U.S. Department of the Interior
Notes to Principal Financial Statements
For the fiscal years ended September 30, 2006 and 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Department of the Interior is a cabinet-level agency of the Executive branch of the Federal Government. Created in 1849 by Congress as the Nation's principal conservation agency, the Interior has responsibility for most of the Nation's publicly-owned lands and natural resources. Interior protects and manages the Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and honors its trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities.

The accompanying financial statements include all Federal funds under Interior's control or which are a component of the reporting entity, including Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund), Custodial Funds, and the Aquatic Resources Trust Fund. The financial statements, however, do not include non-Federal trust funds, trust related deposit funds, or other related accounts that are administered, accounted for, and maintained by Interior's Office of the Special Trustee for American Indians on behalf of Native American Tribes and individuals. Interior prepares financial statements for these Tribal and Other Trust Funds and Individual Indian Monies under separate cover. A summary of the trust fund balances and changes in trust fund balances managed on behalf of Indian Tribes and individuals is included in Note 23. 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 certain tax revenue, which may in part be attributable to the Interior.

B. Organization and Structure of Interior

Interior is composed of the following eight operating bureaus and Departmental Offices:

- National Park Service (includes the Land and Water Conservation Fund and Historic Preservation Fund)
- Fish and Wildlife Service (includes the Sport Fish Restoration and Boating Trust Fund)
- Bureau of Land Management
- Bureau of Reclamation
- Office of Surface Mining
- Minerals Management Service (includes the Environmental Improvement and Restoration Fund)
- U.S. Geological Survey
- Bureau of Indian Affairs
- Departmental Offices

An overview of the operating performance of Interior and its components is presented in the Management's Discussion and Analysis portion of this report. In addition, more detailed information about the bureaus may be found in the individual financial reports prepared by each bureau.

The U.S. Bureau of Mines (USBM) was closed in 1996. Although it no longer exists, certain transactions and data related to USBM programs and activities are reflected in the Interior's FY 2006 and FY 2005 financial statements and notes.

C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, custodial activities, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations of the Interior as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of the Interior in accordance with generally accepted accounting principles (GAAP), OMB Circular No. A-136, "Financial Reporting Requirements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information. Interior, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control Interior's use of budgetary resources.

OMB financial statement reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. Interior has presented comparative FY 2006 financial statements for the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity.

Certain assets, liabilities, earned revenue, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as exchange transactions made between two reporting entities within the Federal Government.

The accounting structure of Federal 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 and Cash

Interior maintains all cash accounts with the Department of the Treasury (Treasury) except for imprest fund accounts. Treasury processes cash receipts and disbursements on behalf of Interior and Interior's accounting records are reconciled with those of Treasury on a regular basis.

The Fund Balance with Treasury includes several types of funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. The following describes the type of funds Interior maintains: (1) general funds are funds not earmarked by law for a specific purpose; (2) special funds are funds earmarked for specific purposes; (3) revolving funds are funds that conduct continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations; (4) trust funds are funds that are designated by law as a trust fund where the receipt accounts collect earmarked receipts for specific purposes and the associated trust fund expenditure accounts track spending of the receipts; and (5) other funds include balances in deposit accounts, such as for collections pending litigation, awaiting determination of the proper accounting disposition, or being held by the entity in the capacity of a banker or agent for others.

Cash consists primarily of Federal funds held by private banks and investing firms for the Office of Trust Funds Management.

E. Investments, Net

Interior invests funds in Federal Government and public securities on behalf of various Interior programs and for amounts held in certain escrow accounts. The Federal Government securities include marketable Treasury securities and non-marketable par value or non-marketable market-based securities issued by the Federal

Investment Branch of the Bureau of the Public Debt. Par value securities are special issue bonds or certificates of indebtedness that bear interest determined by legislation or Treasury. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

Public securities include, but are not limited to, marketable securities issued by government-sponsored entities and consist mainly of various mortgage instruments, bonds, and bank notes. Mortgage instruments are with the Federal National Mortgage Association, the Government National Mortgage Association, and the Federal Home Loan Mortgage Corporation, the Private Export Funding Corporation, the Federal Farm Credit Banks Consolidated System, the Federal Agricultural Mortgage Corporation, and the Government National Real Estate Mortgage Investment Conduit. Bonds and bank notes are with the Federal Home Loan Bank and the Federal Judiciary.

