

Reclamation Manual

Directives and Standards

Subject:	Interest During Construction (IDC)
Purpose:	Establishes the responsibilities and the procedures for calculating and recording IDC. The benefit of this Directive and Standard (D&S) is to standardize Bureau of Reclamation-wide the calculation of IDC of assets under construction for reimbursable projects.
Authority:	Reclamation Project Act of 1939 (Pub. L. 76-260; 43 USC 485); Water Supply Act of 1958 (Pub. L. 85-500 , Title III); Reclamation Safety of Dams Act Amendments of 1984 and 2004 (Pub. L. 98-404 , 98 Stat. 1481; Pub. L. 108-439 , 118 Stat. 2627); Federal Water Project Recreation Act of 1965 (Pub. L. 89-72); Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standard (SFFAS 6 , <i>Accounting for Property, Plant, and Equipment</i> , as amended; FASAB, SFFAS 44 , <i>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i> ; GAO's Accounting Principles, Standards, and Requirements, Title 2 Standards Not Superseded by FASAB Issuances, Standard I10, Imputed Interest
Approving Official:	Director, Management Services Office
Contact:	Business Analysis Division, Compliance and Audit Team, (84-27410)

1. **Introduction.** The Department of Treasury (Treasury) provides funding to Reclamation from various sources such as the Reclamation Fund, the General Fund, and others. Treasury incurs costs for providing this funding. Reclamation's program of work involves the construction of project features. Congress requires Reclamation to recover some costs of these project features. Cost associated with multipurpose projects/features are allocated to the various purposes (principally power, irrigation, municipal and industrial (M&I), fish and wildlife enhancements, recreation, and flood control) through a cost allocation process. The cost associated with power; irrigation; and M&I; and recreation and fish and wildlife covered by the Federal Water Project Recreation Act of 1965 are reimbursable by customers. All of these project purposes, excluding irrigation, are subject to reimbursement for interest. IDC and interest on investment (IOI) are components of the cost of money to the Federal government, and Reclamation calculates and recovers the interest components in addition to construction and operation and maintenance costs for reimbursable projects as specified in project legislation. Effective September 2014, two Reclamation Fund accounts were transferred to Western Area Power Administration (WAPA) and Bonneville Power Administration (BPA) per a Memorandum of Understanding (MOU) between the Department of the Interior and the Department of Energy. Appendix D contains a copy of the MOU for historical purposes. Reclamation collects, records, and deposits the repayments for non-power components that include IDC/IOI to Treasury. WAPA and BPA collect, record, and deposit the repayments for the power components. Reclamation

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calculates and records both imputed costs and imputed funding sources as Treasury incurs the cost but Reclamation records, collects, and returns it to Treasury.

2. **Applicability.** This D&S applies to all Reclamation personnel involved in the calculation and recording of IDC.
3. **Definitions.**
 - A. **Additions.** A unit of property that, when placed in service, will increase or improve the operating efficiencies or capabilities of the asset.
 - B. **Assets Under Construction (AUC) (formerly known as Construction in Progress).** Capitalized construction costs incurred for new construction, replacements, or new additions for Reclamation-owned General Property, Plant, and Equipment (G-PP&E).
 - C. **Construction in Abeyance (CIA).** Programs or features that have been indefinitely suspended or terminated, but not officially de-authorized by Congress.
 - D. **Final Cost Allocation (FCA).** The allocation and distribution of costs and repayment to the purposes, divisions, and repaying entities consistent with legislative provisions, actual or expected contract relationships, and official administrative determinations. Reclamation performs a FCA when construction of a project is substantially complete. The final allocation determines the actual reimbursable and non-reimbursable costs for each project feature and is the basis for assignment of costs to beneficiaries for repayment.
 - E. **Half-year Convention.** The half-year convention is a calculation of a weighted average of the costs incurred throughout the year. This approach avoids having to compute IDC on a daily, weekly, or monthly basis.
 - F. **Impairment.** A significant and permanent decline, in whole or in part, whether gradual or sudden, in the service utility of G-PP&E or expected service utility for construction work in progress. The events or changes in circumstance that lead to the impairment are not normal and ordinary. At the time the G-PP&E was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the G-PP&E or, if expected, sufficiently predictable to be considered in estimating the useful life.
 - G. **Interest During Construction or IDC.** Interest accumulated during the construction period. This interest is added to the cost of the long-term asset, so that the interest is not recognized in the current period as interest expense. Instead, the interest becomes a fixed asset, and is included in the depreciation of the long-term asset.
 - H. **Replacements.** The construction or installation of G-PP&E that replaces existing G-PP&E. The old property is removed and the asset record is retired.

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4. Responsibilities.

- A. The regional finance offices are responsible for calculating and recording IDC on a quarterly basis in accordance with the procedures in this D&S.
- B. Regional or area staff knowledgeable in project cost allocation procedures is responsible for determining the initial, interim, and final cost allocations in accordance with Reclamation Manual (RM) D&S, *Project Cost Allocations* (PEC 01-02).

