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Financial Section

United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

MAR 2 5 2002

Memorandum

To: Commissioner, Bureau of Reclamation

From: Roger La Rouche
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Bureau of Reclamation's Financial Statements for Fiscal Years 2001 and 2000 (No. 2002-I-0024)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Bureau of Reclamation's (BOR) financial statements for fiscal year 2001. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards,* issued by the Comptroller General of the United States of America; Office of Management and Budget Bulletin (OMB) No. 01-02, *Audit Requirements for Federal Financial Statements;* and the General Accounting Office/President's Council on Integrity and Efficiency's *Financial Audit Manual.* The Office of Inspector General (OIG) is responsible for the opinion on the balance sheet and related notes for fiscal year 2000.

In connection with the contract, we monitored the progress of the audit at key points and reviewed KPMG's report and related working papers and inquired of their representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on the BOR's financial statements or on conclusions about the effectiveness of internal controls or on conclusions about compliance with laws and regulations. KPMG is responsible for the auditors' report on the fiscal year 2001 financial statements (Attachment 1) and for the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply in all material respects with the *Government Auditing Standards*.

In its audit report dated January 9, 2002 KPMG stated that in its opinion the BOR's financial statements for fiscal year 2001 present fairly, in all material respects, the financial position of the BOR as of September 30, 2001 and its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. In our report dated January 9, 2002 (Attachment 2) we stated that in our opinion the BOR's consolidated balance sheet presents fairly, in all material respects, financial position of the BOR as of September 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG found two reportable material weaknesses and eight reportable conditions related to internal controls over financial reporting. With regard to compliance with laws and regulations, KPMG found BOR to be noncompliant with the *Debt Collection Improvement Act of 1996* and that BOR's financial management systems did not substantially comply with the OMB Circular A-130, *Management of Federal Information Resources.*

In its January 22, 2002 response to KPMG's draft audit report, the BOR concurred, or believed it had complied with, 19 of the 20 recommendations reported in KPMG's draft audit report. As a result of BOR's response, we consider 19 recommendations resolved but not implemented and 1 recommendation unresolved. All 20 recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation.

The BOR did not concur with recommendation J.2, which recommended that BOR conduct quarterly reviews of its outstanding undelivered order balances. KPMG made this recommendation to assist BOR in the transition to the new reporting requirements of OMB. BOR's response stated that they would implement semiannual reviews of outstanding undelivered order balances in compliance with the Departmental direction issued from the Deputy Assistant Secretary for Budget and Finance.

Section 5(a) of the *Inspector General Act* (5 U.S.C App. 3) requires the OIG to list this report in its semiannual report to the United States Congress. The Independent Auditors' Report is intended for the information of management of the BOR, the Office of Management and Budget and the United States Congress. However, this report is a matter of public record, and its distribution is not limited.

Attachments (3)

cc: Chief Financial Officer, Bureau of Reclamation

KPMG

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Suite 1500
Salt Lake City, UT 84101

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of the United States Bureau of Reclamation (Reclamation) as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the year then ended (hereinafter referred to as financial statements). The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered Reclamation's internal control over financial reporting and tested Reclamation's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that Reclamation's financial statements as of and for the year ended September 30, 2001 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

A. Reclamation needs improved security and internal control over its information technology systems;

B. Reclamation needs improved controls over its land inventory;

C. Reclamation needs improved controls over its construction-in-progress account;

D. Reclamation needs improved controls over accounting for investigations and development costs;

E. Reclamation needs an improved financial reporting process related to its allowance for doubtful loans receivable account;

F. Reclamation needs improved controls over its allowance for doubtful accounts receivable account;

G. Reclamation needs improved controls over its accrued liabilities;

H. Reclamation needs improved controls over its deferment of trust revenue;

I. Reclamation needs an improved quality control program; and

J. Reclamation needs improved controls over its accounting for undelivered orders.

We consider reportable conditions A and B, discussed above, to be material weaknesses.

The results of our tests of compliance with the laws and regulations disclosed instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of Reclamation as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the year then ended.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Reclamation as of September 30, 2001, and its net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis section, the Required Supplementary Stewardship Information in the Stewardship Assets section of Supplemental section, and Required Supplementary Information in the other sections of the Supplemental section are not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board or Office of Management and Budget Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Combining Statement of Budgetary Resources is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

We noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the following reportable conditions are material weaknesses:

A. Reclamation Needs Improved Security and Internal Control over Its Information Technology Systems

Condition

Security and general controls over Reclamation's financial management systems have not been fully implemented. Reclamation has made recent progress in implementing security and controls over its information systems. Reclamation has commenced developing policies, directives and standards, security mechanisms, and procedures to protect its information technology (IT) assets and has established priorities to correct known weaknesses. Many of the weaknesses being addressed were identified in independent IT security assessments conducted by the National Security Agency (NSA), Sandia National Laboratories (SNL), and Javis Automation and Engineering, Inc. that were initiated by Reclamation. However, controls need to be improved in the areas described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. These conditions could affect Reclamation's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources.

Security Programs

Security programs, including security policies and a related implementation plan, for general support systems and major applications are the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. As outlined in OMB Circular A-130, an effective security program includes a risk assessment process, a certification process, and an effective incident response and monitoring capability. Reclamation has developed a security program, which provides a high-level strategy for establishing a sound security framework. However, the supporting directives and standards that establish processes and procedures have just recently been finalized and have not been fully implemented.

Segregation of Duties

Reclamation has not ensured proper segregation of duties through its policies, procedures, and organizational structure to ensure that one individual cannot control key aspects of computer-related operations or financial transactions, and thereby conduct unauthorized actions or gain unauthorized access to assets or records.

Access Controls

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that (1) users have only the access needed to perform their duties; (2) access to very sensitive resources, such as security software programs, is limited to very few individuals; and (3) employees are restricted from performing incompatible functions or functions beyond their responsibilities. Access controls over certain Reclamation systems, applications, and data have not been configured and/or developed to reduce the risk of unauthorized access. Reclamation has not fully implemented measures to minimize security risks on the Reclamation Data Communications Network. Network security configuration settings are not sufficiently robust and appropriate mechanisms have not been implemented to prevent and monitor unauthorized access to Reclamation's network.

Application Software Development and Change Controls

Establishing controls over the modification of application software programs helps to ensure that only authorized programs and authorized modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned-off" or that processing irregularities could be introduced. Reclamation does not consistently follow established procedures for controlling changes over application software that would prevent unauthorized programs or modifications to an existing program from being implemented.

Service Continuity

Losing the capability to process, retrieve, and protect information maintained electronically could significantly impact Reclamation's ability to accomplish its mission. Reclamation has not sufficiently tested information technology continuity controls to ensure that when unexpected events occur, operations continue without interruption or are promptly resumed and that data are adequately protected.

National Business Center

The Interior National Business Center (NBC) administers several of Reclamation's financial management systems, including: the Federal Personnel and Payroll System (FPPS), Federal Financial System (FFS), Hyperion, and the Interior Department Electronic Acquisitions System (IDEAS). Although NBC has recently improved the security and controls over these information systems, NBC needs to continue improvements in the areas of: entitywide security planning, configuration of operating systems, system software controls, software development and change controls, and service continuity. Weaknesses in these control areas could affect Reclamation's ability to prevent and detect unauthorized changes to its financial information and increases Reclamation's need for less efficient manual controls to monitor and reconcile financial information.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Continue to develop and implement a formal action plan to improve the security and general controls over the financial management systems. This plan should address each of the areas discussed above, as well as other areas that might impact the Electronic Data Processing (EDP) control environment to ensure adequate security and protection of Reclamation's financial management systems.

2. Take the necessary steps to improve network security, which would include the development of security standards for each platform type and procedures to implement and monitor those standards as part of its network security architecture.

3. Annually obtain assurance (similar to a SAS 70 Type II report) from NBC that adequate security and controls are in place over the financial management systems.

Response

A.1 Concur. Reclamation recognized the potential risks related to its Information Technology (IT) security practices several years ago and contracted with consultants to assist with better defining those risks and recommending changes to improve IT security. At that time a formal action plan for implementing those recommendations was developed. Since then, Reclamation's Chief Information Officer has worked with Reclamation's executives to develop strategies for improving IT security Reclamation-wide and to fund and accomplish those efforts. In continuing these efforts, and in order to address each of the areas discussed in the audit report, Reclamation will add an addendum to this plan focusing on security programs, segregation of duties, access controls, application software development and change control, service continuity, and the National Business Center (NBC).

The responsible official is Reclamation's Chief Information Officer. The target date for completing the addendum to the existing action plan is July 1, 2002.

A.2 Complied. Prior to and during the period of time encompassed by the audit, Reclamation management had taken steps to improve Reclamation's Data Communication Network that were necessary and reasonable and did not jeopardize mission accomplishment. Specifically, Reclamation management:

- Completed a comprehensive IT security risk assessment to evaluate critical vulnerabilities. The assessment was conducted by Sandia National Laboratories (a government-owned, contractor-operated division of the Department of Energy) in fiscal year 2000.

- Published and began implementation of the IT Security Policy in December 2000 and Directives and Standards in September 2001.

- Published the Network Systems Directives and Standards, which established the network security architecture, in September 2001.

- Planned, funded, and began implementation of Reclamation's Data Communication Network Perimeter Security Architecture project during fiscal years 2000 and 2001.

Project tasks are proceeding and scheduled for completion by December 2002. Network security has and will continue to improve incrementally as each task is accomplished.

- Established an IT Security Steering Committee to provide executive-level management of the program in fiscal year 2001.
- Initiated the process of consolidating platform security standards in general support system security plans with the publication of the IT Systems Accreditation Directives and Standards in September 2001.
- Published and began implementation of the Configuration Management of Security Mechanisms Directives and Standards in 2001 that established standards for managing security mechanisms such as firewalls, screening routers, intrusion detection systems virtual private networks, etc.
- Published and began implementation of the IT Intrusion Detection System (IDS) Directives and Standards in 2001 which established guidelines for how and where to use IDS systems and defines the minimum requirements for operation. Improved intrusion detection measures have been implemented to monitor and prevent unauthorized access to key financial systems.
- Defined an IT security audit process in the Audits and System Logging Directives and Standards in September 2001 to ensure business practices comply with IT security requirements.
- Is in the process of developing and finalizing the Information/Data Security Directives and Standards that defines categories of information/data for the purposes of security and management. These directives and standards are targeted for completion in February 2002.