It is expected that investments will be held until maturity; therefore, they are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method of amortization for short-term securities (i.e., bills) and the interest method for longer-term securities (i.e., notes). Interest on investments is accrued as it is earned.

The market value is estimated by multiplying the total number of shares by the market price on the last day of the fiscal year.

F. Accounts and Interest Receivable, Net

Accounts and interest receivable consists 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.

G. Loans and Interest Receivable, Net

Intragovernmental Loans. The Reclamation Fund is a restricted, unavailable receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of capital investment costs, associated interest and operating and maintenance reimbursements from water and power users) and receipts from other Federal agencies (primarily revenues from certain Federal mineral royalties and hydropower transmission) are deposited. No expenditures are made directly from the Reclamation Fund; however, funds are transferred from the Reclamation Fund into Reclamation's appropriated expenditure funds or other Federal agencies pursuant to specific appropriation acts authorized by the U.S. Congress.

The funds transferred from the Reclamation Fund to the other Federal agencies are primarily for the purpose of funding operating and maintenance and capital investment activities at Western Area Power Administration (Western), a component of the Department of Energy (DOE). Western recovers the capital investments, associated interest, and operating and maintenance costs through future power rates, and subsequently deposits amounts recovered into the Reclamation Fund.

The Bonneville Power Administration (BPA), also a component of DOE, is responsible for the transmission and marketing of hydropower generated at Reclamation facilities located in the Pacific Northwest region. Unlike Western, BPA does not receive appropriations from the Reclamation Fund, but they legislatively assumed the repayment obligation for the appropriations used to construct Reclamation's hydropower generation facilities.

The amounts transferred to Western and BPA are recorded as receivables at the time of the transfer as Western and BPA are required to repay Interior. Interior reduces the receivables at the time payments are received from Western and BPA.

Loans with the Public. 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, 1990, 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 loan 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. The allowance for subsidy cost is reestimated annually on September 30.

For loans obligated prior to October 1, 1990, 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.

H. Inventory and Related Property, Net

Interior's inventory and related property is primarily composed of published maps, gas and storage rights, operating supplies for the Working Capital Fund, airplane parts and fuel, and recoverable below-ground crude helium. These inventories were categorized based on Interior's major activities and services Interior provides to the Federal Government and the public. There are no restrictions on these inventories.

The USGS maintains maps and map products that are located at several Earth Science Information Centers across the United States. This inventory is valued at historical cost using a weighted average cost variation method, less an allowance, which is based on inventory turnover and current stock levels.

The BLM maintains a helium stockpile inventory which is stored in a partially depleted natural gas reservoir. The inventory is valued at cost and the volume of helium is accounted for on a perpetual basis. Annually, the volume is verified by collecting reservoir data and using generally accepted petroleum engineering principles to calculate the volume. The values shown for stockpile helium are net of the estimated unrecoverable amount, so no allowance is required. Gas and storage rights for the storage of helium are recorded at historical cost.

Under the Helium Privatization Act of 1996, Interior is authorized to store, transport, and withdraw crude helium and maintain and operate crude helium storage facilities that were in existence when the Helium Privatization Act was enacted. Interior also has the authority to sell crude stockpile helium until January 1, 2015, at which time the helium reserves will be sold.

Aircraft fuel and parts are held in inventory as operating materials to be consumed and are valued at historical cost, based on the moving average cost method. The value of this inventory is adjusted based on the results of periodic physical inventories.

The Interior's Working Capital Fund maintains an inventory of operating materials that will be consumed during future operations and is stated at historical cost using the weighted average cost method. These operating materials are maintained for sign construction, employee uniforms, and the Interior's standard forms functions.

