U.S. Department of the Interior
Notes to Principal Financial Statements
as of September 30, 1998 and 1997

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Department of the Interior is a Cabinet agency of the Executive Branch of the United States Government. Created in 1849 by Congress as the Nation's principal conservation agency, Interior has responsibility for most of the Nation's publicly-owned lands and natural resources. Interior's mission is (a) to encourage and provide for the appropriate management, preservation and operation of the Nation's public lands and natural resources for use and enjoyment both now and in the future; (b) to carry out related scientific research and investigations in support of these objectives; (c) to develop and use resources in an environmentally sound manner and provide equitable return on these resources to the American taxpayer; and (d) to carry out the trust responsibilities of the U.S. Government with respect to American Indians and Alaska Natives.

The accompanying financial statements include all Federal funds under Interior's control, including the Land and Water Conservation Fund, the Historic Preservation Fund and the Reclamation Fund. The financial statements do not, however, include trust funds, trust related deposit funds or other related accounts which are administered, accounted for and maintained by Interior's Office of Trust Funds Management on behalf of Native American Tribes and individuals. Interior issues financial statements for Indian Trust Funds under separate cover. The financial statements included herein also do not include the effects of centrally administered assets and liabilities related to the Federal government as a whole, such as public borrowing or tax revenue, which may in part be attributable to Interior.

B. Organization and Structure of Interior

At September 30, 1998, Interior was comprised of eight operating bureaus and offices (Bureaus) and Departmental Offices. For purposes of presentation, the bureaus and activities of Interior have been broadly classified into the following categories:

Management of Natural Resources:
- National Park Service
- U.S. Fish and Wildlife Service
- Bureau of Land Management
- Bureau of Reclamation
- Office of Surface Mining
- Minerals Management Service

Science:
- U.S. Geological Survey

Indian Affairs:
- Bureau of Indian Affairs

Departmental Offices (Other):

- Departmental Offices provide the executive-level leadership, policy, guidance, and coordination needed to manage the diverse, complex, and nationally significant programs entrusted to the Department of the Interior.

An overview of the operating performance of the Department and its components is presented in the Management Discussion and Analysis portion of this report. The specific responsibilities and accomplishments of the bureaus are discussed in the Supplemental Bureau Highlights section of this report. In addition, more detailed information about the bureaus and offices may be found in the individual audited financial reports prepared by the bureaus and offices.

C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, custodial activities, changes in net position, and budgetary resources of the U.S. Department of the Interior (Interior or the Department) 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 the books and records of Interior in accordance with Statements of Federal Financial Accounting Standards and the formats prescribed by the Office of Management and Budget Bulletin 97-01, as amended. The financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

The accounting structure of Federal government agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

D. Fund Balance with Treasury, Cash, and Other Monetary Assets

Interior maintains all cash accounts with the U.S. Treasury except for imprest fund accounts. The account, Fund Balance with Treasury, primarily represents appropriated, revolving, and trust funds available to pay current liabilities and finance authorized purchases. Cash disbursements are processed by Treasury, and Interior's records are reconciled with those of Treasury on a regular basis. Note 2 provides additional information concerning Fund Balance with Treasury.

E. Investments

Interior invests certain funds in U.S. Government securities on behalf of various Interior programs and for amounts held in certain escrow accounts. In addition, the Bureau of Indian Affairs is authorized by law to invest irrigation and power receipts in U.S. Government and public securities. Investments in Public Securities consist of certificates of deposit from insured institutions. Note 3 provides additional information concerning investments.

F. Accounts Receivable

Accounts Receivable consist of amounts owed to Interior by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise either from the provision of goods and services or from the levy of fines and penalties resulting from Interior's regulatory responsibilities. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances. Note 4 provides additional information concerning accounts receivable.

G. Inventory

Interior's inventory is primarily composed of maps for sale, helium for sale, and helium stockpile inventory. See Note 5 for information concerning inventory valuation and accounting methods.

H. Property, Plant and Equipment

General Purpose Property, Plant and Equipment

General purpose Property, Plant and Equipment consists of buildings, structures, and facilities used for general operations, power, irrigation, fish and wildlife enhancement, and recreation; land acquired for general operating purposes; equipment, aircraft and vehicles; and construction in progress. In general, buildings and structures are capitalized at acquisition cost and depreciated using the straight-line method over a useful life of from 20 to 50 years with the exception of dams and certain related property which is depreciated over useful lives of up to 100 years. Equipment is capitalized at acquisition cost and is depreciated using the straight-line method over the useful lives generally ranging from 5 to 20 years. Capitalization thresholds are determined by the individual bureaus and generally range from $50,000 to $500,000 for real property and from $5,000 to $15,000 for equipment.

Stewardship Assets

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," established various categories of Stewardship Assets, including stewardship land and heritage assets.

The vast majority of public lands presently under the management of the Department were acquired by the Federal government as public domain land during the first century of the Nation's existence and are considered to be stewardship land. A portion of these lands have been set aside as national parks, wildlife refuges and wilderness areas, while the remainder are managed for multiple use. Heritage assets are assets with historical, cultural or natural significance. The Department is responsible for maintaining a vast array of heritage assets, including national monuments, historic structures, archeological artifacts and museum collections.

While the Stewardship Assets managed by the Department are priceless and irreplaceable, no financial value can be placed on them. Thus, in accordance with Federal accounting standards, Interior assigns no financial value to the stewardship land or heritage assets it administers, and the Property, Plant and Equipment capitalized and reported on the Statement of Financial Position excludes these assets.

The Stewardship Assets and Investments section of this report provides additional information concerning stewardship land and heritage assets.

I. Loans and Interest Receivable

Loans are accounted for as receivables after the funds have been disbursed. For loans obligated after the effective date of the Credit Reform Act, October 1, 1991, the amount of the Federal loan subsidy is computed. The loan subsidy includes estimated delinquencies and defaults net of recoveries, the interest rate differential between the loans rates and Treasury borrowings, offsetting fees, and other estimated cash flows associated with these loans. The value of loans receivable is reduced by the present value of the expected subsidy costs. For loans obligated prior to October 1, 1991, principal, interest and penalties receivable are presented net of an allowance for estimated uncollectible amounts. The allowance is based on past experience, present market conditions, an analysis of outstanding balances and other direct knowledge relating to specific loans. Note 8 provides additional information concerning loans receivable.

J. Receivable from Appropriations

These amounts represent the funds obligated by the Department of Transportation for the use of the Bureau of Indian Affairs in its road construction program.

K. Investigations and Development

Investigations and development comprise reimbursable and non-reimbursable investigation and development costs incurred by the Bureau of Reclamation and related entities for water management projects that are not yet under construction. These costs are accumulated until the project is either authorized for construction or the decision is made not to undertake the project. When a project is authorized, the costs are moved to the construction in progress account, and upon project completion, to a completed asset account. Costs related to projects which will not be undertaken are written off.

L. Liabilities and Contingent Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by Interior as the result of a transaction or event that has already occurred. The financial statements should be read with the realization that the Department of the Interior is a component of a sovereign entity, that no liability can be paid by the Department absent an appropriation of funds by Congress, and the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities for which an appropriation has not been enacted are, therefore, classified as liabilities not covered by budgetary resources, or unfunded liabilities, and there is no legal certainty that the appropriations will be enacted.

Contingent liabilities are those where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. Interior recognizes contingent liabilities when the liability is probable and reasonably estimable. In accordance with Federal accounting guidance, the liability for future clean-up of environmental hazards is "probable" only when the government is legally responsible for creating the hazard. Thus, expected future payments for the clean-up of environmental hazards caused by others are not recognized as liabilities by Interior. Rather, these payments arise out of Interior's sovereign responsibility to protect the health and safety of the public, and are recognized in the accounting records as remediation work performed. See Note 13 for additional information regarding contingent liabilities.

M. Personnel Compensation and Benefits

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave, since from a budgetary standpoint, this annual leave will be paid from future appropriations when the leave is used by employees, rather than from amounts which had been appropriated to Interior as of the date of the financial statements. The amount accrued is based upon current pay of the employees.

