

# Reclamation Manual

## Directives and Standards

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<b>Subject:</b>	Interest on Investment (IOI)
<b>Purpose:</b>	To establish the responsibilities and the procedures for calculating and recording IOI in accordance with generally accepted accounting principles. The benefit of this Directive and Standard (D&S) is the Bureau of Reclamation-wide standardization of the calculation of IOI on the unamortized <sup>1</sup> balance of cost allocated to reimbursable projects.
<b>Authority:</b>	Reclamation Project Act of 1939 (Pub. L. 76-260, <a href="#">43 USC 485</a> ); Small Reclamation Projects Act of 1956 ( <a href="#">Pub. L. 84-984</a> , 70 Stat. 1044); Water Supply Act of 1958 ( <a href="#">Pub. L. 85-500</a> , Title III); Reclamation Safety of Dams Act Amendments of 1984 ( <a href="#">Pub. L. 98-404</a> , 98 Stat. 1481); Omnibus Public Land Management Act of 2009 ( <a href="#">Pub. L. 111-11</a> ); Title XI, Section 1101 of <a href="#">Pub. L. 116-260</a> ; Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standard <a href="#">No. 6, Accounting for Property, Plant, and Equipment</a> , as amended; Department of the Treasury (Treasury), <i>U.S. Standard General Ledger (USSGL)</i> ; and U.S. General Accounting Office, <i>Accounting Principles, Standards, and Requirements, Title 2 Standards Not Superseded by FASAB Issuances</i> , Standard I10, Imputed Interest
<b>Approving Official:</b>	Director, Mission Support Organization
<b>Contact:</b>	Finance Policy and Programs Division; Policy, Compliance, & Audit (84-27410)

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### 1. Introduction.

- A. Treasury provides Congressionally authorized funding to Reclamation from various sources such as the Reclamation fund, the general fund, and others. Treasury incurs costs for providing this funding. Reclamation performs cost allocation to allocate costs of multi-purpose projects to project purposes including power, irrigation, municipal and industrial (M&I), fish and wildlife enhancements, recreation, and flood control. Generally, only the costs associated with power, irrigation, and M&I are reimbursable. Usually only M&I and power projects are subject to interest. In some cases, fish and wildlife and recreation projects are reimbursable and subject to interest according to the project legislation. Interest is also applicable to loans under the Small Reclamation Project Act of 1956. Interest is applicable to reimbursable purposes, including irrigation, authorized under the Omnibus Public Land Management Act of 2009 (see Reclamation Manual (RM) D&S, *Extended Repayment of Extraordinary Maintenance Costs* ([PEC 05-03](#))).

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<sup>1</sup> The unamortized balance is the remaining unpaid balance; not the total costs allocated during final cost allocation.

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- B. Interest during construction (IDC) and IOI are components of the cost of money to the Federal government. Reclamation calculates and recovers the interest components in addition to construction and operation and maintenance costs for reimbursable project purposes as specified in project legislation. Reclamation records IDC and IOI as both imputed costs and imputed funding sources as Treasury incurs the costs. Reclamation collects, records, and deposits the repayments including IDC/IOI into specific Treasury accounts (see Paragraph 1.C and 1.D for exceptions regarding power components).
  - C. Effective September 2014, two Reclamation Fund accounts (5000.026 and 5000.027) were transferred to Western Area Power Administration (Western) and Bonneville Power Administration (BPA) per a Memorandum of Understanding (MOU) between the Department of the Interior and the Department of Energy. Appendix D of RM D&S, *Interest During Construction (IDC)* ([FIN 07-21](#)) contains a copy of the MOU for historical purposes.
    - (1) Reclamation calculates and records IDC on Reclamation's power components.
    - (2) For Reclamation's power components pertaining to Western, Western calculates and Reclamation records IOI.
    - (3) For Reclamation's power components pertaining to BPA, BPA directly funds the capital projects, so Reclamation does not record IOI.
    - (4) Western and BPA collect, record, and deposit the repayments for the power components.
  - D. Reclamation calculates and records IDC on reimbursable extraordinary maintenance on power components authorized by Pub. L. 111-11. For guidance on calculating IOI and recording and collecting payment on these repayments, contact Policy and Programs, Reclamation Law Administration Division (RLAD).
2. **Applicability.** This D&S applies to all Reclamation personnel involved in the calculation and recording of IOI.
3. **IOI.**
- A. Generally, the costs (original construction costs, costs of capital improvements, and funding to the non-Federal entity provided by Pub. L. 111-11) Reclamation allocates to reimbursable functions, except irrigation, are subject to IOI unless law provides otherwise (e.g., irrigation is subject to IOI on repayments authorized under Pub. L. 111-11) or Reclamation receives the funding up front. Appendix A contains the process for calculating IOI for investments repaid from revenue. Calculate IOI on the unamortized (unpaid) balance of costs (including movable property) Reclamation allocates to power, M&I, reimbursable recreation, reimbursable fish and wildlife, other

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interest-bearing reimbursable functions, and loans under the Small Reclamation Projects Act of 1956.

