

**U.S. Department of the Interior
Bureau of Reclamation**

Notes to the Financial Statements for the Years Ended September 30, 2004, and 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The U.S. Bureau of Reclamation (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 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) Bulletin 01-09, "Form and Content of Agency Financial Statements," dated September 25, 2001. 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 Department of Treasury's (Treasury) U.S. Standard General Ledger. Reclamation's fiscal year covers the period which begins in October and ends in September 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, Statements 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.

As required under the Government Performance and Results Act (GPRA), the Consolidated Statements of Net Cost present expenses and revenues by segment, which represent strategic goals under the strategic plan in place for that fiscal year. The Fiscal Year (FY) 2004 Strategic Plan for Interior includes a segment revision, which is the result of a review of the strategic goals and subsequent update of these goals. The FY 2004 Statement of Net Cost amounts have been classified in accordance with the updated segments from the FY 2004 Strategic Plan and, therefore, are not comparable to FY 2003.

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 2004 and 2003 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 agencies.

OMB Bulletin No. 01-09 requires that the 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 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 Statements 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 consist 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.

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 thousand threshold per item. Internal use software is subject to a \$100 thousand 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 "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.

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 "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 computes 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 – general. 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 of costs allocated to power, M&I water, reimbursable recreation, reimbursable fish and wildlife, 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.

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 5 to 20 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 and 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). The estimated useful lives for calculating amortization of software range from 3 to 5 years.

H. Other Assets

Other assets consist primarily of the net costs for 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 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, then 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 occurrence of a liability is probable, 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 the 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 it is included as part of accrued payroll and benefits. This accrual is reduced as annual leave is used. Sick leave is 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 2004 and 2003 estimated cost of pension and other retirement benefits and the associated imputed financing sources which are paid by the Office of Personnel Management 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 which considers 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 Statements of Net Cost, in order 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.

In the case of certain water sales, customers remit funds in advance to Reclamation for their share of the O&M costs pertaining to the facility delivering the water. Generally, a cost allocation process is used to allocate these O&M costs to water customers and recognize the related revenue.

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, permanent, 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 the Judgment Fund maintained by Treasury.

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 expenses of Reclamation. Generally, Reclamation is not obligated to repay these costs. Because some of these costs, namely interest during construction, are capitalized, the total imputed cost, included in the Consolidated Statements of Net Cost and the Consolidated Statement of Financing, will not equal the total imputed financing source as shown on the Consolidated Statement of Changes in Net Position.

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 \$2.7 billion and \$2.6 billion, as of September 30, 2004, and 2003, respectively.

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.

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. Accounting Standards and Guidance Currently Under Review – Recently Issued Technical Release Exposure Draft

Pursuant to congressional appropriation and other legislative acts, Reclamation transfers funds from the Reclamation Fund to the Western Area Power Administration (Western), a component entity of the Department of Energy. These transfers are to fund hydropower transmission capital investment and O&M activities. 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.

These transfers, and subsequent recoveries, are 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 current Treasury Standard General Ledger guidance. Transfers out to Western are recorded at the time appropriations are made available through the Congress and Treasury. Cost recoveries are recorded as transfers in upon receipt in the Reclamation Fund.

During FY 2003, OMB began a project to review the accounting and reporting of the foregoing transactions by requesting 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*. Comments were requested by September 20, 2004, and the document is to be discussed at a future FASAB meeting in FY 2005. The FASAB will then take all commentary under consideration and make a final determination as to whether the final draft of the technical release will be issued.

If approved, the technical release will become effective 45 days after the FASAB agrees to its release. This will occur subsequent to the release of this FY 2004 Annual Report. As such, if this technical release is approved, Reclamation will prospectively reclassify the net unrecovered amount from Western as an intragovernmental receivable, with the net cumulative transfers previously recorded correspondingly reversed in FY 2005. The net cumulative unrecovered transfers between the Reclamation Fund and Western as of September 30, 2004, and 2003 are approximately \$2.3 to \$3.1 billion and \$2.1 to \$3.0 billion, respectively. There are various financial components included in this range of unrecovered transfers, and further guidance must be received and reviewed in order to determine which of these components are recoverable. Further, Reclamation has not completed its analysis of the impact of the technical release on projects other than those funded by the Reclamation Fund as of the date of this report.

Note 2. Asset Analysis

Assets of Reclamation include entity, restricted (component of entity assets), and non-entity assets. Entity assets are those currently available for use by Reclamation. 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, 2004, and 2003 are summarized in the following tables.

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

	Entity	Restricted	Non-Entity	Total
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,319,617	\$ 3,913,990	\$ -	\$ 5,233,607
Accounts and Interest Receivable, Net	9,471	342,294	-	351,765
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
Other Assets, Net	170,371	-	-	170,371
Total Assets	\$ 14,726,406	\$ 4,295,868	\$ 21,036	\$ 19,043,310

Asset Analysis
As of September 30, 2003
(In Thousands)

	Entity	Restricted	Non-Entity	Total
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,247,956	\$ 3,471,752	\$ -	\$ 4,719,708
Accounts and Interest Receivable, Net	16,007	195,211	-	211,218
Advances and Prepayments	1,759	-	-	1,759
Total Intragovernmental Assets	1,265,722	3,666,963	-	4,932,685
Cash	107	-	-	107
Accounts and Interest Receivable, Net	15,721	2,484	7	18,212
Loans and Interest Receivable, Net	106,775	37,648	22,198	166,621
General Property, Plant, and Equipment, Net	13,055,281	-	-	13,055,281
Other:				
Advances and Prepayments	11,666	-	-	11,666
Other Assets, Net	179,001	-	-	179,001
Total Assets	\$ 14,634,273	\$ 3,707,095	\$ 22,205	\$ 18,363,573

Note 3. Fund Balance with Treasury

Reclamation's Fund Balance with Treasury and the Status of Fund Balance with Treasury as of September 30, 2004, and 2003 are shown in the following table.