The Department of Labor (Labor) administers the Workers' Compensation Program on behalf of the Federal government, and all payments to workers' compensation program beneficiaries are made by Labor. At any point in time, the Department will have two types of liabilities related to workers' compensation. First, the Department will have a known, unfunded payable to Labor for the amount of actual payments made by Labor but not yet reimbursed by the Department. The Department reimburses Labor for these payments as funds are appropriated for this purpose, and, there is generally a two to three year time period between payment by Labor and receipt of appropriations by the Department. Second, the Department has an estimated, unfunded liability for future payments to existing beneficiaries as a result of past events. This estimated liability is computed by Labor using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors and other variables. These actuarially computed projected annual benefit payments are discounted to present value using the Office of Management and Budget's economic assumptions for ten-year Treasury notes and bonds. This unfunded liability was first recognized in fiscal year 1998 with the adoption of SFFAS No. 4, "Managerial Cost Accounting".

Unemployment compensation insurance is paid by the Department to the Office of Personnel Management annually. Sick leave and other types of leave are expensed when used, and no future liability is recognized for these amounts.

Interior employees participate in one of two retirement programs, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most Interior employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

For FERS employees, Interior contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 10 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from Interior.

The Office of Personnel Management is responsible for reporting assets, accumulated plan benefits and unfunded liabilities, if any, applicable to CSRS participants and FERS employees government-wide, including Interior employees.

N. Revenues and Financing Sources

The United States Constitution prescribes that no money may be expended by a Federal agency unless and until funds have been made available by congressional appropriation. Thus, the existence of all financing sources is dependent upon congressional appropriation.

Appropriations: The vast majority of Interior's operating funds are appropriated by Congress to the Department from the general receipts of the Treasury. These funds are made available to the Department for a specified time period, usually one fiscal year, multiple fiscal years or indefinitely, depending upon the intended use of the funds. For example, funds for general operations are generally made available for one fiscal year; funds for long term projects such as major construction will be available to the Department for the expected life of the project; and funds used to establish revolving fund operations are generally available indefinitely.

Exchange and Non-Exchange Revenue: In accordance with Federal government accounting guidance, Interior classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including park entrance fees; map sales; reimbursements for services performed for other Federal agencies and the public; reimbursements for the cost of constructing and maintaining irrigation and water facilities; and other sales of goods and services. These revenues are presented on Interior's Statement of Net Cost of Operations and serve to reduce the reported cost of operations borne by the taxpayer. Non-exchange revenues derive from the government's sovereign right to demand payment, including fines for violation of environmental laws, and Abandoned Mine Land duties charged per ton of coal mined. These revenues are not considered to reduce the cost of Interior's operations and are reported on the Statement of Changes in Net Position.

With minor exceptions, all receipts of revenues by Federal agencies are processed through the Department of the Treasury central accounting system. Regardless of whether they derive from exchange or non-exchange transactions, all receipts that are not earmarked by congressional appropriation for Departmental use are deposited in Treasury and become part of the general receipts used to fund all Federal operations. Amounts not retained for use by the Department are reported as transfers to other government agencies on Interior's Statement of Changes in Net Position.

In certain cases, the prices charged by Interior are set by law or regulation and which, for progam and other reasons, may not receive full cost (e.g., grazing fees, park entrance, and other recreation fees). Prices set for products and services offered through working capital funds are intended to recover the full costs incurred by these activities.

Imputed Financing Sources: In certain cases, operating costs of the Department are paid out of 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 judgements against Interior are paid from the Judgment Fund maintained by Treasury. When costs that are identifiable to Interior and directly attributable to Interior's operations are paid by other agencies, the Department recognizes these amounts as operating expenses of Interior. In addition, Interior recognizes an imputed financing source on the Statement of Changes in Net Position to indicate the funding of Department operations by other Federal agencies.

Custodial Revenue: Interior's Royalty Management Program, administered by the Minerals Management Service, collects royalties, rents, bonuses and other receipts from Federal and Indian oil, gas, and mineral leases, and distributes the proceeds to the Treasury, other Federal agencies, States, Indian Tribes, and Indian allottees, in accordance with legislated allocation formulas. The amounts collected and transferred are disclosed in the Statement of Custodial Activities and are not considered to be revenue of Interior or of the Minerals Management Service.

O. Federal Government Transactions

Interior's financial activities interact with and are dependent upon the financial activities of the centralized management functions of the Federal Government. These activities include public debt and cash management activities and employee retirement, life insurance and health benefit programs. The financial statements of Interior do not contain the costs of centralized financial decisions and activities performed for the benefit of the entire government. However, expenses have been recognized for expenses incurred by other agencies on behalf of Interior, including settlement of claims and litigation paid by the Department of Treasury's Judgment Fund and the partial funding of employee benefits by the Office of Personnel Management.

All identified intra-Department transactions have been eliminated from Interior's consolidated financial statements.

P. Income Taxes

As an agency of the U.S. Government, Interior is exempt from all income taxes imposed by any governing body, whether it be a Federal, State, Commonwealth, local or foreign government.

Q. Comparative Data

Audited comparative data for fiscal year 1997 has been presented in order to provide an understanding of changes in financial position and operations of Interior. Certain prior year amounts have been restated to conform to current year presentation. See Note 16 for additional information.

NOTE 2. FUND BALANCE WITH TREASURY

A. Current Assets

Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury under Current Assets represents the right of Interior to draw on Treasury for allowable expenditures. Obligated funds are funds designated for the acquisition of goods and services ordered but not received, or for goods received and not yet paid for. Unobligated funds, depending on budget authority, are available for new obligations or have restrictions placed on their availability for obligation.

B. Assets Held on Behalf of Others

The Fund Balance with Treasury classified as Assets Held on Behalf of Others represents royalty collections received by the Minerals Management Service, and held by it as custodian, until disbursed to recipients.

Fund Balance with Treasury

(dollars in thousands)	1998	1997
Natural Resources:		
National Park Service	$ 1,176,458	$ 1,012,718
U.S. Fish and Wildlife Service	774,727	757,222
Bureau of Land Management	472,816	543,565
Bureau of Reclamation	831,284	695,745
Office of Surface Mining	44,173	51,666
Minerals Management Service	79,641	76,033
Total Natural Resources	3,379,099	3,136,949
Science	231,605	208,542
Indian Affairs	849,691	827,034
Other Programs	1,163,053	636,554
Total Fund Balance with Treasury	$ 5,623,448	$ 4,809,079

NOTE 3. INVESTMENTS

A. Current Assets

1. Investments in Treasury Securities

The Office of Surface Mining, the Fish and Wildlife Service, the Bureau of Indian Affairs, the Office of the Secretary, and the National Park Service invest funds in certain U.S. Government securities on behalf of various Interior programs.

Treasury Securities as of September 30, 1998

(dollars in thousands)	Par Value	Unamortized Discount	Net Book Value
Office of Surface Mining	$ 1,668,182	$ (31,063)	$ 1,637,119
U.S. Fish and Wildlife Service	469,198	10	469,208
Departmental Offices	78,369	(40)	78,329
Bureau of Indian Affairs	4,500	(3)	4,497
National Park Service	65	-	65
Total Treasury Securities	$ 2,220,314	$ (31,096)	$ 2,189,218

Treasury Securities as of September 30, 1997

(dollars in thousands)	Par Value	Unamortized Discount	Net Book Value
Office of Surface Mining	$ 1,554,515	$ (29,152)	$ 1,525,363
U.S. Fish and Wildlife Service	471,973	(729)	471,244
Departmental Offices	61,749	(1,851)	59,898
Bureau of Indian Affairs	11,695	(155)	11,540
National Park Service	65	-	65
Total Treasury Securities	$ 2,099,997	$ (31,887)	$ 2,068,110

Office of Surface Mining: Effective October 1, 1991, the Office of Surface Mining was authorized to invest available Abandoned Mine Land (AML) trust funds in non-marketable federal securities. The Bureau of Public Debt is the sole issuer of authorized non-marketable federal securities which are available for purchase through Treasury. Surface Mining has authority to invest AML trust funds in Treasury bills, notes, bonds, par value special issues, and one-day certificates. Presently, all earnings from AML investments are reinvested, providing a source of continuous funding to further enhance AML trust fund equity.

A portion of the investment interest earned, up to $70 million annually, is to be transferred to the United Mine Workers of America Combined Benefit Fund to provide health benefits for certain eligible retired coal miners and their dependents. A total of $32.5 million was transferred to this fund in 1998.

