FINANCIAL SECTION

Auditor's Letter

Financial Statements

Financial Notes

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAR 3 0 1999

AUDITORS REPORT

Memorandum

To: Commissioner, Bureau of Reclamation

Subject: Auditors Report on Bureau of Reclamation Financial Report for Fiscal Years 1998 and 1997 (No. 99-I-399)

SUMMARY

In our audit of the Bureau of Reclamation's financial report for fiscal year 1998, we found the following:

- The principal financial statements were fairly presented in all material respects. The Bureau of Reclamation's principal financial statements consist of the Consolidated Balance Sheet as of September 30, 1998, and 1997; the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Consolidated Statement of Budgetary Resources, and the Consolidated Statement of Financing for the year ended September 30, 1998; and the Working Capital Fund Statement of Cash Flows for the years ended September 30, 1998, and 1997.

- Our tests identified one internal control weakness concerning the identification of Government or non-Government transactions that we consider to be a reportable condition.

- Our tests of compliance with laws and regulations identified no instances of noncompliance that are required to be reported.

Our conclusions are detailed in the sections that follow.

OPINION ON FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990, we audited the Bureau of Reclamation's principal financial statements for the fiscal years ended September 30, 1998, and 1997, as contained in the Bureau of Reclamation's accompanying "1998 Annual Report." The Bureau of Reclamation is responsible for these principal financial statements, and we are responsible for expressing an opinion, based on our audit, on these principal financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget

Bulletin 98-08, "Audit Requirements for Federal Financial Statements," and was completed on December 18, 1998. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

In our opinion, the principal financial statements, including the accompanying notes, present fairly, in all material respects, the consolidated financial position of the Bureau of Reclamation as of September 30, 1998, and 1997, and its consolidated net cost, changes in net position, budgetary resources, financing for the year ended September 30, 1998, and its working capital fund cash flows for the years ended September 30, 1998, and 1997, on the basis of accounting described in Note 1 to the financial statements.

As discussed in Notes 1G, 7, and 12 to the financial statements, the Bureau reclassified costs for land from the structures and other facilities account to the standard general ledger account for land and adjusted the accumulated depreciation. In addition, as discussed in Note 11 to the financial statements, the Bureau changed its method of reporting Minerals Management Service exchange revenue. In fiscal year 1997, the Bureau reported this revenue in its Consolidated Statement of Net Cost. However, to comply with Statement of Federal Financial Accounting Standard No. 7, "Accounting for Revenue and Other Financing Sources," the Bureau reported this revenue as another financing source in its fiscal year 1998 Consolidated Statement of Changes in Net Position.

Our audit was conducted for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated principal financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated principal financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated and principal financial statements taken as a whole.

The supplementary information (pages 81-91) is not a required part of the principal financial statements but includes supplementary information required by the Financial Accounting Standards Advisory Board. We have applied certain limited procedures, including discussions with management on the methods of measurement and presentation of the supplemental information. However, we did not audit the information and therefore express no opinion on it.

REPORT ON INTERNAL CONTROLS

Management of the Bureau of Reclamation is responsible for establishing and maintaining an internal control structure which provides reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the principal financial statements and required supplementary information in accordance with Federal accounting standards.

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Transactions are executed in accordance with (1) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the principal financial statements or required supplementary information and (2) any other laws, regulations, and Governmentwide policies identified by the Office of Management and Budget.

Because of inherent limitations in any internal control structure, errors or fraud may occur and not be detected. Also, projections of the internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of the relevant internal control policies and procedures, determined whether these internal controls had been placed in operation, assessed control risks, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements and not to express assurance on the internal controls over financial reporting. Consequently, we do not express an opinion on internal controls. We also reviewed the Bureau's most recent report required by the Federal Managers' Financial Integrity Act of 1982 and compared it with the results of our evaluation of the Bureau's internal control structure.

Our consideration of the internal controls over financial reporting and compliance would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants and by Office of Management and Budget Bulletin 98-08, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the Bureau's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted a matter discussed in the paragraph that follows involving the internal control structure and its operation that we consider to be a reportable condition. The reportable condition is not considered to be a material weakness.

Although the Bureau's accounting system identified individual transactions as Government or non-Government, the system could not summarize the transactions by Government or non-Government. Office of Management and Budget Bulletin 97-01, "Form and Content of Agency

Financial Statements," requires the amounts in the Bureau's financial statements to be summarized as Government and non-Government. The Bureau's accounting system was not properly summarizing Government and non-Government transactions because the system eliminated the Government or non-Government identifier from the transactions when it summarized the data. To correct the internal control weakness, the Bureau said that it plans to revise the system so that Government and non-Government transactions can be summarized and reported.

Supplementary Information and Performance Measures

We considered the Bureau of Reclamation's internal controls over the required supplementary information by obtaining an understanding of the Bureau's internal controls relating to the preparation of the required supplementary information to determine whether these internal controls had been placed in operation, assessed the control risk, and performed tests of these controls as required by Bulletin 98-08. However, providing assurance on these internal controls was not an objective of our audit, and accordingly, we do not provide assurance on such controls.

With respect to the internal controls related to the reported performance measures, we did not obtain an understanding of the design of significant internal controls related to the existence and completeness assertions. Accordingly, we do not provide assurance on such controls.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of the Bureau of Reclamation is responsible for complying with laws and regulations applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of the Bureau's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on amounts contained in the principal financial statements and certain other laws and regulations specified in Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations discussed in the preceding paragraph exclusive of the Federal Financial Management Improvement Act disclosed no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08.

Under the Federal Financial Management Improvement Act, we are required to report whether the Bureau's financial management systems are in substantial compliance with requirements for Federal financial management systems, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet these requirements, we performed tests of compliance using the implementation guidance for the Federal Financial Management Improvement Act included in Appendix D of Bulletin 98-08. The results of our tests disclosed no instances in which the Bureau's financial management system was not in substantial compliance with these three requirements.

CONSISTENCY OF OTHER INFORMATION

We reviewed the financial information presented in the Bureau of Reclamation's overview and in the required supplemental information to determine whether the information was consistent with the financial statements. Based on our review, we determined that the information in the overview and in the required supplemental information was consistent with information in the principal financial statements.

PRIOR AUDIT COVERAGE

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to the Bureau of Reclamation's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to the Bureau's financial statements or internal controls. Our review disclosed that there were no General Accounting Office reports which contained significant unresolved or unimplemented recommendations related to the Bureau's principal financial statements. However, the Office of Inspector General had five reports that had significant unresolved or unimplemented recommendations which we considered to be reportable weaknesses as follows:

- "Pick-Sloan Missouri Basin Program Cost Allocation, Bureau of Reclamation" (No. 93-I-1641), dated September 1993, stated that allocating Program costs based on the ultimate development concept had not protected the Government's investment in the Program and had resulted in cost allocations which did not reflect the benefits received by Program beneficiaries but did favor Program power beneficiaries at the expense of taxpayers. The report further stated that Federal investment costs had been allocated to future irrigation development which "in all likelihood, will never occur." According to the report, these costs of $382 million ($200 million in present value) should be borne primarily by power users but will not be recovered unless the cost allocations are changed. Unless costs are reallocated, taxpayers will continue to incur an additional $30 million annually to finance the $382 million investment and $2 million in operating and maintenance costs. In response to our report, the Bureau conducted a study and submitted a report to the U.S. House of Representatives Resources Committee regarding the implications of five cost reallocation alternatives on existing water and power rates. The Bureau cannot revise the cost allocation for the Program without the approval of the Congress. The Bureau proposed additional actions that sufficiently addressed the recommendations but did not provide target dates for implementation of those actions.

-"Development Status of the Dolores and the Animas-La Plata Projects, Bureau of Reclamation" (No. 94-I-884), dated July 1994, stated that the economic justification and the financial feasibility of the Dolores and the Animas-La Plata Projects have declined because of changes in both the Bureau's criteria for computing project benefits and the local farmers' ability to afford the costs of irrigated agriculture. Of the report's three recommendations, only a portion of Recommendation 1 remains to be implemented. In order to clear this portion of the recommendation, the Bureau needs to finalize a cost allocation that reallocates costs based on the use of facilities rather than on benefits. This revision is cited in the 1988 Supplement to the Definite Plan Report and will be finalized pending completion of a significant portion of the Dolores Project construction. The Bureau's estimated date for completion of the final cost allocation is June 30, 1999.

