 2006. Management's official response, as attached, refers to recommendation E.2 in the draft independent auditors' report regarding administrative costs. Subsequent to the issuance of our draft finding, which included a recommendation regarding the exclusion of administrative costs from the loans receivable balance, management provided additional evidence to sufficiently clear that portion of the finding.

A summary of the status of prior-year reportable conditions is included as Exhibit I. We also noted certain additional matters that we reported to the management of Reclamation in a separate letter dated November 21, 2005.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION AND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

We noted certain significant deficiencies in internal control over Required Supplementary Information and Required Supplementary Stewardship Information discussed below, that, in our judgment, could adversely affect Reclamation's ability to collect, process, record, and summarize Required Supplementary Information and Required Supplementary Stewardship Information.

F. Reporting the Condition of Heritage and Stewardship Assets and Related Deferred Maintenance

Reclamation has not fully implemented the requirements of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, as amended by SFFAS No. 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6 and SFFAS No. 8.* SFFAS No. 6 requires Reclamation to estimate the deferred maintenance for its general, heritage, and stewardship assets using either the condition assessment survey or life cycle costing method. Paragraph 83 of SFFAS No. 6 requires Reclamation to disclose deferred maintenance information for all categories of property, plant, and equipment (general, stewardship, and heritage).

Reclamation has adopted the condition assessment survey method, which requires Reclamation to perform periodic inspections of assets to determine their current condition and estimate the cost to correct any deficiencies. Reclamation has implemented procedures to measure deferred maintenance for operating assets, including multi-use heritage assets. However, Reclamation has not fully established controls over the condition assessments performed to determine deferred maintenance for all assets as follows.

Reclamation has not completed condition assessments and estimated deferred maintenance for all known heritage assets. Specifically, conditions assessments performed in relation to archeological and historic sites, national historic landmarks, national register of historic places, paleontological sites, and museum collections are 82%, 20%, 69%, 99%, and 62% complete, respectively. No formal condition assessment program exists for archeological properties. Further, the condition of non-collectible, natural heritage assets remains largely undocumented.

Recommendations

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

1. Perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance.

2. Require supervisors to review and approve condition assessments and deferred maintenance estimates to ensure they are performed consistently and in accordance with policies.

3. Update the condition assessment and deferred maintenance estimates periodically and ensure the rotation schedule is properly maintained and monitored by individuals at the appropriate supervisory level.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management did not agree with our recommendations. Management indicated they do not believe condition assessments and deferred maintenance calculations on heritage and stewardship assets are required under SFFAS No. 6.

Auditors' Response to Management's Response

SFFAS No. 6 discusses four categories of property, plant, and equipment (PP&E), including heritage assets and deferred maintenance. SFFAS No. 6 outlines the requirements for estimated deferred maintenance for all categories of property, plant, and equipment, but does reference additional standards for the purpose of stewardship reporting. SFFAS No. 8, *Supplementary Stewardship Reporting*, was developed to establish standards over stewardship assets. SFFAS No. 8, paragraph 32, states, "many state and local governments, members of Congressional oversight committees, and national groups, have raised the issue of deteriorating condition of federally-owned PP&E because of deferred maintenance associated with these assets...as a result, a deferred maintenance standard in Accounting for Property, Plant, and Equipment, SFFAS No. 6, establishes reporting requirements related to the condition and future maintenance requirements for PP&E."

Further, SFFAS No. 8, paragraph 33, states, "the deferred maintenance standard is applicable to all PP&E whether the PP&E is reported as general PP&E or stewardship PP&E." Accordingly, SFFAS No. 6 is relevant with regards to heritage and stewardship assets and Reclamation is not in full compliance with this standard.

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described below, where Reclamation's financial management systems did not substantially comply with the requirements discussed below.

G. Federal Accounting Standards

As discussed in reportable condition A and significant deficiency F, Reclamation needs to: (1) improve its policies and procedures for recording activity in relation to the Western receivable and the Treasury general fund liability in response to the new accounting guidance, and (2) complete condition assessments and estimate any associated deferred maintenance for all known heritage and stewardship assets.

Recommendations

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

1. Improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures, and improved coordination with the U.S. Treasury regarding appropriate account posting models, as necessary.

2. Perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with recommendation G.1 to improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury general fund liability. Management did not agree with recommendation G.2 to perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance. Management indicated they do not believe condition assessments and deferred maintenance calculations on heritage and stewardship assets are required under Federal accounting standards and accordingly, does not believe this finding to be a substantial non-compliance with FFMIA.

Auditors' Response to Management's Response

FFMIA requires an entity's financial management system to comply with all relevant Federal accounting standards. As discussed in significant deficiency F, Reclamation has not completed condition assessments and estimated deferred maintenance for all known heritage and stewardship assets in accordance with SFFAS No. 6, as amended by SFFAS No. 14.

The results of our tests of FFMIA disclosed no instances in which Reclamation's financial management systems did not substantially comply with the Federal financial management systems or the standard general ledger at the transaction level requirements.

RESPONSIBILITIES

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA), *Accountability of Tax Dollars Act, and Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To assist DOI in meeting the GMRA reporting requirements, Reclamation prepares annual financial statements in accordance with Part A of OMB Circular A-136.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting;
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements of Reclamation based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Reclamation's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2005 audit, we considered Reclamation's internal control over financial reporting by obtaining an understanding of Reclamation's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on Reclamation's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, we considered Reclamation's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of Reclamation's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis and Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Reclamation's fiscal year 2005 financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Reclamation. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether Reclamation's financial management systems substantially comply with: (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

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

KPMG LLP

November 21, 2005

U.S. BUREAU OF RECLAMATION

Summary of the Status of Prior Year Findings

September 30, 2005

Ref	Condition	Status
A	Controls over land inventory	This condition has been corrected.
B	Controls over revenue recognition	This condition has been corrected.
C	Federal Financial Management Improvement Act of 1996	This condition has been corrected with regards to controls over land inventory. New findings were identified in fiscal year 2005 relating to the Federal Financial Management Improvement Act of 1996. See reportable condition A and significant deficiency F.

United States Department of the Interior

BUREAU OF RECLAMATION
Washington, D.C. 20240

IN REPLY REFER TO:
D-7400
ADM-1.00

MEMORANDUM

To: Office of the Inspector General
Attention: Assistant Inspector General for Audits

NOV 18

Through: Mark Limbaugh
Assistant Secretary - Water and Science

From: John W. Keys, III
Commissioner

John W. Keys, III NOV 15 2005

Subject: Bureau of Reclamation's Response to the Draft Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2005 and 2004 (Assignment No. X-IN-BOR-0013-2005)

We appreciate the opportunity to review and comment on the draft audit report titled Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2005 and 2004. Attached for your consideration is Reclamation's response to the recommendations as stated in the draft audit report.

If you have any questions or require additional information, please contact Reclamation's Audit Liaison Officer, [redacted] at [redacted]

Attachment

cc: Assistant Secretary - Water and Science
Attention: [redacted]
Associate Director - Financial Policy and Operations
Attention: [redacted]
(w/copy of incoming and att to each)

Bureau of Reclamation
KPMG, LLP Draft Audit Report
Response to Draft Audit Report Recommendations
November 2005

A. Controls over Implementation of New Accounting Principle

Recommendation A.1

Improve its policies and procedures related to recording additions to and repayments against th Western receivable and the Treasury liability, including accounting policies and procedures an improved coordination with the U.S. Treasury regarding appropriate account posting models, a necessary.

Response

Concur. Reclamation will improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures and improved coordination with the Treasury regarding appropriate account posting models, as necessary.

The responsible officials are the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for improving policies and procedures related to the Western receivable and Treasury liability is June 30, 2006.

Recommendation A.2

Implement controls to ensure current year additions to and repayments against the Treasury liability are properly recorded in the standard general ledger, including sufficient management oversight and review.

Response

Concur. Reclamation will implement controls to ensure current year additions to and repayments against the Treasury liability are properly recorded in the standard general ledger, including sufficient management oversight and review.

The responsible officials are the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for implementing controls to ensure that current year activity related to the Treasury liability is properly recorded in the standard general ledger is June 30, 2006.

Recommendation A.3

Implement controls, including sufficient management oversight and review, to ensure current year appropriations to and repayments from Western are properly recorded in the standard general ledger and budgetary and proprietary balances are properly reported. Further, Reclamation should continue to resolve the unreconciled differences between Reclamation's receivable and Western's liability and continue to improve coordination between Western, the U.S. Department of Energy, Department of the Interior, and Office of Management and Budget.

Response
Concur. Reclamation will implement controls, including sufficient management oversight and review, to ensure current year appropriations to and repayments from the Western Area Power Administration (Western) are properly recorded in the standard general ledger and budgetary and proprietary balances are properly reported. Further, Reclamation will continue to resolve the unreconciled differences between Reclamation's receivable and Western's liability and continue to improve coordination between Western, the Department of Energy, Department of the Interior, and the Office of Management and Budget.

The responsible officials are the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for implementing controls, including management oversight and review, to ensure that activity related to the receivable from Western is properly recorded and reported is June 30, 2006.

B. Security and Internal Control over Information Technology Systems

General Comments:

Although Reclamation agrees that application account management procedures could be further improved, other controls are in place to mitigate the risk of this weakness jeopardizing financial systems or the data provided in support of the financial statement. These controls include:

- Management and termination of Local Area Network (LAN) access
- Password requirements
- Data edits in the financial application
- Constraints on transmission of data to the financial system

These controls and procedures were effective in preventing LAN access, even though about 1 percent of the terminated users retained access to applications, as validated by KPMG.

Recommendation B.1

Implement policies and procedures and related controls over the retention of new user authorization and access change documentation.

Response

Concur. Reclamation Manual Directives and Standards, IRM 08-12, "Computer Protections, Anti-Virus, Access Control and Passwords" (available at www.usbr.gov/recman/irm/irm08-12.htm) provides policy for managing user accounts.

Reclamation has updated user administration procedures for the Movable Property System (MPS) and the Interior Department Electronic Acquisition System (IDEAS-PD). The updated procedures were completed and distributed in June and July 2005, respectively, and clarify requirements associated with user account maintenance and oversight responsibilities for system administrators. As of August 2005, Reclamation standardized user access forms for the Bureau of Reclamation Water Operations and Record Keeping System (BORWORKS) and developed a refined process for creating and modifying user accounts to help ensure access is properly authorized.