U.S. Fish and Wildlife Service: The U.S. Treasury collects, invests, and maintains on behalf of the Fish and Wildlife Service (FWS) the Aquatic Resources Trust Fund, which includes FWS's Sport Fish Restoration Account. Amounts equal to revenues credited during the year may be used in subsequent fiscal years for specified purposes. The FWS investment amount does not include fiscal year 1998 collections held by Treasury for reporting in subsequent years.

Office of the Secretary: Effective with fiscal year 1994, the Office of the Secretary was delegated responsibility for investing funds contributed to the Utah Reclamation Mitigation and Conservation Account. These amounts are invested in Treasury securities.

Bureau of Indian Affairs: The Bureau of Indian Affairs (BIA) invests irrigation and power receipts in U.S. Government and public securities until the funds are required for project operations. Federal investments are purchased under the U.S. Treasury Overnighter Program and in Treasury bills and notes. BIA's investments in public securities are discussed more fully below.

National Park Service: The National Park Service administers an endowment on behalf of the Lincoln Farm Association. Investment earnings from this endowment are used to provide for maintenance and upkeep of Abraham Lincoln's birthplace.

When previously issued Treasury bills are purchased by the Department, the unamortized discount is calculated by Treasury at the time of the purchase.

2. Investments in Public Securities

The BIA is authorized by law to invest irrigation and power receipts in U.S. Government and public securities. Investments in Public Securities consist of certificates of deposit from insured institutions, various mortgage instruments, bank notes and bonds. Mortgage instruments are issued by the Federal National Mortgage Association (Fannie Mae) and similar government corporations. Bonds and bank notes are issued by Federal Home Loan Banks, the Federal Judiciary and the Federal Farm Credit Banks. Investments in public securities reflect investments held by the BIA's Power and Irrigation program as of September 30, 1998 and 1997 and are recorded at cost.

B. Assets Held on Behalf of Others

Pursuant to the Outer Continental Shelf Lands Act, the Minerals Management Service is authorized to invest receipts from Outer Continental Shelf leases having boundary disputes on government securities. The current investment amount results from an ongoing boundary dispute with the State of Alaska dating back to 1979 regarding the location of the State/Federal boundary in the Beaufort Sea.

During fiscal year 1997, based on merits of the dispute, the Supreme Court reached a decision in favor of the U.S. Government. The U.S. Government is now developing a plan for the distribution of the funds currently held in escrow. This plan will be submitted to the Court for approval, and based on distribution instructions to be included in the final decree expected to be issued by the end of fiscal year 1999, the escrow funds will be immediately distributed.

Escrow Investments Held by Minerals Management Service

(dollars in thousands)	1998	1997
Cost	$ 1,679,359	$ 1,621,472
Amortized Discount	36,902	45,876
Net Book Value	$ 1,716,261	$ 1,667,348

NOTE 4. ACCOUNTS RECEIVABLE

A. Current Assets

Due From the Public, Net of Allowance for Doubtful Accounts: Accounts receivable due to Interior from the public may arise either from the sale of products and services or from the imposition of regulatory fines and penalties. Products and services sold by Interior are diverse and include the sales of water and hydroelectric power by the Bureau of Reclamation, and water testing and other scientific studies conducted for state and local governments by the U.S. Geological Survey. Fines and penalties are imposed by the Office of Surface Mining, the Minerals Management Service, the Fish and Wildlife Service, and other bureaus in the enforcement of various environmental laws and regulations. In general, receivables arising from the sales of products and services are paid more promptly and with fewer uncollectible accounts than those arising from fines and penalties.

Accounts Receivable Due from the Public

			Past Due Accounts			Allowance for Doubtful		
(dollars in thousands)	Unbilled	Current	1-90 days	91-1yr	Over 1 yr	Accounts	1998	1997
Natural Resources:								
National Park Service	$ -	$ 8,156	$ 573	$ 689	$ 1,171	$ (984)	$ 9,605	$ 8,250
U.S. Fish and Wildlife Service	-	2,775	188	256	335	(43)	3,511	7,522
Bureau of Reclamation	6,398	21,186	2,143	44,377	25,831	(265)	99,670	70,948
Bureau of Land Management	2,291	3,471	126	371	3,102	(3,555)	5,806	2,742
Minerals Management Service	5,977	14,632	-	-	-	-	20,609	319
Office of Surface Mining	-	1,218	833	937	13,010	(14,104)	1,894	3,326
Total Natural Resources	14,666	51,438	3,863	46,630	43,449	(18,951)	141,095	93,107
Science	50,194	12,149	5,050	2,748	3,627	(3,376)	70,392	68,914
Indian Affairs	-	2,517	2,532	7,154	18,065	(19,910)	10,358	11,239
Other Programs	1,325	171	15	29	-	-	1,540	104
Total Accounts Receivable - Public	$ 66,185	$ 66,275	$ 11,460	$ 56,561	$ 65,141	$ (42,237)	$ 223,385	$ 173,364

Due from Federal Agencies: Accounts Receivable Due from Federal Agencies arise from the sale of products and services to other Federal agencies, including the sale of maps, the conduct of environmental and scientific services, and the provision of administrative and other services. These reimbursable arrangements generally reduce the duplication of effort within the Federal government resulting in a lower cost of Federal programs and services. All receivables from other Federal agencies are considered to be collectible, as there is no credit risk. However, an allowance for doubtful accounts may be used occasionally to recognize billing disputes. Unbilled receivables reflect work performed to date on long term agreements, which will be billed in the future at the completion of the project or at agreed upon milestones.

Accounts Receivable Due from Federal Agencies

(dollars in thousands)	Receivables	Allowance for Doubtful Accounts	1998	1997
Natural Resources:				
National Park Service	$ 14,323	$ -	$ 14,323	$ 16,376
U.S. Fish and Wildlife Service	401,298	-	401,298	338,026
Bureau of Reclamation	7,921	-	7,921	19,366
Bureau of Land Management	11,098	-	11,098	9,178
Minerals Management Service	1,539	-	1,539	2,870
Office of Surface Mining	31	-	31	82
Total Natural Resources	436,210	-	436,210	385,898
Science	87,092	(1,461)	85,631	78,759
Indian Affairs	46,842	-	46,842	1,279
Other Programs	37,308	-	37,308	15,072
Total Accounts Receivable - Federal	$ 607,452	$ (1,461)	$ 605,991	$ 481,008

B. Other Assets and Assets Held on Behalf of Others

Non-Current, Unmatured, and Other Receivables: These receivables represent amounts due at future dates to the Bureau of Reclamation from the beneficiaries of large water and irrigation projects. The reimbursable costs of multiple-purpose water projects are recovered from project beneficiaries. That portion which will be returned to Treasury is reported as held on behalf of others (see Note 10). The Royalty Management Accounts Receivable includes $150 million due from the Historic Preservation Fund of the National Park Service. The $150 million due from the Historic Preservation Fund is included in Accounts Payable - Federal.

NOTE 5. INVENTORY

A. Current Assets

The U.S. Geological Survey (USGS) publishes maps and map products for sale to the public and other Federal agencies, which are stored primarily in the USGS Rocky Mountain Mapping Center in Denver, Colorado. This inventory consists of approximately 85 thousand map titles as well as books and similar products. The inventory is valued at historical cost.

With the closure of the Bureau of Mines in fiscal year 1996, Interior's helium inventory was transferred to the Bureau of Land Management. Helium held for sale includes above-ground refined helium plus that portion of helium in underground storage estimated to be sold in the following fiscal year. The volume of helium is accounted for on a perpetual inventory basis.

The helium stockpile inventory is stored underground in a partially depleted natural gas reservoir. The Bureau of Land Management believes that 95 percent of the stockpile is recoverable; however, the amount of helium that will eventually be recovered depends on the future price of helium and the ability to control the mixing of natural gas and the stockpiled helium.

Inventory

(dollars in thousands)	1998	1997
Helium	$ 366,383	$ 370,043
Published Maps Held for Sale	17,379	17,546
Seized Property for Sale	5,027	5,027
Other Inventory	526	644
Total Inventory	$ 389,315	$ 393,260

NOTE 6. PROPERTY, PLANT, AND EQUIPMENT

General purpose Property, Plant, and Equipment consists of buildings, structures, and facilities used for general operations, power, irrigation, fish and wildlife enhancement, and recreation; land acquired for general operating purposes; equipment, aircraft and vehicles; and construction in progress. The capitalization and depreciation policies for property, plant and equipment are determined individually by Interior bureaus. In general, buildings and structures are capitalized at acquisition cost and depreciated using the straight-line method over a useful life of from 20 to 50 years with the exception of dams and certain related property which is depreciated over useful lives of up to 100 years. Equipment is capitalized at acquisition cost and is depreciated using the straight-line method over the useful lives generally ranging from 5 to 20 years. Capitalization thresholds are determined by the individual bureaus and generally range from $50,000 to $500,000 for real property and from $5,000 to $15,000 for equipment.