- "Cost Allocation and Repayment, Central Arizona Project, Bureau of Reclamation" (No. 92-I-1151), dated August 1992, stated that in preparing the May 1991 draft report "Cost Allocation and Repayment Study" for the Central Arizona Project, the Bureau did not comply with its standard cost allocation and repayment policies and therefore did not ensure that the Government's interests would be adequately protected over the Project's repayment period. Specifically, the report stated that the Bureau's inclusion of indirect irrigation benefits in the study resulted in costs allocated to interest-bearing accounts being understated, which will cost the Government future revenues that have a present value of $21 million. Also according to the report, understated power and irrigation costs for the Project will preclude the Government from collecting future power revenues that have an estimated present value of $56 million. The report made five recommendations related to computing Project irrigation benefits, applying surplus power revenues, and accounting for costs of future repairs and additions of Project facilities. The Bureau concurred with the recommendations and initiated actions to update its study to reflect current estimates of commercial power sales and the costs of future Project repairs and additions. These actions address three of the recommendations. The Bureau stated that it planned to address the two remaining recommendations pertaining to the computation of irrigation benefits and the application of surplus power revenues through renegotiation of the master repayment contract with the Central Arizona Water Conservation District. However, agreement with the District for amending the repayment contract could not be reached. As of September 30, 1998, resolution of these recommendations was pending the result of litigation between the Bureau and the District.

- "Followup of Recovery of Irrigation Investment Costs, Bureau of Reclamation" (No. 98-I-250), dated February 1998, stated that the Bureau had not taken actions necessary to accelerate recovery of interest-free irrigation assistance costs concurrent with the interest-bearing power investment costs. The Bureau's policy for irrigation assistance provides that power users are required to repay that portion of the irrigation investment that exceeds the irrigation water user's ability to pay. In 1989, the Office of Inspector General concluded that as a result of this policy, additional revenues estimated at $2.1 billion (with a value of $415 million in 1989) would not be collected over the repayment periods of the respective projects. In 1990, the Bureau requested and received advice from the Office of the Solicitor which stated that concurrent repayment of irrigation assistance is allowed for certain projects. However, the Bureau had not revised its policy for repayment of irrigation assistance based on the advice received. The Bureau did support legislation proposed by the Department of Energy that intended to place all power repayment obligations, including irrigation assistance, on a straight-line amortization basis with interest. However, no such legislation had been enacted as of December 18, 1998. As a result of the delayed repayment, the value of the irrigation assistance investment recovered by the Bureau will be substantially reduced, and taxpayers will unnecessarily bear the costs of subsidizing the project beneficiaries. Based on the response from the Assistant Secretary for Water and Science to our report, we considered the report's three recommendations unresolved. The recommendations have been referred to the Assistant Secretary for Policy, Management and Budget for resolution. The Bureau is to provide additional information on the recommendations by June 1999.

- "Miscellaneous Revenue Collection and Distribution, Bureau of Reclamation" (No. 92-I-887), dated June 1992, stated that the Bureau had improperly used miscellaneous revenues to provide unauthorized subsidies to water users. The United States Code (43 U.S.C. 501) authorizes the Bureau to collect and distribute miscellaneous revenues generated by its water users. However, the Bureau had not implemented proper management controls or clear, comprehensive guidelines to ensure that revenues collected were credited in accordance with statutory requirements. As a result, the Bureau improperly credited an estimated $3.8 million against water users' annual repayment bills and $2.6 million against irrigation construction costs to which the water users were not legally entitled. The report contained two recommendations for the Bureau's Commissioner to request assistance from the Solicitor's Office in determining the proper distribution practices and to issue clear, comprehensive guidance on the proper distribution of miscellaneous revenues. The Bureau said that it has been implementing changes since 1994 and has reported this area as a material weakness under the reporting requirements of the Federal Managers' Financial Integrity Act of 1982 in its annual assurance statement on management controls for fiscal year 1998. The Bureau's estimated date for implementing all corrective actions is September 30, 1999.

OBJECTIVE, SCOPE, AND METHODOLOGY

Management of the Bureau of Reclamation is responsible for the following:

- Preparing the principal financial statements and the required supplemental information referred to in the Consistency of Other Information section of this report in conformity with the basis of accounting described in Note 1 to the principal statements and for preparing the other information contained in the "1998 Annual Report."

- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.

- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on the Bureau of Reclamation's principal financial statements.

- Obtaining an understanding of the internal controls over financial reporting and compliance and reporting the results of this review based on the internal control objectives in Bulletin 98-08, which requires that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplemental information in accordance with Federal accounting standards and that assets be safeguarded against loss from unauthorized acquisition, use, or disposal.

- Testing the Bureau's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements or the required supplemental information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.

- Assessed the accounting principles used and the significant estimates made by management.

- Evaluated the overall presentation of the principal financial statements.

- Obtained an understanding of the internal control structure related to the safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; and financial reporting.

- Tested relevant internal controls over the safeguarding of assets, compliance with laws and regulations, and financial reporting and evaluated management's assertion about the effectiveness of internal controls.

- Tested compliance with selected provisions of laws and regulations.

We did not evaluate all of the internal controls related to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls needed to achieve the objectives outlined in our report on internal controls.

This report is intended for the information of management of the Bureau of Reclamation, the Office of Management and Budget, and the Congress. However, this report is a matter of public record, and its distribution is not limited.

Robert J. Williams

Robert J. Williams
Assistant Inspector General
for Audits

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Balance Sheet

(In Thousands)	1998	1997
		As of September 30
ASSETS		
Entity Assets:		
Intragovernmental		
Fund Balance With Treasury (Note 2)	**$ 831,455**	$ 699,630
Unavailable Funds at Treasury (Note 2)	**1,852,578**	1,702,462
Accounts Receivable, Net (Note 3)	**9,409**	22,427
Advances and Prepayments	**34**	334
Total Intragovernmental Assets	**2,693,476**	2,424,853
Accounts Receivable, Net (Note 3)	**43,793**	31,223
Unmatured Receivables, Net (Note 3)	**1,353,176**	1,288,313
Loans Receivable (Note 4)	**109,651**	92,448
Advances and Prepayments	**16,707**	28,692
Cash and Other Monetary Assets	**228**	1,464
Other Entity Assets (Note 5)	**995,079**	912,554
Assets Constructed for Others (Note 6)	**103,268**	82,150
General Property, Plant, and Equipment, Net (Note 7)	**13,582,417**	13,083,439
Total Entity Assets	**18,897,795**	17,945,136
Non-Entity Assets:		
Accounts Receivable, Net (Note 3)	**78,986**	124,474
Unmatured Receivables, Net (Note 3)	**2,150,860**	2,327,890
Loans Receivable (Note 4)	**40,085**	41,672
Total Non-Entity Assets	**2,269,931**	2,494,036
Total Assets	**$ 21,167,726**	$ 20,439,172
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable	**$ 14,238**	$ 14,408
Debt (Note 8)	**65,165**	49,827
Other Intragovernmental Liabilities (Note 9)	**6,486**	52,325
Total Intragovernmental Liabilities	**85,889**	116,560
Accounts Payable	**69,752**	92,628
Deferred Revenues From Unmatured Accounts Receivable (Note 3)	**3,504,011**	3,687,784
Other Liabilities (Note 9)	**140,474**	101,837
Total Liabilities Covered by Budgetary Resources	**3,800,126**	3,998,809
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental Unfunded Liabilities (Note 9)	**51,932**	
Environmental Cleanup Costs (Note 13)	**6,662**	7,362
Other Unfunded Liabilities (Note 9)	**260,172**	251,763
Total Liabilities Not Covered by Budgetary Resources	**318,766**	259,125
Total Liabilities	**4,118,892**	4,257,934
NET POSITION		
Unexpended Appropriations (Note 10)	**513,469**	365,035
Cumulative Results of Operations	**14,596,497**	14,106,574
Unavailable Capital	**1,938,868**	1,709,629
Total Net Position	**17,048,834**	16,181,238
Total Liabilities and Net Position	**$ 21,167,726**	$ 20,439,172