System administrators and local managers began implementing these procedures upon distribution. The new procedures will ensure that authorization and access documentation is maintained and reviewed by system managers and administrators. The procedures also require that the Reclamationwide functional system administrator conduct semiannual reviews of all user account activities to verify and validate that required reviews have been completed by local system administrators. These newly established procedures require the retention of new user authorization and access change documentation.

Mitigation of this finding will be tracked in the Reclamation Plan of Action and Milestones reports for systems as soon as the final audit report is received.

The responsible official is the Chief Information Officer. Reclamation has completed the task of developing and distributing policies and procedures. The target date for verifying the implementation of the newly established procedures is April 30, 2006.

Recommendation B.2

Ensure administrators and system managers receive adequate training to ensure responsible personnel are aware of existing policies and procedures governing user access. Reclamation should monitor personnel to ensure that policies and procedures are followed.

Response

Concur. Reclamation will conduct training on the new procedures described above to further ensure compliance and an understanding of requirements. Procedures will be implemented to provide adequate training on access controls for new system administrators and other personnel, as needed to ensure that responsible personnel are aware of policies and procedures. Reclamation has procedures in place to inform new system owners and managers of their responsibilities related to application access authorization and account management. As stated in our response to Recommendation B.1, new procedures include monitoring account management procedures.

Mitigation of this finding will be tracked in the Reclamation Plan of Action and Milestones reports for systems as soon as the final audit report is received.

The responsible official is the Chief Information Officer. The target date for initial training to ensure responsible personnel are aware of existing policies and procedures is June 30, 2006.

Recommendation B.3

Monitor the process to ensure that periodic reviews of user access, including reviews at the Sys Operations task level, are performed at the designated intervals and that action is taken in a timely manner to investigate and modify or remove access as a result of the review. Supplement existing guidance to state explicit criteria that should be considered during periodic reviews of user access listings, which will include the oversight of the appropriateness of personnel to perform the reviews. Specifically, someone familiar with the users and their current roles/responsibilities should perform the periodic review; an effective review may require involvement at the regional and/or office level. Further, the objectives of the review are two-fold: 1) to ensure users' access remains appropriate; and 2) to identify any terminated users.

Response

Concur. As stated in our response to Recommendation B.1, Reclamation has updated user administration procedures for MPS and IDEAS-PD. The procedures require that an independent system administrator conduct periodic audits of user account listings to verify and validate that required reviews have been completed by local system administrators. System administrators and local managers began implementing these procedures upon distribution.

In addition, Reclamation's Information Technology Security Assurance program will include a review of account management procedures in its site and system reviews this year.

Mitigation of this finding will be tracked in the Reclamation Plan of Action and Milestones reports for systems as soon as the final audit report is received.

The responsible official is the Chief Information Officer. The target date for a cycle of account management review is May 30, 2006.

C. Controls over Charge Card Reviews

Recommendation C.1

Ensure compliance with its established charge card policies. To help ensure compliance, Reclamation management at all regional, area, and field office locations should be more diligent in monitoring and enforcing compliance with DOI charge card policies.

Response

Concur. Reclamation will continue to implement internal controls and perform oversight to ensure compliance with established charge card policies. Draft Reclamation charge card guidance has been issued for review and comment and is scheduled to be formally issued in fiscal year 2006.

The responsible officials are the Deputy Commissioner, External and Intergovernmental Affairs, Deputy Commissioner, Operations, and Deputy Commissioner, Policy, Administration and Budget. The target date for implementing internal controls and performing oversight to ensure compliance with charge card policies is June 30, 2006.

Recommendation C.2

Design and implement policies to monitor the results of internal reviews of charge card statements to ensure that the internal reviews are effective in ensuring compliance with charge card policies.

Response

Concur. Draft Reclamation charge card guidance has been issued for review and comment and is scheduled to be formally issued in fiscal year 2006. This guidance includes policies and procedures which require charge card reviews to ensure compliance with charge card policies.

The responsible official is the Deputy Commissioner, Policy, Administration and Budget. The target date for implementing policies to monitor the results of internal charge card statement reviews is June 30, 2006.

D. Controls over Management Review and Approval of Process-level Activities

Recommendation D.1

Establish and document policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews.

Response

Concur. Reclamation will establish and document policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews.

The responsible officials are the Chief Financial Officer, Deputy Chief Financial Officer, and all Regional Directors. The target date for establishing and documenting policies and procedures for initiating, reviewing and documenting journal entries and standard vouchers to ensure proper segregation of duties and quality reviews is June 30, 2006.

Recommendation D.2

Design and implement procedures and controls consistent across all regions for reviewing and approving billing documents. These procedures and controls should be designed to ensure that billing documents are accurate and properly supported, which will mitigate the risk of misstatement of accounts receivable and related revenues.

Response

Concur. Reclamation will assess the internal controls over the billing process review for each region and design and implement additional procedures and internal controls as necessary.

The responsible officials are the Chief Financial Officer, Deputy Chief Financial Officer, and all Regional Directors. The target date for assessing the internal controls and implementing new controls is June 30, 2006.

Recommendation D.3

Design and implement a process and controls for reviewing and approving information entered onto the Form 528, which will ensure that the Form 528, which is used to support FIRM, is accurate and properly supported.

Response

Concur. Reclamation will design and implement a process and controls for reviewing and approving information entered onto the Form 528, which will ensure that the Form

528, which is used to support the Foundation Information for Real Property Management System, is accurate and properly supported.

The responsible official is the Regional Director, Mid-Pacific Region. The target date for designing and implementing new internal controls is June 30, 2006.

Recommendation D.4

Improve its internal control environment to ensure that all controls performed are properly documented, including improved training of personnel to ensure awareness and knowledge of requirements and an internal assessment of controls to verify controls are being performed and are operating effectively.

Response

Concur. Reclamation will improve its internal control environment to ensure that all controls performed are properly documented, including improved training of personnel to ensure awareness and knowledge of requirements and an internal assessment of controls to verify controls are being performed and are operating effectively.

The responsible official is the Deputy Commissioner, Operations and Deputy Commissioner, Policy, Administration and Budget. The target date for improving the internal control environment is June 30, 2006.

Recommendation D.5

Improve its reconciliation procedures over the FMS 6652 to ensure all differences are investigated. Improvements should include:

a. Documentation of the investigation and resolution of each difference.
b. Signature and date of the person performing the investigation.
c. Documentation of follow-up procedures performed in instances where the difference was not cleared in the original month reported.

Response

Partially concur. The recommendation to document every difference is neither an efficient nor an effective use of Reclamation resources. The majority of differences are temporary, due to month end timing differences between Treasury and Reclamation. Reclamation generates a monthly report that systematically documents the aging, by schedule and document number, of all differences for the month including those that have not been cleared in the original month reported. Reclamation agrees that non-timing differences, that require investigation, should be well documented with pertinent details, investigator's name, and dates of completion by the person performing the investigation.

The responsible official is the Deputy Chief Financial Officer. The target date for implementing new procedures to document differences requiring investigation is June 30, 2006.

E. Controls over Credit Reform Loans

Recommendation E.1

Develop and implement controls to ensure the subsidy re-estimate is accurately recorded based on all relevant factors. Also, the subsidy re-estimation should be revised and approved, by appropriate management.

Response

Concur. Reclamation will develop and implement controls to ensure the subsidy re-estimate is accurately recorded based on all relevant factors, and will also assess the proper level of management review of subsidy re-estimates.

The responsible official is the Deputy Commissioner, Policy, Administration and Budget. The target date for assessing and implementing this recommendation is June 30, 2006.

Recommendation E.2

Design and implement a mechanism to properly exclude administrative costs from the net loan receivable balance.

Response

Nonconcur. Reclamation properly includes **reimbursable** administrative costs due from loan recipients in the loan receivable balance reported in the financial statements. Reclamation properly excludes appropriated or nonreimbursable administrative costs associated with the loan program from the loan receivable balance reported in the financial statements.

Reclamation's direct loans authorized after September 30, 1991, are provided for by the Small Reclamation Projects Act of 1956 (Public Law 84-984). This Act states, "The reasonable cost of any plans, specification, and other unpublished material furnished by the Secretary pursuant to this section and the cost of making and administering any loan under this Act shall, to the extent that they would not be nonreimbursable in the case of a project constructed under the Federal Reclamation laws, be treated as a loan and covered in the provisions of the contract entered into under section 5 of this Act unless they are otherwise paid for by the organization." Reimbursable administrative costs become part of the loan balance due from the customer as incurred per the authorizing legislation. As these costs are reimbursable, they do not qualify as costs to the Government of a direct loan as defined in Section 502(5)(A) of the Federal Credit Reform Act of 1990.

F. Reporting the Condition of Heritage and Stewardship Assets

Recommendation F.1

Perform condition assessments for all heritage assets and stewardship assets, and estimate the related deferred maintenance.

Response

Non-concur. Reclamation does not believe that the requirements of the Statement of Federal Financial Accounting Standards (SFFAS) No. 6 for performing condition assessments and estimating deferred maintenance is applicable to its heritage assets. As discussed in the Executive Summary of SFFAS No. 6, paragraph c, there are four categories of Property, Plant, and Equipment (PP&E): (1) general PP&E; (2) Federal mission PP&E; (3) heritage assets; and 4) stewardship land. Paragraph d of the Executive Summary states that: "Complete accounting standards for general PP&E are included in this document." This infers that SFFAS No. 6 does not provide complete accounting standards for the other three categories, including heritage assets.

In SFFAS No. 6, accounting standards related to heritage assets are limited to the recognition and measurement of costs for financial statement reporting purposes (refer to paragraphs 61 and 62 of SFFAS No. 6). Paragraph 62 states that: "Additional reporting requirements will be developed for stewardship report items in a separate standard." The deferred maintenance requirements of SFFAS No. 6 do not apply to heritage assets.