Several bureaus made significant changes to their property accounting and capitalization policies during fiscal year 1997 and prior in order to implement Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment." As of 1998, the Department is in full compliance with this standard. This standard established two broad classifications of Federal property. General Property, Plant and Equipment, which is presented in the following table, consists of that property which is used in operations and, with some exceptions, consumed over time. Stewardship property, described in Note 7 and in the Stewardship Assets and Investments section at page 102, consists of public domain land and heritage assets, such as national monuments and historic sites, which are expected to be maintained by Interior in perpetuity for the benefit of current and future generations. The impact of these changes includes reducing the reported financial value of public domain land and other stewardship assets to zero and implementing depreciation of property, especially real property, not previously depreciated. See Note 16 for additional discussion of these changes.

Construction In Progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. Each individual bureau sets its own policy for using the construction in progress account; however, in general, the assets are transferred out of Construction in Progress when the entire project is completed, regardless of the status of individual sub-phases of the project.

Property, Plant, and Equipment, Net of Depreciation

(dollars in thousands)	Land and Buildings	Dams and Other Structures	Vehicles Equipment and Aircraft	Other Plant and Equipment	Accumulated Depreciation	1998	1997
Natural Resources:							
National Park Service	$ 377,939	$ 695,873	$ 320,453	$ -	$ (411,574)	$ 982,691	$ 1,200,905
U.S. Fish and Wildlife Service	408,833	632,233	139,873	-	(434,257)	746,682	642,273
Bureau of Land Management	137,528	61,235	261,352	2,619	(225,624)	237,110	227,179
Bureau of Reclamation	1,398,351	19,240,080	159,665	47,272	(7,112,411)	13,732,957	13,489,243
Office of Surface Mining	-	-	10,515	-	(4,958)	5,557	5,549
Minerals Management Service	-	-	26,492	-	(9,623)	16,869	17,211
Total Natural Resources	2,322,651	20,629,421	918,350	49,891	(8,198,447)	15,721,866	15,582,360
Science	96,640	15,375	327,091	-	(263,535)	175,571	184,497
Indian Affairs	1,613,411	968,639	166,753	-	(1,507,345)	1,241,458	1,255,070
Other Programs	558	139,091	30,002	-	(8,789)	160,862	136,315
Net Property, Plant and Equipment	$ 4,033,260	$ 21,752,526	$ 1,442,196	$ 49,891	$ (9,978,116)	$ 17,299,757	$ 17,158,242

Fiscal year 1998 accumulated depreciation related to land and buildings, dams and other structures, and vehicles, equipment, and aircraft, totals $1,255 million, $7,906 million, and $817 million, respectively.

NOTE 7. STEWARDSHIP LAND

Stewardship Assets consist of land and other assets that have been entrusted to the Department to maintain in perpetuity for the benefit of future generations. No financial value is or can be placed on these assets.

As a Nation, the United States once owned nearly two billion acres of public lands. In the course of national expansion and development, public lands were sold or deeded by the Federal Government to the States and their counties and municipalities, to educational institutions, to private citizens, and to businesses and corporations. Other lands were set aside as national parks, forests, wildlife refuges and military installations. Currently, Federal civil and defense agencies administer about 657 million acres, or about 29 percent of the total 2.3 billion acres in the United States. Of the 657 million acres under Federal control, approximately 429 million acres are administered by Interior, principally by the Bureau of Land Management, the Fish and Wildlife Service, and the National Park Service.

The Bureau of Land Management (BLM) has exclusive jurisdiction for about 40 percent, or 264 million acres, of the Federally owned lands. Approximately one-third of this area is in the State of Alaska. Public lands under the jurisdiction of BLM are managed under the principles of multiple use and sustained yield for the benefit of all Americans. Public lands are leased to private companies providing vast amounts of oil, natural gas and other valuable minerals. Leases to ranchers allow livestock, primarily sheep and cattle, to forage on more than 170 million acres of public lands. Timber products are another valuable commodity produced from public lands.

Finally, most of the public lands are available for a wide variety of recreational activities, including camping, hunting, fishing, skiing, and hiking.

The Fish and Wildlife Service administers approximately 88 million acres, or about 13 percent of the Federally owned lands. The majority of this land comprises more than 500 national wildlife refuges that provide habitat for migratory birds, endangered species, and other wildlife as well as wildlife oriented public recreation.

The National Park Service administers approximately 77 million acres, or about 12 percent of the federally owned lands. The National Park System encompasses 376 park units in 49 States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and the Northern Mariana Islands.

For additional discussion of stewardship land, see the Stewardship Assets and Investments section of the report.

NOTE 8. DEFERRED MAINTENANCE (UNAUDITED)

Interior owns, builds, purchases, and contracts services for assets such as schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets are used to support the Department's stated mission. Interior's assets include some deteriorating facilities for which repair and maintenance have not been funded. Current and prior budgetary restraints require that repair and maintenance on these assets be postponed for future years. Interior refers to this unfunded repair and maintenance of facilities and infrastructure as deferred maintenance.

Inadequately funded maintenance may result from reduced budgets, diversion of maintenance funds for emergency responses, and competition for resources from other program needs. Deterioration of facilities can adversely impact public health and safety, reduce morale and productivity of employees, and increase the need for costly major repair or early replacement of structures and equipment. Undue wear on facilities may not be immediately noticeable to users, but inadequate maintenance can require that the facility be replaced or subjected to major reconstruction before the end of its expected useful life. Accordingly, there is a potential liability for deferred maintenance costs.

Due to the scope, nature and variety of the assets entrusted to the Department, as well as the nature of deferred maintenance itself, exact estimates of deferred maintenance cannot be determined at this time, and may never be fully determinable. Interior has calculated preliminary estimates of deferred maintenance based on data from a variety of systems, procedures and sources of data. However, the accumulation of deferred maintenance cost estimates is not the primary purpose of many of these sources, thus the Department acknowledges that the reliability of these sources as a basis for deferrred maintenance estimates can vary greatly.

Interior's current estimate for deferred maintenance includes property categories such as building facilities, fixed and heavy equipment, bridges and roads, dams, irrigation systems and reservoirs. The estimate generally includes costs for items such as (1) overhead; (2) construction contract administration and inspection; (3) construction materials; (4) transportation; (5) removal of existing appurtenances, i.e., guard rails, etc., movable furnishings, and equipment which are not physically attached to buildings; and related storage, inventorying and tagging as required; (6) fixed equipment; (7) employee costs; and (8) indirect cost and/or contract support cost. The estimate excludes costs for items such as routine maintenance of facilities and infrastructures. In addition, the estimate generally excludes vehicles and most other categories of operating equipment.

Initial studies indicate that the estimated amounts necessary to fund the correction of deferred maintenance throughout the Department may range from $7 to $16 billion. A portion of this deferred maintenance estimate may relate to heritage assets.

This amount is by necessity an estimate, as the actual cost of deferred maintenance will not be known until further work is performed. The estimate is an approximation due to many factors, such as unforeseen conditions during construction which were not anticipated relating to differing soil conditions, high water table, unknown conditions under floors, behind walls, and above ceilings; unanticipated economic bidding conditions; weather conditions due to the time of year a contract is awarded; planning, design, and programming costs related to establishing the size and scope of the project; and development of the program requirements. Further studies may result in either upward or downward adjustment of these amounts.

NOTE 9. LOANS AND INTEREST RECEIVABLE

Direct loans and loan guarantees made during and after fiscal year 1992 are accounted for in accordance with the requirements of the Credit Reform Act of 1990, and are referred to as credit reform loans. Under credit reform, loans are comprised of two components. The first component is borrowed from Treasury with repayment provisions. The second component is for the subsidized portion of the loan and is funded by congressional appropriation. The Act provides that the present value of the subsidy costs associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. While this component is not subject to repayment, the loan program receives annual appropriations to fund any increases in subsidy due to interest rate fluctuations and changes in default rate estimates.