Fund Balance with Treasury
As of September 30, 2004, and 2003
(In Thousands)

	2004	2003
Fund Balance with Treasury by Fund Type		
General Funds	\$ 709,493	\$ 700,372
Special Funds	4,014,045	3,569,324
Revolving Funds	445,098	371,613
Trust Funds	43,524	48,045
Other Fund Types	21,447	30,354
Total Fund Balance with Treasury	\$ 5,233,607	\$ 4,719,708
Status of Fund Balance with Treasury		
Unobligated:		
Available	\$ 605,352	\$ 572,131
Unavailable	3,938,917	3,502,943
Obligated Balance Not Yet Disbursed	689,338	644,634
Total Status of Fund Balance with Treasury	\$ 5,233,607	\$ 4,719,708

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 items for which budgetary resources are not recorded, such as the fund balance in unavailable receipt accounts, allocation transfer accounts, and deposit and clearing accounts. The unavailable receipt accounts category includes the Reclamation Fund, which had a balance of \$3.9 billion and \$3.5 billion as of September 30, 2004, and 2003, respectively.

Note 4. Accounts and Interest Receivable, Net

The following tables show the status of accounts receivable as of September 30, 2004, and 2003.

Accounts and Interest Receivable, Due from Federal Entities
As of September 30, 2004, and 2003
(In Thousands)

	2004	2003
Accounts Receivable - Federal		
Billed Accounts Receivable - Federal	\$ -	\$ 1,488
Unbilled Accounts Receivable - Federal	351,765	209,730
Total Accounts Receivable - Federal	\$ 351,765	\$ 211,218

Unbilled Accounts Receivable – Federal 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 considered current and fully collectible.

**Accounts and Interest Receivable, Net, Due from the Public
As of September 30, 2004, and 2003
(In Thousands)**

	2004	2003
Accounts Receivable - Public		
Current	\$ 9,316	\$ 11,237
1-180 Days Past Due	699	1,429
181-365 Days Past Due	243	5,964
Over 1 Year Past Due	6,462	2,433
Total Billed Accounts Receivable - Public	16,720	21,063
Unbilled Accounts Receivable - Public	22,727	5,901
Total Accounts Receivable - Public	39,447	26,964
Allowance for Doubtful Accounts - Public	(7,268)	(8,752)
Total Accounts Receivable - Public, Net of Allowance	\$ 32,179	\$ 18,212
Change in Allowance for Doubtful Accounts - Public		
Allowance for Doubtful Accounts, Beginning Balance	\$ 8,752	\$ 2,739
Additions	6,805	10,084
Deletions	(8,289)	(4,071)
Allowance for Doubtful Accounts, Ending Balance	\$ 7,268	\$ 8,752

Note 5. 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 loans receivable and associated interest receivable as of September 30, 2004, and 2003.

**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	\$ 79	\$ (7,255)	\$ -	\$ 33,241
Distribution System Loans Act	3,953	-	-	-	3,953
Rural Development Policy Act	19,073	-	-	-	19,073
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

Loans and Interest Receivable, Net
As of September 30, 2003
(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	\$ 42,842	\$ 933	\$ (8,188)	\$ -	\$ 35,587
Distribution System Loans Act	4,246	-	-	-	4,246
Rural Development Policy Act	19,399	-	-	-	19,399
Rehabilitation and Betterment Act	84	-	-	-	84
Drought Relief	560	-	(30)	-	530
Total Direct Loans Obligated Prior to FY 1992	67,131	933	(8,218)	-	59,846
Direct Loans Obligated After FY 1991:					
Small Reclamation Projects Act	121,134	-	-	(14,359)	106,775
Total Direct Loans	<u>\$ 188,265</u>	<u>\$ 933</u>	<u>\$ (8,218)</u>	<u>\$ (14,359)</u>	<u>\$ 166,621</u>

All Credit Reform loans are categorized under the Small Reclamation Projects Act Loan Program. Reclamation had seven Credit Reform loans outstanding as of September 30, 2004, and 2003, totaling \$120 million and \$121 million, respectively. New loan amounts of \$4 million and \$800 thousand were disbursed during FY 2004 and 2003, with related administrative expenses of \$113 thousand and \$119 thousand, respectively. For FY 2004 and 2003, there are no additional loan appropriations; therefore, there is no budget subsidy rate. The subsidy expense reported for FY 2003 includes modifications and re-estimates. In FY 2003, a technical re-estimate of the subsidy allowance resulted in a net decrease of this allowance. The technical re-estimate adjusted for differences between the original projection of cash flows that were expected versus actual cash flows. The subsidy cost allowance as of September 30, 2004, and 2003 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, 2004, and 2003
(In Thousands)

	2004	2003
Beginning Balance of the Subsidy Cost Allowance	\$ 14,359	\$ 34,234
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component - Interest Rate Differential Costs	2	438
Adjustments: Subsidy Allowance Amortization	(4,884)	(6,445)
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	9,477	28,227
Add (Subtract) Subsidy Re-estimates by Component:		
Technical/Default Re-estimate	-	(13,868)
Ending Balance of the Subsidy Cost Allowance	<u>\$ 9,477</u>	<u>\$ 14,359</u>

Note 6. General Property, Plant, and Equipment, Net

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2004, and 2003 are shown in the following tables.