SFFAS No. 8 "Supplementary Stewardship Reporting" provides additional guidance and requirements for stewardship assets, including heritage assets, Federal mission property, and stewardship land. SFFAS No. 8, Chapter 2, provides guidance for reporting heritage asset information as Required Supplementary Stewardship Information. Under the "Minimum Reporting" section, paragraph 50 provides agencies with **latitude** in determining the appropriate information to report, including condition and deferred maintenance. Paragraph 50 states:

"The determination of the most relevant information to be presented should be made by the preparer; however, reporting at the entity level shall be more specific than at the government-wide level. The following are examples of information that *should be considered* for presentation." (italics added for emphasis)

The fourth bullet under paragraph 50 is "condition." The fifth bullet states: "A reference to a note to the financial statements *if* deferred maintenance is reported for the assets." (italics added for emphasis)

By reviewing the deferred maintenance requirements that are addressed in SFFAS numbers 6, 8, and 14, it can also be inferred that the Federal Accounting Standards Advisory Board (FASAB) intended to provide agencies some latitude in the application of deferred maintenance, including the performance of condition assessments, for its PP&E. For example, paragraph y in the Executive Summary to SFFAS 6 states:

"The standards recognize that there are many variables in estimating deferred maintenance amounts. The standards acknowledge that condition rating is a management function since different conditions might be considered acceptable by different entities as well as for different items of PP&E held by the same entity. In addition, management *may* use condition assessment surveys or life cycle cost plans to estimate the amount of deferred maintenance." (italics added for emphasis)

SFFAS No. 8, paragraph 32, also includes inferences that the primary intent of the deferred maintenance requirements is to ensure that the operational PP&E of an agency is identified and reported. Paragraph 33 provides agency flexibility in the application of condition assessment and deferred maintenance requirements. This paragraph states that: "These requirements are flexible since different conditions may be considered acceptable by different entities, as well as for different items of PP&E held by the same entity."

In addition, SFFAS No. 6, Chapter 3 indicates that deferred maintenance requirements are primarily applicable to an agency's operating PP&E. Paragraph 77 defines deferred maintenance as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." Paragraph 78 elaborates on the definition of maintenance:

"For purposes of this standard, maintenance is described as the act of keeping fixed assets in acceptable condition. It includes preventative 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."

The third bullet of paragraph 83 states: "If the condition assessment survey method of measuring deferred maintenance is used, the following should be presented for each class of PP&E: (1) description of requirements or standards for acceptable operating condition; (2) any changes in the condition; (3) asset condition and a range estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition." Since reference is made to acceptable operating condition, it appears that this requirement is applicable to fixed assets such as plant and equipment. It does not appear that heritage assets meet the criteria for the deferred maintenance requirement as required by SFFAS No. 6, paragraphs 77 and 78. If deferred maintenance is not applicable to heritage assets, it can be inferred that condition assessments on these assets are not required.

Finally, SFFAS No. 14, paragraph 80 indicates that amounts for deferred maintenance may be measured using condition assessment surveys. Paragraph 81 defines condition assessment surveys as "periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies." From the criteria specified in SFFAS No. 14, it can be inferred that deferred maintenance is generally not applicable to heritage assets when these assets are an incidental aspect of an agency. This SFFAS indicates that condition assessments may be performed to identify costs that need to be incurred to bring an asset up an acceptable operating condition. Operating condition is not an applicable measure, generally, for Reclamation's heritage assets as the great majority are archaeological properties. One exception might be multi-use heritage assets, heritage assets that are used to accomplish Reclamation's mission. For these situations, such assets would be included in Reclamation's assessment of deferred maintenance of its reserved water and power facilities.

Reclamation recognizes its responsibility to manage and protect heritage assets, and to comply with Federal law and regulations in that regard. However, the management of heritage assets is secondary to Reclamation's mission of delivering water and power. Highest priority, of necessity, is given to conducting condition assessments and addressing deferred maintenance of Reclamation water and power facilities. The Federal government has not issued any standards or guidance for conducting condition assessments and evaluating deferred maintenance of archaeological sites, which comprise the majority of Reclamation's non-collectible heritage assets. The Federal government also has no laws or regulations in place for evaluating the significance, condition, or deferred maintenance of paleontological resources, another category of non-collectible heritage assets.

It should be noted that Reclamation is in full compliance with condition assessment and deferred maintenance requirements for its general PP&E, as required by SFFAS No. 6. Reclamation has long-established policies and procedures for conducting comprehensive and rigorous condition assessments of all of its high and significant hazard dams, power plants, and associated facilities. Deferred maintenance on all Reclamation reserved works facilities (owned and operated by Reclamation) is updated quarterly. This would include multi-use heritage assets; e.g., Hoover Dam, which is a National Historic Landmark. The Department requires comprehensive condition assessments every 5 years. Reclamation currently performs condition assessments of its water and power facilities on a 3-year frequency.

Reclamation conducts scheduled condition assessments and determines deferred maintenance of its non-collectible heritage assets that fall under the definition of buildings and structures, in particular those that are multi-use heritage assets. In addition, Reclamation's reserved buildings are now also subject to scheduled condition assessments. In fiscal year 2004, Reclamation completed a preliminary condition assessment of all its reserved buildings that have a current replacement value of greater than $50,000. Over the next five years, comprehensive condition assessments of those properties will be scheduled and completed. Deferred maintenance needs will be identified and reported.

In terms of collectible heritage assets, Department standards exist for evaluating the condition of facilities that display, exhibit, or store museum property. Reclamation uses the Department Facility Checklist for assessing condition and maintenance needs of such facilities. Item-level condition assessments are conducted as part of annual inventories and when accessioned items are cataloged. Conservation surveys that would identify costs for rehabilitation of items occur only as needed, as per 411DM.

In addition, in an October 21, 2005, memo from the Assistant Secretary, Policy, Management and Budget (AS-PMB) to the Assistant Inspector General for Audits the Department resolved the disputed fiscal year 2004 Independent Auditors' Reports to several Department bureaus regarding the auditor's recommendations on collectable heritage assets. Specifically, KPMG noted significant deficiencies for those bureaus' internal controls over Required Supplemental Stewardship Information related to condition assessments of collectable heritage assets and controls over Required Supplementary Information related to deferred maintenance amounts for such assets. KPMG concluded that these deficiencies in internal control were also indicators of noncompliance with Federal Financial Management Improvement Act provisions relating to Federal accounting standards. In the AS-PMB's final conclusion and resolution, it was stated that:

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

It should be noted that the condition of heritage assets issue is a Department-wide issue. Reclamation is in full compliance with all Departmental reporting requirements regarding heritage assets. Due to budgetary constraints, it is unlikely that sufficient funding would be available to perform condition assessments and estimate deferred maintenance on all heritage assets. Accordingly, it would not be feasible or cost-effective to implement this recommendation.

Recommendation F.2

Require supervisors to review and approve condition assessments and deferred maintenance estimates to ensure they are performed consistently and in accordance with policies.

Response

Non-concur. Since Reclamation does not concur with Recommendation F.1, Reclamation cannot concur to this recommendation. Nevertheless, Reclamation believes it is important to note the supervisory requirements Reclamation does have in place. Reclamation has already instituted supervisory approval where required. Reclamation uses the Department Facility Checklist for assessing condition and maintenance needs of such facilities. Item-level condition assessments are conducted as part of annual inventories and when accessioned items are cataloged. Conservation surveys that would identify costs for rehabilitation of items occur only as needed, as per 411DM. Reclamation requires assessments of its non-collectable multi-use heritage assets. All assessments are reviewed and approved by supervisors and managers; for both collectable and non-collectable heritage assets these internal review and approval requirements are being codified in the Reclamation Manual.

Recommendation F.3

Update the condition assessment and deferred maintenance estimates periodically and ensure the rotation schedule is properly maintained and monitored by individuals at the appropriate supervisory level.

Response

Non-concur. Since Reclamation does not concur with Recommendation F.1, Reclamation cannot concur to this recommendation. Nevertheless, Reclamation believes it is important to note actions it does take with regard to performing condition assessments and deferred maintenance. Reclamation is in full compliance with condition assessment and deferred maintenance requirements for its general PP&E, as required by SFFAS No. 6. Reclamation has long-established policies and procedures for conducting comprehensive and rigorous condition assessments of all of its high and significant hazard dams, power plants, and associated facilities. Deferred maintenance on all Reclamation reserved works facilities (owned and operated by Reclamation) is updated quarterly. This includes multi-use heritage assets; e.g., Hoover Dam, which is a National Historic Landmark. The Department requires comprehensive condition assessments every 5 years. Reclamation currently performs condition assessments of its water and power facilities on a 3-year frequency.

Reclamation conducts scheduled condition assessments and determines deferred maintenance of its non-collectible heritage assets that fall under the definition of buildings and structures, in particular those that are multi-use heritage assets. In addition, Reclamation's reserved buildings are now also subject to scheduled condition assessments. In fiscal year 2004, Reclamation completed a preliminary condition assessment of all its reserved buildings that have a current replacement value of greater than $50,000. Over the next 5 years, comprehensive condition assessments of those properties will be scheduled and completed. Deferred maintenance needs will be identified and reported.

In terms of collectible heritage assets, Federal standards exist for evaluating the condition of facilities that display, exhibit, or store museum property. Reclamation uses the Department Facility Checklist for assessing condition and maintenance needs of such facilities. Item-level condition assessments are conducted as part of annual inventories and when accessioned items are cataloged. Conservation surveys that would identify costs for rehabilitation of items occur only as needed, as per 411DM.
All regional submittals of condition assessments and deferred maintenance data are processed through senior regional management prior to submission to those who compile

and write the quarterly or annual data reports. All data and reports submitted to the Department are monitored and approved by senior Reclamation management.

G. Federal Accounting Standards

Recommendation G.1

Improve its policies and procedures related to recording additions to and repayments against the Western receivable and the Treasury liability, including accounting policies and procedures and improved coordination with the U.S. Treasury regarding appropriate account posting models, as necessary.

Response

Concur. See response to Recommendation A.1.

Recommendation G.2

Perform condition assessments for all heritage assets and stewardship assets and estimate the related deferred maintenance.