Although weaknesses were identified during the audit process, we believe the steps taken by management have and will continue to improve the security of Reclamation's systems.

A.3 Complied. Reclamation has requested annual assurance from the NBC that adequate security and controls are in place over the financial management systems that they administer for Reclamation.

B. Reclamation Needs Improved Controls over Its Land Inventory

Condition

Reclamation did not have a complete and accurate inventory system to support the $1.9 billion of land and land rights reported in the financial statements as a component of general property, plant, and equipment. The weakness occurred because Reclamation had not established adequate procedures for maintaining an accurate inventory of land and land rights and for reconciling its subsidiary records with its financial accounting system. Reclamation's financial accounting system support for land and land rights costs is detailed in a cost summary report that had not been reconciled with subsidiary records, including individual project plat book maps, which contain data from individual land purchase contracts.

In fiscal year 2000, Reclamation recognized the need for supporting records and issued a five-year action plan to develop a complete and accurate land inventory that supported the financial accounting system, issued interim guidelines and procedures for reconciling land records, and developed a schedule for completing the reconciliation within the five-year plan period. As of September 30, 2001, Reclamation has completed approximately 10 percent of the reconciliations required per the action plan, and expects to complete the requirements of the plan within the five-year plan period.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Continue to complete the reconciliation of the financial accounting system support for lands and land rights costs with the subsidiary records, including individual project plat book maps, which contain data from individual land purchase contracts.

2. Continue to include a material land inventory system internal control weakness in Reclamation's Federal Managers' Financial Integrity Act (FMFIA) report to the Department of the Interior until resolved.

Response

B.1 Concur. Reclamation will continue the reconciliation of the financial accounting system support for lands and land rights costs with subsidiary records, including individual project plat book maps in accordance with the 5-year corrective action plan.

The responsible officials are the Director, Management Services, and the Director, Operations.

B.2 Concur. Reclamation included the land inventory material weakness in the Commissioner's fiscal years 2000 and 2001 Annual Assurance Statements and will continue to report this weakness until corrective actions are implemented.

The responsible official is the Director, Management Services. The target date for reporting this weakness is October 1 of each year until resolved.

We noted the following reportable conditions that are not considered to be material weaknesses:

C. Reclamation Needs Improved Controls over Its Construction-in-Progress Account

Condition

Reclamation did not sufficiently implement internal controls to ensure that the general ledger control account for Construction-in-Progress (CIP) was accurate. In Reclamation's fiscal year 2000 audit, the Office of Inspector General (OIG) reported a material weakness and a reportable condition related to Reclamation's CIP account. Despite new policy and procedures established in response to the OIG finding, Reclamation continued to include in the CIP account $21.2 million in assets that should have been expensed as incurred. Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement and follow sufficient procedures, including management oversight, to ensure that the CIP account only includes costs for items meeting the definition of capitalizable general property, plant, and equipment, and that costs which should be expensed are reported in the proper accounting periods.

Response

C.1 Concur. Reclamation will implement existing quality assurance procedures, including management oversight, to ensure that the Construction on Progress (CIP) account only includes costs meeting the definition of general property, plant, and equipment and that costs which should be expensed are reported in the proper accounting periods in accordance with existing Reclamation Manual guidance. In fiscal year 2001, Reclamation issued Reclamation Manual Supplements on construction in progress, plant accounting responsibilities, construction in abeyance and nontraditional assets which provide guidance for the analysis of the CIP and CIP-related accounts to ensure that costs are properly accounted for.

The responsible officials are the Director, Management Services, and the Director, Operations. The quality assurance procedures, including management oversight, will be implemented by September 30, 2002.

D. Reclamation Needs Improved Controls over Accounting for Investigations and Development Costs

Condition

Reclamation did not sufficiently implement internal controls to ensure that the general ledger control account for investigations and development costs (Investigations) were accurate. In the fiscal year 2000 financial statements, Reclamation disclosed a change in accounting principle related to the accounting for Investigations. Despite draft policies and procedures established governing these types of transactions, Reclamation recorded in the investigations control account approximately $51.6 million that should have been expensed and $1.7 million that should have been transferred to CIP. When informed of the inconsistencies in the account, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement and document sufficient procedures, including formalized policy, quality assurance at the regional office level, and management oversight at the Finance and Accounting Services level, to ensure that the Investigations and development balances are clearly defined and properly and consistently accounted for throughout Reclamation.

2. These procedures should include sufficiently documented reviews of these account balances to ensure proper and consistent accounting treatment.

Response

D.1 Concur. Reclamation will finalize and implement its draft policy and procedures to ensure that the Investigations and Development account balances are properly and consistently accounted for throughout Reclamation.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for Reclamation's Finance and Accounting Services to issue final policy and procedures is May 31, 2002. The target date for the implementation of policy, procedures, and reviews of account balances is September 30, 2002.

D.2 Concur. Reclamation will sufficiently document reviews of the Investigations and Development account balances to ensure proper and consistent accounting treatment.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for the implementation of the review of account balances is September 30, 2002.

E. Reclamation Needs an Improved Financial Reporting Process related to its Allowance for Doubtful Loans Receivable Account

Condition

Reclamation did not have sufficient internal controls to ensure that the general ledger control account for the allowance for doubtful loans receivable was accurate. Reclamation's financial statements differentiate between Credit Reform Loans, which are loans made after 1991 subject to the provisions of the Credit Reform Act of 1990, and those loans made prior to the requirements of the Credit Reform Act (pre-credit reform loans). While an allowance for subsidy costs is recorded on the Credit Reform Loans to present the present value of these loans in the financial statements, an allowance for uncollectible amounts were not established for pre-credit reform loans. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Establish procedures to consider the need for an allowance for doubtful loan receivables in each reporting period. In so doing, Reclamation should apply the following five factors listed in Statement of Federal Financial Accounting Standards (SFFAS) No. 2 to both pre-credit reform loans and credit reform loans:

   (1) Current and forecasted international, national or regional economic conditions that may affect the performance of the loans.

   (2) Financial and other relevant conditions of borrower.

   (3) Value of collateral to loan balance.

   (4) Changes in recoverable value of collateral.

   (5) Newly developed events that would affect the loans' performance.

Response

E.1 Concur. For the fiscal year 2001 financial statements, Reclamation followed the criteria in SFFAS No. 2 for Credit Reform Loans and properly recorded the associated allowance. Reclamation has also recorded an adjusting entry to properly record the allowance for Pre-Credit Reform Loans. In addition, Reclamation will issue procedures for the recording of an allowance for both Credit Reform and Pre-Credit Reform loans.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for Finance and Accounting Services to issue procedures for the allowance for Credit Reform and Pre-Credit Reform loans is May 31, 2002. The procedures will be implemented by September 30, 2002.

F. Reclamation Needs Improved Controls over Its Allowance for Doubtful Accounts Receivable Account

Condition

Reclamation did not have sufficient internal controls to ensure that the general ledger control account for the allowance for doubtful accounts receivable was adequate. The accounts receivable account included a significant amount of aged balances where collectibility is uncertain, which were not reserved for as an allowance for doubtful accounts. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Further, two regional offices within Reclamation are not notifying on a timely basis the Secretary of the Treasury of all eligible receivables aged greater than 180 days for referral to Treasury Cross Servicing, as required by the Debt Collection Improvement Act of 1996.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Improve quality assurance over the allowance for doubtful accounts receivable at the regional offices and Finance and Accounting Services levels.

2. Record an adequate allowance for doubtful accounts where collectibility is uncertain.

3. Ensure collection efforts regarding these past due account receivable balances, notify the Secretary of the Treasury of all eligible accounts aged greater than 180 days, and write off the balances considered uncollectible, if necessary.

Response

F.1 Concur. Reclamation will ensure implementation of existing quality assurance procedures at the regional office and Finance and Accounting Services levels for the process of recording the allowance for doubtful accounts receivable.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the procedures is September 30, 2002.

F.2 Concur. For fiscal year 2001 financial statement reporting, Reclamation analyzed accounts receivable balances and recorded an allowance for doubtful accounts where collectibility was uncertain. Reclamation will evaluate the process of determining sufficient balances for the Allowance for Doubtful Accounts account. If necessary, Finance Accounting Services will issue additional guidance on the reporting of allowance for doubtful accounts.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of guidance and procedures is September 30, 2002.

F.3 Concur. Reclamation will emphasize the need to implement and follow existing procedures, including the transfer of debts aged greater than 180 days to the Department of the Treasury for collection and the writeoff of balances considered uncollectible, if necessary.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the procedures is September 30, 2002.

G. Reclamation Needs Improved Controls over Its Accrued Liabilities

Condition

Reclamation did not implement or enforce controls sufficient to ensure that its regional offices are making the proper accruals for accounts payable and the associated asset or expense. Exceptions were noted related to improper or incomplete accruals at each regional office, and included such things as accruals not made, accruals made for the obligation balances rather than the amount that should be recognized during the current fiscal year, accruals made and reversed in the same fiscal year prior to payment, resulting in no accruals at year-end, accruals made for insufficient balances, lack of sufficient documentation supporting the accrual amounts, accruals made but not being reviewed at year-end to determine if the accrual balance still exists, and accruals not reversed in the fiscal year payments are made. Certain accruals were found to be significantly aged, and upon further review were determined to be invalid. Improperly accounting for expenses in the appropriate period results in a misstated accounts payable balance and associated asset or expense balance. Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement and follow quality controls to ensure that accruals are complete, exist, are accurately recorded, and are adequately supported by documentation.

2. Implement oversight procedures to ensure compliance with current Reclamation policies and improved coordination within Reclamation's finance and program organizations.