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

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
General PP&E:			
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

General Property, Plant, and Equipment, Net As of September 30, 2003 (In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
General PP&E:			
Structures and Facilities	\$ 17,273,539	\$ (7,596,381)	\$ 9,677,158
Land	1,876,627	-	1,876,627
Construction in Progress:			
Construction in Progress - General	859,395	-	859,395
Construction in Abeyance	556,878	-	556,878
Equipment, Vehicles, and Aircraft	104,591	(63,235)	41,356
Buildings	58,949	(24,361)	34,588
Internal Use Software:			
In Use	24,087	(20,667)	3,420
In Development	5,859	-	5,859
Total General PP&E	\$ 20,759,925	\$ (7,704,644)	\$ 13,055,281

A. Construction in Progress – General

Construction in progress – general includes capitalized costs of assets being constructed for other Federal entities. Amounts of \$132.6 million and \$118.4 million as of September 30, 2004, and 2003, 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, 2004, 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 15 to 26 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 \$816 thousand and \$707 thousand in residual costs in the years ended September 30, 2004, and 2003, respectively. The residual costs are associated with completed transfers as of September 30, 2002.

Construction in progress – general also includes investigations and development costs of \$75 million and \$70 million as of September 30, 2004, and 2003, respectively.

For the years ended September 30, 2004, and 2003, \$16.0 million and \$10.8 million, respectively, of IDC was capitalized. The authority for charging IDC is included 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 the rates specified in the authorizing legislation or, if rates are not specified, the rates established by Reclamation laws or administrative policy. Rates used for IDC are based on the rates established for the fiscal year in which construction began. The interest rates applied during FY 2004 range from 1.75 percent to 11.07 percent and during FY 2003 range from 2.5 percent to 12.375 percent.

B. Construction in Abeyance

The investment in projects held in abeyance as of September 30, 2004, and 2003 ranges from \$59.1 thousand to \$285.4 million per project and 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. For some of these projects, bills have either been recently introduced to, or are under consideration by, the Congress to reformulate the project or provide funding for continued work.

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.

Transfer of Facilities

The following tables present the status of transfer of facilities for the years ended September 30, 2004, and 2003.

Transfer of Facilities
For the Year Ended September 30, 2004
(In Thousands)

Project Name	Net Book Value Including Land Costs	Land Costs Associated With Transfer
Completed Transfers		
Harquahala Valley Irrigation District, Central Arizona Project, Arizona	\$ 29,348	\$ 2,471
Minidoka and Teton Basin Projects, Idaho	235	9
Sugar Pine Dam and Reservoir, Central Valley Project, California	31,520	2,811
Sly Park Dam and Reservoir, Central Valley Project, California	1,911	1,563
Pending Transfers		
Gila Project, Wellton-Mohawk Division, Arizona	2,560	2,560
Fallon Rail Freight Loading Facility Property, Newlands Project, Nevada	5	5
Rye Patch Dam and Reservoir, Humboldt Project, Nevada	7,166	535

Transfer of Facilities
For the Year Ended September 30, 2003
(In Thousands)

Project Name	Net Book Value Including Land Costs	Land Costs Associated With Transfer
Completed Transfers		
Middle Loup Division, Pick-Sloan Missouri Basin Project, Nebraska	\$ 21,316	\$ 7,457
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado	2,121	287
Pending Transfers		
Sugar Pine Dam and Reservoir, Central Valley Project, California	31,520	2,811
Harquahala Valley Irrigation District, Central Arizona Project, Arizona	29,348	2,471
Rye Patch Dam and Reservoir, Humboldt Project, Nevada	7,298	535
Gila Project, Wellton-Mohawk Division, Arizona	2,560	2,560
Sly Park Dam and Reservoir, Central Valley Project, California	1,911	1,563
Minidoka and Teton Basin Projects, Idaho	235	9

Note 7. Other Assets, Net

Total Other Assets, Net, consists primarily of the costs for power rights. The gross power rights as of September 30, 2004, and 2003 are \$338.7 million, with accumulated amortization of \$198.1 million and \$187.3 million, respectively.

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, 2004, and 2003 are combined and presented together in the Consolidated Balance Sheet and are detailed in the following tables.