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Net Cost

				Consolidating
(In Thousands)	Pacific Northwest Region	Mid-Pacific Region	Lower Colorado Region	Upper Colorado Region
Expenses:				
Operating Expenses				
Water and Energy Management and Development				
Intragovernmental	$ 3,374	$ 6,691	$56,672	$ 2,208
With the Public	34,373	54,410	76,572	43,944
Total	37,747	61,101	133,244	46,152
Less: Earned Revenues	(10,397)	(41,522)	(56,245)	(20,436)
Net Water Energy Management Development Costs	$27,350	$19,579	$76,999	$25,716
Land Management and Development				
Intragovernmental	565	378	549	716
With the Public	4,940	3,614	4,000	7,590
Total	5,505	3,992	4,549	8,306
Less: Earned Revenues	0	0	0	(2,522)
Net Land Management and Development Costs	$ 5,505	$ 3,992	$ 4,549	$ 5,784
Fish and Wildlife Management and Development				
Intragovernmental	278	4,592	311	3,398
With the Public	668	13,117	1,877	13,945
Total	946	17,709	2,188	17,343
Less: Earned Revenues	0	0	(64)	(10,948)
Net Fish and Wildlife Management Costs	$ 946	$17,709	$ 2,124	$ 6,395
Facility Operations				
Intragovernmental	18,786	66,998	10,147	20,643
With the Public	47,587	20,269	126,991	30,426
Total	66,373	87,267	137,138	51,069
Less: Earned Revenues	(48,218)	(4,369)	(87,482)	(30,470)
Net Facility Operations Costs	$18,155	$82,898	$49,656	$20,599
Facility Maintenance and Rehabilitation				
Intragovernmental	1,116	1,217	4,372	2,031
With the Public	4,430	7,915	17,600	10,124
Total	5,546	9,132	21,972	12,155
Less: Earned Revenues	2	0	313	(4,662)
Net Facility Maintenance and Rehabilitation Costs	$ 5,548	$ 9,132	$22,285	$ 7,493
Services for Others				
Intragovernmental	5,870	6,800	8,420	7,668
With the Public	15,553	24,876	27,672	21,598
Total	21,423	31,676	36,092	29,266
Less: Earned Revenues	(18,747)	(28,723)	(33,943)	(25,551)
Net Services for Others Costs	$ 2,676	$ 2,953	$ 2,149	$ 3,715
Costs Not Assigned to Programs	5,515	2,814	5,366	2,534
Less: Revenues Not Attributed to Programs	(12,892)	(97,487)	(70,141)	(15,029)
DEFERRED MAINTENANCE (NOTE 7)				
NET COST OF OPERATIONS	$52,803	$41,590	$92,987	$57,207

[1] The Reclamation Service Center includes the Management Services Office, the Technical Service Center, the Diversity and Human Resources Office, the Administrative Service Center, and for financial reporting, the Washington Office.

[2] Intra-bureau eliminations of $227 million presented in this statement are the result of internal revenue and expense activity between regions, primarily through the use of the working capital fund. The remaining elimination of revenues represents custodial revenue collected for Treasury, which was recorded as revenue both in Reclamation's funds and in Treasury's General Fund. The corresponding transfer of this revenue to Treasury is shown as an intra-bureau elimination on the Statement of Changes in Net Position.

For the Year Ended September 30, 1998

Information

Great Plains Region	Reclamation Service Center[1]	Combined Total	Intra-Bureau Eliminations[2]	Consolidated FY 1998 Totals
$53,924	$23,526	$146,395	$ 0	$146,395
21,063	32,379	262,741	0	262,741
74,987	55,905	409,136	0	409,136
(610)	(43,710)	(172,920)	0	(172,920)
$74,377	$12,195	$236,216	$ 0	$236,216
2,936	105	5,249	0	5,249
2,906	203	23,253	0	23,253
5,842	308	28,502	0	28,502
(103)	0	(2,625)	0	(2,625)
$ 5,739	$ 308	$ 25,877	$ 0	$ 25,877
1,985	4,211	14,775	0	14,775
2,659	1,231	33,497	0	33,497
4,644	5,442	48,272	0	48,272
0	0	(11,012)	0	(11,012)
$ 4,644	$ 5,442	$ 37,260	$ 0	$ 37,260
33,812	958	151,344	0	151,344
41,117	1,583	267,973	0	267,973
74,929	2,541	419,317	0	419,317
(2,551)	0	(173,090)	0	(173,090)
$72,378	$ 2,541	$246,227	$ 0	$246,227
1,572	14,967	25,275	0	25,275
1,842	4,044	45,955	0	45,955
3,414	19,011	71,230	0	71,230
(2,947)	0	(7,294)	0	(7,294)
$ 467	$19,011	$63,936	$ 0	$ 63,936
5,790	50,541	85,089	(227,275)	(142,186)
17,039	135,113	241,851	0	241,851
22,829	185,654	326,940	(227,275)	99,665
(20,517)	(145,668)	(273,149)	288,649	15,500
$ 2,312	$39,986	$ 53,791	$61,374	$115,165
2,591	30,588	49,408	0	49,408
(62,705)	(20,866)	(279,120)	0	(279,120)
$99,803	$89,205	$433,595	$61,374	$494,969

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Changes in Net Position

			Consolidating
(In Thousands)	Pacific Northwest Region	Mid-Pacific Region	Lower Colorado Region
Net Cost of Operations	$ 52,803	$ 41,590	$ 92,987
Financing Sources (Other Than Exchange Revenues)			
Appropriations Used	(65,799)	(219,287)	(155,932)
MMS Exchange Revenue - to Reclamation Fund	0	(1)	0
Donations (Nonexchange Revenue)	(23)	0	(2,334)
Imputed Financing	(6,105)	(53,712)	(3,697)
Net Transfers	10,784	122,349	158,742
Net Results of Operations	(8,340)	(109,061)	89,766
Prior Period Adjustments (Note 12)	94,212	(85,254)	19,024
Net Change in Cumulative Results of Operations	85,872	(194,315)	108,790
Increase (Decrease) in Unexpended Appropriations	(933)	(114,845)	(973)
Change in Net Position	$ 84,939	$ (309,160)	$ 107,817
Net Position - Beginning of Period	(1,707,515)	(1,910,391)	(5,051,752)
Net Position - End of Period	$(1,622,576)	$(2,219,551)	$(4,943,935)

[1] The Reclamation Service Center includes the Management Services Office, the Technical Service Center, the Diversity and Human Resources Office, the Administrative Service Center, and for financial reporting, the Washington Office.

For the Year Ended September 30, 1998

Information

Upper Colorado Region	Great Plains Region	Reclamation Service Center[1]	Intra-Bureau Eliminations	Consolidated 1998 Totals
$ 57,207	$ 99,803	$ 89,205	$61,374	$ 494,969
(79,623)	(148,306)	(110,929)	0	(779,876)
(365)	(148)	(420,634)	0	(421,148)
0	0	0	0	(2,357)
(34,780)	(33,991)	(8,161)	0	(140,446)
7,494	52,458	223,342	(62,355)	512,814
(50,067)	(30,184)	(227,177)	(981)	(336,044)
(32,628)	(128,907)	(249,565)	0	(383,118)
(82,695)	(159,091)	(476,742)	(981)	(719,162)
(14,093)	(15,266)	(2,324)	0	(148,434)
$ (96,788)	$ (174,357)	$ (479,066)	$ (981)	$ (867,596)
(3,571,062)	(2,241,340)	(1,704,902)	5,724	(16,181,238)
$(3,667,850)	$(2,415,697)	$(2,183,968)	$ 4,743	$(17,048,834)

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Budgetary Resources

For the year ended September 30, 1998

(In Thousands)	Consolidating Information				
	General Accounts	**Revolving Accounts**	**Special Receipt Accounts**	**Intra-Bureau Eliminations**	**Consolidated Total**
Budgetary Resources:					
Budget Authority	$ 837,316	$ 73,840	$ 94,075	$ 0	$1,005,231
Unobligated Balances– Beginning of Fiscal Year	98,002	237,053	43,877	(5,724)	373,208
Transfer of Prior Authority	(181)	148	0	0	(33)
Spending Authority From Offsetting Collections	165,719	455,191	0	(226,293)	394,617
Adjustments (Note 14)	(1,071)	(15,318)	0	0	(16,389)
Total Budgetary Resources	$1,099,785	$750,914	$137,952	$(232,017)	$1,756,634
Status of Budgetary Resources:					
Obligations Incurred	$ 931,009	$529,851	$ 87,072	$(227,275)	$1,320,657
Unobligated Balances– Available	166,198	108,840	50,880	(4,742)	321,176
Unobligated Balances– Unavailable	2,578	112,223	0	0	114,801
Total, Status of Budgetary Resources	$1,099,785	$750,914	$137,952	$(232,017)	$1,756,634
Outlays:					
Obligations Incurred	$931,009	$529,851	$87,072	$(227,275)	$1,320,657
Less: Spending Authority From Offsetting Collections and Adjustments	(165,719)	(455,191)	0	226,293	(394,617)
Obligated Balance, Net– Beginning of Fiscal Year	291,371	(3,011)	27,899	5,724	321,983
Obligated Balance, Transferred, Net					
Less: Obligated Balance, Net–End of Fiscal Year	352,497	(7,575)	28,015	4,742	377,679
Total Outlays	$704,164	$ 79,224	$86,956	$ 0	$ 870,344

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Financing

For the year ended September 30, 1998

(In Thousands)