Response

Non-Concur. See response provided for Recommendation F.1.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Balance Sheet
As of September 30, 2005, and 2004

(In Thousands)	2005	2004
ASSETS (Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 6,090,731	$ 5,233,607
Accounts Receivable	825,974	351,765
Amounts Due from the U.S. Department of Energy, Net (Notes 1.N, 5)	2,458,075	-
Other:		
Advances and Prepayments	1,423	1,236
Total Intragovernmental Assets	9,376,203	5,586,608
Cash	100	91
Accounts and Interest Receivable, Net (Note 4)	31,459	32,179
Loans and Interest Receivable, Net (Note 6)	146,468	166,900
General Property, Plant, and Equipment, Net (Note 7)	13,015,525	13,065,549
Other:		
Advances and Prepayments	37,736	21,612
Power Rights, Net	160,579	170,371
Total Other Assets	198,315	191,983
Total Assets	$ 22,768,070	$ 19,043,310
LIABILITIES (Note 8)		
Intragovernmental Liabilities:		
Accounts Payable	$ 24,651	$ 25,712
Debt (Note 9)	96,811	114,098
Other:		
Accrued Employee Benefits	21,357	21,100
Advances, Deferred Revenue, and Deposit Funds	8,781	10,381
Judgment Fund Liability	47,950	46,959
Resources Payable to Treasury (Note 1.N)	1,780,970	-
Other Liabilities	19,689	21,028
Total Other Liabilities	1,878,747	99,468
Total Intragovernmental Liabilities	2,000,209	239,278
Accounts Payable	204,868	196,000
Federal Employee Benefits, Actuarial	88,702	85,815
Environmental and Disposal Liabilities (Note 10)	35,360	5,629
Other:		
Accrued Payroll and Benefits	48,986	44,818
Advances, Deferred Revenue, and Deposit Funds	455,289	271,300
Contingent Liabilities (Note 10)	9,515	62,625
Other Liabilities	115	115
Total Other Liabilities	513,905	378,858
Total Liabilities	2,843,044	905,580
NET POSITION		
Unexpended Appropriations	350,519	325,934
Cumulative Results of Operations	19,574,507	17,811,796
Total Net Position	19,925,026	18,137,730
Total Liabilities and Net Position	$ 22,768,070	$ 19,043,310

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Net Cost
For the Years Ended September 30, 2005, and 2004

(In Thousands)	2005	2004
RESOURCE USE		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	$ 1,065,165	$ 1,128,404
Earned Revenues	(517,262)	(497,059)
Net Cost	547,903	631,345
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Costs	257,373	212,861
Earned Revenues	(350,931)	(267,143)
Net Cost	(93,558)	(54,282)
RESOURCE PROTECTION		
Improve Health of Watersheds and Landscapes, Sustain Biological Communities, and Protect Cultural Resources:		
Costs	34,907	16,472
Earned Revenues	(1,910)	191
Net Cost	32,997	16,663
RECREATION		
Provide Quality and Fair Value in Recreation:		
Costs	27,720	22,540
Earned Revenues	(13,654)	(24,479)
Net Cost	14,066	(1,939)
CENTRALIZED PROGRAM SUPPORT AND OTHER		
Working Capital Fund, Policy and Administration, and Other:		
Costs	164,076	160,851
Earned Revenues	(79,239)	(96,178)
Net Cost	84,837	64,673
TOTAL		
Costs	1,549,241	1,541,128
Earned Revenues	(962,996)	(884,668)
Net Cost of Operations (Note 12)	$ 586,245	$ 656,460

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2005, and 2004

(In Thousands)	2005	2004
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ 325,934	$ 314,643
Budgetary Financing Sources:		
Appropriations Received, General Funds	190,227	168,998
Appropriations Transferred In/(Out)	41,639	38,141
Appropriations Used	(205,939)	(195,353)
Other Adjustments	(1,342)	(495)
Net Change in Unexpended Appropriations	24,585	11,291
Ending Balance - Unexpended Appropriations	$ 350,519	$ 325,934
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance, as Previously Reported	$ 17,811,796	$ 17,098,978
Change in Accounting Principle (Note 1.N)	405,417	-
Beginning Balance, as Adjusted	18,217,213	17,098,978
Budgetary Financing Sources:		
Appropriations Used	205,939	195,353
Royalties Retained	1,763,969	1,066,779
Non-exchange Revenue	17	149
Transfers In/(Out) Without Reimbursement	(78,763)	(5,449)
Other Budgetary Financing Sources	33,958	-
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others	67,863	137,554
Transfers In/(Out) Without Reimbursement	(51,621)	(25,181)
Donations of Property	2,177	73
Total Financing Sources	1,943,539	1,369,278
Net Cost of Operations	(586,245)	(656,460)
Net Change in Cumulative Results of Operations	1,357,294	712,818
Ending Balance - Cumulative Results of Operations	$ 19,574,507	$ 17,811,796

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2005, and 2004

	Total Budgetary Accounts		Non-budgetary Credit Program Financing Account	
(In Thousands)	**2005**	**2004**	**2005**	**2004**
BUDGETARY RESOURCES				
Budget Authority:				
Appropriations Received	$ 1,080,755	$ 1,020,602	$ -	$ -
Borrowing Authority	-	-	995	4,125
Net Transfers, Current Year Authority	2,000	4,664	-	-
Unobligated Balance:				
Beginning of Fiscal Year	602,241	558,743	-	-
Net Transfers, Unobligated Balance, Actual	-	1,346	-	-
Spending Authority from Offsetting Collections:				
Earned:				
Collected	780,978	795,718	24,718	8,011
Receivable from Federal Sources	4	14,795	-	-
Change in Unfilled Customer Orders:				
Advance Received	167,901	3,854	-	-
Without Advance from Federal Sources	6,279	1,493	-	-
Subtotal: Spending Authority from Offsetting Collections	955,162	815,860	24,718	8,011
Recoveries of Prior Year Obligations	33,981	41,478	9	26
Temporarily Not Available Pursuant to Public Law	(6,066)	-	-	-
Permanently Not Available	(177,798)	(16,659)	(18,282)	(4,853)
Total Budgetary Resources	$ 2,490,275	$ 2,426,034	$ 7,440	$ 7,309
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred (Note 13):				
Direct	$ 1,018,358	$ 990,891	$ 7,440	$ 7,309
Reimbursable	805,909	832,902	-	-
Total Obligations Incurred	1,824,267	1,823,793	7,440	7,309
Unobligated Balance:				
Apportioned	621,064	562,797	-	-
Exempt from Apportionment	44,944	39,444	-	-
Total Status of Budgetary Resources	$ 2,490,275	$ 2,426,034	$ 7,440	$ 7,309
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS				
Obligations Incurred	$ 1,824,267	$ 1,823,793	$ 7,440	$ 7,309
Obligated Balance, Net, Beginning of Fiscal Year	674,943	627,386	3,951	8,051
Obligated Balance, Net, End of Fiscal Year:				
Accounts Receivable	37,334	37,330	-	-
Unfilled Customer Orders from Federal Sources	36,138	29,859	-	-
Undelivered Orders	(513,248)	(488,201)	(3,942)	(3,951)
Accounts Payable	(267,525)	(253,931)	-	-
Total Obligated Balance, Net, End of Fiscal Year	(707,301)	(674,943)	(3,942)	(3,951)
Less: Spending Authority Adjustments	(40,264)	(57,766)	(9)	(26)
Outlays:				
Disbursements	1,751,645	1,718,470	7,440	11,383
Collections	(948,879)	(799,572)	(24,718)	(8,011)
Net Outlays Before Offsetting Receipts	802,766	918,898	(17,278)	3,372
Less: Offsetting Receipts	(1,787,437)	(1,460,188)	-	-
Net Outlays (Receipts)	$ (984,671)	$ (541,290)	$ (17,278)	$ 3,372

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Financing
For the Years Ended September 30, 2005, and 2004

(In Thousands)	2005	2004
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 1,831,707	$ 1,831,102
Less: Spending Authority from Offsetting Collections and Recoveries	(1,013,870)	(865,375)
Obligations Net of Offsetting Collections and Recoveries	817,837	965,727
Less: Offsetting Receipts	(1,787,437)	(1,460,188)
Net Obligations	(969,600)	(494,461)
Other Resources:		
Donations of Property	2,177	73
Transfers In/(Out) Without Reimbursement	(51,621)	(25,181)
Imputed Financing from Costs Absorbed by Others	67,863	137,554
Net Other Resources Used to Finance Activities	18,419	112,446
Total Resources Used to Finance Activities	(951,181)	(382,015)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(41,464)	(74,832)
Change in Unfilled Customer Orders	174,179	5,347
Resources That Fund Expenses Recognized in Prior Periods	(53,697)	(2,725)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections That Increase Liabilities for Allowances for Subsidy	24,717	-
Offsetting Receipts Not Part of the Net Cost of Operations	1,268,023	1,050,255
Resources That Finance the Acquisition of Assets	(146,216)	(261,540)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	27,029	36,451
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,252,571	752,956
Total Resources Used to Finance the Net Cost of Operations	301,390	370,941
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	121	-
Increase in Environmental and Disposal Liabilities	29,731	-
Increase in Exchange Revenue Receivable from the Public	2,999	2,995
Increase in Other Unfunded Liabilities	14,247	9,020
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	47,098	12,015
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	189,438	185,514
Revaluation of Assets	9,154	44,791
Allocation Transfer Reconciling Items (Note 14)	37,923	43,795
Other	1,242	(596)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	237,757	273,504
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	284,855	285,519
Net Cost of Operations	$ 586,245	$ 656,460

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior Bureau of Reclamation Notes to the Financial Statements for the Years Ended September 30, 2005, and 2004

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations of Reclamation as required of Interior by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements have been prepared from Reclamation's books and records in accordance with the Office of Management and Budget's (OMB) Circular A-136, "Financial Reporting Requirements," dated August 23, 2005. Furthermore, the financial statements have been prepared in accordance with Reclamation's accounting policies that are summarized herein.

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

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

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

C. Budgets and Budgetary Accounting

Reclamation receives the majority of its required funding to support its programs through appropriations authorized by the Congress. Additional FY 2005 and 2004 budgetary resources have been provided by permanent authority, contributed funds, revolving funds, operation and maintenance (O&M) reimbursements from water and power users, and transfers from other Federal agencies.

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

Budget. The difference between the budgetary and proprietary accounting treatment of allocation transfer accounts is reconciled as part of the Consolidated Statement of Financing.

Reclamation is responsible for administering or posting transactions to approximately 50 separate Treasury symbols. These funds fall into a variety of classes, including general appropriation, revolving (permanent), contributed funds, working capital, and special receipt accounts. Reclamation finances its activities from several sources: Treasury's General Fund, the Reclamation Fund, and contributed funds.