Prior to the Credit Reform Act, funding for loans was provided by congressional appropriation from the general or special funds. These loans, referred to as liquidating loans, are reported net of an allowance for estimated uncollectible loans or estimated losses.

The Bureau of Indian Affairs, the Bureau of Reclamation and the National Park Service administer loan programs.

The Bureau of Indian Affairs (BIA) provides direct and guaranteed loans to Indian tribes and organizations, Indian individuals, and Alaska Natives for economic development purposes. The BIA loan program includes the Indian Direct Loan Program and Indian Loan Guarantee Program under Credit Reform and a Liquidating Fund for loans made prior to 1992. For more information on the BIA loans, see the Bureau of Indian Affairs annual report.

The Bureau of Reclamation's loan programs provide Federal assistance to organizations wishing to construct or improve water resources development in the western States.

The National Park Service has a single loan with a balance of $6.1 million due from the Wolf Trap Foundation for the Performing Arts. The monies received for repayment of this loan may be retained until expended by the Secretary of the Interior in consultation with the Foundation for the maintenance of structures, facilities and equipment of the park.

Loans and Interest Receivable

(dollars in thousands)	1998	1997
Direct and Guaranteed Loans		
Credit Reform Loans	$ 179,894	$ 150,594
Liquidating Loans	99,043	188,681
Total Direct and Guaranteed Loans	278,937	339,275
Allowance for Doubtful Accounts	(138,172)	(160,066)
Loans, Net of Allowance for Doubtful Accounts	140,765	179,209
Other Interest Receivable from the Public	27,746	13,662
Total Loans and Interest Receivable	$ 168,511	$ 192,871

NOTE 10. RESTRICTED ASSETS

The Land and Water Conservation Fund, the Historic Preservation Fund, and the Reclamation Fund are included in the financial statements of Interior. However, no fund assets are available for use by Interior until appropriated by Congress.

The Land and Water Conservation Fund and the Historic Preservation Fund are administered by the National Park Service. In addition, the Land and Water Conservation Fund receives a portion of the royalties and lease payments earned by the Federal government from oil and gas extracted from Federal lands on the Outer Continental Shelf. In addition, this fund receives monies from sales of Federal assets by the General Services Administration and other sources. Through fiscal year 1997, the Historic Preservation Fund received $150 million per year from the Federal government's oil and gas royalties and lease revenues. At the end of fiscal year 1997, the law requiring the transfer of these funds expired and has not been renewed.

The Reclamation Fund is comprised of certain revenues received by the Bureau of Reclamation and the Department of Energy (Western Area Power Administration) from various sources including power/water sales, construction/operations and maintenance repayments, oil/mineral royalties, and sale of public lands. The Reclamation Fund is a financing resource to the Bureau of Reclamation and the Western Area Power Administration to the extent that previous year funds are appropriated by Congress to fund programs and operations. The Reclamation Fund Assets include Fund Balance with Treasury as well as Accounts Receivable.

The balances in these accounts and annual year appropriations out of these accounts at September 30, 1998 and 1997 are as follows:

Restricted Assets

(dollars in thousands)	1998	1997
Conservation Funds		
Land and Water Conservation Fund	$ 11,829,600	$ 11,861,426
Historic Preservation Fund	2,316,447	2,210,278
Reclamation Fund	3,287,931	3,078,129
Total Assets - Conservation and Reclamation Funds	$ 17,433,978	$ 17,149,833

NOTE 11. DEFERRED REVENUE

Unearned revenue is recorded as deferred revenue until earned. The majority of the deferred revenue represents the cost of construction of capital assets reimbursable to the Bureau of Reclamation in the future, through water repayment contracts with water and other facility users. The repayments are recognized as revenue, including interest if applicable, when the annual amounts become due each year.

NOTE 12. NOTES PAYABLE TO TREASURY

Interior's debt to Treasury consists of (1) the helium production fund and (2) borrowings to finance the credit reform loan programs established under the Indian Financing Act of 1964.

Notes Payable to Treasury

(dollars in thousands)	1998	1997
Helium Fund	$ 1,349,204	$ 1,357,204
Credit Reform Borrowings	94,273	78,304
Total Notes Payable to Treasury	$ 1,443,477	$ 1,435,508

A. Helium Fund - Bureau of Land Management

The Helium Fund was established in the late 1950's and early 1960's to ensure that the government had access to a dependable supply of helium, which at that time was considered to be a critical defense commodity. Start up capital was loaned to the helium program, with the expectation that the capital would be repaid with the proceeds of sales to other government users of helium. However, subsequent changes in the market price of helium and the need of government users for the commodity made the repayment of the capital, and subsequent accrued interest, impractical. Given the intra-governmental nature of the loan, unless the loan is forgiven, the funds for repayment to Treasury must come from the U.S. Treasury, either in the form of appropriations to the helium fund to repay the loan or in the form of appropriations to other government users of helium to pay the higher prices necessary to permit loan repayment.

The Helium Privatization Act of 1996, enacted October 9, 1996, directs the privatization of Interior's helium refining program. Under this law, Interior will cease producing, refining and marketing refined helium within 18 months of enactment. In addition, the sale of Interior's stockpile of helium will commence no later than January 1, 2005 (see also Note 18, Discontinuation of Helium Program).

Net Worth Debt reported in the table below reflects the amount recorded by Treasury for the net worth capital and retained earnings of the Helium Fund, plus any monies expended thereafter by Interior from funds provided in the Supplemental Appropriation Act of 1959 for construction of a helium plant at Keyes, Oklahoma. Additional borrowing from Treasury represents funds borrowed for the acquisition and construction of helium plants and facilities and other related purposes including the purchase of helium. These amounts were due 25 years from the date the funds were borrowed. However, as funding has not been received to repay the amounts due, the amounts could not be repaid.

Interest on borrowing is compound interest on the debts described above, at rates determined by the Secretary of the Treasury taking into consideration the current average market yields of outstanding marketable obligations of the United States having maturities comparable to investments authorized. The interest rate was determined at the time of each borrowing. With the passage of the Helium Privatization Act of 1996, no further interest is being accrued on this debt.

Notes Payable to Treasury from the Helium Fund

(dollars in thousands)	1998	1997
Principal:		
Net Worth Debt	$ 37,343	$ 37,343
Additional Borrowing from Treasury	251,650	251,650
Total Principal	288,993	288,993
Interest:		
Beginning Balance	1,068,211	1,076,211
Repayments	(8,000)	(8,000)
Ending Balance	1,060,211	1,068,211
Notes Payable to Treasury - Helium Fund	$ 1,349,204	$ 1,357,204

B. Loans from Treasury under Credit Reform

The Bureau of Indian Affairs and the Bureau of Reclamation have borrowed funds from Treasury in accordance with the Credit Reform Act of 1990 to fund loans under various loan programs. These amounts are repaid to Treasury as loan repayments are received from customers (see also Note 9, Loans and Interest Receivable).

NOTE 13. CONTINGENT LIABILITIES

The U.S. Department of the Interior is party to various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal government. Interior has accrued liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible, or where a loss is probable but an estimate cannot be determined. In some cases, once losses are certain, payments may be from the Judgment Fund maintained by Treasury rather than from amounts appropriated to Interior for Departmental operations.

A. Environmental Hazards

The U.S. Department of the Interior is subject to Federal, state, and local environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operations and closure of facilities at which environmental contamination resulted. The major Federal laws covering environmental contamination as related to Interior are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA). Responsible parties, including Federal agencies, are required to clean up releases of hazardous substances.

Interior is the Federal agency with oversight responsibility for the Nation's national parks, wildlife refuges, and public domain lands, which comprise approximately one-fifth of the Nation's land mass. In this role, Interior is faced with many hazardous waste clean-up situations. The hazards include, among others, chemical hazards such as drums of toxic chemicals and soil and water contaminated by chemicals, and physical hazards such as open mine shafts.

Interior has an active program to find and monitor its hazardous sites, secure the affected areas, and begin clean-up of priority areas. However, the vast expanse of Interior lands prevents an acre by acre review, so the exact total number of sites and a firm statement of cleanup costs are not determinable. Once a site has been identified, it may take several years to perform an evaluation of the site and determine the potential cost of remediation.