5. Computing IDC. Generally, the costs (original construction costs and costs of additions and replacements regardless of source of funds) allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law.

- A. **Power.** Compute IDC using simple interest on all power projects, additions, and replacements where construction started prior to October 1, 1983. Compute IDC using compound interest on all projects, replacements, and additions where construction started after September 30, 1983. Reclamation entered into agreements with the various power marketing agencies to begin charging compound interest on all power expenditures occurring on or after October 1, 1983, per the Commissioner's memorandum, *Policy on Computing Interest During Construction for Power Repayment*, dated February 14, 1984, published as Program Analysis Office (PAO) Planning Instruction 84-03 and supplemented by PAO Planning Instruction 86-01. Appendix B contains a copy of the documents for historical purposes.
- B. **Functions Other Than Power.** Compute IDC using compound interest on all projects except power projects, unless otherwise provided by repayment contract or law. (All projects with planning reports with simple interest adopted before September 30, 1980, will use simple interest per the Commissioner's memorandum, *Policy on Computing Interest During Construction for Repayment Purposes*, dated November 10, 1980, published as PAO Planning Instruction 80-45 and supplemented by PAO Planning Instruction 84-03). Appendix B contains a copy of the documents for historical purposes.
- C. **Base for Computation.**
 - (1) The base for computing IDC for construction, replacements, and additions is net disbursements of the funds used for the construction, replacements, or additions. Effective October 1, 1983, IDC is adjusted to exclude the following items:
 - (a) contract holdbacks when released and paid to the contractor,
 - (b) expenditures for non-reimbursable expenses financed from construction funds,

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- (c) funds returned to Treasury from construction activities associated with construction cost credits, and/or
 - (d) expenditures financed from revenues or non-Federal sources.
- (2) General Ledger (GL) 4902.xxxxx will be used as a base for computation. You may need to consider any expenditure adjustments in Financial and Business Management System in the computation.
 - (3) The accumulated net disbursements for advance planning and preconstruction cost activities are a part of the base for computing IDC commencing with the beginning of the year that construction is initiated.
 - (4) IDC is not applied to general investigation disbursements (GL 1990.B0000) either before or after initiation of construction. This includes both reimbursable and non-reimbursable general investigations costs.
 - (5) Replacements that extend the useful life of an asset, expand the capacity or efficiency of an asset, or otherwise upgrade an asset to serve needs different from, or significantly greater than, an asset's current use are capitalized and are subject to IDC. The replacement that allows the asset to perform the function for which it was acquired and attain its original useful life is expensed.
 - (6) The allocation of costs for the purposes of calculating IDC is the same as the Statement of Project Construction Cost and Repayment (SPCCR) allocation. Reference RM D&S, *Statement of Project Construction Cost and Repayment (SPCCR)* (FIN 06-02).
- D. **IDC Commencement.** IDC begins for each project or project feature, including replacements and additions, in the quarter when the first disbursement occurs to initiate construction. This is defined as the point in time when the first disbursement is made under a construction contract, including land purchase contracts for purchase of rights-of-way, as distinguished from disbursements for advance planning and preconstruction activities.
- E. **IDC Termination.**
- (1) **Original Construction.** Generally, IDC terminates for original construction in the quarter the asset is transferred to Plant from AUC. To transfer to Plant, the project manager must determine the construction of the project feature and any necessary associated project features are substantially complete; the facilities are ready to deliver water and/or power; and the project feature is generating project purpose revenue if applicable.

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- (2) **Replacements/Additions.** IDC terminates for replacements or additions in the quarter the asset is transferred to Plant. Again, the project manager must determine the project feature is substantially complete; the project feature is providing the intended purpose, benefit, and service; and the project feature is generating project purpose revenue, if applicable.
 - (3) **Partial Impairments.** Unless a statutory requirement exists, suspend the calculation and recording of IDC after a program or feature is transferred to CIA. Do not retroactively compute and record IDC if CIA facilities are subsequently transferred to AUC or Plant. IDC will resume if a CIA facility is transferred to AUC. Refer to RM D&S, *Plant Accounting-Construction in Abeyance* (FIN 07-26) for further guidance on partial impairment.
 - (4) **IDC Estimate.** IDC is considered an estimate until an FCA is completed on original construction. IDC is considered an estimate for replacements or additions until the replacement or addition is substantially complete and transferred to Plant.
- F. **Procedures for Computing IDC.** Each quarter, IDC is computed, reviewed, approved, and recorded in the GL. Do not calculate IDC until you determine the reimbursable functions, multipurpose allocation percentages, and applicable interest rates for the project or feature. See Appendix A for a sample template with instructions. The template may be changed to meet regional needs. Appendix A identifies the mandatory requirements that must be included in the computation worksheet.
- (1) **Review.**
 - (a) Review repayment contracts for new amendments and contact the regional or area office staff knowledgeable in project cost allocation procedures for any new legislation, changes in allocations, and verification of current information used in the IDC calculation.
 - (b) For a new construction project, review the authorizing legislation, Budget Justifications, Project Data Sheets, Definite Plan Reports, repayment contracts, and any other available information for provisions relating to the calculation of interest and allocation to reimbursable functions subject to IDC. Coordinate with the area or regional office staff knowledgeable in project cost allocation procedures in determining how IDC must be calculated for the project and/or project features.
 - (c) For additions, replacements, or Safety of Dams (SOD) modifications, review programs and budget documents, repayment contracts, and any other information available to determine if:

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- (i) the addition or replacement or modification has a reimbursable function,
 - (ii) the work was started after September 30, 1982,
 - (iii) requires more than 1 year to complete, and
 - (iv) the cost exceeds \$10,000.
- (d) Calculate IDC for SOD modifications per Section 4(c) (1) of the SOD Act Amendment of 1984.
- (2) **Estimated IDC.**
- (a) If you cannot determine the actual IDC, then record an estimate. Calculate the estimate using any reasonable means available, such as using last year's IDC as an estimate for the current fiscal year or using actual expenditures (Standard General Ledger 4902) for the prior quarter.
 - (b) For new construction, additions, or replacements, do not record any estimates until the next fiscal year.
 - (c) When IDC was estimated in a prior fiscal year or quarter, reverse the estimate in the following fiscal year or quarter. Compute and record IDC using the actual expenditures for that year or quarter.
- (3) **Prior Year Adjustments.** Distribute prior period cost adjustments to the appropriate years.
- (4) **Project Completion.** Upon completion of the project, the regional finance and regional staff knowledgeable in project cost allocation procedures will review the IDC calculations to determine the final IDC amount.
- (a) For replacements and additions, the finance and regional staff knowledgeable in project cost allocation procedures will perform an independent verification of the information/documentation and IDC calculations to determine the final IDC amount to transfer to Plant.
 - (b) For construction and deficits, the regional staff knowledgeable in project cost allocation procedures will prepare a FCA to include the calculation of reimbursable IDC. Prepare a final IDC worksheet to recalculate all IDC for the project or project feature using the FCA information. Compare the recalculated IDC to the FCA amounts and reconcile any difference.

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- (5) **Retention.** The regional finance office will permanently retain the IDC worksheets. Footnote the IDC spreadsheets with any significant changes each fiscal year. Each region is responsible for keeping copies of any documents needed to support the IDC calculation as part of the permanent IDC file for the project.

G. Procedures for Recording IDC.

- (1) The regional finance office will post the amount of IDC calculated per Paragraph 5. F. above. The pertinent elements are:
- (a) transaction type of “FB50” or “FV50”,
 - (b) document type of “VB”,
 - (c) “RA” Work Breakdown Structure (WBS),
 - (d) commitment item of “NA”,
 - (e) debit GL 6730.00000, *Imputed Costs*,
 - (f) credit GL 5780.Z0000, *Imputed Financing Source-Other*,
 - (g) trading partner of “1406” on both GL accounts, and
 - (h) main account (use the 5th through 8th digits of the fund as the main account). (Example: Fund XXXR0680G1, the main account is 0680)
- (2) These entries will not derive any cash or budget GL accounts.
- (3) The RA WBS will settle resulting in a debit posting to GL 1720.CIP00, *Construction in Progress* and a credit to GL 6610.00000, *Cost Capitalization Offset*. During year-end closing, GL 6730.00000 and 5780.Z0000 will close to GL 3310.A0000, *Cumulative Results of Operations-Operating*, resulting in a zero impact. GL 6610.00000 closes to GL 3310.C0000, *Cumulative Results of Operations-Capital Assets*, leaving the IDC recorded in GL 1720.CIP00 and GL 3310.C0000.

6. Related References.

- A. [FIN 06-02](#), *Statement of Project Construction Cost and Repayment (SPCCR)*.
- B. [FIN 06-30B](#), *Interest Rate Formula*.
- C. [FIN 07-26](#), *Plant Accounting-Construction in Abeyance*.

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- D. [PEC P01](#), *Final Cost Allocations*.
 - E. [PEC 01-02](#), *Project Cost Allocations*.
 - F. [PEC 05-05](#), *Safety of Dams Repayment*.
 - G. U.S. Treasury [Annual Interest Rate Certification](#).
7. **Appendices.**
- A. **Appendix A.** Interest During Construction (IDC) Computation Spreadsheet Instructions.
 - B. **Appendix B.** PAO Planning Instructions.
 - C. **Appendix C.** Example of Policy and Administration Memorandum on Interest Rates.
 - D. **Appendix D.** Memorandum of Agreement between the Department of the Interior and the Department of Energy

RECLAMATION MANUAL TRANSMITTAL SHEET

Effective Date: _____

Release No. _____

Ensure all employees needing this information are provided a copy of this release.

Reclamation Manual Release Number and Subject

Summary of Changes

NOTE: This Reclamation Manual release applies to all Reclamation employees. When an exclusive bargaining unit exists, changes to this release may be subject to the provisions of collective bargaining agreements.

Filing instructions

Remove Sheets

Insert Sheets

All Reclamation Manual releases are available at <http://www.usbr.gov/recman/>

Filed by: _____

Date: _____