Obligations and Nonbudgetary Resources		
Obligations Incurred	$1,320,657	
Less: Spending Authority for Offsetting Adjustments	(344,902)	
Donations Not in the Budget	23	
Financing Imputed for Costs Subsidies	111,916	
Transfers-In and -Out, Net	(9,549)	
Exchange Revenue Not in the Budget	(265,599)	
Other	0	
Total Obligations as Adjusted, and Nonbudgetary Resources		$812,546
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	$ 81,170	
Costs of Capitalized Assets on the Balance Sheet	407,681	
Change in Loans Receivable	28,098	
Financing Sources for Unfunded Costs	2,726	
Financing Sources That Fund Costs of Prior Periods	(42,881)	
Total Resources That Do Not Fund Net Cost of Operations		$476,794
Costs That Do Not Require Resources		
Depreciation and Amortization	$144,035	
Bad Debt Expense	886	
Reevaluation of Assets and Liabilities	0	
Loss on Disposition	933	
Other	1,401	
Total Costs That Do Not Require Resources		$147,255
Financing Sources Yet to Be Provided		11,962
Net Cost of Operations		$494,969

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation - Working Capital Fund
Statement of Cash Flows

	For the Year Ended September 30	
(In Thousands)	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenues and Financing Sources Over Total Expenses	$ (29,415)	$12,432
Adjustments Affecting Cash Flow:		
Appropriated Capital Used	0	0
Increase in Accounts Receivable	909	(97)
Decrease in Other Assets	(119)	5,661
Increase in Accounts Payable	1,153	(16,195)
Decrease in Other Liabilities	(2,602)	95
Depreciation and Amortization	9,380	6,131
Other Unfunded Expenses	10,440	0
Other Adjustments	350	443
Total Adjustments	19,511	(3,962)
Net Cash Used by Operating Activities	(9,904)	8,470
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment	(8,350)	(7,921)
Net Cash Provided by Non-Operating Activities	(8,350)	(7,921)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Transfers	0	1,235
Net Cash Provided by Operating, Non-Operating and Financing Activities	(18,254)	1,784
Fund Balances With Treasury, Cash, and Foreign Currency, Beginning	100,330	98,546
Fund Balances With Treasury, Cash, and Foreign Currency, Ending	$ 82,076	$100,330

The accompanying notes are an integral part of these statements.

U.S. Bureau of Reclamation Notes to Financial Statements For the Years Ended September 30, 1997, and 1998

Note 1: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the U.S. Bureau of Reclamation (Reclamation) as required by the Chief Financial Officers Act of 1990. They have been prepared from Reclamation's books and records in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, dated October 16, 1996, and applicable amendments. Furthermore, the financial statements were prepared in accordance with Reclamation's accounting policies which are summarized in this note.

The financial statements are presented on a consolidated basis. Accordingly, all intrabureau transactions and balances have been eliminated. These transactions 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. Eliminations also included custodial revenues collected for repayment of invested capital for the Department of Treasury (Treasury). Revenue eliminations for fiscal year (FY) 1998 totaled $288.6 million, along with $62.4 million of custodial revenue transfers (out). This equates to an elimination of $226.2 million of budgetary resources, as shown on the Consolidated Statement of Budgetary Resources. In addition, $227.3 million in expenses and $1 million of unbilled accounts receivable were eliminated.

B. Reporting Entity

Reclamation was created by the Reclamation Act of June 17, 1902 (32 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. Since 1902, Reclamation's mission has expanded to include such activities as providing water for municipal and industrial (M&I) uses, flood control, and supplying energy through the operation of hydroelectric generating facilities. Today, Reclamation's original mission has essentially been completed, and the agency is evolving to accommodate a redefined role. Its focus is shifting from building new structures to improving the management and environmental integrity of resources already developed. It is one of eight programmatic bureaus administratively housed within the U.S. Department of the Interior (Interior).

Included in the financial statements is the financial activity associated with the Denver Administrative Service Center (DASC). The DASC provides consolidated administrative services such as payroll, personnel, financial, and accounting services to Department of the Interior agencies, as well as other Federal agencies. During FY 1999, the operations (including related assets, liabilities, and equity) of the DASC will be transferred to the Office of the Secretary.

C. Budgets and Budgetary Accounting

To more accurately reflect its water resources management mission, Reclamation implemented a new programmatic budget structure in FY 1998. The new budget structure is more responsive to the planning, accounting, and reporting requirements of the Government Performance and Results Act of 1993.

Under this new budget structure, all funding is allocated to six major program activities. Five of these major program activities are under the umbrella of Water and Related Resources. The "Water and Energy Management and Development" activity covers all aspects of decision making processes, including water and energy resource management, utilization, and development of water supplies and energy resources, water conservation, and applied science and technology development. The "Land Management and Development" activity involves work related to land resource administration, recreation management, and legal compliance. The "Fish and Wildlife Management and Development" activity includes conservation, enhancement, and restoration of fish and wildlife populations and their habitats. "Facility Operation" activities include operation of Reclamation projects. The "Facility Maintenance and Rehabilitation" activity ensures the reliability and operational readiness of Reclamation's storage reservoirs, distribution systems, power plants, recreation facilities, and other federally funded investments.

The sixth major program activity, "Policy and Administration," involves the development of Reclamation policy and the direction of daily operations.

Fiscal year 1998 appropriations were provided to Water and Related Resources, the Loan Program, the California Bay-Delta Ecosystem Restoration Program, and Policy and Administration. Additional FY 1998 budgetary resources were provided by permanent authority, contributed funds, revolving funds, operation and maintenance (O&M) reimbursements from water users, and transfers from other agencies. All funds allocated to Reclamation for FY 1998 are accounted for in this report.

Reclamation is responsible for administering or posting transactions to 25 separate Treasury symbols, excluding miscellaneous receipt accounts managed by the Treasury. These funds fall into a variety of classes ranging from general appropriation, revolving (permanent), contributed funds, and working capital to special receipt accounts. Reclamation finances its activities from several sources: the General Fund, the Reclamation Fund, and contributed funds. The Reclamation Fund is a special receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of constructed investment) and deposits by other Federal agencies (mostly revenues from certain Federal mineral royalties and hydropower transmission) are made. No expenditures are made directly from the Reclamation Fund; a specific appropriation is required from the Congress in order to transfer funds out of the Reclamation Fund into one or several expenditure funds. As of September 30, 1998, the Reclamation Fund had a balance of $1.853 billion. The Reclamation Fund is reported on the Consolidated Balance Sheet as *Unavailable Funds at Treasury* under *Entity Assets*, *Accounts Receivable*, and as *Unavailable Capital* under *Net Position*.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary 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. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Unless otherwise noted, the books are kept, and these financial statements have been prepared in accordance with Federal accounting standards, as prescribed by the Federal Accounting Standards Advisory Board. The accounts are maintained in accordance with Treasury's U.S. Standard General Ledger.

E. Revenues and Other Financing Sources

The current congressional budgetary process under which Reclamation operates does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of budgetary resources. For financial reporting purposes under accrual accounting, however, operating expenses are recognized when incurred, while expenditures for capital and other long-term assets are capitalized and not recognized as expenses until they are consumed in Reclamation's operations. Financing sources for these expenses, which are derived from current and prior year appropriations and operations, are recognized on this same basis. Unexpended appropriations are recorded as equity of the U.S. Government.

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. Costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with some purposes (such as fish and wildlife enhancement, recreation, and flood control) are mostly nonreimbursable.

To repay a portion of the Federal investment allocated to reimbursable irrigation and M&I water facilities, Reclamation has entered into repayment contracts with water users which convey the right to use these facilities in exchange for annual payments. The typical repayment period is 40 years but may extend to 50 years or more if authorized by the Congress. Long-term, unmatured (unpaid) reimbursable capital asset costs are recorded as deferred and unmatured receivables and unbilled deferred revenue. The associated repayment is recognized as revenue, including interest if applicable, when the annual amount becomes due each year. These accounts do not include reimbursable capital asset costs which are being repaid through water service-type contracts and power marketing agreements.

In some cases, reimbursable capital costs are recovered through a power and water ratesetting process. Such rates include capital cost factors, among other components, for recovering the reimbursable capital cost over the applicable future payment period. In accordance with Reclamation's policy, these annual payments are recognized as revenue when billed. The reimbursable capital investment costs being repaid through ratesetting arrangements have not been recognized on the statements as a receivable or other asset.

Water users advance funds to Reclamation for their share of the O&M costs. Generally, a cost allocation process is used to allocate these costs to water users. Revenue related to O&M reimbursements is recognized as these costs are allocated and transfers are made from advance accounts. Revenue from water users is recognized at the same time the O&M expenses are incurred.

Reclamation performs certain services for other governmental and public entities. These services are initially financed through the General Fund and, subsequently, reimbursed by the service recipients. Reimbursements are recognized as revenue at the time services are rendered.

All long-term, unmatured receivables associated with repayment contracts are classified as entity if repaid to the Reclamation Fund and non-entity if transferred to the Treasury's General Fund. Prior to FY 1998, long-term, unmatured receivables in the Upper Colorado River Basin Fund were classified as entity assets. Since the collections from these receivables are required to be returned to the Treasury, these receivables have been classified as non-entity assets.