In 1998 and 1997, Interior recognized an estimated liability of $275 million and $223 million, respectively, for sites where the Department either caused contamination or is otherwise related to it in such a way that it may be legally liable for cleanup of the hazard, and the environmental cleanup liability is probable and reasonably estimable. This estimate includes the expected future clean-up costs, or for those sites where future liability is unknown, the cost of study necessary to evaluate cleanup requirements. Interior's total contingent liability for environmental cleanup of sites, including those where liability is considered probable and reasonably estimable, may be over $338 million. The estimated liability excludes estimates of future mineral site restorations, discussed below, for which Interior will voluntarily undertake remediation without legal responsibility to do so.

In addition to the limited number of cases discussed above where Interior may have created or contributed to the hazards, other hazardous conditions exist on public lands for which the Department might fund clean up. These costs, which are not included in contingent liabilities, may result from:

- legal mining activities by others over the past two centuries and prior to current strict environmental clean up and restoration laws;
- legal mining activities subject to current standards, but where the responsible party cannot be found, has declared bankruptcy, or otherwise cannot be compelled to remove the hazard;
- illegal activities, including active and abandoned narcotics laboratories, hazardous materials dumping, and illegal mining; and
- transportation spills, landfills, pipelines, and airports.

B. Indian Trust Funds

The Secretary of the Interior is entrusted with the management of the monies and lands held in trust by the United States Government for Indians and Indian Tribes.

At the direction of Interior and the Bureau of Indian Affairs, a national accounting firm conducted a five-year project to reconcile tribal trust fund account activity over the 20 year period beginning in 1972. The report of this reconciliation indicates that while there is no evidence that funds have been lost or stolen, the method of record keeping was not sufficient to reconstruct all activity or to permit a complete reconciliation of the tribal trust accounts. Documentation to support the accuracy of some transactions could not be located. Interior has presented to Congress a report that outlines proposed legislative settlement options for resolving disputed balances in tribal trust accounts. Consultations with Tribes are continuing in an effort to resolve the issue.

The reconciliation project and Interior's report to Congress did not address similar issues regarding trust accounts held for individual Indians. In 1997, certain parties brought a class action lawsuit against the Secretary of the Interior, the Assistant Secretary for Indian Affairs, and the Secretary of the Treasury alleging breach of trust with respect to the United States' handling of Individual Indian Money (IIM) trust fund accounts. Counsel for the plaintiffs and the Government have not yet resolved this matter.

No estimate is made at this time regarding any financial liability that may result from the resolution of the tribal reconciliation, the individual Indian class action lawsuit and any other related claims. However, it is likely that any settlement will be paid out of funds appropriated by Congress for that purpose.

C. Other Contingent Liabilities

There are numerous claims filed against the Department and its bureaus with adjudication pending. As of September 30, 1998 and 1997, $396 million and $342 million, respectively, has been accrued in the financial statements for cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including certain judgments that have been issued against Interior and which have been appealed. This reflects an adjustment of $156 million for a case that was won on appeal. This case was reflected as a contingent liability on prior year financial statements. Cash settlements are expected to be paid out of the Judgment Fund maintained by Treasury rather than from operating resources of Interior. However, in suits brought through the Contract Disputes Act of 1978, the Department is required to reimburse the Judgment Fund from current agency appropriations.

No amounts have been accrued in the financial records for claims where the amount or probability of judgment is uncertain. Three bureaus are defendants in certain litigation where damage awards being sought could amount to $1 billion or more; however, the ultimate outcome of these cases cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of these proceedings, actions, and claims will materially affect Interior's financial position or results of operations.

D. Undelivered Orders

Undelivered Orders represent the intent to purchase goods or services for which money has been set aside or obligated for payment. The total balance of Undelivered Orders was over $3 billion as of September 30, 1998.

NOTE 14. UNEXPENDED APPROPRIATIONS

Unexpended Appropriations consist of obligated funds, unobligated funds, and unavailable authority. Obligated funds represent amounts designated for payment of goods and services ordered but not received, or for goods received and not yet paid for. Unobligated funds are generally available for current operations; however, there may be restrictions placed on the use of these amounts. 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 the Department in prior fiscal years, which may not be used for current operations.

Unexpended Appropriations

(dollars in thousands)	Obligated	Unobligated Available	Unavailable	1998	1997
Natural Resources:					
National Park Service	$ 582,108	$ 10,367	$ 346,831	$ 939,306	$ 864,961
U.S. Fish and Wildlife Service	694,192	435,953	191,597	1,321,742	1,329,179
Bureau of Land Management	184,621	170,857	-	355,478	374,266
Bureau of Reclamation	319,704	191,028	2,577	513,309	365,035
Office of Surface Mining	266,338	43,841	10,681	320,860	345,597
Minerals Management Service	61,012	4,710	4,280	70,002	61,639
Total Natural Resources	2,107,975	856,756	555,966	3,520,697	3,340,677
Science	193,137	14,430	23,442	231,009	217,555
Indian Affairs	544,216	484,286	34,270	1,062,772	1,007,743
Other Programs	422,494	184,128	536,889	1,143,511	612,076
Total Unexpended Appropriations	$ 3,267,822	$ 1,539,600	$ 1,150,567	$ 5,957,989	$ 5,178,051

NOTE 15. OPERATING EXPENSES

By law, Interior, as an agency of the Federal government, is dependent upon other government agencies for centralized services. Some of these services, such as tax collection and management of the public debt, are not directly identifiable to Interior and are not reflected in the Department's financial condition and results. However, in certain cases, other Federal agencies incur costs that are directly identifiable to Interior operations, including payment of claims and litigation by Treasury's Judgment Fund, and the partial funding of retirement benefits by the Office of Personnel Management. In fiscal year 1997, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting," Interior began recognizing identified costs paid for the Department by other agencies as expenses of Interior. The funding for these costs is reflected as imputed financing sources on the Statement of Changes in Net Position. Expenses paid by other agencies on behalf of Interior were $386 million and $282 million, respectively, in 1998 and 1997 and are included in the table below.

Operating Expenses

(dollars in thousands)	Natural Resources	Science	Indian Affairs	Other Programs	1998	1997
Salaries and Benefits	$ 2,498,253	$ 652,487	$ 409,689	$ 186,817	$ 3,747,246	$ 3,880,812
Contractual Services	1,200,644	197,451	889,074	44,093	2,331,262	2,071,764
Grant, Subsidies and Contributions	1,101,866	64,881	430,117	295,639	1,892,503	2,021,479
Acquisition of Non-Capitalized Property	278,248	41,122	83,210	-	402,580	221,809
Rent, Communication and Utilities	216,113	89,431	25,862	44,785	376,191	382,889
Supplies and Materials	249,720	41,336	39,353	-	330,409	344,851
Travel and Transportation	159,014	41,206	32,867	-	233,087	212,270
Acquistion of Stewardship Property	118,033	-	-	-	118,033	74,345
Printing & Reproduction	16,835	4,667	736	-	22,238	26,498
Other expenses	126,446	220	178,968	149,841	455,475	325,533
Intra-Segment & Intra-Departmental Eliminations	(59,985)	-	-	(244,705)	(304,690)	(289,393)
Total	$ 5,905,187	$ 1,132,801	$ 2,089,876	$ 476,470	$ 9,604,334	$ 9,272,857

The Department of Interior's operating and other expenses and exchange revenues are reported in the governmentwide consolidated financial statements in the following budget functional classifications:

Budget Functional Classifications

	Operating and Other Expenses	Revenue
Natural Resources	73.2%	84.3%
Community and Regional Development	20.5%	14.8%
General Government	4.0%	0.8%
Transportation	1.8%	0.0%
Education and Training	0.5%	0.1%
	100.0%	100.0%

NOTE 16. COMPARATIVE DATA

Audited comparative data for fiscal year 1997 has been presented in order to provide an understanding of changes in financial position and operations of Interior. Prior Period Adjustments are used to reflect in the current period the retroactive impact of newly adopted accounting standards and policies, and the correction of accounting errors that occurred in prior periods.

In fiscal years 1997 and 1998, Interior adopted several new Federal accounting standards including SFFAS No. 4, "Managerial Cost Accounting" (partially adopted in 1998); SFFAS No. 5, "Accounting for Liabilities of the Federal Government" (1997); SFFAS No. 6, "Accounting for Property, Plant and Equipment (1997 and 1998), and SFFAS No. 7 "Revenue and Other Financing Sources" (1997). Accordingly, Interior has posted a number of prior period adjustments reflecting the adoption of these accounting standards.