The Reclamation Fund is a restricted, unavailable receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of capital investment costs, associated interest, and O&M reimbursements from water and power users) and receipts from other Federal agencies (primarily revenues from certain Federal mineral royalties and hydropower transmission) are deposited. No expenditures are made directly from the Reclamation Fund; however, funds are transferred from the Reclamation Fund into Reclamation's appropriated expenditure funds or to other Federal agencies pursuant to congressional appropriation acts.

D. Fund Balance with Treasury

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

E. Accounts Receivable

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

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

F. Loans Receivable

Reclamation operates loan programs that provide Federal assistance to non-Federal organizations for constructing or improving water resource projects in the West. Reclamation's loan programs are authorized under the Small Reclamation Projects Act of 1956 (Public Law [P.L.] 84-984), the Distribution System Loans Act (P.L. 84-130), the Rural Development Policy Act of 1980 (P.L. 96-355) as amended by P.L. 97-273, and the Rehabilitation and Betterment Act (P.L. 81-335). The loan programs are classified into two major categories. The first category is Credit Reform Loans, which consists of loans made after FY 1991 that have been accounted for under the provisions of the Credit Reform Act of 1990 (Credit Reform) (P.L. 101-508).

The second category is Other Loans, which pertains to those loans made prior to the requirements of Credit Reform and consist primarily of drought relief and repayment loans. The Other Loans receivable balances shown represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance is determined by management for loan balances where collectibility is considered to be uncertain based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

Loan interest rates vary, depending on the applicable legislation; and, in some cases, there is no interest accrued on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status.

Credit Reform Loans

Credit Reform required extensive changes in accounting for loans to the public. Prior to Credit Reform, funding for loans was provided by congressional appropriation from the general or special funds. Under Credit Reform, loans contain two components, the first of which is borrowed from Treasury. These Treasury borrowings, which will be repaid from loan repayments, are authorized by Credit Reform.

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

G. General Property, Plant, and Equipment

General property, plant, and equipment (PP&E) consists of that property which is used in Reclamation's operations. General PP&E includes the following categories: structures and facilities, land, Construction in Progress – General, construction in abeyance, equipment, vehicles and aircraft, buildings, and internal use software.

Real property is not subject to a capitalization threshold, while equipment (including vehicles and aircraft) has a $15,000 threshold per item. Internal use software is subject to a $100,000 capitalization threshold. All costs under the applicable threshold are expensed as incurred.

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

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

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

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

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

Investigations and development costs represent expended funds for such activities as general engineering studies and surveys that are directly related to project construction. Reclamation capitalizes investigation and development costs that are incurred after the decision is made to pursue construction or after construction authorization. These capitalized costs are included in Construction in Progress – General. Reclamation's accounting treatment for investigation and development costs not related to project construction, incurred prior to the decision to pursue construction, or incurred before construction authorization, results in these costs being expensed as incurred.

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

In past years, Reclamation began the planning of, and construction on, various features included in 10 projects located in Arizona, California, Colorado, North and South Dakota, and Washington, for which activities have either been placed in abeyance or intended benefits have never been provided. These capitalized costs are included in construction in abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been, and will continue to be, budgeted and expended to minimize the erosive effects of weather and time and to keep the assets ready for potential completion. The calculation and recording of IDC is suspended after an asset is transferred to abeyance. If the asset is later transferred back to construction in progress, IDC will be retroactively computed.

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

Buildings consist of houses, garages, and shops owned by Reclamation and used in power, irrigation, M&I, or multipurpose operations that are not included in structures and facilities of a specific project. Buildings are valued at acquisition cost and are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives for calculating depreciation on buildings range from 10 to 75 years.

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

H. Power Rights

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

I. Liabilities

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

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

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

J. Accrued Leave

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

K. Retirement and Other Benefits

Reclamation employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Reclamation and its employees contribute to these systems. Both are contributory pension plans. Although Reclamation funds a portion of pension benefits under CSRS and FERS relating to its employees and makes the necessary payroll withholdings from them, it does not report assets associated with these benefit plans. Such amounts are maintained and reported by the Office of Personnel Management (OPM). In accordance with the *Statement of Federal Financial Accounting Standards* (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," Reclamation recorded the FY 2005 and 2004 estimated cost of pension and other retirement benefits and the associated imputed financing sources which are paid by OPM on its behalf. Reclamation funds are not used to pay the cost of these benefits but are a Reclamation operating expense that is reflected as part of the cost of doing business. The estimated cost of pension and other retirement benefits computation rates are provided by OPM actuaries to the employer agencies.

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

L. Revenues and Financing Sources

Exchange Revenues

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

Revenue from Recovery of Reimbursable Capital Costs

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

Unmatured repayment contracts are not reflected on the Consolidated Balance Sheet. When the annual amount becomes due each year, a current accounts receivable and a current period exchange revenue are recorded. The amounts owed to Reclamation under unmatured repayment contracts were $2.5 billion and $2.7 billion as of September 30, 2005, and 2004, respectively. Unmatured repayment contracts were reduced by $48 million in FY 2005 for present value credit on a prepayment received for a portion of the Central Utah Project, Bonneville Unit. This reduction correspondingly reduced the Resources Payable to Treasury as discussed in Note 1.N.

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

Recovery of Costs Allocated to the Municipal and Industrial Function - Central Valley Project

Reclamation originally entered into water service contracts with local governments, water districts, and others for the recovery of M&I costs of the Central Valley Project (CVP). Revenues generated from these contracts were insufficient to recover annual O&M and M&I capital costs. As of September 30, 2002, the CVP had accumulated an O&M deficit approximating $260 million, with a capital cost of $430.3 million, for a total estimated net repayment obligation of $690.3 million.

In 2004, Reclamation transferred title of the Sly Park and Sugar Pine Dam facilities, components of the CVP, to local districts. The public laws authorizing the transfers declared all costs, including interest, associated with the project to be nonreimbursable. As a result, Reclamation will collect less interest on both investment and deficit than the cumulative amount that had been imputed by Reclamation. This reduced the total recoverable interest on investment and deficit for the CVP by $81 million.

In 2005, the Secretary of Interior (Secretary) settled a lawsuit (*City of Fresno, et al.* v. *United States*) for interest charged on CVP M&I capital and deficit obligations. Under the terms of the settlement, the Secretary agreed to adjust interest rates and, as a result, collect less interest on investment and deficit than the cumulative amount that had been imputed by Reclamation. As a result, the total recoverable interest on investment and deficit for the CVP has been reduced by $144 million.

Non-exchange Revenues and Other Financing Sources

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

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

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

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

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

M. Use of Estimates

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

N. Change in Accounting Principle

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

Congressional appropriation and other legislative acts have authorized funds to be appropriated from the Reclamation Fund to the Western Area Power Administration (Western), a component entity of the U.S. Department of Energy (DOE) responsible for the transmission and marketing of hydropower generated at Reclamation's facilities. Western's appropriations from the Reclamation Fund are used for capital investment and O&M activities related to these functions. Western recovers these capital investments, associated interest, and O&M costs through user fees collected from the sale of power and subsequently deposits amounts recovered into the Reclamation Fund. Prior to FY 2005, these appropriations and subsequent recoveries were recorded in the Reclamation Fund as transfers in/out without reimbursement on the Consolidated Statement of Changes in Net Position, in accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," and using Treasury Standard General Ledger guidance.

OMB initiated an effort to review the accounting and reporting of the foregoing transactions and in FY 2003 requested interpretation and guidance from the Accounting and Auditing Policy Committee (AAPC) of the FASAB. In August 2004, the AAPC released a Federal Financial Accounting and Auditing Technical Release exposure draft for comment, entitled *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities, and SFFAS 5, Accounting for Liabilities of the Federal Government*. The AAPC was unable to proceed with the issuance of this technical release due to a lack of assenting votes as required by their operating procedures.

In March 2005, subsequent to the failed vote at the AAPC, OMB issued a guidance memorandum that instructed Reclamation to prospectively record a receivable from Western for the appropriations that are required to be returned to the Reclamation Fund by Western through collections from power sales. The cumulative effect of this change through FY 2004 resulted in a FY 2005 increase to intragovernmental receivables on the Consolidated Balance Sheet and corresponding increase to the beginning equity balance (Cumulative Results of Operations) on the Consolidated Statement of Changes in Net Position of $1,724 million. This intragovernmental receivable is increased when appropriations are made to Western from the Reclamation Fund and decreased when power transmission receipts are returned.

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

The Bonneville Power Administration (BPA), a component of DOE, is responsible for the transmission and marketing of hydropower generated at Reclamation's facilities in the Pacific Northwest Region. Unlike Western, BPA does not receive appropriations from the Reclamation Fund, but they have legislatively assumed the repayment obligation for the appropriations used to construct Reclamation's hydropower generation facilities. This legislation, part of the BPA Appropriations Refinancing Act (16 United States Code 8381), requires BPA to recover Reclamation's appropriations related to hydropower generation facilities, plus interest, and to deposit these recoveries into the Reclamation Fund. The amount due to the Reclamation Fund from BPA is recognized for the first time in FY 2005 due to the aforementioned guidance from OMB. Although the OMB guidance was specific to the transactions between Western and the Reclamation Fund, the underlying concepts documented in the AAPC technical release are also applicable to the transactions between BPA and the Reclamation Fund.

The cumulative effect of this change through FY 2004 resulted in a FY 2005 increase to intragovernmental receivables on the Consolidated Balance Sheet and corresponding increase to the beginning equity balance (Cumulative Results of Operations) on the Consolidated Statement of Changes in Net Position of $617 million. This intragovernmental receivable is increased when BPA assumes the repayment obligation for new power generation assets of the Pacific Northwest Region and decreased when deposits are made to the Reclamation Fund.

Resources Payable to Treasury

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

Reclamation has analyzed the aforementioned guidance from OMB and the underlying concepts documented in the AAPC technical release. Although the OMB guidance was specific to the transactions between Western and the Reclamation Fund, the legal and factual context occurring between Reclamation and the Treasury General Fund is akin to that of transactions between Western and the Reclamation Fund. Therefore, Reclamation has applied the OMB guidance to those situations where the appropriations from the General Fund are required to be recovered through the sale of water and power. The cumulative effect of this change through FY 2004 resulted in a FY 2005 increase to intragovernmental liabilities on the Consolidated

Balance Sheet and corresponding decrease to the beginning equity balance (Cumulative Results of Operations) on the Consolidated Statement of Changes in Net Position of $1,936 million. This intragovernmental liability is increased when appropriations are expended on reimbursable components of a project and decreased when reimbursements are received from Reclamation's customers and such funds are transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY2005 ranged from 2.63 percent to 8.47 percent. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Repayment to Treasury's General Fund is contingent upon actual water and power delivered to customers; as such, there is no structured repayment schedule. Actual repayment to Treasury's General Fund in FY 2005 was $128 million, resulting in an ending liability of $1,781 million as of September 30, 2005.