Response

G.1 Concur. Reclamation will implement and follow existing quality controls as stated in Reclamation's Manual Supplement, Estimating Contract Earnings (Accruals) and in the Fiscal Year 2001 Closing Procedures to ensure that accruals are accurately recorded and adequately supported by documentation.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the procedures is September 30, 2002.

G.2 Concur. Reclamation will implement a management oversight process to ensure compliance with current Reclamation policies and improve coordination within Reclamation's finance and program organizations for accounts affected by accruals.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the management oversight process is September 30, 2002.

H. Reclamation Needs Improved Controls over Its Deferment of Trust Revenue

Condition

Reclamation did not establish an appropriate accounting model to ensure that the general ledger control accounts for revenue and deferred revenue were accurate. Reclamation has established several trust accounts whereby Reclamation receives advance payments for services to be provided in the future. However, Reclamation has not established posting routines in its accounting system that allow for the deferral of revenue not applicable to the current fiscal year. Accordingly, $7.3 million was recorded as fiscal year 2001 revenue, which should be deferred to future periods. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Establish procedures to ensure that trust accounts and similar transactions are monitored, such that revenue not applicable to the current fiscal year is properly deferred and appropriately amortized.

Response

H.1 Concur. Reclamation will establish accounting models and sufficient procedures to ensure that all available receipts (trust and special receipts accounts) are recorded as advances (unearned revenue) for the portion of cash receipts not yet earned. Reclamation has made all the necessary adjustments to ensure all revenue not applicable to fiscal year 2001 was properly deferred.

The responsible official is the Director, Management Services. Finance and Accounting Services will establish accounting models and procedures by May 31, 2002. The target date for implementation of these procedures is September 30, 2002.

I. Reclamation Needs an Improved Quality Control Program

Condition

Reclamation did not have a sufficient quality control program to ensure that previously established Reclamation Manual supplements are completely and consistently implemented among the various regional offices. Reclamation Manual supplements establish accounting policies and procedures based on appropriate authoritative literature, and are created by the Finance and Accounting Services Group, housed in the Management Services Office of

Reclamation. However, Finance and Accounting Services, or another group, does not perform compliance review procedures to ensure that the Reclamation Manual supplements are implemented fully and consistently at each regional office. As a result, certain balances, including CIP and Investigations discussed above, did not properly and consistently reflect the requirements of the Reclamation Manual supplements.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Implement a practice whereby Reclamation's policy making body is empowered to ensure compliance with the Reclamation Manual supplements among the regions.

2. Establish procedures to address the completeness, accuracy, and consistency of implementation of Reclamation Manual supplements among the various regional offices.

Response

I.1 Concur. Reclamation has recognized the need for an improved financial oversight function; Reclamation management formed the Chief Financial Officer (CFO) Audit Projects Team to address various financial management issues, including oversight.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for developing a plan for the oversight and quality assurance function is July 1, 2002. The target date for implementation of an oversight program is September 30, 2003.

I.2 Concur. Existing Reclamation Manual supplements provide procedures to address completeness, accuracy, and consistency of financial information for each financial-management topic addressed. For example, the Reclamation Manual Supplement, Plant Accounting-Responsibilities, establishes procedures for the consistent application and accuracy of Reclamation's general property, plant, and equipment accounts. However, as mentioned above, Reclamation has recognized the need for an improved financial-oversight function to ensure implementation of the Reclamation Manual guidance. Reclamation will establish additional procedures as necessary.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for establishing procedures, as necessary, to address the completeness, accuracy, and consistency of implementation of Reclamation Manual supplements among the various regional offices is July 1, 2002. The target date for implementation of an oversight program is September 30, 2003.

J. Reclamation Needs Improved Controls over Its Accounting for Undelivered Orders

Condition

Reclamation has a process in place to review outstanding undelivered orders to ensure validity of the outstanding balance, especially those items greater than one year old. However, Reclamation did not fully implement the controls identified in the Reclamation Manual supplement Fin 03-20-20-100-B, Reconciliation of SGL Accounts, and the Finance and Accounting Services year-end memorandum to ensure that the remaining balances represent valid undelivered orders. We reviewed a sample of the outstanding undelivered orders account at year-end and determined that

Reclamation continued to account for balances that were no longer valid. Further, Reclamation has not established policies and procedures to ensure that recovered undelivered orders are accounted for in accordance with the guidance in the OMB Budget Accounting Guide. When informed of the deficiencies, Reclamation reviewed the account balances and transactions and made the necessary adjustments.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation:

1. Improve the process for reviewing undelivered orders by implementing formal review requirements, both at Finance and Accounting Services and regional office levels, and following established criteria to ensure objectivity and financial statement accuracy.

2. Although the current departmental guidance requires that these amounts be reviewed semi-annually, we recommend quarterly reviews of outstanding balances to assist in the transition to semi-annual and quarterly reporting for fiscal years 2002 and 2003, respectively.

3. Establish policies and procedures to ensure that recovered undelivered orders are accounted for in accordance with the guidance in the OMB Budget Accounting Guide.

Response

J.1 Concur. Reclamation will improve its formal review process for outstanding undelivered orders to follow established criteria.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the formal review process is September 30, 2002.

J.2 Nonconcur. Reclamation will implement semiannual reviews of outstanding undelivered orders balances in compliance with direction issued June 15, 2001, by the Department of the Interior's Deputy Assistant Secretary for Budget and Finance.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for implementation of the semiannual reviews of outstanding undelivered orders balances is September 30, 2002.

J.3 Concur. Reclamation will establish and improve its existing process for tracking recovered undelivered orders (prior year recoveries) and will implement policies and procedures to ensure that recovered undelivered orders are accounted for in accordance with the guidance in the OMB Budget Accounting Guide.

The responsible officials are the Director, Management Services, and the Director, Operations. The target date for establishing and implementing the policies and procedures is September 30, 2002.

A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of Reclamation in a separate letter dated January 9, 2002.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with the laws and regulations described in the Responsibilities section of this report, exclusive of the *Federal Financial Management Improvement Act* (FFMIA) of 1996, disclosed one instance of noncompliance that is required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Condition

Reclamation is not in compliance with the requirements of the Debt Collection Improvement Act of 1996. We noted instances where the Secretary of the Treasury had not been notified of eligible account receivable balances that are aged greater than 180 days.

Recommendation

Our recommendations are addressed in the reportable condition discussed in the Internal Control over Financial Reporting section of our report.

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

Condition

Reclamation is not in compliance with OMB Circular A-130, *Management of Federal Information Resources*. We noted weaknesses in Reclamation's computer security controls including entitywide security, access controls, segregation of duties, system software controls, software development and change controls, service continuity, and network security.

Recommendation

Our recommendations are addressed in the material weakness discussed in the Internal Control over Financial Reporting section of our report.

The results of our tests disclosed no instances in which management did not substantially comply with accounting standards and the United States Government Standard General Ledger at the transaction level requirements.

RESPONSIBILITIES

Management's Responsibility

The Government Management Reform Act (GMRA) of 1994 requires federal agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet the GMRA reporting requirements, Reclamation prepares annual financial statements.

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting; required supplementary stewardship information and performance measures; and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2001 financial statements of Reclamation based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

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

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2001 audit, we considered Reclamation's internal control over financial reporting by obtaining an understanding of Reclamation's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

Exhibit I

Bureau of Reclamation
Summary of the Status of Prior Year Reportable Conditions
September 30, 2001

Ref	Condition	Status
A	Reclamation Needs Improved Controls over Land Inventory	This condition has not been corrected and is repeated in FY 2001.
B	Reclamation Needs Improved Controls over Construction-in-Progress Account	This condition has not been corrected and is repeated in FY 2001.
C	Inconsistent Accounting Treatment	This condition has been corrected.
D	Reclamation Needs Improved Controls over Prior Period Activity	This condition has been corrected.
E	Reclamation Needs Improved Controls over Undelivered Orders	This condition has not been corrected and is repeated in FY 2001.
F	Reclamation Needs Improved Controls over Prior Period Revenue Recognition	This condition has been corrected.

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

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

As part of obtaining reasonable assurance about whether Reclamation's fiscal year 2001 financial statements are free of material misstatement, we performed tests of Reclamation's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to Reclamation. Providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether Reclamation's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

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

KPMG LLP

January 9, 2002

United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

Independent Auditors' Report

To: Commissioner, Bureau of Reclamation

Subject: Bureau of Reclamation's Financial Statements for Fiscal Year 2000

We have audited the Bureau of Reclamation's (BOR) consolidated balance sheet and related notes as of September 30, 2000. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet. This financial statement is the responsibility of the BOR, and our responsibility is to express an opinion, based on our audit, on this financial statement.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards and OMB Bulletin No. 01-02 require that we plan and perform our audit to obtain reasonable assurance as to whether the accompanying balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the consolidated balance sheet and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the consolidated balance sheet provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of the BOR as of September 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 and Notes 2, 4, 5, 6, 8 and 9 BOR has restated its balance sheet for FY 2000 for accounting changes and corrections of errors. These changes were made to: (a) remove the $2.8 billion in unmatured repayment contracts and related liability; (b) remove $170.4 million of capitalized assets which should have been expensed; (c) remove the $204.6 million receivable related to water service contracts which will be recovered through the rate setting process; and (d) other corrections.

In our report dated June 8, 2001, we expressed an opinion that the BOR's consolidated statement of net cost for the year ended September 30, 2000 presented fairly, in all material respects, its net cost of operations in conformity with accounting principles generally accepted in the United States of America. The BOR has restated its consolidated statement of net cost for the year ended September 30, 2000 to conform with the presentation of net cost for the year ended September 30, 2001. We did not audit the restated consolidated statement of net cost for the year ended September 30, 2000, and accordingly, we do not express an opinion on this statement.