In addition, several Interior bureaus have reviewed historic property records and have implemented new property accounting systems and procedures, resulting in adjustments to reported property and accumulated depreciation balances. Property adjustments identified in 1998 include (1) the correction of an error in which the value of certain land had been included in depreciable property, plant, and equipment accounts, and (2) the correction of certain construction-in-progress accounts where assets had not been removed from the in-progress account upon completion. In addition, property adjustments were made to remove certain heritage assets under construction from construction-in-progress accounts to correspond with a literal interpretation of SFFAS No. 6. The Department intends to seek a re-examination of this accounting standard.

To comply with SFFAS No. 7, beginning in fiscal year 1998, royalty collections transferred to the Bureau of Reclamation are reported on the Statement of Changes in Net Position instead of the Statement of Net Cost of Operations.

Prior Period Adjustments

(dollars in thousands)	1998	1997
Changes in Accounting Policy and Adoption of New Accounting Standards		
Initial Recognition of Unfunded Workers' Compensation Liability	$ 405,651	
Initial Recognition of Contingent and Environmental Liabilities		$ 284,841
Accounting for Property	264,631	119,381
Restatement of Equity Accounts		61,683
Adjustments to Property	(34,192)	(297,097)
Other Changes	(124,966)	(27,564)
Total Prior Period Adjustments	$ 511,124	$ 141,244

NOTE 17. CUSTODIAL AND INTRA-DEPARTMENTAL ACTIVITY

Interior collects, on behalf of the U.S. Government, amounts on offshore lease sales, mineral rents and royalties and miscellaneous collections resulting from money received in error from mineral industry payors. By law, custodial revenues are transferred to the U.S. Treasury, National Park Service Conservation Funds, States, Bureau of Reclamation, Indian Tribes and agencies, and Minerals Management Service Offshore Program, and other Federal agencies. In 1998, this amounted to $5.8 billion, a small decrease compared to the 1997 total of $6.2 billion. The Statement of Custodial Activity summarizes the collections on behalf of the Federal government.

At the end of fiscal year 1997, the law authorizing the transfer of custodial revenue to the Historical Preservation Fund of the National Park Service expired. The increase in collections pending transfers on the Statement of Custodial Activity includes $150 million that was transferred to the Historical Preservation Fund after the expiration of the law and is to be returned to the Department of the Treasury.

Due to the nature of Interior's operations and the appropriations language authorizing the collection and use of certain receipts, there are several instances where various revenues earned or collected by the Department are first reported as Revenue or Custodial Collections and Transfers Out, are later appropriated to the Department for use, and then are recognized as Appropriated Capital Used on the Statement of Changes in Net Position. For example:

- In 1997 and 1998, Appropriated Capital Used includes approximately $210 million of Abandoned Mine Land revenues recognized as Non-Exchange Revenue in prior years.

- Conservation Fund Revenues each year consist primarily of oil and gas revenues collected by the Minerals Management Service reported as Collections of Custodial Revenue.

- Other Financing Sources on the Statement of Changes in Net Position include approximately $423 million of custodial oil and gas revenues transferred to the Bureau of Reclamation.

- Conservation Fund Transfers are primarily made available for use within the Department, including the Everglades Restoration Fund (administered by the Office of the Secretary) and the National Park Service.

NOTE 18. INDIAN TRUST FUNDS (UNAUDITED)

The Secretary of the Interior has fiduciary responsibility for approximately $2.9 billion dollars held in trust on behalf of over 300,000 American Indian tribes and individual Indian accounts. Approximately 350 tribes have an interest in the $2.5 billion Tribal Fund which accounts for 86% of the Indian Trust Funds. The remainder of the trust funds ($479 million) are in about 300,000 individual Indian accounts and other special trust funds, including the Alaska Native Escrow Fund. The Individual Indian Monies (IIM) Fund is primarily a deposit fund for individuals as well as estates which have a fiduciary interest in the trust funds. A major portion of the Tribal Fund consists of judgment awards while IIM Fund income is derived from royalties on natural resource depletion, land use agreements, enterprises having a direct relationship to the trust resources, per capita payments, and investment income.

The assets held in trust for Native Americans are owned by the trust beneficiaries and are not Federal assets. Therefore, these amounts are not reflected in the Consolidated Financial Statements of the Department included in this report.

A summary of the Tribal and Other Special Trust Funds and individual Indian assets, Trust Fund Balances and Changes in Trust Fund Balances is presented on the following page. These amounts do not include trust land managed by the Department. An audit report issued by an independent public accountant has been published covering fiscal year 1997 Indian Trust Fund financial statements. The auditors expressed a qualified opinion on these balances due to significant differences between the cash and overnight investment balances reported by the trust funds and those reported by the Department of Treasury, which prevented these amounts from being audited. In addition, certain trust fund beneficiaries disagreed with trust fund balances and have filed or are expected to file claims against the Department regarding these amounts. For more information, see Note 13, "Contingent Liabilities".

Tribal and Other Special Trust Funds
Combined Statement of Assets and Trust Fund Balances - Cash Basis
as of September 30, 1998 and 1997
(dollars in thousands)
UNAUDITED

	1998	1997
ASSETS		
Current Assets		
Cash with U.S. Treasury	$ 16,132	$ (743)
Investments	2,443,916	2,403,109
TOTAL ASSETS	$ 2,460,048	$ 2,402,366
TRUST FUND BALANCES, Held for Indian Tribes and Other Special Trust Funds.	$ 2,460,048	$ 2,402,366

Tribal and Other Special Trust Funds
Combined Statement of Changes in Trust Fund Balances - Cash Basis
for the period ending September 30, 1998 and 1997
(dollars in thousands)
UNAUDITED

Receipts	$ 521,725	$ 619,770
Disbursements	(465,398)	(453,014)
Receipts in Excess of Disbursements	56,327	166,756
Trust Fund Balances - Beginning of Year	2,403,721	2,235,610
Trust Fund Balances - End of Year	$ 2,460,048	$ 2,402,366

Statement of Assets and Trust Fund Balances - Modified Cash Basis
as of September 30, 1998 and 1997
(dollars in thousands)
UNAUDITED

	1998	1997
ASSETS		
Current Assets		
Cash with U.S. Treasury	$ (15,124)	$ (6,813)
Investments	494,312	505,848
TOTAL ASSETS	$ 479,188	$ 499,035
TRUST FUND BALANCES, Held for Individual Indian Monies Trust Funds	$ 479,188	$ 499,035

Statement of Changes in Trust Fund Balances - Modified Cash Basis
for the years ending September 30, 1998 and 1997
(dollars in thousands)
UNAUDITED

Receipts	$ 313,600	$ 548,280
Disbursements	(354,119)	(547,806)
Receipts in Excess of Disbursements	(40,519)	474
Trust Fund Balances - Beginning of Year	519,707	498,561
Trust Fund Balances - End of Year	$ 479,188	$ 499,035

NOTE 19. DISCONTINUATION OF HELIUM PROGRAM

The Helium Privatization Act of 1996, enacted October 9, 1996, directs the privatizing of Interior's Federal Helium Refining Program. Under this law, Interior will cease the production, refining, and marketing of refined helium within 18 months of enactment. Interior will continue to store, transport, and withdraw crude helium and maintain and operate crude helium storage facilities in existence on the date of enactment. Interior may also enter into agreements with private parties for the recovery and disposal of helium on Federal lands and may grant leasehold rights to any such helium. The sale of stockpile crude helium will commence no later than January 1, 2005, and will continue until January 1, 2015, at which time the helium reserves should be reduced to 600 million cubic feet.

NOTE 20. FINANCING

SFFAS No. 7, "Accounting for Revenue and other Financing Sources", which became effective in fiscal year 1998, presents the conceptual framework for the Schedule of Financing disclosure presented here. As this is the first year the Department is presenting the information, comparative statements have not been presented.

The intent of the Schedule of Financing is to facilitate the understanding of the financial net cost of operations in relation to the obligation of budget authority. Because the accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources, this information is provided to highlight the differences.

The Schedule of Financing consists of four sections: (1) budgetary and nonbudgetary resources used to fund activities; (2) resources that do not fund the net costs of operations; (3) components of net costs of operations that do not require resources during the reporting period; and (4) costs for which financing sources are yet to be provided. This schedule has been prepared on a combining rather than a consolidated basis; consequently, intra-entity transactions have not been eliminated.