Note 2. Asset Analysis

Assets of Reclamation include entity, restricted (component of entity assets), and non-entity assets. Entity assets are those available for use by Reclamation in its operations. Restricted assets consist of the Reclamation Fund and other unavailable receipt accounts. Restricted assets cannot be used until appropriated by the Congress. Non-entity assets are not available to finance Reclamation's operations. These items consist of various receivables due from the public that, when collected, are deposited into Treasury's General Fund. Reclamation's assets as of September 30, 2005, and 2004 are summarized in the following tables.

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

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

Asset Analysis
As of September 30, 2004
(In Thousands)

	Entity			
	Unrestricted	**Restricted**	**Non-Entity**	**Total**
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 1,319,617	$ 3,913,990	$ -	$ 5,233,607
Accounts Receivable	9,471	342,294	-	351,765
Amounts Due from the U.S. Department of Energy, Net	-	-	-	-
Other:				
Advances and Prepayments	1,236	-	-	1,236
Total Intragovernmental Assets	1,330,324	4,256,284	-	5,586,608
Cash	91	-	-	91
Accounts and Interest Receivable, Net	28,312	3,780	87	32,179
Loans and Interest Receivable, Net	110,147	35,804	20,949	166,900
General Property, Plant, and Equipment, Net	13,065,549	-	-	13,065,549
Other:				
Advances and Prepayments	21,612	-	-	21,612
Power Rights, Net	170,371	-	-	170,371
Total Other Assets	191,983	-	-	191,983
Total Assets	$ 14,726,406	$ 4,295,868	$ 21,036	$ 19,043,310

Note 3. Fund Balance with Treasury

Reclamation's Fund Balance with Treasury and the Status of Fund Balance with Treasury as of September 30, 2005, and 2004 are shown in the following table.

Fund Balance with Treasury
As of September 30, 2005, and 2004
(In Thousands)

	2005	2004
Fund Balance with Treasury by Fund Type		
General Funds	$ 725,354	$ 709,493
Special Funds	4,779,510	4,014,045
Revolving Funds	491,021	445,098
Trust Funds	48,376	43,524
Other Fund Types	46,470	21,447
Total Fund Balance with Treasury by Fund Type	$ 6,090,731	$ 5,233,607
Status of Fund Balance with Treasury		
Unobligated:		
Available	$ 675,316	$ 605,352
Unavailable	238	3,479
Obligated Balance Not Yet Disbursed	721,584	689,338
Subtotal	1,397,138	1,298,169
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	$ 4,657,984	$ 3,913,990
Deposit Funds, Clearing, and Suspense Accounts	35,609	21,448
Subtotal	4,693,593	3,935,438
Total Status of Fund Balance with Treasury	$ 6,090,731	$ 5,233,607

Reclamation's fund types and purposes are described below:

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

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

Revolving funds. These funds account for cash flows to and from the Government resulting from operations of public enterprise and working capital funds. The revolving funds are restricted to the purposes set forth in the legislation that established the funds and are not used to finance normal operating expenses of Reclamation.

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

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

Obligated and unobligated balances reported for the Status of Fund Balance with Treasury do not agree with the obligated and unobligated balances reported on the Combined Statement of Budgetary Resources because the Fund Balance with Treasury amounts include allocation transfer accounts, for which budgetary resources are not recorded. The unavailable receipt accounts category includes the Reclamation Fund, which had a balance of $4.6 billion and $3.9 billion as of September 30, 2005, and 2004, respectively.

Note 4. Accounts and Interest Receivable, Net

The following table shows the status of accounts receivable due from the public as of September 30, 2005, and 2004.

Accounts and Interest Receivable, Net, Due from the Public
As of September 30, 2005, and 2004
(In Thousands)

	2005	2004
Current	$ 4,578	$ 9,316
1-180 Days Past Due	2,376	699
181-365 Days Past Due	370	243
1 to 2 Years Past Due	307	6,103
Over 2 Years Past Due	6,901	359
Total Billed Accounts and Interest Receivable	14,532	16,720
Unbilled Accounts and Interest Receivable	25,744	22,727
Total Accounts and Interest Receivable	40,276	39,447
Allowance for Doubtful Accounts	(8,817)	(7,268)
Total Accounts and Interest Receivable - Net of Allowance	$ 31,459	$ 32,179
Change in Allowance for Doubtful Accounts		
Allowance for Doubtful Accounts - Beginning Balance	$ 7,268	$ 8,752
Additions	13,023	6,805
Deletions	(11,474)	(8,289)
Allowance for Doubtful Accounts - Ending Balance	$ 8,817	$ 7,268

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

As of September 30, 2005, the net amounts due from the Western Area Power Administration and the Bonneville Power Administration were $1,835 million and $623 million, respectively, as shown in the following table.

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

Principal	$	6,166,710
Interest		1,928,373
Cumulative Repayments		(5,615,306)
Allowance for Non-Reimbursable Costs		(21,702)
Total Amounts Due from the U.S. Department of Energy, Net	$	2,458,075

Interest rates vary by project and pertinent legislation and range from 1.25 percent to 12.4 percent for the year ended September 30, 2005. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Cash repayments received during FY 2005 were $162 million.

Note 6. Loans and Interest Receivable, Net

Entity and non-entity loan balances are combined and presented together here and in the consolidated financial statements. Non-entity loans are disclosed in Note 2, Asset Analysis. The following tables show the status of the non-Federal loans receivable and associated interest receivable as of September 30, 2005, and 2004.

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

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

Loans and Interest Receivable, Net
As of September 30, 2004
(In Thousands)

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Allowance for Subsidy Cost (Present Value)	Loans and Interest Receivable, Net
Direct Loans Obligated Prior to FY 1992:					
Small Reclamation Projects Act	$ 40,417	$ -	$ (7,255)	$ -	$ 33,162
Distribution System Loans Act	3,953	-	-	-	3,953
Rural Development Policy Act	19,073	79	-	-	19,152
Rehabilitation and Betterment Act	47	-	-	-	47
Drought Relief	439	-	-	-	439
Total Direct Loans Obligated Prior to FY 1992	63,929	79	(7,255)	-	56,753
Direct Loans Obligated After FY 1991:					
Small Reclamation Projects Act	119,624	-	-	(9,477)	110,147
Total Direct Loans	$ 183,553	$ 79	$ (7,255)	$ (9,477)	$ 166,900

All Credit Reform loans are categorized under the Small Reclamation Projects Act Loan Program. Reclamation had seven Credit Reform loans outstanding totaling $118 million and $120 million as of September 30, 2005, and 2004, respectively. Loan disbursements in FY 2005 and FY 2004 were $10 thousand and $4 million, respectively. Administrative expenses for the years ended September 30, 2005, and 2004, were $78 thousand and $113 thousand, respectively. For FY 2005 and 2004, there are no additional loan appropriations; therefore, there is no budget subsidy rate.

The subsidy expense reported for FY 2005 includes interest and technical re-estimates. These re-estimates resulted in a net increase to the subsidy cost allowance of $20.3 million for the year ended September 30, 2005. The technical re-estimate adjusted for differences between the projected cash flows that were expected versus actual cash flows. The interest re-estimate adjusted the subsidy allowance to provide for the prevailing interest rate at the time the loans were disbursed versus the interest rates assumed in the budget preparation process. Reconciliation of the subsidy cost allowance as of September 30, 2005, and 2004 is shown in the following table.

Schedule for Reconciling Subsidy Cost Allowance Balances
(Post-1991 Direct Loans)
As of and for the Years Ended September 30, 2005, and 2004
(In Thousands)

	2005	2004
Beginning Balance of the Subsidy Cost Allowance	$ 9,477	$ 14,359
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component - Interest Rate Differential Costs	-	2
Adjustments: Subsidy Allowance Amortization	(4,810)	(4,884)
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	4,667	9,477
Add or (Subtract) Subsidy Re-estimates by Component:		
Technical/Default Re-estimate	17,224	-
Interest Rate Re-estimate	3,120	-
Ending Balance of the Subisdy Cost Allowance	$ 25,011	$ 9,477

Note 7. General Property, Plant, and Equipment, Net

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2005, and 2004 are shown in the following tables.

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

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

General Property, Plant, and Equipment, Net
As of September 30, 2004
(In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
Structures and Facilities	$ 17,384,232	$ (7,681,929)	$ 9,702,303
Land	1,852,791	-	1,852,791
Construction in Progress:			
Construction in Progress - General	862,869	-	862,869
Construction in Abeyance	557,054	-	557,054
Equipment, Vehicles, and Aircraft	114,051	(65,177)	48,874
Buildings	59,709	(25,626)	34,083
Internal Use Software:			
In Use	24,440	(22,788)	1,652
In Development	5,923	-	5,923
Total General PP&E	$ 20,861,069	$ (7,795,520)	$ 13,065,549

A. Construction in Progress – General

Construction in Progress – General includes capitalized costs of assets being constructed for other Federal entities. Amounts of $139.7 million and $132.6 million as of September 30, 2005, and 2004, respectively, represent capitalized construction costs associated with the Navajo Indian Irrigation Project (NIIP). This project was authorized by P.L. 87-483 (June 13, 1962), and construction began in 1964. Project facilities are being constructed in 11 blocks of approximately 10,000 acres each. As of September 30, 2005, the project is estimated to be 64 percent complete, based on a recalculation of developed irrigation acreage, with block nine under construction. Completion may require an additional 18 to 31 years of construction and development. Under this law, the Congress appropriated funding for the project to the Bureau of Indian Affairs (BIA), which transferred funding to Reclamation for construction and cost accounting of the facilities. Subsequently, Reclamation and BIA entered into a formal memorandum of agreement that provides for the transfer of the book value costs of the project facilities to BIA upon completion. As such, upon substantial completion of construction of designated segments of project facilities, agreed upon by both bureaus, the book value costs of the completed facilities will be transferred to BIA by formal document. Reclamation transferred $14.3 million in capitalized costs associated with completed segments of the project in the year ended September 30, 2005, and $816 thousand in residual costs in the year ended September 30, 2004. The residual costs are associated with completed transfers as of September 30, 2002.