Roger La Rouche

Roger La Rouche
Assistant Inspector General for Audits
June 8, 2001, except for Notes 2, 4, 5, 6, 8, 9, and 15
as to which the date is January 9, 2002

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Balance Sheets
As of September 30, 2001 and 2000

(In Thousands)	FY 2001	FY 2000 (As Restated)
ASSETS (Note 2)		
Intragovernmental Assets		
Fund Balance with Treasury (Note 3)	$ 933,064	$ 909,174
Unavailable Funds at Treasury (Note 3)	2,993,679	2,319,831
Accounts Receivable, Net (Note 4)	211,846	23,315
Advances and Prepayments	15,247	175
Total Intragovernmental Assets	4,153,836	3,252,495
Cash and Other Monetary Assets	107	95
Advances and Prepayments	4,515	3,225
Accounts Receivable, Net (Note 4)	41,703	89,427
Loans Receivable, Net (Note 5)	140,968	164,856
Other Assets, Net (Note 6)	229,712	245,482
Assets Constructed for Others (Note 7)	110,295	93,760
General Property, Plant, and Equipment, Net (Note 8)	12,812,125	13,023,320
Total Assets	$ 17,493,261	$ 16,872,660
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 9)	$ 28,499	$ 23,137
Debt (Note 10)	85,331	103,332
Other Intragovernmental Liabilities (Note 9)	27,714	20,845
Total Intragovernmental Liabilities	141,544	147,314
Accounts Payable (Note 9)	180,403	173,393
Environmental Cleanup Costs and Other Contingent Liabilities (Note 11)	30,664	5,534
Other Liabilities (Note 9)	402,364	389,628
Total Liabilities	754,975	715,869
NET POSITION		
Unexpended Appropriations (Note 13)	168,397	204,694
Cumulative Results of Operations	13,340,903	13,517,144
Unavailable Capital	3,228,986	2,434,953
Total Net Position (Note 15)	16,738,286	16,156,791
Total Liabilities and Net Position	$ 17,493,261	$ 16,872,660

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statements of Net Cost
For the Years Ended September 30, 2001 and 2000

(In Thousands)	FY 2001	FY 2000 (Unaudited)
Water and Energy Management and Development:		
Segment Expenses	$ 837,204	$ 530,285
Segment Exchange Revenues	(514,418)	(358,467)
Segment Net Cost of Operations	322,786	171,818
Land Management and Development:		
Segment Expenses	34,493	34,302
Segment Exchange Revenues	(1,014)	(818)
Segment Net Cost of Operations	33,479	33,484
Fish and Wildlife Management and Development:		
Segment Expenses	172,227	154,405
Segment Exchange Revenues	(59,706)	(54,019)
Segment Net Cost of Operations	112,521	100,386
Facilities Operations:		
Segment Expenses	425,300	432,438
Segment Exchange Revenues	(275,935)	(200,792)
Segment Net Cost of Operations	149,365	231,646
Facilities Maintenance and Rehabilitation:		
Segment Expenses	93,638	96,726
Segment Exchange Revenues	(13,115)	(3,248)
Segment Net Cost of Operations	80,523	93,478
Policy and Administration:		
Segment Expenses	58,860	62,249
Segment Exchange Revenues	0	0
Segment Net Cost of Operations	58,860	62,249
Non-Program Activities:		
Segment Expenses	325,867	315,482
Segment Exchange Revenues	(302,031)	(306,011)
Segment Net Cost of Operations	23,836	9,471
Elimination of Intrabureau Activity:		
Intrabureau Expenses	(265,663)	(283,975)
Intrabureau Exchange Revenues	265,663	278,298
Intrabureau Net Cost of Operations	0	(5,677)
Total Expenses	1,681,926	1,341,912
Total Exchange Revenues	(900,556)	(645,057)
Total Net Cost of Operations	$ 781,370	$ 696,855

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2001

(In Thousands)	
Net Cost of Operations	$ (781,370)
Financing Sources:	
Appropriations Used	173,924
Royalties and Other Revenue Transfers	959,601
Donations and Other Non-exchange Revenue	51,739
Imputed Financing Sources	109,091
Transfers, Net	104,807
Net Results of Operations	617,792
Decrease in Unexpended Appropriations	(36,297)
Change in Net Position	581,495
Net Position - Beginning of Fiscal Year, as Restated (Note 15)	16,156,791
Net Position - End of Fiscal Year	$ 16,738,286

The accompanying notes are an integral part of these statements.

U.S. Department of the Interior
Bureau of Reclamation
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2001

(In Thousands)	
Budgetary Resources:	
Budget Authority	$ 935,889
Unobligated Balances - Beginning of Fiscal Year	236,779
Transfer of Prior Authority	(123)
Spending Authority From Offsetting Collections	691,120
Adjustments (Note 16)	57,250
Total Budgetary Resources	$ 1,920,915
Status of Budgetary Resources:	
Obligations Incurred	$ 1,620,301
Unobligated Balances - Available	299,968
Unobligated Balances - Unavailable	646
Total, Status of Budgetary Resources	$ 1,920,915
Outlays:	
Obligations Incurred	$ 1,620,301
Less: Spending Authority From Offsetting Collections and Adjustments	(791,291)
Obligated Balance, Net - Beginning of Fiscal Year	643,091
Obligated Balance, Transferred, Net	0
Less: Obligated Balance, Net - End of Fiscal Year	(580,070)
Total Outlays	$ 892,031

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, 2001

(In Thousands)		
Obligations and Nonbudgetary Resources		
Obligations Incurred	$ 1,620,301	
Less: Spending Authority From Offsetting Collections and Adjustments	(791,291)	
Donations	47	
Financing Imputed for Cost Subsidies (Note 1.L.)	97,100	
Transfers In-Out, Net	(1,222)	
Exchange Revenue Not in the Budget	(507,543)	
Total Obligations as Adjusted, and Nonbudgetary Resources		417,392
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided	50,146	
Cost of Capitalized Assets on the Balance Sheets	(37,238)	
Change in Credit Reform Loans Receivable	10,582	
Financing Sources That Fund Costs of Prior Periods	(36,294)	
Other	(200)	
Total Resources That Do Not Fund Net Cost of Operations		(13,004)
Costs That Do Not Require Resources		
Depreciation and Amortization	165,940	
Bad Debt Expense	5,198	
Loss on Disposition of Assets	159,033	
Other	10,879	
Total Costs That Do Not Require Resources		341,050
Changes in Financing Sources Yet to Be Provided		35,932
Net Cost of Operations		$ 781,370

The accompanying notes are an integral part of these statements.

U.S. Bureau of Reclamation Notes to the Financial Statements for the Years Ended September 30, 2001 and 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The U.S. Bureau of Reclamation (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, controlling floods, 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. Reclamation is one of eight programmatic bureaus administratively housed within the U.S. Department of the Interior (Department).

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations of Reclamation as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements have been prepared from Reclamation's books and records in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09, dated September 25, 2001, as required for fiscal year (FY) 2001. Furthermore, the financial statements have been prepared in accordance with Reclamation's accounting policies that are summarized in this note.

The books are kept, and these financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Federal Accounting Standards Advisory Board (FASAB), recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal Government under Rule 203 of the AICPA's Code of Professional Conduct. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accounts are maintained in accordance with the Department of Treasury's (Treasury) U.S. Standard General Ledger. Certain prior year balances have been reclassified to conform to current year financial statement presentation.

The Balance Sheets, the Statements of Net Cost, the Statement of Changes in Net Position, and the Statement of Financing 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.

Intragovernmental assets and liabilities arise from transactions with other Federal agencies. Non-entity assets are those not available to finance Reclamation's operations. Non-entity assets consist of various receivables, which, when collected, must be deposited into Treasury's General Fund, and Assets Constructed for Others (See Notes 2 and 7).

C. Budgets and Budgetary Accounting

Reclamation receives the majority of its required funding to support its programs through appropriations authorized by the Congress. Additional FY 2001 budgetary resources have been provided by permanent authority, contributed funds, revolving funds, operation and maintenance (O&M) reimbursements from water users, and transfers from other agencies. These financial statements include all funds and accounts under the control of Reclamation, as well as allocations from other Federal agency appropriations transferred to Reclamation under specific legislative authority.

Reclamation is responsible for administering or posting transactions to 45 separate Treasury symbols, excluding miscellaneous receipt accounts managed by Treasury. These funds fall into a variety of classes, including general appropriation, revolving (permanent), contributed funds, working capital, and special receipt accounts. Reclamation finances its activities from several sources: Treasury's General Fund, the Reclamation Fund, and contributed funds. The Reclamation Fund is a special receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of capital investment costs) 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 expenditure funds. As of September 30, 2001, and 2000, the Reclamation Fund had a balance of $2.99 billion and $2.32 billion, respectively, reported as Unavailable Funds at Treasury on the Consolidated Balance Sheets.

To facilitate compliance with the reporting requirements of the Government Performance and Results Act (GPRA) of 1993, all funding for Reclamation is allocated to seven major program segments for budget and financial reporting purposes. Five of these major program segments are under the umbrella of Water and Related Resources (i.e., Water and Energy Management and Development, Land Management and Development, Fish and Wildlife Management and Development, Facility Operation, and Facility Maintenance and Rehabilitation). The "Water and Energy Management and Development" segment covers all aspects of decisionmaking 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" segment involves work related to land resource administration, recreation management, and legal compliance. The "Fish and Wildlife Management and Development" segment includes conservation, enhancement, and restoration of fish and wildlife populations and their habitats. The "Facility Operation" segment includes operation of Reclamation projects. The "Facility Maintenance and Rehabilitation" segment ensures the reliability and operational readiness of Reclamation's storage reservoirs, distribution systems, powerplants, recreation facilities, and other federally funded investments. The last two major program segments are "Policy and Administration" and "Non-Program." The "Policy and Administration" segment consists of the development of Reclamation policy and direction of daily operations. The "Non-Program" segment is primarily the working capital fund and other incidental activities; the working capital fund provides service for other segments within Reclamation.

D. Fund Balance with Treasury

All Reclamation receipts and disbursements are processed by Treasury. The balance in Treasury represents all available undisbursed balances in Reclamation's accounts, including funds awaiting disbursement for goods and services received.

E. Accounts Receivable

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

F. Loans Receivable

Reclamation operates loan programs 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 (Public Law [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 that have been accounted for under the provisions of the Credit Reform Act of 1990 (Credit Reform) (P.L. 101-508).