F. Funds with the U.S. Treasury and Cash

Cash receipts and disbursements are processed by the Treasury. The balance in the Treasury represents all undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received. The funds with the Treasury and other cash include appropriated, revolving, and contributed funds which are available to pay current liabilities and outstanding obligations. Imprest funds are cash held outside the Treasury by the agency for immediate or emergency payments. As discussed under section C, the Reclamation Fund is a special receipt fund; funds become available only upon appropriation.

G. Property, Plant, and Equipment

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. Costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with some purposes (such as fish and wildlife enhancement, recreation, and flood control) are mostly nonreimbursable.

Plant facilities are stated at acquisition cost, net of depreciation. Cost includes direct labor and materials, payments to contractors, and indirect charges for engineering, supervision, and overhead. Prior to FY 1998, the cost of land was included in other structures and facilities. In FY 1998, Reclamation reclassified land into a separate account. Land which was previously included in other structures and facilities was reclassified into a land account. Power and M&I water facilities are interest bearing Federal investments, and their cost also includes interest during construction. Public domain land that is withdrawn for project purposes is transferred to the project at no cost.

As part of its initial efforts to comply with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards Number 6, "Accounting for Property, Plant, and Equipment," Reclamation used the straight-line method to compute depreciation on its plant investment, using a 45-year service life (the average repayment period), for FYs 1996 and 1997. Plant investment refers to investment in such assets as dams, canals, and hydroelectric generating facilities.

For FY 1998, depreciation was based on the composite service life of each project. The composite service life is based on the estimated useful life of a project's components. Since this change is a change in estimate, the undepreciated value of a project will be depreciated over its remaining composite service life.

The balances reflected on the Consolidated Balance Sheet represent the cost of investments net of depreciation estimated since the projects came into service. While some projects are approaching 100 years of service and some have been fully repaid, many of the projects developed by Reclamation continue to be productive and are expected to continue to be viable for many years to come. Although these projects have indefinite useful or economic lives, a shorter life has been estimated for calculating depreciation for financial statement presentation purposes.

To comply with Federal accounting standards, beginning in FY 1998, information on deferred maintenance will be included in the Property, Plant, and Equipment note disclosure (Note 7). Statement of Federal Financial Accounting Standards Number 6, "Accounting for Property, Plant, and Equipment" defines deferred maintenance as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period."

Service facilities consist of houses, buildings, garages, and shops owned by Reclamation and used in electric, irrigation, M&I, or multipurpose operations and are not included in the plant accounts of a specific project. Service facilities are valued at acquisition cost and are depreciated over their estimated useful lives using the straight-line method. The estimate used for calculating depreciation on service facilities ranges from 30 to 75 years.

Movable equipment is stated at acquisition cost and is depreciated over its estimated useful life using the straight-line method. The estimated useful lives used for calculating depreciation on movable equipment range from 3 to 31 years. The capitalization threshold is currently $5,000. In FY 1999, the threshold will be increased to $15,000. When movable equipment is transferred from one project to another, the transfer is made at the book value of the property.

H. Accrued Leave

Annual leave is accrued as earned, and sick leave is accrued when used. Annual and sick leave are funded as used through a surcharge assessment added to direct labor costs. The accrued unfunded annual leave balance represents the current value of the leave earned but not yet funded and, as such, is reported as a future funding requirement in appropriated and contributed funds. Reclamation's revolving funds (Working Capital Fund, Lower Colorado River Basin Development Fund, and Upper Colorado River Basin Fund) fund their accrued unused annual leave balances and accrued sick leave by including a leave component in their customer rates. When a funding deficit occurs in the revolving funds (i.e., the leave component in the rate is not sufficient to fully fund all accrued leave), rates are adjusted in subsequent years to cover this deficit. Moreover, rates are adjusted, as necessary, to accommodate salary increases.

I. 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 benefit 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. According to the Statement of Federal Financial Accounting Standards Number 5, "Accounting for Liabilities of the Federal Government," Reclamation recorded the FY 1998 estimated cost of pension and other future retirement benefits and the associated imputed financing sources which are paid by the Office of Personnel Management on its behalf.

Similarly, a liability was recorded for the estimated actuarial liability for future 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.

J. Comparative Data

The principal FY 1998 financial statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Consolidated Statement of Budgetary Resources, and the Consolidated Statement of Financing. In addition, a Statement of Cash Flows is presented for the Working Capital Fund. Comparative data have been provided for the Consolidated Balance Sheet. For the other statements, only FY 1998 data is presented. In addition, the Supplemental section of the report provides the Working Capital Fund assets, liabilities, net position, and results of operations for FY 1998.

In the Consolidated Balance Sheet, FY 1997 balances for accounts receivable, assets constructed for others, unmatured receivables, environmental and disposal liabilities, and cumulative results of operations were reclassified to provide a more meaningful comparison. The Principal Statements and the amounts referenced in the "Notes to the Financial Statements" are both reported in thousands.

Note 2. Fund Balance with Treasury

The fund balance with Treasury is shown in table 1 (in thousands):

Table 1.—Fund Balance with Treasury

Fund Type	Entity - Total
Revolving	$ 211,892
Appropriated/Other	619,563
Unappropriated - Unavailable	1,852,578
Total	$2,684,033

Cash receipts and disbursements are processed by the Treasury. The balance in Treasury represents all undisbursed balances in Reclamation accounts. As of September 30, 1998, Reclamation had $831.5 million in funds with Treasury, which were available to pay outstanding obligations. The Unappropriated-Unavailable Fund Balance represents funds in the Reclamation Fund. In addition to Treasury fund balances, Reclamation had $228,000 in cash held outside of Treasury in imprest funds as of September 30, 1998.

Note 3. Receivables

For FY 1998 financial statement presentation purposes, Reclamation has split its receivables from a single Balance Sheet line item into the Balance Sheet line items of *Accounts Receivable* and *Unmatured Receivables*. The FY 1997 comparative data in the Balance Sheet have been restated to reflect this change. These two types of receivables are discussed in further detail below.

Receivable balances are further categorized as Entity or Non-Entity. Entity receivables represent the amount which, when collected, may be used for agency operations. Non-Entity receivables represent amounts which, when collected, are deposited into Treasury's General Fund and cannot be spent by Reclamation. All Non-Entity receivables are due from the public.

Accounts Receivable

The Accounts Receivable balances shown represent current amounts due to Reclamation. An allowance for estimated uncollectible accounts has been established for accounts receivable due from the public. The allowance amount is determined by reviewing accounts receivable aging reports to identify receivables that are probably uncollectible based on various factors, including age, past experience, present market conditions, and characteristics of debtors. All accounts receivable due from other Federal agencies (intragovernmental) are considered collectible, and, accordingly, no allowance account is established for these receivables. The current allowance amounts represent the total estimated allowance for Reclamation and have been netted against the gross accounts receivable totals in the respective categories as summarized below (in thousands):

	Gross Amount Due	Allowance	Net Amount Due
Entity:			
Intragovernmental	$ 9,409	$ 0	$ 9,409
Public	46,740	2,947	43,793
Total Entity	56,149	2,947	53,202
Non-Entity:			
Public	79,001	15	78,986
Total Entity and Non-Entity	$135,150	$2,962	$132,188

In FY 1998, the allowance for uncollectible accounts decreased $81.8 million, from $84.8 million in FY 1997 to $3 million in FY 1998. This decrease is primarily attributable to a correction of an error in accounting for the allowance associated with two uncollectible receivables. In FY 1997, an allowance for uncollectible accounts of $62.7 million was recorded for the unmatured receivable balance related to the repayment of capital investment associated with the second half of the Columbia River Basin Project, which will not be constructed. Similarly, an allowance for uncollectible accounts of $15.5 million was recorded for the repayment contract on the Washita River Basin Project in Oklahoma. Although the project is complete, the salinity content of the water in Foss Reservoir is too high to make it usable. Public Law (P.L.) 90-311, dated May 18, 1968, relieves the conservancy district of construction repayments and interest accruals until initial delivery of water. Currently, no practical or feasible method of alleviating the water quality problems has been determined, so it is unlikely this receivable will be collected. Since the amounts for these two receivables are unmatured receivables, no revenue has been recognized. Under the matching principle, a bad debt expense (with the offsetting allowance for doubtful accounts) cannot be recognized without the recognition of the associated revenue. Since no revenue has been recognized, it would be improper to record an allowance amount for these two accounts. Reclamation will continue to carry these unmatured receivables on its books because deauthorization of the remaining portion of a project or cancellation of the contract and writing off the receivable requires specific authorization by the Congress. This correction of the allowance for uncollectible accounts balance has been recorded as a prior period adjustment (see Note 12).