IDC is included in Construction in Progress – General. The authority for charging IDC is in the authorizing legislation for a particular project or administrative policy established pursuant to the law. Generally, the costs allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law. The interest rates used in computing IDC are specified in the authorizing legislation or, if rates are not specified, the rates established by Reclamation laws or administrative policy, and are based on the fiscal year in which construction began. The interest rates applied during FY 2005 range from 2.125 percent to 11.07 percent and during FY 2004 ranged from 1.75 percent to 11.07 percent. For the years ended September 30, 2005, and 2004, $8 million and $16 million, respectively, of IDC were capitalized. IDC was also adjusted in FY 2005 for the reallocation of project use and costs for the Bonneville project in Utah, as authorized by P.L. 102-575 and 107-366. Costs were reallocated from M&I water functions, which are interest-bearing, to irrigation functions, resulting in a reduction to previously capitalized IDC of $102 million.

Construction in Progress – General also includes investigations and development costs of $77 million and $75 million as of September 30, 2005, and 2004, respectively.

B. Construction in Abeyance

The investment in projects held in abeyance as of September 30, 2005, and 2004 ranges from $59.1 thousand to $285.7 million and $59.1 thousand to $285.4 million per project, respectively. The investment covers a period from 1965 to the present. Continued planning or construction on these assets has been held in abeyance for various reasons, including such concerns as the execution of cost-share agreements with non-Federal entities, and environmental, economic, and international treaty issues. The Congress and local interests continue to pursue acceptable alternatives for the completion of those projects in which there has been a substantial investment. As it is uncertain when construction will resume on or benefits will be provided by these assets, classification into construction in abeyance provides the most meaningful and accurate status of their disposition. The Congress has not yet deauthorized any of these assets, nor should it be inferred from this classification that the future viability of them is necessarily in doubt.

Note 8. Liabilities

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which congressional action is needed before budgetary resources can be provided. These liabilities as of September 30, 2005, and 2004 are combined and presented together in the Consolidated Balance Sheet and are detailed in the following tables.

Liabilities
As of September 30, 2005
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
	Current	**Non-current**	**Current**	**Non-current**	**Total**
Intragovernmental Liabilities:					
Accounts Payable	$ 24,651	$ -	$ -	$ -	$ 24,651
Debt	-	96,811	-	-	96,811
Other:					
Accrued Employee Benefits	8,850	-	4,466	8,041	21,357
Advances, Deferred Revenue, and Deposit Funds	8,743	-	38	-	8,781
Judgment Fund Liability	-	-	-	47,950	47,950
Resources Payable to Treasury	-	-	44,525	1,736,445	1,780,970
Other Liabilities	-	-	-	19,689	19,689
Total Other Liabilities	17,593	-	49,029	1,812,125	1,878,747
Total Intragovernmental Liabilities	42,244	96,811	49,029	1,812,125	2,000,209
Public Liabilities:					
Accounts Payable	127,696	77,172	-	-	204,868
Federal Employee Benefits, Actuarial	-	-	-	88,702	88,702
Environmental and Disposal Liabilities	-	-	-	35,360	35,360
Other:					
Accrued Payroll and Benefits	21,632	-	-	27,354	48,986
Advances, Deferred Revenue, and Deposit Funds	105,578	-	42,379	307,332	455,289
Contingent Liabilities	-	-	-	9,515	9,515
Other Liabilities	-	-	-	115	115
Total Other Liabilities	127,210	-	42,379	344,316	513,905
Total Public Liabilities	254,906	77,172	42,379	468,378	842,835
Total Liabilities	$ 297,150	$ 173,983	$ 91,408	$ 2,280,503	$ 2,843,044

Liabilities
As of September 30, 2004
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
	Current	**Non-current**	**Current**	**Non-current**	**Total**
Intragovernmental Liabilities:					
Accounts Payable	$ 25,712	$ -	$ -	$ -	$ 25,712
Debt	-	114,098	-	-	114,098
Other:					
Accrued Employee Benefits	6,502	-	5,320	9,278	21,100
Advances, Deferred Revenue, and Deposit Funds	10,360	-	21	-	10,381
Judgment Fund Liability	-	-	-	46,959	46,959
Other Liabilities	-	-	-	21,028	21,028
Total Other Liabilities	16,862	-	5,341	77,265	99,468
Total Intragovernmental Liabilities	42,574	114,098	5,341	77,265	239,278
Public Liabilities:					
Accounts Payable	196,000	-	-	-	196,000
Federal Employee Benefits, Actuarial	-	-	-	85,815	85,815
Environmental and Disposal Liabilities	-	-	-	5,629	5,629
Other:					
Accrued Payroll and Benefits	17,584	-	-	27,234	44,818
Advances, Deferred Revenue, and Deposit Funds	91,240	-	25,579	154,481	271,300
Contingent Liabilities	-	-	-	62,625	62,625
Other Liabilities	-	-	-	115	115
Total Other Liabilities	108,824	-	25,579	244,455	378,858
Total Public Liabilities	304,824	-	25,579	335,899	666,302
Total Liabilities	$ 347,398	$ 114,098	$ 30,920	$ 413,164	$ 905,580

Note 9. Debt

Reclamation makes loans which are subject to the provisions of Credit Reform. Under Credit Reform, loans consist of two components—the part borrowed from Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans as of September 30, 2005, range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury as of September 30, 2005, ranges from 6.01 percent to 6.82 percent. As annual installments are received from loan recipients, any funds in excess of interest are applied against the outstanding principal owed Treasury. The liabilities shown in the following table represent amounts borrowed from Treasury to fund Credit Reform loans as of and for the years ended September 30, 2005, and 2004.

Debt
As of and for the Years Ended September 30, 2005, and 2004
(In Thousands)

Intragovernmental Debt: Credit Reform Borrowings	**2005**	**2004**
Beginning Balance	$ 114,098	$ 114,826
New Borrowing	995	4,125
Repayments	(18,282)	(4,853)
Ending Balance	$ 96,811	$ 114,098

Note 10. Environmental and Disposal Liabilities and Other Contingent Liabilities

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

The accrued and potential environmental and disposal liabilities and contingent liabilities as of September 30, 2005, and 2004 are summarized in the following tables.

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

		Total Estimated Range of Loss Including Accrued Amounts	
	Accrued Liabilities	**Lower End of Range**	**Upper End of Range**
Contingent Liabilities			
Probable	$ 9,515	$ 9,515	$ 12,814
Reasonably Possible		201,000	234,300
Environmental and Disposal Liabilities			
Probable	35,360	35,360	65,255
Reasonably Possible		380	2,530
Total Contingent Liabilities and Environmental and Disposal Liabilities	$ 44,875	$ 246,255	$ 314,899

Contingent Liabilities and Environmental and Disposal Liabilities
As of September 30, 2004
(In Thousands)

		Total Estimated Range of Loss Including Accrued Amounts	
	Accrued Liabilities	**Lower End of Range**	**Upper End of Range**
Contingent Liabilities			
Probable	$ 62,625	$ 62,625	$ 62,625
Reasonably Possible		222,100	246,500
Environmental and Disposal Liabilities			
Probable	5,629	5,629	21,711
Reasonably Possible		331	331
Total Contingent Liabilities and Environmental and Disposal Liabilities	$ 68,254	$ 290,685	$ 331,167

A. Environmental and Disposal Liabilities

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

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

B. Other Contingent Liabilities – Legal Claims and Assertions

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

Note 11. Operating Leases

Most of Reclamation's facilities are leased through the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. For federally owned property leased through GSA, Reclamation generally does not execute an agreement with GSA, nor is there a formal expiration date. Reclamation, however, is normally required to give a 120- to 180-day notice to vacate, and the amount of these leases remains constant from year to year. For the years ended September 30, 2005, and 2004, the amount of lease expense was $20.5 million and $21.7 million, respectively. For non-federally owned property leased through GSA, an occupancy agreement is executed; and, again, Reclamation may normally cancel these agreements with a 120-day notice.

In addition to leases with GSA, Reclamation had for the years ended September 30, 2005, and 2004, operating lease payments to non-Federal entities in the amount of $2.8 million and $1.9 million, respectively. These leases were primarily for office space and office equipment. Reclamation has an option to renew many of its operating leases at terms similar to the initial terms.

The following is a schedule by year of future minimum lease payments as of September 30, 2005.

Operating Lease Commitments
As of September 30, 2005
(In Thousands)

Fiscal Year	GSA Real Property	Other Real Property	Personal Property	Total
2006	$ 20,774	$ 2,059	$ 636	$ 23,469
2007	21,273	2,057	453	23,783
2008	21,592	2,008	420	24,020
2009	21,916	1,829	218	23,963
2010	22,244	1,267	1	23,512
Thereafter	22,578	2,369	-	24,947
Total Future Operating Lease Payments	$ 130,377	$ 11,589	$ 1,728	$ 143,694

Note 12. Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost is presented according to the strategic plan in place for that fiscal year, as required under the Goverment Performance and Results Act. OMB Circular A-136 has changed the disclosure requirement for reporting costs. Under the revised guidance, costs paid or accrued to Federal entities are distinguished from those paid or accrued to the public. This presentation is different from how costs were previously reported. In prior years, costs were presented according to whether revenue generated was from Federal versus public customers, regardless of whom the costs were paid or accrued to. Due to the change in the presentation of intragovernmental and public costs, Reclamation's FY 2004 Consolidated Statement of Net Cost has been reclassified to correspond to the new presentation. Total costs presented remain unchanged. Consolidating Statements of Net Cost, shown by regional organization and reporting segment, for the years ended September 30, 2005, and 2004 are presented at the end of Note 15.

Note 13. Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget. The FY 2004 amounts shown have been reconciled to the President's Budget without exception; however, the actual amounts for FY 2005 in the President's Budget have not been published at the time these financial statements were prepared. The President's Budget with the actual FY 2005 amounts is estimated to be released in February 2006 and can be located at the OMB website: (<www.whitehouse.gov/omb>).