The second category is Other Loans, which pertains to those loans made prior to the requirements of Credit Reform and consist primarily of drought relief and repayment loans. The other loans receivable balances shown represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance is determined by reviewing a loans receivable aging report to identify loan balances that are considered uncollectible based on various factors, including age, past experience, present market and economic conditions, value of collateral to loan balance, and characteristics of debtors.

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.

Credit Reform Loans

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

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

G. Other Assets

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

Other assets included in this category are costs for preliminary Safety of Dam work studies that may lead to construction.

H. General Property, Plant, and Equipment

General Property, Plant, and Equipment (PP&E) consists of that property which is used in Reclamation's operations. General PP&E includes the following categories: Structures and Facilities, Land, Construction in Abeyance, Construction in Progress, Investigations and Development, Equipment, Buildings, Information Technology Software, and Other General PP&E (which is comprised mainly of unique physical assets such as levee systems).

Structures and facilities, comprised primarily of Reclamation's investment in its multipurpose water facilities, are recorded at acquisition cost, net of accumulated depreciation. Costs include direct labor and materials, payments to contractors, and indirect charges for engineering, supervision, and overhead. Power and M&I water facilities are interest-bearing Federal investments, and their costs also include capitalized interest during construction.

In general, structures and facilities are depreciated based on the composite service life of each project, using the straight-line method of depreciation. The composite service life is based on the weighted-average estimated useful life of a project's components. Project composite service lives range from 25 to 100 years.

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

The structures and facilities category is primarily comprised of Reclamation's investment in its multipurpose water facilities. In accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 16, "Measurement and Reporting for Multi-Use Heritage Assets," structures and facilities that are included on the National Register of Historic Places are considered multi-use heritage assets. Reclamation's multi-use heritage assets are included in the balances presented here and are further discussed in the "Supplemental Section" under "Stewardship Assets."

In past years, Reclamation began the planning of, and construction on, various features included in nine projects located in California, Colorado, and North and South Dakota, for which activities have either been placed in abeyance or intended benefits have never been provided. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been and will continue to be budgeted and expended to minimize the erosive effects of weather and time and to keep the asset ready for potential completion.

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

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

Equipment is recorded at acquisition cost less depreciation which accumulates over its estimated useful life using the straight-line method. The estimated useful lives used for calculating depreciation on equipment generally range from 5 to 20 years. The capitalization threshold is currently $15 thousand. All costs under the threshold are expensed as incurred. When equipment is transferred from one project to another, the transfer is made at the net book value of the property.

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

The capitalization threshold for software is currently $100 thousand. Capitalized software includes Commercial Off-the-Shelf (COTS) purchases, contractor-developed software, or internally developed software. For COTS software, the capitalized costs include the amount paid to the vendor for the software; and for contractor-developed software, it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The average estimated useful life used for calculating amortization of software is 3.7 years.

I. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by Reclamation as the result of a transaction or event that has already occurred. However, no liability can be paid by Reclamation unless budgetary resources are made available through an appropriation or other funding source. These statements include liabilities for which an appropriation has not been enacted and, thus, are presented as liabilities not covered by budgetary resources, for there is no certainty that an appropriation will be enacted. Contingent liabilities are recorded in the accounting records when an event leading to the recognition of a liability is probable, and a reasonable estimate of the potential liability is available.

J. Accrued Leave

Annual leave is accrued as earned, and sick leave is recorded when used. Annual and sick leave are funded as used through a surcharge assessment added to direct labor costs. An unfunded liability is recognized for earned but unused annual leave and will be paid from future appropriations when the leave is used in appropriated and contributed funds.

K. Retirement and Other Benefits

Reclamation employees belong to either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Reclamation and its employees contribute to these systems. Both are contributory pension plans. Although Reclamation funds a portion of pension benefits under CSRS and FERS relating to its employees and makes the necessary payroll withholdings from them, it does not report assets associated with these benefit plans. Such amounts are maintained and reported by the Office of Personnel Management. In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Reclamation recorded the FY 2001 and FY 2000 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.

The Department of Labor (DOL) administers the Workers' Compensation Program on behalf of the Federal Government, and all payments to Workers'

Compensation Program beneficiaries are made by DOL. Reclamation has two types of liabilities related to workers' compensation. First, Reclamation records a liability to DOL for the amount of actual payments made by DOL but not yet reimbursed by Reclamation. Reclamation reimburses DOL for these payments as funds are appropriated for this purpose. There is generally a 2- to 3-year time period between payment by DOL and receipt of appropriations by Reclamation. Second, Reclamation records a liability for the estimated actuarial liability for future payments of 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. This unfunded liability is recognized in accordance with SFFAS No. 4, "Managerial Cost Accounting: Concepts and Standards for the Federal Government."

L. Revenues and Financing Sources

Exchange Revenues

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

In the case of water sales, customers advance funds to Reclamation for their share of the O&M costs pertaining to the facility delivering the water. Generally, a cost allocation process is used to allocate these O&M costs to water customers. As services are provided, revenue related to O&M reimbursements is recognized as these costs are allocated and transfers are made from advance accounts.

Non-Exchange Revenues

Non-exchange revenues are presented as financing sources on the Statement of Changes in Net Position. Non-exchange revenues are inflows of resources that the Government demands by its sovereign power or receives by donation or transfer. The largest category of these non-exchange revenues, Royalties and Other Revenue Transfers, is accretions to the Reclamation Fund, received due to legislative requirement and for which no matching costs were incurred by Reclamation. Donations and transfers, both monetary and non-monetary, are also classified as non-exchange revenues and are recognized when received.

Appropriations used is the current period reduction of unexpended appropriations (component of net position), which is recognized as a financing source when goods and services are received and budgetary expenditures are recorded. This type of financing source is only recorded for activities which are funded by Treasury's General Fund, not those funded by other sources such as the Reclamation Fund, revolving, permanent, or special receipt funds.

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

When costs that are identifiable to Reclamation and directly attributable to Reclamation's operations are paid by other agencies, Reclamation recognizes these amounts as operating expenses of Reclamation. Generally, Reclamation is not obligated to repay these costs. Because some of these costs, namely interest during construction (IDC), are capitalized, the total imputed cost, included in the Statements of Net Cost and the Statement of Financing, will not equal the total imputed financing source as shown on the Statement of Changes in Net Position.

Revenue from Recovery of Reimbursable Capital Costs

To repay a portion of the Federal investment allocated to the construction of reimbursable irrigation and M&I water facilities, Reclamation enters into long-term repayment contracts and water service contracts with non-Federal (public) water users that convey the rights to use these facilities in exchange for annual payments. Also, power marketing agencies enter into agreements with power users, on Reclamation's behalf, to recover capital investment costs allocated to power. Costs associated with multipurpose plants are allocated to the various purposes (principally power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control) through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as fish and wildlife enhancement, recreation, and flood control can be non-reimbursable.

The typical repayment contract is for up to 40 years but may extend to 50 years or more if authorized by the Congress. Prior to FY 2001, Reclamation recognized the amount of unmatured repayment contracts on the balance sheets as unmatured receivables (asset) and a corresponding deferred revenue from unmatured receivables (liability).

For the FY 2001 and the comparative FY 2000 (as restated) financial statements, unmatured repayment contracts have been removed from the balance sheets and are not recognized until the annual amount becomes due each year, at which time a current accounts receivable and a current period exchange revenue are recorded. As of September 30, 2001, and 2000, the amounts owed to Reclamation under unmatured repayment contracts were $2.6 billion and $2.8 billion, respectively.

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

M. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses during the reporting period. Actual results will invariably differ from those estimates.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets are not available to finance Reclamation's operations. These items consist of various receivables due from the public that, when collected, are deposited into Treasury's General Fund, and assets related to the Navajo Indian Irrigation Project (NIIP), which will be transferred to the Bureau of Indian Affairs (BIA) upon completion. Non-entity assets as of September 30, 2001, and 2000, (as restated) are shown in the following table. The restatement of FY 2000 non-entity assets incorporates the removal of unmatured receivables ($1.5 billion) and the addition of assets related to the NIIP ($119 million).

Non-Entity Assets
(In Thousands)

	FY 2001	FY 2000 (As Restated)
Intragovernmental		
Fund Balance with Treasury	$ 19,048	$ 16,868
Public		
Accounts and Loans Receivable, Net	20,494	31,921
Advances	1,738	1,186
Other Assets	48	48
Assets Constructed for Others	110,295	93,760
General Property, Plant and Equipment, Net	6,500	7,219
Total Public Non-Entity Assets	139,075	134,134
Total Non-Entity Assets	158,123	151,002
Total Entity Assets	17,335,138	16,721,658
Total Assets	$17,493,261	$16,872,660

NOTE 3. FUND BALANCE WITH TREASURY

The fund balance with Treasury and the status of fund balance with Treasury as of September 30, 2001, and 2000, are shown in the following table.

Fund Balance and Status of Fund Balance with Treasury
(In Thousands)

	FY 2001	FY 2000
Fund Balances		
Revolving Funds	$ 250,102	$ 227,222
Appropriated Funds	682,962	681,952
Total Fund Balance with Treasury	$ 933,064	$ 909,174
Status of Fund Balances with Treasury		
Unobligated - Available Budget Authority	$ 299,968	$ 235,302
Unobligated - Expired Budget Authority	646	1,477
Obligated Balance not yet Disbursed	580,070	643,091
Fund Balance without Budget Authority	52,380	29,304
Total Status of Fund Balance with Treasury	$ 933,064	$ 909,174
Unavailable Funds at Treasury (Unappropriated)	$2,993,679	$2,319,831

Reclamation receipts and disbursements are processed by Treasury. The fund balance with Treasury represents all undisbursed balances in Reclamation accounts. The available fund balance with Treasury as of September 30, 2001, and 2000, was $933.1 million and $909.2 million, respectively. The $933.1 million is available in FY 2002 to pay current liabilities and to pay outstanding obligations. The unavailable funds at Treasury represent unappropriated collections in the Reclamation Fund.