Liabilities As of September 30, 2004 (In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	\$ 25,712	\$ -	\$ -	\$ -	\$ 25,712
Debt	-	114,098	-	-	114,098
Other:					
Accrued Payroll Benefits	6,502	-	5,320	9,278	21,100
Advances from Others	10,360	-	-	-	10,360
Deferred Revenue	-	-	21	-	21
Judgment Fund Liability	-	-	-	46,959	46,959
Other Liabilities	-	-	-	21,028	21,028
Total Intragovernmental Liabilities	42,574	114,098	5,341	77,265	239,278
Accounts Payable	196,000	-	-	-	196,000
Federal Employees Compensation					
Act Liability	-	-	-	85,815	85,815
Environmental Cleanup Costs	-	-	-	5,629	5,629
Other:					
Accrued Payroll and Benefits	17,584	-	-	27,234	44,818
Advances from Others	91,240	-	-	-	91,240
Deferred Revenue	-	-	25,579	154,481	180,060
Contingent Liabilities	-	-	-	62,625	62,625
Other Liabilities	-	-	-	115	115
Total Liabilities	\$ 347,398	\$ 114,098	\$ 30,920	\$ 413,164	\$ 905,580

Liabilities
As of September 30, 2003
(In Thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	\$ 18,617	\$ -	\$ -	\$ -	\$ 18,617
Debt	-	114,826	-	-	114,826
Other:					
Accrued Payroll Benefits	5,530	-	5,067	9,046	19,643
Advances from Others	9,363	-	-	-	9,363
Deferred Revenue	-	-	34	-	34
Judgment Fund Liability	-	-	-	48,798	48,798
Other Liabilities	-	-	-	22,204	22,204
Total Intragovernmental Liabilities	33,510	114,826	5,101	80,048	233,485
Accounts Payable	220,987	-	-	-	220,987
Federal Employees Compensation					
Act Liability	-	-	-	93,468	93,468
Environmental Cleanup Costs	-	-	-	5,804	5,804
Other:					
Accrued Payroll and Benefits	13,438	-	-	27,390	40,828
Advances from Others	110,114	-	-	-	110,114
Deferred Revenue	-	-	36,690	139,361	176,051
Contingent Liabilities	-	-	-	69,100	69,100
Other Liabilities	-	-	-	115	115
Total Liabilities	\$ 378,049	\$ 114,826	\$ 41,791	\$ 415,286	\$ 949,952

Deferred revenue consists primarily of deposits received from customers for construction of facilities and future water deliveries.

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 the Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans as of September 30, 2004, range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury as of September 30, 2004, ranges from 6.01 percent to 6.88 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, 2004, and 2003.

Debt
As of and for the Years Ended September 30, 2004, and 2003
(In Thousands)

Intragovernmental Debt:		
Borrowing from Treasury	2004	2003
Beginning Balance	\$ 114,826	\$ 96,674
New Borrowings	4,125	18,865
Repayments	(4,853)	(713)
Ending Balance	<u>\$ 114,098</u>	<u>\$ 114,826</u>

Note 10. Environmental Cleanup Costs 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. Liabilities that are not estimable or are reasonably possible are disclosed in the Additional Potential Liabilities table.

The accrued and potential Environmental Cleanup Costs and Contingent Liabilities as of September 30, 2004, and 2003 are summarized in the following tables.

Accrued Liabilities
As of September 30, 2004, and 2003
(In Thousands)

	2004	2003
Environmental Cleanup Costs	\$ 5,629	\$ 5,804
Contingent Liabilities	62,625	69,100
Total Environmental and Contingent Liabilities - Accrued	<u>\$ 68,254</u>	<u>\$ 74,904</u>

Additional Potential Liabilities
As of September 30, 2004, and 2003
(In Thousands)

	2004		2003	
	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
Environmental Cleanup Costs	\$ 331	\$ 16,413	\$ 911	\$ 25,141
Contingent Liabilities	222,100	246,500	223,452	247,752
Total Environmental and Contingent Liabilities - Potential	<u>\$ 222,431</u>	<u>\$ 262,913</u>	<u>\$ 224,363</u>	<u>\$ 272,893</u>

A. Environmental Cleanup Costs

Reclamation has Government-related potential environmental cleanup 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 (CERCLA) of 1980, which created the Superfund Program.

Accrued liabilities include the expected future cleanup costs, and for those sites where the future liability is unknown, the cost of studies necessary to evaluate response requirements. The additional potential liabilities disclosed are considered reasonably estimable, but they do not meet the requirement for accrual. The disclosed amount includes the expected future response costs, and for sites where future cleanup costs are unknown, the cost of studies necessary to evaluate cleanup 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 120 to 180 days' notice to vacate, and the amount of these leases remains constant from year to year. For the years ended September 30, 2004, and 2003, the amount of these leases is \$21.7 million and \$22.9 million, respectively. For non-federally owned property leased through GSA, an occupancy agreement is executed; and, again, Reclamation may normally cancel these agreements with 120 days notice.

In addition to the above leases with GSA, Reclamation had for the years ended September 30, 2004, and 2003, operating lease payments to non-Federal entities in the amount of \$1.9 million and \$2.8 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 that have initial or remaining lease terms in excess of 1 year as of September 30, 2004.