- B. Reclamation maintains close coordination with all parties when computing IOI, particularly in regard to any interest reduction for repayment during a fiscal year, as in some circumstances, Reclamation, Western, BPA, and/or the U.S. Army Corps of Engineers may have interest-bearing investments on a project.
4. **Source of Data.** The base for computing IOI is an unamortized balance calculation (reimbursable costs less repayments realized). The source of the calculation data is:
  - A. amortization schedules from the repayment contract,
  - B. trial balance,
  - C. cost summary report (SPL-017),
  - D. the Statement of Project Construction Cost and Repayment for the function at the beginning of the fiscal year for which the interest applies, or
  - E. other financial data sources such as the historical financial data.
5. **IOI Commencement.** IOI begins when construction is substantially complete and Reclamation transfers the asset to plant. The regional staff knowledgeable in project cost allocation procedures is responsible for preparing the final cost allocation (FCA) to determine the allocation and distribution of costs and repayment to the purposes, division, and repaying entities in accordance with RM D&S, *Project Cost Allocations* ([PEC 01-02](#)). Reclamation performs an FCA when construction of a project is substantially complete. The final allocation determines the actual reimbursable and non-reimbursable costs for each project feature and is the basis for assignment of costs to beneficiaries for repayment.
6. **Termination of IOI.** IOI ceases upon full repayment of the investment.
7. **Methods for Computing IOI.**
  - A. **IOI Repaid from Revenues.**
    - (1) **Average Unpaid Investment Balance Method.** The average unpaid investment balance method of calculating finance charges uses the average of the balance during the billing cycle. The daily average is the sum of the balance on each day of the billing divided by the number of days in the billing cycle. The calculation for the average daily balance method is the average daily balance times the annual percentage rate times the days in billing cycle divided by 360. The average unpaid investment balance method is applicable to the power investment and the M&I water investment to be repaid from

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revenue except the Boulder Canyon Project, the Colorado River Basin Project, and the Colorado River Storage Project and participating projects, and the Columbia River Federal Power System projects. BPA deposits surplus revenues from the Columbia River Federal Power System projects in short-term interest-bearing investments. The interest earned on these investments is included in the amounts available for repayment. This method assumes that net revenues, after the payment of interest, apply during the year to the repayment of the highest interest-bearing investment first.

- (2) **The Boulder Canyon Project.** Calculate IOI on the basis of unrepaid advances from the Treasury, in accordance with the authorizing legislation using the legislatively mandated interest rate.
- (3) **Colorado River Basin Project, Colorado River Storage Project and Participating Projects, and Columbia River Basin Project.** Calculate IOI by multiplying the unrepaid investment at the beginning of the fiscal year by the applicable interest rate.

**B. IOI Repaid by Repayment Contract.** Calculate IOI for interest-bearing investments which are not repaid from income in accordance with the terms of the repayment contract.

**C. Other Methods.**

- (1) **Western or BPA.** In some circumstances, Western or BPA calculates the amount of IOI. The regional finance office reviews the results of the calculation of IOI prepared outside of their office for reasonableness (i.e., compare the amount of this year's IOI to last year's, taking into consideration any increase or decrease to the investment amount). When the repayment authority is other than Pub. L. 111-11, Western provides Reclamation the applicable IOI on Reclamation generating assets; Western is responsible for recording IOI for the Western transmission assets. Contact RLAD for information regarding power repayments authorized by Pub. L. 111-11.
- (2) **Amortization Schedules.** The regional accountant or contracts and repayment staff determines IOI and establishes an amortization schedule.
- (3) **Rate Book Schedules.** Reclamation calculates IOI from the rate book schedule.

8. **Procedures for Recording IOI as an Imputed Cost.** The regional finance office is responsible for calculating (when applicable) and recording IOI as an imputed cost at least annually.

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### A. IOI Repaid from Revenue.