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

Reclamation's borrowing authority is provided under the Credit Reform Act of 1990 (refer to Note 6 for additional information on Credit Reform loans). The repayment terms and provisions of these loans are not more than 40 years from the date when the principal benefits of the projects first become available. The collections on these loans in excess of the interest due Treasury are applied to the outstanding principal owed Treasury.

Reclamation has two major budget accounts that are classified as permanent indefinite appropriations, which are available until expended. The Colorado River Dam Fund – Boulder Canyon Project is an available receipt fund into which various operating revenues of the Hoover Dam are covered, mainly from the sale of power generated at the dam. Reclamation Trust Funds include amounts received from public benefactors that are used to finance restoration and other activities. These permanent indefinite appropriation accounts are classified as exempt from apportionment. Other Reclamation funds, including those not specifically mentioned here, are subject to annual apportionment by OMB and classified as Category B apportionments. Detailed amounts for each of Reclamation's major budget accounts are included in the Combining Statements of Budgetary Resources located in the "Supplemental Section" of this report. All unobligated balances presented are available until expended.

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

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

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

Obligations Incurred by Budget Category
For the Year Ended September 30, 2004
(In Thousands)

	Apportioned Category B	Exempt From Apportionment	Total
Direct	$ 926,161	$ 72,039	$ 998,200
Reimbursable	832,902	-	832,902
Total Obligations Incurred	$ 1,759,063	$ 72,039	$ 1,831,102

Note 14. Consolidated Statement of Financing

A. Allocation Transfer Reconciling Items

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

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

Allocation Transfer Reconciling Items
As of and for the Years Ended September 30, 2005, and 2004
(In Thousands)

Trading Partner	Nature of Transfer	FY 2005	FY 2004
Reclamation as the Recipient Agency (Child):			
Department of Labor - Job Corps	Employment and Training Services	$ 29,335	$ 29,447
Department of Interior - Bureau of Land Management	Central Hazardous Materials Fund Programs	576	-
Department of Interior - Bureau of Indian Affairs	Construction of Distribution Systems of the Navajo Indian Irrigation Project	7,410	13,843
Department of Interior - Office of the Secretary	Natural Resources and Damage Assessment and Restoration Activities	91	103
Department of Transportation - Highway Trust Fund	Maintenance of Highways on Reclamation Lands	511	402
Net Allocation Transfer Reconciling Items		$ 37,923	$ 43,795

B. Change in Unfunded Liabilities

The Consolidated Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in Note 8, Liabilities Analysis. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities which are reported on the Consolidated Statement of Financing. These requirements are dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Consolidated Statement of Financing.

Note 15. Dedicated Collections

A. Reclamation Trust Funds

The Reclamation Trust Funds receive monies from the State of California per P.L. 102-575, Title XXXIV, Central Valley Project Improvement Act, to accomplish the following purposes:

- To protect, restore, and enhance fish, wildlife, and associated habitats in the Central Valley and Trinity River basins of California;
- To address impacts of the Central Valley Project on fish, wildlife, and associated habitats;

- To improve the operational flexibility of the Central Valley Project;

- To increase water-related benefits provided by the Central Valley Project to the State of California through expanded use of voluntary water transfers and improved water conservation;

- To contribute to the State of California's interim and long-term efforts to protect the San Francisco Bay/Sacramento-San Joaquin Delta Estuary; and

- To achieve a reasonable balance among competing demands for use of the Central Valley Project water, including the requirements of fish and wildlife, agricultural, municipal and industrial, and power contractors.

Reclamation has established unique cost centers within the accounting system for each of the specified activities under the Central Valley Project Improvement Act. Once the activity is completed, a report is prepared for the State of California showing the monies collected and the costs incurred.

Condensed financial information for Reclamation Trust Funds is presented in the following table as of and for the years ended September 30, 2005, and 2004.

Dedicated Collections
Reclamation Trust Funds
As of and for the Years Ended September 30, 2005, and 2004
(In Thousands)

	2005	2004
Assets:		
Fund Balance with Treasury	$ 48,374	$ 43,426
General Property, Plant, and Equipment, Net	38,234	37,623
Total Assets	$ 86,608	$ 81,049
Liabilities:		
Accounts Payable	$ 299	$ 634
Other Liabilities	48,081	42,864
Total Liabilities	48,380	43,498
Total Net Position	38,228	37,551
Total Liabilities and Net Position	$ 86,608	$ 81,049
Change in Net Position		
Net Position, Beginning of Fiscal Year	$ 37,551	$ 33,477
Exchange Revenue - Services Provided and Other	7,704	9,844
Program Expenses	(7,027)	(5,770)
Net Position, End of Fiscal Year	$ 38,228	$ 37,551

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

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

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

U.S. Department of the Interior
Bureau of Reclamation
Consolidating Statement of Net Cost
For the Year Ended September 30, 2004

(In Thousands)	Pacific Northwest Region	Mid-Pacific Region
RESOURCE USE		
Deliver Water in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	$ 34,381	$ 123,419
Public Costs	60,332	159,303
Total Costs	94,713	282,722
Intragovernmental Earned Revenues	(870)	(5,073)
Public Earned Revenues	(16,023)	(183,578)
Total Earned Revenues	(16,893)	(188,651)
Net Cost	77,820	94,071
Generate Hydropower in an Environmentally Responsible and Cost-Efficient Manner:		
Intragovernmental Costs	23,326	18,156
Public Costs	39,775	15,810
Total Costs	63,101	33,966
Intragovernmental Earned Revenues	(61,531)	(1)
Public Earned Revenues	(10,818)	(61,325)
Total Earned Revenues	(72,349)	(61,326)
Net Cost	(9,248)	(27,360)
RESOURCE PROTECTION		
Improve Health of Watersheds, Landscapes, and Biological Communities:		
Intragovernmental Costs	84	72
Public Costs	239	50
Total Costs	323	122
Intragovernmental Earned Revenues	(3)	-
Public Earned Revenues	(13)	(4)
Total Earned Revenues	(16)	(4)
Net Cost	307	118
RECREATION		
Provide Quality and Fair Value in Recreation:		
Intragovernmental Costs	1,583	1,503
Public Costs	3,377	4,033
Total Costs	4,960	5,536
Intragovernmental Earned Revenues	(41)	(79)
Public Earned Revenues	10	(661)
Total Earned Revenues	(31)	(740)
Net Cost	4,929	4,796
CENTRALIZED PROGRAM SUPPORT AND OTHER		
Working Capital Fund, Policy and Administration, and Other:		
Intragovernmental Costs	15,437	21,538
Public Costs	31,642	52,699
Total Costs	47,079	74,237
Intragovernmental Earned Revenues	(43,707)	(56,991)
Public Earned Revenues	(4,891)	(15,906)
Total Earned Revenues	(48,598)	(72,897)
Net Cost	(1,519)	1,340
Total Intragovernmental Costs	74,811	164,688
Total Public Costs	135,365	231,895
Total Costs	210,176	396,583
Total Intragovernmental Earned Revenues	(106,152)	(62,144)
Total Public Earned Revenues	(31,735)	(261,474)
Total Earned Revenues	(137,887)	(323,618)
Net Cost of Operations (Note 12)	$ 72,289	$ 72,965

Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
$ 80,170	$ 44,637	$ 46,347	$ 55,785	$ 384,739	$ -	$ 384,739
263,360	86,303	133,705	40,662	743,665	-	743,665
343,530	130,940	180,052	96,447	1,128,404	-	1,128,404
(674)	(4,173)	(39,785)	-	(50,575)	-	(50,575)
(194,772)	(19,803)	(32,001)	(307)	(446,484)	-	(446,484)
(195,446)	(23,976)	(71,786)	(307)	(497,059)	-	(497,059)
148,084	106,964	108,266	96,140	631,345	-	631,345
14,376	17,782	17,642	2,454	93,736	-	93,736
5,973	31,773	25,036	758	119,125	-	119,125
20,349	49,555	42,678	3,212	212,861	-	212,861
(11,350)	20	(11,619)	-	(84,481)	-	(84,481)
(56,890)	(51,819)	(1,796)	(14)	(182,662)	-	(182,662)
(68,240)	(51,799)	(13,415)	(14)	(267,143)	-	(267,143)
(47,891)	(2,244)	29,263	3,198	(54,282)	-	(54,282)
3,974	2,325	-	639	7,094	(11,104)	(4,010)
10,862	9,147	-	184	20,482	-	20,482
14,836	11,472	-	823	27,576	(11,104)	16,472
(21)	(11,098)	-	-	(11,122)	11,104	(18)
(630)	857	-	(1)	209	-	209
(651)	(10,241)	-	(1)	(10,913)	11,104	191
14,185	1,231	-	822	16,663	-	16,663
2,625	241	191	14	6,157	-	6,157
8,483	218	210	62	16,383	-	16,383
11,108	459	401	76	22,540	-	22,540
(61)	-	(83)	-	(264)	-	(264)
(12,072)	(131)	(11,361)	-	(24,215)	-	(24,215)
(12,133)	(131)	(11,444)	-	(24,479)	-	(24,479)
(1,025)	328	(11,043)	76	(1,939)	-	(1,939)
15,631	13,511	15,479	118,740	200,336	(333,032)	(132,696)
37,842	34,473	24,612	112,279	293,547	-	293,547
53,473	47,984	40,091	231,019	493,883	(333,032)	160,851
(42,362)	(39,291)	(35,178)	(155,553)	(373,082)	333,032	(40,050)
(8,699)	(16,126)	(2,965)	(7,541)	(56,128)	-	(56,128)
(51,061)	(55,417)	(38,143)	(163,094)	(429,210)	333,032	(96,178)
2,412	(7,433)	1,948	67,925	64,673	-	64,673
116,776	78,496	79,659	177,632	692,062	(344,136)	347,926
326,520	161,914	183,563	153,945	1,193,202	-	1,193,202
443,296	240,410	263,222	331,577	1,885,264	(344,136)	1,541,128
(54,468)	(54,542)	(86,665)	(155,553)	(519,524)	344,136	(175,388)
(273,063)	(87,022)	(48,123)	(7,863)	(709,280)	-	(709,280)
(327,531)	(141,564)	(134,788)	(163,416)	(1,228,804)	344,136	(884,668)
$ 115,765	$ 98,846	$ 128,434	$ 168,161	$ 656,460	$ -	$ 656,460