Operating Lease Commitments
As of September 30, 2004
(In Thousands)

Fiscal Year	GSA Real Property	Other Real Property	Personal Property	Total
2005	\$ 22,037	\$ 1,849	\$ 268	\$ 24,154
2006	22,367	1,809	252	24,428
2007	22,703	1,814	30	24,547
2008	23,043	1,773	-	24,816
2009	23,389	1,598	-	24,987
Thereafter	-	3,615	-	3,615
Total Future Lease Payments	\$ 113,539	\$ 12,458	\$ 550	\$ 126,547

Note 12. Consolidated Statements of Net Cost By Reporting Segments and Regional Organizations

The Consolidated Statements of Net Cost are presented according to the strategic plan in place for that fiscal year, as required under the GPRA. As the FY 2004 Strategic Plan for Interior includes a segment revision, the statements are not directly comparable between the two fiscal years presented. These statements, shown by regional organization and reporting segment, for the years ended September 30, 2004, and 2003 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 (Budget of the United States Government). Except as noted in the schedule below, the FY 2003 amounts shown in the Statement of Budgetary Resources equal those published in the President's

Budget. The actual amounts for FY 2004 in the President’s Budget had not been published at the time these financial statements were prepared. The President’s Budget with the actual FY 2004 amounts is estimated to be released in February 2005 and can be located at the OMB website: (<www.whitehouse.gov/omb>).

The differences shown in the following table are due to the Treasury accounting guidance related to downward re-estimates of subsidy (recorded as a negative collection) in comparison to OMB’s presentation of this item in the President’s Budget (as an obligation and related disbursement). Slight rounding differences are also present in the following table.

Schedule of Differences
Comparison of FY 2003 Statement of Budgetary Resources to the
President's Budget FY 2003 Actual Column
Non-Budgetary Credit Program Financing Account
(In Millions)

Statement of Budgetary Resources		President's Budget		
Non-Budgetary Credit Program		Bureau of Reclamation		
Financing Account		Direct Loan Financing Account		
Line Item Description:	Amount	Line Item No:	Amount	Difference
Spending Authority from Offsetting Collections	\$ (9)	69.00	\$ 6	\$ 15
Obligations Incurred	9	73.10	25	16
Outlays-Disbursements	10	73.20	25	15
Less: Offsetting Collections	9	88.90	(6)	(15)

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. Offsetting receipts are an integral component of the Combined Statement of Budgetary Resources in order to reconcile this statement to the President’s Budget.

Reclamation’s borrowing authority is provided under the Credit Reform Act of 1990 (refer to Note 5 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. All other Reclamation funds, including those not specifically mentioned here, are subject to annual apportionment by OMB, and thereby classified as Category B apportionments. Detailed amounts for each of Reclamation’s major budget accounts are included in the Combining Statement of Budgetary Resources located in the Supplemental Section of this report. All unobligated balances presented are available until expended.

The apportionment categories for Reclamation’s budgetary accounts and non-budgetary credit reform accounts are presented in the following tables.

Budget Categories
For the Year Ended September 30, 2004
(In Thousands)

	Apportioned Category B	Not Subject to Apportionment	Total
Obligations Incurred:			
Direct	\$ 926,161	\$ 72,039	\$ 998,200
Reimbursable	832,902	-	832,902
Total Obligations Incurred	<u>\$ 1,759,063</u>	<u>\$ 72,039</u>	<u>\$ 1,831,102</u>

Budget Categories
For the Year Ended September 30, 2003
(In Thousands)

	Apportioned Category B	Not Subject to Apportionment	Total
Obligations Incurred:			
Direct	\$ 913,953	\$ 73,717	\$ 987,670
Reimbursable	727,206	-	727,206
Total Obligations Incurred	<u>\$ 1,641,159</u>	<u>\$ 73,717</u>	<u>\$ 1,714,876</u>

Note 14. Consolidated Statement of Financing

Reclamation receives allocation transfers (funding) from other Federal entities. The proprietary accounting activity in these

allocation transfer accounts is reported in the Consolidated Balance Sheet, Consolidated Statements of Net Cost, and Consolidated Statement of Changes in Net Position, but not in the Combined Statement of Budgetary Resources. The budgetary activity for these allocation transfer accounts is reported by the transferring (parent) entities, per OMB Circular A-11, "Preparation, Submission, and Execution of the Budget." The adjustment shown in the Consolidated Statement of Financing for "Components of Net Cost of Operations Related to Transfer Accounts where budget amounts are reported by Other Federal Entities" represents the reconciliation amount between Reclamation's net cost of operations and the transferring entity's obligations incurred amount for these allocation transfer accounts. Reclamation's major allocation transfer accounts consist of:

- Transfers from the Department of Labor for the operation of five Job Corps Centers in the Western United States to provide comprehensive education and job training for eligible youth.
- Transfers from the Office of the Secretary, Department of the Interior, for natural resource damage assessment and restoration activities.
- Transfers from the Bureau of Indian Affairs, Department of the Interior, to perform construction management activities for the Navajo Indian Irrigation Project.
- Transfers from the Bureau of Land Management, Department of the Interior, for activities supporting their central hazardous materials fund programs.

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.

Selected financial information for Reclamation Trust Funds is presented in the following table as of and for the years ended September 30, 2004, and 2003.