- (1) The regional finance office posts a journal voucher (JV) for the amount of IOI calculated by the methods in Paragraph 7 above. The pertinent elements are:
  - (a) transaction type FB50 or FV50,
  - (b) document type of VB,
  - (c) RX, RP, or RR work breakdown structure (WBS) as applicable,
  - (d) commitment item of NA,
  - (e) debit general ledger (GL) 6730.00000, *Imputed Costs*,
  - (f) credit GL 5780.Z0000, *Imputed Financing Source-Other*, and
  - (g) trading partner of 1406 on both GLs.
- (2) These entries do not derive any cash or budget GL accounts.
- (3) During fiscal year-end closing, GL 6730.00000 and GL 5780.Z0000 closes to GL 3310.A0000, *Cumulative Results of Operations-Operating*, resulting in a zero impact.

### B. IOI Repaid by Repayment Contract.

- (1) The regional accounting technician prepares a bill (transaction type FB70) to the customer for principal and IOI on the basis of the repayment contract and its related repayment schedule. The creation of the bill debits GL 1310.A0000, *Accounts Receivable Revenue*, and credits GL 5900.Y0000, *Other Revenues-Water and Power*. (The GL and the following commitment items do not apply to the Upper Colorado Basin Region, Colorado River Storage Project's repayment contracts.) Manually update the commitment item field with the appropriate commitment item listed below:
  - (a) Y24000, *Interest on Investment*,
  - (b) Y24N00, *Interest on Investment, N<sup>2</sup>*,
  - (c) Y24N30, *Interest on Investment/N-General Credit to Reclamation Fund*, or
  - (d) Y24N90, *Interest on Investment/N-General Fund, Treasury*.

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<sup>2</sup> "N" means land status is not applicable.

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- (2) Upon receipt of the payment from the customer, Denver or the Mid-Pacific regional accounts receivable staff posts a collection document that debits GL 1010.TCC00, *Collections of Revenue*, and credits GL 1310.A0000.
- (3) A regional accountant analyzes IOI transactions at least annually to confirm that transactions have posted correctly and agree with the amounts listed in the repayment contracts. Upon completion of this analysis the accountant prepares a JV to recognize the imputed cost associated with the collected IOI. The pertinent elements are:
  - (a) transaction type FB50 or FV50,
  - (b) document type VB,
  - (c) RX, RP, or RR WBS as applicable,
  - (d) commitment item NA,
  - (e) debit GL 6730.00000, *Imputed Cost*,
  - (f) credit GL 5780.Z0000, *Imputed Financing Source-Other*, and
  - (g) trading partner of 1406 on both GL accounts.
- (4) These entries do not derive any cash or budget GL accounts.
- (5) During fiscal year-end closing, GL 6730.00000 and GL 5780.Z0000 closes to GL 3310.A0000, resulting in a zero impact.

### 9. Related References.

- A. [FIN 06-02](#), *Statement of Project Construction Cost and Repayment (SPCCR)*.
- B. [FIN 06-31](#), *Interest Rates for Interest During Construction (IDC) and Interest on Investment (IOI)*.
- C. [FIN 07-21](#), *Interest During Construction (IDC)*.
- D. [PEC P01](#), *Final Cost Allocations*.
- E. [PEC 01-02](#), *Project Cost Allocations*.
- F. [PEC 05-03](#), *Extended Repayment of Extraordinary Maintenance Costs*.
- G. Treasury [Annual Interest Rate Certification](#).

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### 10. **Definitions.**

- A. **Final Cost Allocation or (FCA).** When construction of the project is determined to be substantially complete, a final cost allocation is required. At this point, most post-authorization planning, design, construction, and IDC costs are known; and operation, maintenance, and replacement costs are more-clearly defined. This final allocation, therefore, determines actual reimbursable and non-reimbursable costs and is the basis for assignment of costs to beneficiaries for repayment.
- B. **Interest on Investment or IOI.** Interest that accrues on the unamortized balance of cost Reclamation allocates to power, M&I, and other interest-bearing reimbursable functions, beginning with a notice of substantial completion of the construction and continuing for the duration of the repayment term.

### 11. **Review Period.** The originating office will review this release every 4 years.

## RECLAMATION MANUAL TRANSMITTAL SHEET

Effective Date: \_\_\_\_\_

Release No. \_\_\_\_\_

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

### Reclamation Manual Release Number and Subject

### Summary of Changes

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

### Filing instructions

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Filed by: \_\_\_\_\_

Date: \_\_\_\_\_