Delinquent receivables are being pursued through such measures as referrals to the Department of Justice ($80.6 million), agency counsel ($0.5 million), credit reporting agencies, and salary offsets. During FY 1998, $2.5 million was determined to be uncollectible and written off.

Unmatured Receivables

To repay a portion of the Federal investment allocated to reimbursable irrigation and M&I water facilities, Reclamation has entered into repayment contracts with non-Federal (public) water users which convey the rights to use these facilities in exchange for annual payments. Unmatured receivables represent the unrecovered balance of this Federal investment. The typical repayment period is 40 years but may extend to 50 years or more if authorized by the Congress. The associated repayment is recognized as revenue, including interest if applicable, when the annual amount becomes due each year. At this time, the annual amount due is reclassified from unmatured receivables to (current) accounts receivable. There is not an allowance for uncollectible accounts (and associated bad debt expense) recorded on any unmatured receivable, as revenue has not been recognized until the receivable has been reclassified to (current) accounts receivable. Until revenue is recognized for these unmatured receivables, they are recorded in the offsetting liability account, "Deferred Revenues from Unmatured Accounts Receivables."

The Entity Unmatured Receivables balance ($1,353 million) is deemed to be restricted, as collections of such receivables are deposited in the Reclamation Fund. The collections deposited into the Reclamation Fund are not available unless they are appropriated by the Congress. The future collections of Non-Entity Unmatured Receivables ($2,151 million) will be deposited into Treasury's General Fund and, thus, cannot be spent by Reclamation.

Subsequent Event - Central Arizona Project

The United States and the Central Arizona Water Conservation District (CAWCD) are currently engaged in litigation regarding several issues related to the Central Arizona Project (CAP). Phase I of this litigation involves the interpretation of the repayment ceiling that is contained within the Master Repayment Contract. CAWCD believes that, under contract, they are responsible only for $1.781 billion in repayment; the United States believes the contract ceiling is $2.0 billion. As of September 30, 1998, the outstanding receivables totaled $136.7 million, based on a $2.0-billion repayment ceiling. On November 3, 1998, the U.S. District Judge ruled in favor of CAWCD in Phase I, thus limiting the repayment ceiling to $1.781 billion. Reclamation has recalculated the bills to CAWCD based on the $1.781-billion repayment amount, and the revised outstanding receivables balance is estimated at $78.97 million.

Reclamation's most current cost allocation study indicates that to complete stages I and II of the project, the properly allocated CAWCD repayment is $2.183 billion. An amendment to the repayment contract to cover the costs in excess of the ceiling will be pursued pending the outcome of litigation.

Note 4. Loan Programs

Reclamation operates loan programs which 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 (P.L. 84-984), the Distribution System Loans Act (P.L. 84-130), and the Rehabilitation and Betterment Act (P.L. 84-130). The loan programs are classified into two major categories. The first category is Credit Reform loans, which are loans made after FY 1991 and that have been accounted for under the provisions of the Credit Reform Act of 1990 (P.L. 101 508). The other category of loans pertains to those loans made prior to the requirements of the Credit Reform Act of 1990. This second category of loans ($100.7 million) consists primarily of drought relief and principal repayment loans. Loan interest rates vary, depending on the applicable legislation; and, in some cases, there is no stated interest rate on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status.

The following is a status of the loans receivable and associated interest receivable (in thousands):

Loan Program	Loans Receivable Gross	Allowance for Subsidy Cost	Net Loans Due
Entity:			
Credit Reform Loans	$ 95,299	$46,331	$ 48,968
Other Entity Loans	60,683	0	60,683
Total Entity Loans	155,982	46,331	109,651
Non-Entity:			
Other Non-Entity Loans	40,085	0	40,085
Total Entity and Non-Entity Loans	$196,067	$46,331	$149,736

Credit Reform Loans

The Credit Reform Act (Act) of 1990 (P.L. 101-508) required extensive changes in accounting for loans to the public. Prior to the 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 the Treasury. These Treasury borrowings, which will be repaid from loan repayments, are authorized by the Act.

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.

As mentioned above, loans made after FY 1991 are accounted for under the provisions of the Credit Reform Act. Reclamation currently has eight Credit Reform loans outstanding, totaling $95.3 million. Of this amount, $31.6 million was disbursed during FY 1998.

Again, loans made under the provisions of Credit Reform include a subsidy component, which represents the estimated cost to the Federal Government of making these loans. The subsidy associated with the $31.6 million of loans disbursed during FY 1998 was $11.6 million, along with related administrative expenses of $148,826.

Note 5. Other Entity Assets

(In thousands)

Other Entity Assets	
Other Assets	$329,936
Other General Property, Plant, and Equipment	47,272
Investigations	617,871
Total Other Entity Assets	$995,079

Other entity assets primarily include costs for general investigations and development and power rights. Other physical property costs that are not properly classified in the general property, plant, and equipment accounts are also reported as other entity assets. The investigation accumulated costs of $618.6 million represent funds (specifically appropriated by the Congress) that have been expended for general engineering studies. If the Congress authorizes Reclamation to proceed with the project or activity for which these costs were incurred, they are then transferred to either reimbursable or nonreimbursable asset accounts. If the project or activity is not subsequently funded or the investigation is abandoned, then the accumulated costs are expensed. Power rights represent the unamortized cost 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. The power rights (included in Other Entity Assets) associated with the Central Arizona Project are $235.3 million.

Note 6. Assets Constructed for Others

The FY 1998 balance of $103.3 million represents costs associated with the Navajo Indian Irrigation Project (NIIP), which was authorized by P.L. 87-483 (June 13, 1962). Under the act, the Congress appropriated funding for the project to the Bureau of Indian Affairs (BIA), who transferred funding to

Reclamation for construction of the facilities. Subsequent to the act, Reclamation and BIA entered into a formal agreement that provided for the transfer of such amounts to BIA upon completion of the project facilities. As blocks, or segments, of facilities become operational, they are transferred to BIA. The facilities represented by the $103.3-million investment are not yet operational and, accordingly, have not been transferred.

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

The schedule in table 2 supports the Property and Equipment balance presented in the Consolidated Balance Sheet:

Table 2.—Schedule of Fixed Assets
(in thousands)

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Class of Fixed Assets			
Land	$ 1,348,259	$ 0	$ 1,348,259
Other Structures and Facilities	15,325,935	7,022,393	8,303,542
Equipment	130,165	73,347	56,818
Information Technology Software	29,499	16,670	12,829
Construction in Progress	3,860,969	0	3,860,969
Total	$20,694,827	$7,112,410	$13,582,417

The Structures, Facilities, and Leasehold Improvements category is primarily comprised of Reclamation's investment in its multipurpose water facilities. The balance shown includes $27.7 million of plant facilities which have been abandoned or retired. There may be some repayment receivables associated with these assets. Congressional approval would be required before these receivables could be written off.

As discussed in Note 1.G., other structures and facilities costs are depreciated on a straight-line basis over the estimated useful life of a project. To comply with the Federal Accounting Standards Advisory Board standard, Reclamation has changed the estimated service life of its projects from the average 45-year life, based on the average repayment of the capital investment, which was used for all projects, to a more precise composite service life. A composite service life was developed for each project based on the estimated useful life of the project's components. The estimated useful lives of the project components are based on engineering estimates. The composite project lives range from

25 to 100 years. The change to the composite service is considered a change in accounting estimate. As such, the change in estimate will be accounted for in the period of change and in future periods that the change affects. In accordance with the Treasury's Standard General Ledger, Reclamation reclassified land costs which were previously recorded in the structures and other facilities account to the standard ledger account for land. Buildings (service facilities) that are depreciated over 30 to 75 years are included in the structures and facilities balance. The straight-line method is also used to depreciate equipment over its service life of 3 to 31 years.

Construction Work in Progress

Construction in Progress includes a cumulative total of $1.3 billion of interest during construction (IDC), of which $28 million was capitalized in FY 1998. 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 commenced. The interest rates applied during the current year ranged from 2.5 percent to 12.375 percent.

At the end of 1998, Reclamation's construction in progress totaled $3.9 billion, about $600 million less than in 1997. The decrease in construction in progress is the result of transfers made to other structures and facilities for completed plant. Many of Reclamation's major construction projects are of such size and complexity that it is not uncommon for them to take decades to complete (e.g., the Fryingpan-Arkansas Project was authorized in 1962 and declared completed 32 years later in 1994). Project costs are transferred from "construction in progress" to "completed plant" when the project is deemed to be substantially complete.

Plant Not Currently in Service

In addition to abandoned or retired plant, there are some facilities which are not currently in service. The most notable of these inactive projects is the Teton Dam Project. On June 5, 1976, before the Teton Project was completed, a breach in the Teton Dam occurred; and the project was extensively damaged. Work on the project was never resumed. To comply with Federal Accounting Standards Advisory Board accounting standards, Teton Project construction costs of $80.4 million, $79.6 million of which is categorized as Construction in Progress and $0.8 million in investigation and development costs which are categorized as "Other Entity Assets" (Note 5), were removed from

Reclamation's financial statements as a prior period adjustment (Note 12). Congressional approval would be required before the associated repayment obligation could be forgiven.