Dedicated Collections
Reclamation Trust Funds
As of and for the Years Ended September 30, 2004, and 2003
(In Thousands)

	2004	2003
Assets:		
Fund Balance with Treasury	\$ 43,426	\$ 47,865
Accounts Receivable	-	134
Property, Plant, and Equipment	37,623	33,528
Total Assets	<u>\$ 81,049</u>	<u>\$ 81,527</u>
Liabilities:		
Accounts Payable	\$ 634	\$ 764
Other Liabilities	42,864	47,286
Total Liabilities	43,498	48,050
Total Net Position	<u>37,551</u>	<u>33,477</u>
Total Liabilities and Net Position	<u>\$ 81,049</u>	<u>\$ 81,527</u>
Changes in Net Position		
Beginning of Fiscal Year	\$ 33,477	\$ 32,290
Transfers In/Out Without Reimbursement	-	(346)
Exchange Revenue - Services Provided/Other	9,844	9,191
Program Expenses	(5,770)	(7,658)
Net Position, End of Fiscal Year	<u>\$ 37,551</u>	<u>\$ 33,477</u>

Financial Section

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:		
Segment Expenses for Services Provided to the Public	\$ 93,807	\$ 277,554
Segment Exchange Revenues from the Public	(16,023)	(183,578)
Segment Cost of Operations for Services Provided to the Public	<u>77,784</u>	<u>93,976</u>
Segment Expenses for Services Provided to Other Federal Entities	906	5,168
Segment Exchange Revenues from Other Federal Entities	(870)	(5,073)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>36</u>	<u>95</u>
<i>Net Segment Cost of Operations</i>	<u>77,820</u>	<u>94,071</u>
Generate Hydropower in an Environmentally Responsible and Cost Efficient Manner:		
Segment Expenses for Services Provided to the Public	(1,090)	33,965
Segment Exchange Revenues from the Public	(10,818)	(61,325)
Segment Cost of Operations for Services Provided to the Public	<u>(11,908)</u>	<u>(27,360)</u>
Segment Expenses for Services Provided to Other Federal Entities	64,191	1
Segment Exchange Revenues from Other Federal Entities	(61,531)	(1)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>2,660</u>	<u>-</u>
<i>Net Segment Cost of Operations</i>	<u>(9,248)</u>	<u>(27,360)</u>
RESOURCE PROTECTION		
Improve Health of Watersheds, Landscapes, and Biological Communities:		
Segment Expenses for Services Provided to the Public	320	122
Segment Exchange Revenues from the Public	(13)	(4)
Segment Cost of Operations for Services Provided to the Public	<u>307</u>	<u>118</u>
Segment Expenses for Services Provided to Other Federal Entities	3	-
Segment Exchange Revenues from Other Federal Entities	(3)	-
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>-</u>	<u>-</u>
<i>Net Segment Cost of Operations</i>	<u>307</u>	<u>118</u>
RECREATION		
Provide Quality and Fair Value in Recreation:		
Segment Expenses for Services Provided to the Public	4,917	5,455
Segment Exchange Revenues from the Public	10	(661)
Segment Cost of Operations for Services Provided to the Public	<u>4,927</u>	<u>4,794</u>
Segment Expenses for Services Provided to Other Federal Entities	43	81
Segment Exchange Revenues from Other Federal Entities	(41)	(79)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>2</u>	<u>2</u>
<i>Net Segment Cost of Operations</i>	<u>4,929</u>	<u>4,796</u>
CENTRALIZED PROGRAM SUPPORT AND OTHER		
Working Capital Fund, Policy and Administration, and Other:		
Segment Expenses for Services Provided to the Public	3,372	17,246
Segment Exchange Revenues from the Public	(4,891)	(15,906)
Segment Cost of Operations for Services Provided to the Public	<u>(1,519)</u>	<u>1,340</u>
Segment Expenses for Services Provided to Other Federal Entities	43,707	56,991
Segment Exchange Revenues from Other Federal Entities	(43,707)	(56,991)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>-</u>	<u>-</u>
<i>Net Segment Cost of Operations</i>	<u>(1,519)</u>	<u>1,340</u>
Total Expenses for Services Provided to the Public	101,326	334,342
Total Exchange Revenues from the Public	(31,735)	(261,474)
Total Net Cost of Operations for Services Provided to the Public	69,591	72,868
Total Expenses for Services Provided to Other Federal Entities	108,850	62,241
Total Exchange Revenues from Other Federal Entities	(106,152)	(62,144)
Total Net Cost of Operations for Services Provided to Other Federal Entities	2,698	97
Total Net Cost of Operations	\$ 72,289	\$ 72,965

	Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
\$	342,847	\$ 126,652	\$ 139,465	\$ 96,447	\$ 1,076,772	\$ -	\$ 1,076,772
	(194,772)	(19,803)	(32,001)	(307)	(446,484)	-	(446,484)
	148,075	106,849	107,464	96,140	630,288	-	630,288
	683	4,288	40,587	-	51,632	-	51,632
	(674)	(4,173)	(39,785)	-	(50,575)	-	(50,575)
	9	115	802	-	1,057	-	1,057
	148,084	106,964	108,266	96,140	631,345	-	631,345
	8,848	49,576	30,827	3,212	125,338	-	125,338
	(56,890)	(51,819)	(1,796)	(14)	(182,662)	-	(182,662)
	(48,042)	(2,243)	29,031	3,198	(57,324)	-	(57,324)
	11,501	(21)	11,851	-	87,523	-	87,523
	(11,350)	20	(11,619)	-	(84,481)	-	(84,481)
	151	(1)	232	-	3,042	-	3,042
	(47,891)	(2,244)	29,263	3,198	(54,282)	-	(54,282)
	14,815	43	-	823	16,123	-	16,123
	(630)	857	-	(1)	209	-	209
	14,185	900	-	822	16,332	-	16,332
	21	11,429	-	-	11,453	(11,104)	349
	(21)	(11,098)	-	-	(11,122)	11,104	(18)
	-	331	-	-	331	-	331
	14,185	1,231	-	822	16,663	-	16,663
	11,047	459	316	76	22,270	-	22,270
	(12,072)	(131)	(11,361)	-	(24,215)	-	(24,215)
	(1,025)	328	(11,045)	76	(1,945)	-	(1,945)
	61	-	85	-	270	-	270
	(61)	-	(83)	-	(264)	-	(264)
	-	-	2	-	6	-	6
	(1,025)	328	(11,043)	76	(1,939)	-	(1,939)
	11,111	8,693	4,913	75,466	120,801	-	120,801
	(8,699)	(16,126)	(2,965)	(7,541)	(56,128)	-	(56,128)
	2,412	(7,433)	1,948	67,925	64,673	-	64,673
	42,362	39,291	35,178	155,553	373,082	(333,032)	40,050
	(42,362)	(39,291)	(35,178)	(155,553)	(373,082)	333,032	(40,050)
	-	-	-	-	-	-	-
	2,412	(7,433)	1,948	67,925	64,673	-	64,673
	388,668	185,423	175,521	176,024	1,361,304	-	1,361,304
	(273,063)	(87,022)	(48,123)	(7,863)	(709,280)	-	(709,280)
	115,605	98,401	127,398	168,161	652,024	-	652,024
	54,628	54,987	87,701	155,553	523,960	(344,136)	179,824
	(54,468)	(54,542)	(86,665)	(155,553)	(519,524)	344,136	(175,388)
	160	445	1,036	-	4,436	-	4,436
\$	115,765	\$ 98,846	\$ 128,434	\$ 168,161	\$ 656,460	\$ -	\$ 656,460

Financial Section

**U.S. Department of the Interior
Bureau of Reclamation
Consolidating Statement of Net Cost
For the Year Ended September 30, 2003**

(In Thousands)	Pacific Northwest Region	Mid-Pacific Region
WATER AND ENERGY MANAGEMENT AND DEVELOPMENT		
Segment Expenses for Services Provided to the Public	\$ 37,809	\$ 74,758
Segment Exchange Revenues from the Public	(16,131)	(153,472)
Segment Cost of Operations for Services Provided to the Public	<u>21,678</u>	<u>(78,714)</u>
Segment Expenses for Services Provided to Other Federal Entities	9,007	2,939
Segment Exchange Revenues from Other Federal Entities	(8,589)	(2,877)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>418</u>	<u>62</u>
<i>Net Segment Cost of Operations</i>	22,096	(78,652)
FACILITIES OPERATIONS		
Segment Expenses for Services Provided to the Public	18,152	118,121
Segment Exchange Revenues from the Public	(7,716)	(3,529)
Segment Cost of Operations for Services Provided to the Public	<u>10,436</u>	<u>114,592</u>
Segment Expenses for Services Provided to Other Federal Entities	54,474	154
Segment Exchange Revenues from Other Federal Entities	(53,285)	(151)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>1,189</u>	<u>3</u>
<i>Net Segment Cost of Operations</i>	11,625	114,595
FACILITIES MAINTENANCE AND REHABILITATION		
Segment Expenses for Services Provided to the Public	(818)	16,414
Segment Exchange Revenues from the Public	-	(2,803)
Segment Cost of Operations for Services Provided to the Public	<u>(818)</u>	<u>13,611</u>
Segment Expenses for Services Provided to Other Federal Entities	-	-
Segment Exchange Revenues from Other Federal Entities	-	-
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>-</u>	<u>-</u>
<i>Net Segment Cost of Operations</i>	(818)	13,611
FISH AND WILDLIFE MANAGEMENT AND DEVELOPMENT		
Segment Expenses for Services Provided to the Public	13,399	67,408
Segment Exchange Revenues from the Public	-	(31,216)
Segment Cost of Operations for Services Provided to the Public	<u>13,399</u>	<u>36,192</u>
Segment Expenses for Services Provided to Other Federal Entities	-	19,354
Segment Exchange Revenues from Other Federal Entities	-	(19,186)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>-</u>	<u>168</u>
<i>Net Segment Cost of Operations</i>	13,399	36,360
LAND MANAGEMENT AND DEVELOPMENT		
Segment Expenses for Services Provided to the Public	7,554	7,842
Segment Exchange Revenues from the Public	(524)	(1,405)
Segment Cost of Operations for Services Provided to the Public	<u>7,030</u>	<u>6,437</u>
Segment Expenses for Services Provided to Other Federal Entities	-	-
Segment Exchange Revenues from Other Federal Entities	-	-
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>-</u>	<u>-</u>
<i>Net Segment Cost of Operations</i>	7,030	6,437
POLICY AND ADMINISTRATION		
Segment Expenses for Services Provided to the Public	1,371	1,784
Segment Exchange Revenues from the Public	-	-
Segment Cost of Operations for Services Provided to the Public	<u>1,371</u>	<u>1,784</u>
Segment Expenses for Services Provided to Other Federal Entities	-	-
Segment Exchange Revenues from Other Federal Entities	-	-
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>-</u>	<u>-</u>
<i>Net Segment Cost of Operations</i>	1,371	1,784
CENTRALIZED PROGRAM SUPPORT		
Segment Expenses for Services Provided to the Public	8,222	(6,421)
Segment Exchange Revenues from the Public	(6,604)	(1,465)
Segment Cost of Operations for Services Provided to the Public	<u>1,618</u>	<u>(7,886)</u>
Segment Expenses for Services Provided to Other Federal Entities	26,759	54,031
Segment Exchange Revenues from Other Federal Entities	(26,261)	(54,031)
Segment Cost of Operations for Services Provided to Other Federal Entities	<u>498</u>	<u>-</u>
<i>Net Segment Cost of Operations</i>	2,116	(7,886)
Total Expenses for Services Provided to the Public	85,689	279,906
Total Exchange Revenues from the Public	(30,975)	(193,890)
Total Net Cost of Operations for Services Provided to the Public	<u>54,714</u>	<u>86,016</u>
Total Expenses for Services Provided to Other Federal Entities	90,240	76,478
Total Exchange Revenues from Other Federal Entities	(88,135)	(76,245)
Total Net Cost of Operations for Services Provided to Other Federal Entities	<u>2,105</u>	<u>233</u>
Total Net Cost of Operations	<u>\$ 56,819</u>	<u>\$ 86,249</u>