NOTE 4. ACCOUNTS RECEIVABLE, NET

The following tables show the status of accounts receivable as of September 30, 2001, and 2000 (as restated). The restatement of FY 2000 accounts receivable reflects a decrease to water service contract receivables ($204.6 million), an increase in other revenue receivables ($15.3 million), and an overall increase in allowance for doubtful accounts ($10.6 million).

Accounts Receivable – FY 2001
(In Thousands)

	Gross Amount Due	Allowance for Doubtful Accounts	Net Amount Due
Intragovernmental			
Accounts Receivable	$ 212,622	$ (776)	$ 211,846
Public			
Accounts Receivable	56,645	(15,605)	41,040
Interest Receivable	663	0	663
Total Public Receivables	57,308	(15,605)	41,703
Total	$ 269,930	$ (16,381)	$ 253,549

Accounts Receivable – FY 2000 (As Restated)
(In Thousands)

	Gross Amount Due	Allowance for Doubtful Accounts	Net Amount Due
Intragovernmental			
Accounts Receivable	$ 23,315	$ 0	$ 23,315
Public			
Accounts Receivable	99,693	(11,008)	88,685
Interest Receivable	742	0	742
Total Public Receivables	100,435	(11,008)	89,427
Total	$ 123,750	$ (11,008)	$ 112,742

Unmatured Repayment Contracts

Based upon additional research performed by Reclamation on the proper recognition of the previously classified unmatured repayment contracts and the effects on the financial statements, it was concluded that these unmatured repayment contracts do not meet the criteria prescribed under GAAP for the recognition of a receivable. Therefore, these unmatured repayment contracts receivables, $2.6 billion in FY 2001 and $2.8 billion in FY 2000, have been removed from the balance sheets, and revenue will not be recognized until the annual amount becomes due each year.

NOTE 5. LOANS RECEIVABLE, NET

Entity and non-entity loan balances are combined and presented together here and in the financial statements. Non-entity loans are disclosed in Note 2, "Non-Entity Assets." The following table shows the status of the loans receivable and associated interest receivable as of September 30, 2001, and 2000 (as restated). The restatement of FY 2000 loans receivable includes net allowance adjustments of $7.2 million.

Loans Receivable
(In Thousands)

	FY 2001	FY 2000 (As Restated)
Credit Reform Loans	$ 117,030	$ 132,053
Allowance for Subsidy	(36,934)	(41,375)
Total Credit Reform Loans, Net	80,096	90,678
Other Loans	73,365	86,934
Allowance for Doubtful Other Loans	(12,493)	(12,756)
Total Other Loans, Net	60,872	74,178
Total, Net	$ 140,968	$ 164,856

Loans made after FY 1991 are accounted for under the provisions of Credit Reform. Reclamation currently has eight Credit Reform loans outstanding, totaling $117 million. Of this amount, $24.6 million was expended during FY 2001 including $6.8 million of loan subsidy, along with related administrative expenses of $216 thousand. For FY 2000, Reclamation had eight credit reform loans outstanding, totaling $132.1 million with expenditures of $21.5 million during FY 2000 including $7.9 million of loan subsidy, along with related administrative expenses of $274 thousand.

NOTE 6. OTHER ASSETS, NET

Total Other Assets primarily include the costs for power rights and the costs for preliminary Safety of Dam work studies that may lead to construction. Other Assets as of September 30, 2001, and 2000, (as restated) total $229.7 million and $245.5 million, respectively. The restated FY 2000 amount reflects a prior period adjustment of $69.1 million to expense previously capitalized costs. Additionally, the remaining Investigations and Development balance of $84.1 million is now presented in Note 8, "General Property, Plant, and Equipment, Net."

In 1969, Reclamation entered into an agreement with five other entities for the construction of the Navajo Generating Station, in Page, Arizona. This agreement entitled Reclamation to a firm 24.3 percent of the generation of electricity for the Central Arizona Project for a term of 42 years. Reclamation's costs of $101.8 million and $100.8 million for FY 2001 and FY 2000, respectively, associated with the Navajo Generating Station were subject to respective annual amortization amounts of $10.8 million and $10.7 million.

NOTE 7. ASSETS CONSTRUCTED FOR OTHERS

The balances of $110.3 million and $93.8 million as of September 30, 2001, and 2000 (as restated), respectively, represent capitalized construction costs associated with NIIP. This project was authorized by P.L. 87-483 (June 13, 1962), and construction began in 1964. Project facilities are being constructed in 11 blocks of approximately 10,000 acres each. As of September 30, 2001, the project is 65 percent complete with eight blocks under irrigation. Completion may require an additional 10 to 15 years of construction and development. Under this law, the Congress appropriated funding for the project to BIA, which transferred funding to Reclamation for construction and cost accounting of the facilities. Subsequently, Reclamation and BIA entered into a formal Memorandum of Agreement that provides for the transfer of the book value costs of the project facilities to BIA upon completion. As such, upon completion of construction of designated segments of project facilities, agreed upon by both bureaus, the book value costs of the completed facilities will be transferred to BIA by formal document.

Reclamation transferred $47.8 million during FY 2000 in capitalized costs associated with completed segments of the project to BIA. In FY 2001, no transfers occurred.

NOTE 8. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

Reclamation's general PP&E categories, with corresponding accumulated depreciation, as of September 30, 2001, and 2000 (as restated), are shown in the tables on the following page.

General Property, Plant, and Equipment, Net – FY 2001
(In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
General PP&E			
Structures and Facilities	$ 17,121,721	$ (7,335,066)	$ 9,786,655
Land	1,848,706	0	1,848,706
Construction in Abeyance	553,906	0	553,906
Construction in Progress	445,814	0	445,814
Investigations and Development	95,227	0	95,227
Equipment	99,879	(56,980)	42,899
Buildings	48,899	(21,324)	27,575
Information Technology Software	28,241	(17,018)	11,223
Other General PP&E	120	0	120
Total General PP&E	$ 20,242,513	$ (7,430,388)	$ 12,812,125

General Property, Plant, and Equipment, Net – FY 2000 (As Restated)
(In Thousands)

Categories	Acquisition Cost	Accumulated Depreciation	Net Book Value
General PP&E			
Structures and Facilities	$ 17,267,632	$ (7,316,766)	$ 9,950,866
Land	1,883,369	0	1,883,369
Construction in Abeyance	640,941	0	640,941
Construction in Progress	380,940	0	380,940
Investigations and Development	84,115	0	84,115
Equipment	93,758	(51,621)	42,137
Buildings	51,886	(22,461)	29,425
Information Technology Software	26,158	(14,751)	11,407
Other General PP&E	120	0	120
Total General PP&E	$ 20,428,919	$ (7,405,599)	$ 13,023,320

Construction in Abeyance

The investment in these projects held in abeyance through FY 2001 ranges from $59.1 thousand to $278.3 million per project and through FY 2000 ranges from $59 thousand to $303.6 million per project, including investigations costs, and covers a period from 1965 to the present. Continued planning or construction on these assets has been held in abeyance for various reasons that include such concerns as the execution of cost-share agreements with non-Federal entities, environmental, international treaty, and economic issues. The Congress and local interests continue to pursue acceptable alternatives for the completion of those projects in which there has been a substantial investment. For some of these projects, bills have either been recently introduced into, or are under consideration by, the Congress to reformulate the project or provide funding for continued work.

As it is uncertain when construction will resume on or benefits will be provided by these assets, classification into this account provides a more meaningful and accurate status of their disposition. The Congress has not yet deauthorized any of these assets, nor should it be inferred from this classification that the future viability of them is necessarily in doubt.

Construction in Progress

In FY 2001 and FY 2000, $12 million and $16.5 million, respectively, of interest during construction (IDC) was capitalized. The authority for charging IDC is included in the authorizing legislation for a particular project or administrative policy established pursuant to the law. Generally, the costs allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law. The interest rates used in computing IDC are the rates specified in the authorizing legislation or, if rates are not specified, the rates established by Reclamation laws or administrative policy. Rates used for IDC are based on the rates established for the fiscal year in which construction began. The interest rates applied during the current year ranged from 2.5 percent to 12.375 percent.

The FY 2000 restated Construction in Progress balance includes prior period adjustments of $58.9 million to expense previously capitalized costs, $34.9 million correction of prior years IDC, and $9.7 million in other prior period adjustments. Additionally, prior period adjustments were recorded to expense costs previously capitalized in structures and facilities of $5.6 million.

Deauthorization of Project Features – Garrison Diversion Unit

On December 21, 2000, P.L. 106-554 enacted the Dakota Water Resources Act of 2000. Among the many provisions of this Act are amendments to P.L. 89-108 (79 Stat. 433; 100 Stat. 418) which deauthorized certain project features and irrigation service areas, including the Taayer Reservoir, Sykeston

Canal, and the Lonetree Dam and Reservoir. Accordingly in FY 2001, $62.2 million of costs were written off from construction in abeyance for these deauthorized features.

Transfer of Facilities

During FY 1995, Reclamation initiated a program to transfer title to, and responsibility for, certain single purpose projects and facilities to non-Federal governmental entities. Before a project can be transferred, Reclamation policy requires that it must meet the following criteria: protect the 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. The tables on page 86 present the status of transfer of facilities for FY 2001 and FY 2000.

NOTE 9. LIABILITIES

Liabilities covered by budgetary resources and liabilities not covered by budgetary resources are combined and presented together in the balance sheets. These categories as of September 30, 2001, and 2000, (as restated) are detailed in the tables on pages 87 and 88. The restatement of FY 2000 liabilities includes a decrease in accounts payable ($26.8 million), an increase in advances ($28.6 million), and a reclassification of accrued unfunded annual leave to other liabilities ($24.5 million).

NOTE 10. DEBT

Reclamation makes loans which are subject to the provisions of Credit Reform. Under Credit Reform, loans consist of two components—the part borrowed from the Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury ranges from 5.85 percent to 6.86 percent. The liabilities shown in the tables on page 89 represent amounts borrowed from Treasury to fund Credit Reform loans as of September 30, 2001, and 2000.