Construction on the Central Valley Project's Auburn-Folsom - South Unit has been in abeyance for the last several years. As of the end of FY 1998, about $297 million has been invested in the project for such activities as land acquisition, access roads, site preparation, extensive foundation work, and seismic studies. Congressional re-authorization of the Auburn-Folsom - South Unit is required for completion of the project.

Finally, another project which is currently not providing service is the Washita River Basin Project, which is discussed under Note 3. Until the project can deliver water that is of acceptable quality, the Congress has authorized postponement of repayment by the water district. If it is ever definitively determined that the project will never be able to provide usable water, the associated facilities would be written off.

Transfer of Facilities

During FY 1995, Reclamation initiated a program aimed at transferring title to and responsibility for certain single purpose projects and facilities to non-Federal governmental entities. Before a project can be transferred, it must meet the following criteria: protect the Federal Treasury and taxpayer's financial interests; comply with applicable Federal laws; protect interstate compacts and interests; meet Native American trust responsibilities; and protect public aspects of the project. Any proposed transfer would require congressional authorization. Since the program is evolving, and due to the complex nature of transferring title, including legislative and negotiated provisions, it is difficult to anticipate the magnitude of future title transfers. Although sensitive issues surrounding negotiations make it difficult to estimate the magnitude of future title transfers, a settlement agreement between Reclamation and the Oroville Tonasket Water District, ratified by the Congress, will complete the transfer of the Oroville Tonasket Project, located in Washington State, to the district in FY 1999.

During FY 1998, Reclamation transferred the San Diego Aqueduct, with a book value of $1.4 million, to the San Diego County Water Authority (Authority) pursuant to authority of P.L. 82-171. The Authority has operated and maintained the aqueduct since 1946 and completed its repayment obligation on the aqueduct in 1995. By assuming title, the Authority is fully responsible for the O&M of the facilities, including any necessary repairs or improvements.

Deferred Maintenance (Unaudited)

Reclamation owns a water resources management infrastructure consisting of diversion and storage dams, hydroelectric power plants, water conveyance facilities (canals, pipelines, siphons, tunnels, and pumps), recreational facilities, and associated buildings, bridges, and roads, as well as an inventory of related construction, maintenance, laboratory, and scientific equipment with a combined original cost of $20.7 billion. The operation and maintenance of about half of these assets (as measured by their combined original cost) is performed by Reclamation using annual or permanent appropriations or other funding sources available to it. However, the operation and maintenance of the remaining assets, of which approximately 50 percent of the combined cost of all property, plant, and equipment, is performed by Reclamation's water and power customers or by others (collectively, "contractors") at their expense pursuant to contracts with Reclamation.

As provided by the Federal Accounting Standards Advisory Board,[1] maintenance is "the act of keeping fixed assets in an acceptable condition." This excludes "activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended." Deferred maintenance is defined as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period."

There are many factors that influence whether maintenance is performed in a timely manner or deferred. These factors include, among others, limitations on access to facilities (e.g., due to water levels); intervening technological innovations or developments; seasonal or climatological considerations; reassessment of priorities; delays in the contract-award process; availability of, or delays related to, the contractor; and changes in funding priorities resulting, in some cases, from emergencies or unforeseen critical maintenance requirements. However, it is Reclamation's policy to give critical maintenance—that which poses a threat to life, property, and safety—the highest priority in attention and resources.

Reclamation employs condition assessment site reviews to estimate the condition of, and determine the need for any maintenance related to, its assets. Under this program, essentially all of Reclamation's major assets, whether operated and maintained by Reclamation or its contractors, are assessed triennially. Although some degree of review is done annually on many of Reclamation's major facilities, it would not be physically feasible nor cost effective, given the number of assets and their geographic dispersion, to do full condition assessment reviews annually on all assets.

[1] Statement of Federal Financial Accounting Standards Number 6 "Accounting for Property, Plant, and Equipment."

Reclamation estimates the total cost of major repairs, replacements, and extraordinary maintenance items which had been deferred as of September 30, 1998, is at least $12 million, for *only* those facilities operated and maintained by it. This cost estimate generally includes, as applicable, the cost of construction contract administration and inspection, construction materials and other supplies, fixed equipment, removal and disposal of equipment and materials which are no longer serviceable, transporation and salaries and benefits for Reclamation's maintenance workforce, and indirect costs. They do not include estimates of the cost of routine preventive maintenance work, if any, which may have been deferred.[2]

The precision attributable to this estimate for the assets involved is unknown for several reasons. First, with respect to the identification of deferred maintenance items, Reclamation has drawn information from a variety of data systems. However, the scheduling and tracking of needed maintenance and the documentation of deferred maintenance are not the primary purposes of many of these systems. Thus, Reclamation acknowledges that these systems are not highly reliable at the present time as a basis for identifying deferred maintenance items. Secondly, there is a lack of current condition assessments for all assets (most asssessments are performed on only a 3-year cycle, and then only for major assets). Finally, uniformity in the quality of available cost estimates is lacking.

It is anticipated that the precision of Reclamation's estimates will be refined considerably in the future as Reclamation improves its procedures and systems for tracking condition assessments and for reporting the scheduling and deferral of maintenance work. Beginning in FY 1999, Reclamation will implement its "Plan for Improving the Reporting of Deferred Maintenance" (dated December 15, 1998). The purpose of the plan is to establish the steps which Reclamation intends to take to improve the reporting of deferred maintenance and the schedule for taking those steps. Although Reclamation will initiate implementation of the plan in FY 1999, it will take a period of years to fully achieve the steps provided in the plan.

Note 8. Debt

As discussed under Note 4, Reclamation makes loans which are subject to the provisions of the Credit Reform Act of 1990. Under credit reform, loans consist of two components—the part borrowed from the Treasury and the appropriated part to cover the estimated subsidy. The liabilities shown in this note represent amounts borrowed from Treasury to fund credit reform loans.

[2] Reclamation used a maintenance cost threshold of $25,000 per item, at or below which the item was not considered in the inventory of deferred maintenance items reported herein.

Liabilities Covered by Budgetary Resources
(in thousands)

	Beginning Balance	New Borrowings	Repayments	Ending Balance	Refinancing
Intragovernmental Debt					
Borrowing from Treasury					
(Total Debt)	$49,827	$15,338	$0	$65,165	$0

Note 9. Other Liabilities

Other liabilities covered by budgetary resources and other liabilities not covered by budgetary resources are shown in table 3.

Table 3.—Other Liabilities
(in thousands)

	Noncurrent Liabilities	Current Liabilities	Total
Covered by Budgetary Resources			
Intragovernmental	$3,272	$ 3,214	$ 6,486
Public	0	140,474	140,474
Total	$3,272	$143,688	$146,960
Not Covered by Budgetary Resources			
Intragovernmental	$ 51,932	$ 0	$ 51,932
Public	260,172	0	260,172
Total	$312,104	$ 0	$312,104

The $3.3 million of noncurrent intragovernmental liabilities represent resources payable to the Treasury. Intragovernmental current liabilities ($3.2 million) are comprised of accrued funded payroll and benefits ($1.8 million) and deposit fund liabilities ($1.4 million).

The current portion of public liabilities includes accrued-funded payroll and benefits ($19.5 million), advances from non-Federal entities ($56.6 million), deposit fund liabilities ($9 million), deferred credits ($12.8 million), contract holdbacks ($2.3 million), and other liabilities ($40.3 million).

Advances are received from non-Federal facility users and are applied to such charges as construction, O&M, and future power or water service billings. Deposit fund liabilities include such items as withheld State and local taxes.

The Intragovernmental unfunded liability ($51.9 million) is a claim settlement payment made by the Treasury during FYs 1990 and 1991 on behalf of Reclamation pursuant to the Contract Disputes Act of 1978. Repayment to the Treasury is pending congressional appropriation of funds. Other liabilities due to the public that are not covered by budgetary resources consist of unfunded liabilities such as accrued unfunded annual leave and a $64.6-million actuarial workers' compensation liability.

Note 10. Unexpended Appropriations

Table 4.—Unexpended Appropriations
(in thousands)

	Total
Unexpended Appropriations	
(1) Unobligated	
a. Available	$187,559
b. Unavailable	0
(2) Undelivered Orders	325,910
Total Unexpended Appropriations	$513,469

In addition to its appropriated and trust funds, Reclamation maintains a Working Capital Fund to more efficiently finance support and technical services, as well as equipment purchases (e.g., financial and engineering services, drilling operations, and computers and related software purchases and maintenance). Authorized by legislation and established as an entity in FY 1986, the Working Capital Fund is designed to be a self-sufficient revolving fund. At fiscal yearend, the fund had an unobligated balance of $53.9 million, $25.8 million of which is to be congressionally reprogrammed to Water and Related Resources and the remaining $28.1 million earmarked for financing capitalized equipment replacement, software development, accrued workers' compensation, employee separation payments authorized under P.L. 103-226, and day-to-day operations until customers are billed.