I. General Property, Plant, and Equipment, Net

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 protection, wildlife enhancement, and recreation; land and land improvements acquired for general operating purposes; equipment, vehicles, and aircraft; construction in progress; capital leases; leasehold improvements; and internal use software.

All general purpose property, plant, and equipment are capitalized at acquisition cost and depreciated using the straight-line amortization method over the assigned useful lives of the property. Buildings, structures, and facilities are depreciated over a useful life of from 10 to 75 years with the exception of dams and certain related property which are depreciated over useful lives of up to 100 years. Equipment, vehicles, and aircraft are depreciated over useful lives generally ranging from 2 to 50 years. Capital leases and leasehold improvements are amortized over the life of the lease. For land, buildings, structures, land improvements, leasehold improvements, and facilities purchased prior to October 1, 2003, capitalization thresholds were established by the individual bureaus and generally ranged from $50,000 to $500,000. For these same items purchased subsequent to September 30, 2003, Interior has established a capitalization threshold of $100,000 with the exception of dams and certain related property, which are fully capitalized. For equipment, vehicles and aircraft, and capital leases, Interior has established a capitalization threshold of $15,000. There are no restrictions on the use or convertibility of the Interior's general purpose property, plant, and equipment.

In accordance with the implementation guidance for Statement of Federal Financial Accounting Standard (SFFAS) No. 6, Interior recorded certain general property, plant, and equipment acquired on or before September 30, 1996, at its estimated net book value (i.e., gross cost less accumulated depreciation) or its estimated gross cost. Interior estimated these costs and net book values based on available historic supporting documents, current replacement cost deflated to date of acquisition, and the cost of similar assets at the time of acquisition.

Construction in Progress. Construction in Progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed.

Construction in Progress also includes projects in abeyance. In past years, the Interior began construction on 12 projects located in California, Colorado, Arizona, Washington, North Dakota, and South Dakota, for which activities were placed in abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been and will continue to be budgeted and expended to minimize the erosive effects of time and weather and to keep the asset ready for completion.

Internal Use Software. Internal use software includes purchased commercial off-the-shelf software (COTS), contractor-developed software, and software that was internally developed by agency employees. Internal use software is capitalized at cost if the acquisition cost is $100,000 or more. For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life is 2 to 5 years for calculating amortization of software using the straight-line method.

Stewardship Assets. Stewardship assets consists of public domain land and heritage assets such as national monuments and historic sites that have been entrusted to Interior to be maintained in perpetuity for the benefit of current and future generations.

The majority of public lands, presently under the management of Interior, were acquired by the Federal Government during the first century of the Nation's existence and are considered stewardship land. A portion of these lands has been reserved as national parks, wildlife refuges, and wilderness areas, while the remainder is managed for multiple uses. Interior is also responsible for maintaining a variety of cultural and natural heritage assets, which include national monuments, historic structures, and library and museum collections. The stewardship land and heritage assets managed by Interior are considered priceless and irreplaceable. Because of this, Interior assigns no financial value to them and the property, plant, and equipment capitalized and reported on the Balance Sheet excludes these assets. The Required Supplementary Information (RSI) section of this report provides additional information concerning stewardship land and heritage assets.

J. Advances and Prepayment

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/operating expenses when the related goods and services are received.

K. 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. No liability can be paid by Interior absent an appropriation of funds by the U.S. Congress, and the payment of all liabilities other than for contracts can be abrogated by Interior. Liabilities for which an appropriation has not been enacted are, therefore, disclosed as liabilities not covered by budgetary resources, or unfunded liabilities. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding. There is no legal certainty that the appropriations will be enacted.

Interior estimates certain accounts payable balances based on past history of payments in current periods that relate to prior periods or on a current assessment of services/products received but not paid.

Environmental and Disposal Liabilities. Interior has responsibility to remediate its sites with environmental contamination, and it is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the Federal Government. Interior has accrued environmental liabilities where losses are determined to be probable and the amounts can be estimated. In accordance with Federal accounting guidance, the liability for future cleanup of environmental hazards is "probable" when the government is legally responsible for creating the hazard or is otherwise related to it in such a way that it is legally liable to clean up the contamination.