Transfer of Facilities – FY 2001
(In Thousands)

Project Name	Net Book Value Including Land Costs	Land Costs Associated with Transfer
Pending Transfer		
Gila Project, Wellton-Mohawk Division, Arizona	$ 2,557	$ 2,557
Middle Loup Division, Pick-Sloan Missouri Basin Project, Nebraska	21,545	7,457
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado	721	111
Sly Park Dam and Reservoir, Central Valley Project, California	1,836	1,563
Sugar Pine Dam and Reservoir, Central Valley Project, California	32,325	3,523
Transfer Completed		
Carlsbad Project, New Mexico	173	173
Clear Creek Distribution System, California	423	123
Nampa and Meridian Conveyance, Boise Project, Idaho[1]	0	0
Palmetto Bend Reclamation Project, Texas	59,991	27,600
Robert B. Griffith Water Project, Southern Clark County, Nevada	97,983	3,691

[1] These facilities were completed in 1926 and were fully depreciated at the time of title transfer (net book value of zero). There were no lands withdrawn from public domain involved in the transfer.

Transfer of Facilities – FY 2000 (As Restated)
(In Thousands)

Project Name	Net Book Value Including Land Costs	Land Costs Associated with Transfer
Pending Transfer		
Carlsbad Project, New Mexico	$ 173	$ 173
Clear Creek Distribution System, California	651	123
Gila Project, Wellton-Mohawk Division, Arizona	2,557	2,557
Middle Loup Division, Pick-Sloan Missouri Basin Project, Nebraska	22,003	7,457
Nampa and Meridian Conveyance, Boise Project, Idaho[1]	0	0
North Poudre Supply Canal and Diversion Works, Colorado-Big Thompson Project, Larimer County, Colorado	836	111
Palmetto Bend Reclamation Project, Texas	62,606	27,600
Robert B. Griffith Water Project, Southern Clark County, Nevada	97,983	3,691
Sly Park Dam and Reservoir, Central Valley Project, California	2,124	1,516
Sugar Pine Dam and Reservoir, Central Valley Project, California	32,558	3,504
Transfer Completed		
Southside Pumping Division, Minidoka Project, Idaho	1,383	1

[1] These facilities were completed in 1926 and were fully depreciated at the time of pending transfer (net book value of zero). There were no lands withdrawn from public domain involved in the pending transfer.

Liabilities – FY 2001
(In Thousands)

	Current Liabilities	Non-Current Liabilities	Total
Liabilities Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable	$ 28,499	$ 0	$ 28,499
Debt	0	85,331	85,331
Other			
Accrued Funded Payroll and Benefits	5,898	0	5,898
Deposit Funds	478	0	478
Advances	5,248	0	5,248
Unearned Revenue	0	4	4
Total Intragovernmental	40,123	85,335	125,458
Public			
Accounts Payable	180,403	0	180,403
Other			
Accrued Funded Payroll and Benefits	19,023	0	19,023
Deposit Funds	717	0	717
Advances	81,947	0	81,947
Unearned Revenue	0	142,164	142,164
Total Public	282,090	142,164	424,254
Total Liabilities Covered by Budgetary Resources	322,213	227,499	549,712
Liabilities Not Covered by Budgetary Resources			
Intragovernmental			
Accrued Unfunded Workers' Compensation	0	11,481	11,481
Treasury Judgment Fund Liability	4,605	0	4,605
Total Intragovernmental	4,605	11,481	16,086
Public			
Environmental Cleanup Costs and Other Contingent Liabilities	0	30,664	30,664
Other			
Accrued Unfunded Annual Leave	0	19,820	19,820
Workers' Compensation Actuarial	0	93,729	93,729
Liability for Non-Entity Receivables and Other	0	44,964	44,964
Total Public	0	189,177	189,177
Total Liabilities Not Covered by Budgetary Resources	4,605	200,658	205,263
Total Liabilities	$ 326,818	$ 428,157	$ 754,975

Liabilities – FY 2000 (As Restated)
(In Thousands)

	Current Liabilities	Non-Current Liabilities	Total
Liabilities Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable	$ 23,137	$ 0	$ 23,137
Debt	0	103,332	103,332
Other			
Accrued Funded Payroll and Benefits	6,285	0	6,285
Deposit Funds	1,031	0	1,031
Advances	2,067	0	2,067
Unearned Revenue	0	2	2
Total Intragovernmental	32,520	103,334	135,854
Public			
Accounts Payable	173,393	0	173,393
Other			
Accrued Funded Payroll and Benefits	18,024	0	18,024
Deposit Funds	4,440	0	4,440
Advances	65,092	0	65,092
Unearned Revenue	0	136,967	136,967
Total Public	260,949	136,967	397,916
Total Liabilities Covered by Budgetary Resources	293,469	240,301	533,770
Liabilities Not Covered by Budgetary Resources			
Intragovernmental			
Accrued Unfunded Workers' Compensation	0	11,407	11,407
Treasury Judgment Fund Liability	53	0	53
Total Intragovernmental	53	11,407	11,460
Public			
Environmental Cleanup Costs and Other Contingent Liabilities	0	5,534	5,534
Other			
Accrued Unfunded Annual Leave	0	19,679	19,679
Workers' Compensation Actuarial	0	84,564	84,564
Liability for Non-Entity Receivables and Other	0	60,862	60,862
Total Public	0	170,639	170,639
Total Liabilities Not Covered by Budgetary Resources	53	182,046	182,099
Total Liabilities	$ 293,522	$ 422,347	$ 715,869

Debt — FY 2001
(In Thousands)

	Beginning Balance	New Borrowing	Repayments	Ending Balance
Intragovernmental Debt:				
Borrowing from Treasury	$ 103,332	$ 13,294	$ 31,295	$ 85,331

Debt — FY 2000
(In Thousands)

	Beginning Balance	New Borrowing	Repayments	Ending Balance
Intragovernmental Debt:				
Borrowing from Treasury	$ 81,549	$ 21,897	$ 114	$ 103,332

NOTE 11. ENVIRONMENTAL CLEANUP COSTS AND OTHER CONTINGENT LIABILITIES

Reclamation is currently involved in various environmental cleanup actions and legal proceedings. Disclosure and recognition of these contingent liabilities have been made in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

A. Environmental Cleanup Costs

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.

Reclamation's cumulative liability for environmental cleanup is estimated from $5.5 million to $21 million for eight sites for both FY 2001 and FY 2000. The $5.5 million has been recorded as a liability in Reclamation's financial records. Most of Reclamation's cleanup sites fall under the purview of the Resources Conservation and Recovery Act of 1976 (five sites) and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980 (one site), which created the Superfund Program. The Clean Water Act and the Endangered Species Act each govern one site.

In addition to the 8 sites for which a liability was recognized, there are 14 other cleanup sites that did not meet the criteria for recognizing a liability. For these, either the sufficient probability of loss was not present, or a reasonable estimate of the potential loss could not be determined.

B. Other Contingent Liabilities – Legal Claims and Assertions

Reclamation is party to a number of lawsuits and other actions where monetary amounts are sought from Reclamation. Reclamation is a defendant in various types of litigation and legal claims including construction cost claims, lawsuits over repayment of certain project costs, and water rights claims. As of September 30, 2001, Reclamation is a party to 17 legal cases which have potential to exceed $1 million should unfavorable outcomes occur. It is the opinion of Reclamation management and legal counsel that a reasonable estimate of a potential liability resulting from adverse outcomes on certain cases would be $25.2 million, of which $1.5 million could be paid by Reclamation and the remainder by Treasury's Judgment Fund. There are seven reasonably possible claims with a total payment range of $1 million to $106 million.

NOTE 12. OPERATING LEASES

Most of Reclamation's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. For federally owned property, Reclamation generally does not execute an agreement with GSA, nor is there a formal expiration date. Reclamation, however, is normally required to give 120 to 180 days' notice to vacate, and the amount of these leases remains constant from year to year. These leases are included in the estimated future lease for FY 2002 through FY 2006. The FY 2001 amount of these leases is $20.6 million. For non-federally owned property, an occupancy agreement is executed; and, again, Reclamation may normally cancel these agreements with 120 days' notice. The estimated rent payments to GSA for both federally owned and publicly owned buildings are presented in the table that follows.

The aggregate of Reclamation's estimated real property rent payments to GSA for FY 2002 through FY 2006 and future years is as follows:

GSA Operating Leases
(In Thousands)

Fiscal Year	Lease Payments
2002	$ 19,887
2003	20,856
2004	21,863
2005	22,295
2006	22,185
After 5 Years	12,780
Total Future Lease Payments	$ 119,866

In addition to the above leases with GSA, Reclamation had FY 2001 operating lease payments to non-Federal entities which totaled $2.7 million. These leases were primarily for office space and office equipment. Reclamation has an option to renew many of its operating leases at terms similar to the initial terms.

The following is a schedule by year of future minimum lease payments to non-Federal entities required under noncancellable operating leases that have initial or remaining lease terms in excess of one year as of September 30, 2001.

Non-GSA Operating Leases
(In Thousands)

Fiscal Year	Lease Payments
2002	$2,052
2003	1,955
2004	555
2005	525
2006	451
Total Future Minimum Lease Payments	$5,538

NOTE 13. UNEXPENDED APPROPRIATIONS

Unexpended appropriations consist of undelivered orders, unobligated funds, and unavailable authority. Undelivered orders represent amounts designated for payment of goods and services ordered but not received.

Unobligated funds, depending on budget authority, are generally available for new undelivered orders in current operations; however, there may be restrictions placed on the availability of these amounts for obligation. Unobligated funds include amounts made available for multiple fiscal years and no-year appropriations that are available for an indefinite period of time.

Unavailable authority includes amounts appropriated to Reclamation in prior fiscal years, which may not be used for current operations.