Note 11. Cost by Budget Functional Classification

The following tables present Reclamation's total cost and earned revenue by Budget Functional Classification (BFC). The appropriate functional classification for each Treasury account symbol is designated by the U.S. Department of the Treasury. The following functional classification series are pertinent to Reclamation: (1) 300 - Natural Resources and Environment; (2) 400 - Transportation; and (3) 500 - Educational, Training, Employment, and Social Services.

Reclamation's water resources management programs and activities are included under BFC 301.

Revenue in BFC 306 includes $421.1 million of royalties (exchange revenue) collected from Minerals Management Service, which will be reported on the Statement of Changes in Net Position rather than the Statement of Net Cost, per Statement of Federal Financial Accounting Standards Number 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."

Also included in the following table are costs and earned revenue associated with appropriations transferred from other agencies. Appropriations were transferred from other agencies for the following purposes: (1) 304 - Fish and Wildlife Damage Assessment and Restoration; (2) 401 - Highway Trust Fund activities; (3) 452 - Construction for the Bureau of Indian Affairs; and (4) 504 - Operation of Department of Labor Job Corps Centers.

(In thousands)

Functional Classification	Gross Cost	Earned Revenue	Net Cost
301	$1,099,103	$ 350,409	$748,694
304	58	0	58
306	886	700,381	(699,495)
401	40	0	40
452	117	0	117
504	25,326	920	24,406
Total	$1,125,530	$1,051,710	$ 73,820

Note 12. Prior Period Adjustments

Prior period adjustments are used to disclose the retroactive impact of newly adopted accounting standards, policies, and correction of errors in the current period. In FY 1998, Reclamation recorded net prior period adjustments of $383.1 million (credit) which included: (1) ($78.8 million) - a correction to the Allowance for Doubtful Accounts, which is further discussed in Note 3; (2) ($9.8 million) - a correction of previously reported FY 1997 Occupational Workers' Compensation Plan actuarial costs; (3) ($357.1 million) - an adjustment to reduce accumulated depreciation for land costs that were inadvertently depreciated in prior years; (4) ($15.8 million) - an entry to record the property, plant, and equipment for Job Corps as of FY 1997; (5) ($17.3 million) - an adjustment to correct previously expensed capitalized assets; (6) $67.3 million - an entry to record the prior year Federal Employment Compensation Act (Workers' Compensation) actuarial liability; (7) ($42.9 million) - an entry to record a Safety of Dams Program accounting methodology change; (8) ($4.4 million) - to correct previously reported Contingency Liability; (9) $80.4 million associated with the writeoff of Teton Dam, which is further discussed in Note 7; and (10) ($4.7 million) in other miscellaneous property equity adjustments.

Note 13. Contingencies

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 the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government."

A. Environmental Cleanup Liabilities

Reclamation has several potential environmental cleanup liabilities associated with hazardous waste removal, containment, or disposal. Reclamation's hazardous waste sites include abandoned mines, vehicle maintenance facilities, and landfills. These sites have various types of contamination, including heavy metal contamination from acid mine drainage and soil contamination from waste petroleum, heavy metal, and other regulated toxic waste.

Most of Reclamation's cleanup sites fall under the purview of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980, which created the Superfund Program and the Resources Conservation and Recovery Act (RCRA) of 1976. A few sites are governed by the Clean Water Act and the Endangered Species Act.

In FY 1998, Reclamation recorded a liability for environmental cleanup of $6.7 million for 11 sites. Three of these sites were governed by the requirements of CERCLA, while six of the sites fell under the purview of RCRA. Of the remaining two sites, one was governed by the Clean Water Act, while the other was under the requirements of the Endangered Species Act.

In addition to the 11 sites for which a liability was recognized, there are 11 other cleanup sites which did not meet the criteria for recognizing a liability, i.e., losses were either not probable or reasonably estimable.

In prior years, Reclamation had disclosed a potential liability for the Iron Mountain Mine Superfund Site cleanup costs of between $20 million to

$90 million. However, in October 1997, the United States received a Summary Judgment ruling that Reclamation's construction, ownership, and operation of Central Valley Project (CVP) facilities, which include features located within the Iron Mountain Superfund Site, do not make it responsible for "on-mountain" remediation costs, including the cleanup of acid mine drainage from Iron Mountain. Under the ruling, the United States is entitled to CERCLA's third-party defense with respect to small federally owned parcels on Iron Mountain. The issue remains as to whether Reclamation bears any CERCLA responsibility for alleged releases from Central Valley Project facilities.

B. Legal Claims and Assertions

Reclamation is party to a number of lawsuits and other actions where monetary amounts are sought from Reclamation. Reclamation is a defendant in various types of litigation and legal claims including construction cost claims, lawsuits over repayment of certain project costs, water rights claims, and a claim seeking damages resulting from alleged failure to construct required drainage facilities. Currently, Reclamation is a party to 13 legal cases. With the exception of one case, the probability, and/or amount, of potential loss is sufficiently indeterminate for further disclosure.

In the one case which merits further discussion, a CVP water district is seeking an unspecified amount of damages (possibly exceeding $1 billion) plus other relief based on their claim that the Federal defendants are required to construct facilities to drain the land they are farming. On March 10, 1996, the U.S. District Court for the Eastern District of California issued a Partial Judgment and Injunction directing the Federal defendants, Reclamation, and others, "without delay, [to] take such reasonable and necessary actions to promptly prepare, file, and pursue an application for a discharge permit for the San Luis Drain." The Federal defendants have appealed the Partial Judgment and Injunction to the Ninth Circuit Court of Appeals. The Federal defendants intend to continue their vigorous opposition to the plaintiffs' and the District's claims for monetary relief.

Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources provides information about the total budgetary resources that were available for the fiscal year and their status at the end of the period. The statement also reconciles obligations to total outlays for the period. All intra-bureau activity has been eliminated.

Reclamation has two revolving funds, the Lower Colorado River Basin Development Fund (LCRBDF) and the Upper Colorado River Basin Fund (UCRBF), which require repayment of funds that were advanced from the General Fund of the Treasury for construction. Under the LCRBDF, all appropriations made for construction of the Central Arizona Project are advanced from Treasury's General Fund. Repayment of this advance, and associated interest charges, which are currently $1.781 billion, are payable to the Treasury. Similarly, for the UCRBF, appropriations provide advance funding for project construction. The outstanding balance payable to the Treasury at the end of FY 1998 is $340 million.

The Statement of Budgetary Resources reflects an adjustment of $15.3 million for the revolving accounts. This amount represents repayments to the Treasury for advances for LCRBDF and UCRBF construction costs. Also, the adjustment amount shown under the General Accounts ($1.1 million) represents canceled authority returned to the Treasury.

The Colorado River Dam Fund is a permanent indefinite appropriation, which was established by the Boulder Canyon Project Act of 1928. Revenues are derived primarily from the sale of electrical energy generated at the Hoover Dam in Boulder City, Nevada. The Hoover Dam Power Plant Act of 1984 authorized the availability of receipts deposited into the fund, without further appropriation, for operation, maintenance, and replacement costs, as well as repayment of the capital investment and associated interest charges.

Reclamation is also authorized to receive contributed funds from non-Federal entities such as States, municipalities, and water districts for investigations, surveys, construction, and other work authorized by Reclamation law. This authority is provided by the Contributed Funds Act (43 USC 395). In FY 1998, Reclamation received $32.2 million in contributed capital.

All unobligated balances are subject to reapportionment by the Office of Management and Budget in conjunction with the current year appropriation. Obligations are made in accordance with OMB guidance and the Principles of Federal Appropriation Law. At the end of FY 1998, part of the unobligated balance ($79 million) in the LCRBDF was generated from billed receivables, which, upon collection, will be transferred to the Treasury for repayment of invested capital. This amount is not available for operational obligations. In the UCRBF, an advance was collected for repayment of capitalized investments and annual payments to the Ute Indian Tribe ($33.9 million), which is part of the unobligated balance, but which is not available for operational obligations. At the end of FY 1998, the net amount of budgetary resources obligated for undelivered orders was $403.6 million. At the end of the period, there were no remaining available balances associated with the Direct Loan Program.

Under the FY 1999 Energy and Water Development Appropriation, conferees have authorized the transfer of $25.8 million in Working Capital Fund unobligated balances to fund a portion of Reclamation's Water and Related Resources appropriation. This transfer is consistent with the President's budget request.