Schedule of Financing

(dollars in thousands)	1998	
Obligations and Nonbudgetary Resources:		
Obligations Incurred	$ 11,437,920	
Spending Authority for Offsetting Collections and Adjustments	(2,280,599)	
Subtotal	9,157,321	
Imputed Financing	385,684	
Exchange Revenue Not in the Budget	(628,514)	
Non-Exchange Revenue and Other Financing Sources	517,137	
Resources from Unfilled Customer Orders	183,323	
Donations Not in the Budget	15,288	
Other Financing Sources	13,633	
Total Obligations as Adjusted, and Nonbudgetary Resources		$ 9,643,872
Resources That Do Not Fund Net Cost of Operations:		
Transfers to Treasury and Other Agencies	(741,206)	
Costs Capitalized	(571,067)	
Prior Period Adjustments	(501,844)	
Change in Goods and Services Ordered But Not Yet Received	(487,399)	
Total Resources That Do Not Fund Net Cost of Operations		(2,301,516)
Costs That Do Not Require Resources:		
Depreciation	335,074	
Loss on Disposition of Assets	38,553	
Cost of Goods Sold	11,680	
Bad Debt Expense	6,733	
Other Expenses That Do Not Require Budgetary Resources	(135,699)	
Total Costs That Do Not Require Resources		256,341
Financing Sources Yet to Be Provided		705,427
Net Cost of Operations		$ 8,304,124

NOTE 21. WORKING CAPITAL FUNDS

Interior has four working capital funds which are established by law to finance a continuing cycle of operations, with the receipts from the operations available for use by the funds without further action by Congress. The four working capital funds are established in the Bureau of Reclamation, Office of the Secretary, Bureau of Land Management, and U.S. Geological Survey, and operate as revolving funds. The costs of providing services and operating the funds are fully recovered from customers. The major working capital fund customers are Interior bureaus and offices and other Federal agencies; however, some services are provided to States, and non-government entities. Some of the significant services provided to customers consist of central reproduction, telecommunications, aircraft services, supplies, publications, training, computer processing and related activities, engineering and technical services, and certain cross-servicing activities such as payroll, personnel, and financial and accounting services. The services provided by the working capital funds are usually those which may be performed more advantageously on a reimbursable basis. In addition, Interior manages the Interior Franchise Fund which is part of the Franchise Fund Pilot program which operates under special appropriation authority established consistent with authorities allowed under the Government Management Reform Act of 1994.

The following condensed information about assets, liabilities, and net position of the Interior working capital funds is summarized for the fiscal years ended September 30, 1998 and 1997. The financial information presented includes intra-Departmental transactions.

U. S. Department of the Interior
Supplemental Statement of Financial Position
Combined Working Capital Funds
as of September 30, 1998
(dollars in thousands)

	Bureau of Reclamation	Bureau of Land Management	U.S. Geological Survey	Departmental Offices	Interior Franchise Funds	TOTAL
ASSETS						
Fund Balance with Treasury & Cash	$ 82,076	$ 23,624	$ 50,078	$ 27,474	$ 3,166	$186,418
Accounts Receivable	4,906	-	5,796	7,763	16,359	34,824
Property Plant & Equipment	47,339	54,662	1,271	20,157	-	123,429
Other Assets	196	1,183	(6)	530	-	1,903
TOTAL ASSETS	$ 134,517	$ 79,469	$ 57,139	$ 55,924	$ 19,525	$346,574
LIABILITIES AND NET POSITION						
Liabilities to the Public						
Accounts Payable and Other	$ 20,075	$ 637	$ 1,876	$ 9,739	$ -	$32,327
Liabilities to Federal Agencies						
Amounts Payable to Treasury and Other	280	767	351	(557)	3,741	4,582
Other Liabilities to Federal Agencies	-	1	53,258	8,056	16,011	77,326
Total Liabilities	20,355	1,405	55,485	17,238	19,752	114,235
Net Position						
Cumulative Results of Operations	114,162	78,064	1,654	38,686	(227)	232,339
Total Net Position	114,162	78,064	1,654	38,686	(227)	232,339
TOTAL LIABILITIES AND NET POSITION	$ 134,517	$ 79,469	$ 57,139	$ 55,924	$ 19,525	$346,574

U. S. Department of the Interior
Supplemental Statement of Financial Position
Combined Working Capital Funds
as of September 30, 1997
(dollars in thousands)

	Bureau of Reclamation	Bureau of Land Management	U.S. Geological Survey	Departmental Offices	Interior Franchise Fund	TOTAL
ASSETS						
Fund Balance with Treasury and Cash	$ 100,330	$ 21,603	$ 35,067	$ 30,343	$ 4,106	$191,449
Accounts Receivable	5,816	264	10,295	6,563	2,533	25,471
Property, Plant, and Equipment	39,262	49,330	1,047	18,014	-	107,653
Other Assets	161	350	-	644	-	1,155
TOTAL ASSETS	$ 145,569	$ 71,547	$ 46,409	$ 55,564	$ 6,639	$325,728
LIABILITIES AND NET POSITION						
Liabilities to the Public						
Accounts Payable and Other	$ 15,894	$ 556	$ 1,973	$ 13,657	$ -	$ 32,080
Liabilities to Federal Agencies					-	
Amounts Payable to Treasury and Other	2,265	5	6	4,242	2,649	9,167
Other Liabilities to Federal Agencies	3,727	-	29,430	6,935	4,120	44,212
Total Liabilities	21,886	561	31,409	24,834	6,769	85,459
Net Position						
Cumulative Results of Operations	123,683	70,986	15,000	30,730	(130)	240,269
Total Net Position	123,683	70,986	15,000	30,730	(130)	240,269
TOTAL LIABILITIES AND NET POSITION	$ 145,569	$ 71,547	$ 46,409	$ 55,564	$ 6,639	$325,728

U. S. Department of the Interior
Supplemental Statement of Operations
Combined Working Capital Funds
for the year ended September 30, 1998
(dollars in thousands)

	Bureau of Reclamation	Bureau of Land Management	U.S. Geological Survey	Departmental Offices	Interior Franchise Funds	TOTAL
Expenses						
Operating Expenses	$ 280,665	$ 7,360	$ 48,485	$ 91,556	$ 21,923	$449,989
Depreciation and Amortization	9,380	7,013	201	801	-	17,395
Net Loss (Gain) on Disposition of Assets	350	(1,057)	15	(30)	-	(722)
Bad Debt Expense	17	-	-	-	-	17
Other Expenses	11,194	63	2	1,265	-	12,524
Total Expenses	301,606	13,379	48,703	93,592	21,923	479,203
Revenues						
Sales of Goods and Services to the Public	17,769	674	-	22,893	1	41,337
Sales of Goods and Services to Federal Agencies	254,310	18,224	49,742	71,888	21,825	415,989
Other Revenues	111	1,396	-	-	-	1,507
Total Revenues	272,190	20,294	49,742	94,781	21,826	458,833
NET COST OF (PROFIT FROM) OPERATIONS	$ 29,416	$ (6,915)	$ (1,039)	$ (1,189)	$ 97	$ 20,370

U. S. Department of the Interior
Supplemental Statement of Operations
Combined Working Capital Funds
for the year ended September 30, 1997
(dollars in thousands)

	Bureau of Reclamation	Bureau of Land Management	U.S. Geological Survey	Departmental Offices	Interior Franchise Fund	TOTAL
Expenses						
Operating Expenses	$ 289,947	$ 17,295	$ 48,483	$ 85,042	$ 3,515	$444,282
Depreciation and Amortization	3,547	-	155	289	-	3,991
Net Loss (Gain) on Disposition of Assets	484	(746)	-	1,173	-	911
Bad Debt Expense	-	-	-	-	-	-
Other Expenses	-	1	10	289	-	300
Total Expenses	293,978	16,550	48,648	86,793	3,515	449,484
Revenues						
Sales of Goods and Services to the Public	35,256	-	-	1,390	1	36,647
Sales of Goods and Services to Federal Agencies	276,184	16,037	47,363	85,201	3,385	428,170
Other Revenues	50	3,136	1,726	-	-	4,912
Total Revenues	311,490	19,173	49,089	86,591	3,386	469,729
NET COST OF (PROFIT FROM) OPERATIONS	$ (17,512)	$ (2,623)	$ (441)	$ 202	$ 129	$ (20,245)