Unexpended appropriations as of September 30, 2001, and 2000, are as follows:

Unexpended Appropriations
(In Thousands)

	FY 2001	FY 2000
Unexpended Appropriations		
Unobligated		
Available	$ 49,296	$ 71,595
Unavailable	611	586
Undelivered Orders	118,490	132,513
Total Unexpended Appropriations	$ 168,397	$ 204,694

NOTE 14. NET COST BY GPRA REPORTING SEGMENTS AND REGIONAL ORGANIZATIONS

During the year ended September 30, 2001, Reclamation revised the presentation of the Consolidated and the Consolidating Statements of Net Cost and related disclosures to present gross costs, earned revenues, and net costs by program and by responsibility segment. Reclamation's presentation is consistent with the strategic goals included in Reclamation's *Strategic Plan* and in accordance with GPRA.

Reclamation restated the Consolidated and Consolidating Statements of Net Cost and related disclosures for the year ended September 30, 2000, to conform to the current year presentation. The restated Consolidated and Consolidating Statements of Net Cost and disclosures for the year ended September 30, 2000, have not been audited.

The Statements of Net Cost by GPRA reporting segments, described in Note 1.C., and regional organizations as described in the "Supplemental Section" for the years ended September 30, 2001, and 2000 are presented on the following pages (pages 74-77).

NOTE 15. NET POSITION RESTATEMENT

As part of the financial statement process for FY 2001, certain balances as of September 30, 2000, have been restated, and the effect on net position is presented in the following table.

Restatements primarily consist of the following:

- Asset adjustments to expense previously capitalized costs,
- Revenue adjustments to appropriately match revenue and related costs,

- Adjustments to increase the allowance for doubtful loans and accounts receivable and to amortize the loan subsidy,

- Accrued and other expense adjustments to accrue for expenses in the appropriate accounting period, and

- Water service contract revenue adjustments to reverse revenue previously recognized which is being recovered through the ratesetting process.

Net Position Restatement
(In Thousands)

Net Position – Originally Reported for September 30, 2000		$ 16,533,369
Cumulative Results		
Asset Adjustments	(170,434)	
Revenue Adjustments	(13,345)	
Loan Allowance and Subsidy Adjustments	14,973	
Accrued and Other Expense Adjustments	14,740	
		(154,066)
Unavailable Capital		
Water Service Contracts Revenue	(204,600)	
Accrued and Other Expense Adjustments	(17,912)	
		(222,512)
Net Position – Restated for September 30, 2000		$ 16,156,791

NOTE 16. ADJUSTMENTS

The Adjustments line on the Combined Statement of Budgetary Resources is comprised of the following:

Adjustments
(In Thousands)

	FY 2001
Recoveries of Prior Year Obligations	$ 100,170
Permanently Not Available (Cancelled Authority)	(893)
Capital Transfers and Redemption of Debt	(40,377)
Rescissions Pursuant to Public Law	(1,650)
Total Adjustments	**$ 57,250**

U.S. Department of the Interior
Bureau of Reclamation
Consolidating Statement of Net Cost
For the Year Ended September 30, 2001

(In Thousands)	Pacific Northwest Region	Mid-Pacific Region	Lower Colorado Region
Water and Energy Management and Development:			
Segment Expenses	$ 64,217	$ 88,108	$ 257,771
Segment Exchange Revenues	(36,527)	(140,556)	(172,209)
Segment Net Cost of Operations	27,690	(52,448)	85,562
Land Management and Development:			
Segment Expenses	7,169	6,255	3,760
Segment Exchange Revenues	(23)	(196)	(2)
Segment Net Cost of Operations	7,146	6,059	3,758
Fish and Wildlife Management and Development:			
Segment Expenses	6,532	115,368	13,379
Segment Exchange Revenues	0	(45,389)	(240)
Segment Net Cost of Operations	6,532	69,979	13,139
Facilities Operations:			
Segment Expenses	81,010	91,525	129,291
Segment Exchange Revenues	(62,436)	(1,333)	(172,511)
Segment Net Cost of Operations	18,574	90,192	(43,220)
Facilities Maintenance and Rehabilitation:			
Segment Expenses	7,445	10,835	32,763
Segment Exchange Revenues	0	(838)	(4,332)
Segment Net Cost of Operations	7,445	9,997	28,431
Policy and Administration:			
Segment Expenses	3,847	3,862	6,041
Segment Exchange Revenues	0	0	0
Segment Net Cost of Operations	3,847	3,862	6,041
Non-Program Activities:			
Segment Expenses	29,796	42,299	42,571
Segment Exchange Revenues	(31,433)	(42,823)	(53,933)
Segment Net Cost of Operations	(1,637)	(524)	(11,362)
Elimination of Intrabureau Activity:			
Intrabureau Expenses			
Intrabureau Exchange Revenues			
Intrabureau Net Cost of Operations	0	0	0
Total Expenses	200,016	358,252	485,576
Total Exchange Revenues	(130,419)	(231,135)	(403,227)
Total Net Cost of Operations	$ 69,597	$ 127,117	$ 82,349

Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Elimination of Intrabureau Activity	Consolidated Total
$ 96,412	$ 273,926	$ 56,770	$ 837,204	$	$ 837,204
(20,909)	(109,722)	(34,495)	(514,418)		(514,418)
75,503	164,204	22,275	322,786	0	322,786
10,327	5,577	1,405	34,493		34,493
(560)	(233)	0	(1,014)		(1,014)
9,767	5,344	1,405	33,479	0	33,479
27,244	6,660	3,044	172,227		172,227
(14,077)	0	0	(59,706)		(59,706)
13,167	6,660	3,044	112,521	0	112,521
55,028	66,042	2,404	425,300		425,300
(32,610)	(7,045)	0	(275,935)		(275,935)
22,418	58,997	2,404	149,365	0	149,365
12,581	8,642	21,372	93,638		93,638
(5,652)	(2,293)	0	(13,115)		(13,115)
6,929	6,349	21,372	80,523	0	80,523
3,960	3,933	37,217	58,860		58,860
0	0	0	0		0
3,960	3,933	37,217	58,860	0	58,860
29,774	29,184	152,243	325,867		325,867
(32,945)	(28,946)	(111,951)	(302,031)		(302,031)
(3,171)	238	40,292	23,836	0	23,836
			0	(265,663)	(265,663)
			0	265,663	265,663
0	0	0	0	0	0
235,326	393,964	274,455	1,947,589	(265,663)	1,681,926
(106,753)	(148,239)	(146,446)	(1,166,219)	265,663	(900,556)
$ 128,573	$ 245,725	$ 128,009	$ 781,370	$ 0	$ 781,370

U.S. Department of the Interior
Bureau of Reclamation
Consolidating Statement of Net Cost
For the Year Ended September 30, 2000
(Unaudited)

(In Thousands)	Pacific Northwest Region	Mid-Pacific Region	Lower Colorado Region
Water and Energy Management and Development:			
Segment Expenses	$ 51,930	$ 80,334	$ 161,898
Segment Exchange Revenues	(25,378)	(140,260)	(62,395)
Segment Net Cost of Operations	26,552	(59,926)	99,503
Land Management and Development:			
Segment Expenses	9,337	5,139	3,814
Segment Exchange Revenues	(8)	(158)	1
Segment Net Cost of Operations	9,329	4,981	3,815
Fish and Wildlife Management and Development:			
Segment Expenses	7,942	107,649	8,931
Segment Exchange Revenues	0	(45,732)	(141)
Segment Net Cost of Operations	7,942	61,917	8,790
Facilities Operations:			
Segment Expenses	70,853	98,794	146,213
Segment Exchange Revenues	(56,877)	(667)	(101,038)
Segment Net Cost of Operations	13,976	98,127	45,175
Facilities Maintenance and Rehabilitation:			
Segment Expenses	10,123	10,029	31,697
Segment Exchange Revenues	0	(187)	2,740
Segment Net Cost of Operations	10,123	9,842	34,437
Policy and Administration:			
Segment Expenses	4,694	4,671	7,828
Segment Exchange Revenues	0	0	0
Segment Net Cost of Operations	4,694	4,671	7,828
Non-Program Activities:			
Segment Expenses	26,801	39,479	38,738
Segment Exchange Revenues	(26,678)	(40,748)	(56,275)
Segment Net Cost of Operations	123	(1,269)	(17,537)
Elimination of Intrabureau Activity:			
Intrabureau Expenses			
Intrabureau Exchange Revenues			
Intrabureau Net Cost of Operations	0	0	0
Total Expenses	181,680	346,095	399,119
Total Exchange Revenues	(108,941)	(227,752)	(217,108)
Total Net Cost of Operations	$ 72,739	$ 118,343	$ 182,011

Upper Colorado Region	Great Plains Region	Commissioner's Office	Combined Total	Elimination of Intrabureau Activity	Consolidated Total
$ 57,959	$ 106,644	$ 71,520	$ 530,285	$	$ 530,285
(31,895)	(59,286)	(39,253)	(358,467)		(358,467)
26,064	47,358	32,267	171,818	0	171,818
9,740	5,540	732	34,302		34,302
(314)	(339)	0	(818)		(818)
9,426	5,201	732	33,484	0	33,484
20,122	6,071	3,690	154,405		154,405
(8,146)	0	0	(54,019)		(54,019)
11,976	6,071	3,690	100,386	0	100,386
51,188	63,138	2,252	432,438		432,438
(39,991)	(2,308)	89	(200,792)		(200,792)
11,197	60,830	2,341	231,646	0	231,646
12,729	12,466	19,682	96,726		96,726
(4,914)	(887)	0	(3,248)		(3,248)
7,815	11,579	19,682	93,478	0	93,478
4,867	3,769	36,420	62,249		62,249
0	0	0	0		0
4,867	3,769	36,420	62,249	0	62,249
31,000	27,139	152,325	315,482		315,482
(36,607)	(26,726)	(118,977)	(306,011)		(306,011)
(5,607)	413	33,348	9,471	0	9,471
			0	(283,975)	(283,975)
			0	278,298	278,298
0	0	0	0	(5,677)	(5,677)
187,605	224,767	286,621	1,625,887	(283,975)	1,341,912
(121,867)	(89,546)	(158,141)	(923,355)	278,298	(645,057)
$ 65,738	$ 135,221	$ 128,480	$ 702,532	$ (5,677)	$ 696,855