Lower Colorado Region	Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Intrabureau Eliminations	Consolidated Total
\$ 140,398	\$ 80,433	\$ 131,945	\$ 27,055	\$ 492,398	\$ -	\$ 492,398
(39,100)	(14,715)	(54,482)	(1,763)	(279,663)	-	(279,663)
101,298	65,718	77,463	25,292	212,735	-	212,735
3,254	20,209	12,855	29,671	77,935	(11,805)	66,130
(3,241)	(20,057)	(12,808)	(29,647)	(77,219)	11,805	(65,414)
13	152	47	24	716	-	716
101,311	65,870	77,510	25,316	213,451	-	213,451
168,488	129,179	74,806	41,554	550,300	-	550,300
(201,867)	(33,533)	(3,146)	-	(249,791)	-	(249,791)
(33,379)	95,646	71,660	41,554	300,509	-	300,509
742	1,066	6	-	56,442	(1,902)	54,540
(736)	(1,057)	(6)	-	(55,235)	1,902	(53,333)
6	9	-	-	1,207	-	1,207
(33,373)	95,655	71,660	41,554	301,716	-	301,716
29,170	17,052	11,856	25,480	99,154	-	99,154
(5,847)	(3,901)	(30)	-	(12,581)	-	(12,581)
23,323	13,151	11,826	25,480	86,573	-	86,573
2	-	-	-	2	-	2
(2)	-	-	-	(2)	-	(2)
-	-	-	-	-	-	-
23,323	13,151	11,826	25,480	86,573	-	86,573
12,025	35,877	5,232	3,409	137,350	-	137,350
(248)	(16,419)	-	2	(47,881)	-	(47,881)
11,777	19,458	5,232	3,411	89,469	-	89,469
-	383	-	-	19,737	(3,170)	16,567
-	(381)	-	-	(19,567)	3,170	(16,397)
-	2	-	-	170	-	170
11,777	19,460	5,232	3,411	89,639	-	89,639
4,668	5,968	6,293	1,040	33,365	-	33,365
(123)	1,693	(2,517)	-	(2,876)	-	(2,876)
4,545	7,661	3,776	1,040	30,489	-	30,489
-	-	145	-	145	(143)	2
-	-	(143)	-	(143)	143	-
-	-	2	-	2	-	2
4,545	7,661	3,778	1,040	30,491	-	30,491
2,622	9,036	6,447	44,666	65,926	-	65,926
-	-	-	-	-	-	-
2,622	9,036	6,447	44,666	65,926	-	65,926
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,622	9,036	6,447	44,666	65,926	-	65,926
(15,283)	(38)	(147)	40,419	26,752	-	26,752
(3,343)	(3,498)	(1,882)	(11,340)	(28,132)	-	(28,132)
(18,626)	(3,536)	(2,029)	29,079	(1,380)	-	(1,380)
57,470	35,559	34,617	129,255	337,691	(294,157)	43,534
(55,112)	(34,064)	(33,313)	(124,439)	(327,220)	294,157	(33,063)
2,358	1,495	1,304	4,816	10,471	-	10,471
(16,268)	(2,041)	(725)	33,895	9,091	-	9,091
342,088	277,507	236,432	183,623	1,405,245	-	1,405,245
(250,528)	(70,373)	(62,057)	(13,101)	(620,924)	-	(620,924)
91,560	207,134	174,375	170,522	784,321	-	784,321
61,468	57,217	47,623	158,926	491,952	(311,177)	180,775
(59,091)	(55,559)	(46,270)	(154,086)	(479,386)	311,177	(168,209)
2,377	1,658	1,353	4,840	12,566	-	12,566
\$ 93,937	\$ 208,792	\$ 175,728	\$ 175,362	\$ 796,887	\$ -	\$ 796,887