When Interior is not legally liable, but chooses to accept financial responsibility, it is considered "Government-acknowledged." Government-acknowledged events are events that are of financial consequence to the Federal Government because it chooses to respond to the event. When Interior accepts financial responsibility for cleanup, has an appropriation for the cleanup, and has begun incurring cleanup costs, then any unpaid amounts for work performed are reported as accounts payable.

Changes in cleanup cost estimates are developed in accordance with departmental policy, which addresses systematic processes for cost estimating and places added emphasis on development and retention of supporting documentation. Changes in cleanup cost estimates are based on progress made in and revision of the cleanup plans, assuming current technology, laws, and regulations.

Contingent Liabilities. Contingent liabilities are liabilities 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. Interior discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met and when the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by Treasury rather than from amounts appropriated to Interior for departmental operations.

L. 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. Congress appropriates the majority of Interior's operating funds from the general receipts of the Treasury. These funds are made available to Interior for a specified time period (one or more fiscal years) or until expended. For example, funds for general operations are generally made available for one fiscal year; funds for long-term projects such as major construction are generally available to Interior until expended; and funds used to establish revolving fund operations are generally available indefinitely (i.e., no year funds). The greater majority of operating funds for Interior are available for either multiple years or until expended. Appropriations are reflected as a financing source entitled "Appropriations Used" on the Consolidated Statement of Changes in Net Position once goods and services have been received. The Combined Statement of Budgetary Resources presents information about the resources appropriated to Interior.

Exchange and Non-Exchange Revenue. 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 Consolidated Statement of Net Cost and serve to off-set the costs of these goods and services.

Non-exchange revenues result from donations to the government and from the government's sovereign right to demand payment, including taxes, 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 the Interior's operations and are reported on the Consolidated Statement of Changes in Net Position. The portion of Offsetting Receipts that is related to non-exchange revenue is disclosed as a reconciling item on the Statement of Financing as an item not part of the net cost of operations.

With minor exceptions, all receipts of revenues by Federal agencies are processed through the Treasury's central accounting system. Regardless of whether they derive from exchange or non-exchange transactions, all receipts that are not designated by congressional appropriation for immediate departmental use are deposited in the general or special funds of the Treasury. Amounts not retained for use by Interior are reported as transfers to other government agencies on Interior's Consolidated Statement of Changes in Net Position.

Reporting entities that provide goods and services to the public or another government entity should disclose specific information related to their pricing policies. In certain cases, the prices charged by Interior are set by law or regulation, which for program and other reasons may not represent 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 (cost, plus administrative fees) incurred by these activities.

Interior transfers a portion of royalty collections from the custodial fund to the operating funds for distribution to certain States. In accordance with SFFAS No. 7, Interior reports these State amounts as "Royalties Retained," an other budgetary financing source on the Consolidated Statement of Changes in Net Position rather than on the Consolidated Statement of Net Cost, because MMS incurred minimal costs in earning this revenue.

Custodial Revenue. Interior's Minerals Revenue Management (MRM), administered by the MMS, collects royalties, rents, bonuses, and other receipts for Federal and Indian oil, gas, and mineral leases, and distributes the proceeds to the Treasury, other Federal agencies, and States, in accordance with legislated allocation formulas. MMS is authorized to retain a portion of the rental income collected as part of the custodial activity provided by the MRM Program to fund operating costs. BLM collects and remits to MMS first year bonuses and rents for on-shore mineral leases. Interior records custodial revenue based on accounts reported by producers. Custodial revenue is reported when the government has a legal claim to the revenue. The royalty accrual represents royalties on September oil and gas lease activity that Interior receives in October and November. The royalty accrual is estimated based on an analysis of the last 12 months of royalty activity and recent events. Interior does not record a liability for potential overpayments and refunds until requested by the payor or until Interior completes a compliance audit and determines the refundable amount. This is in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (P.L. 97-451, 96 Stat. 2447, 30 U.S.C. 1701).

Royalty-in-Kind (RIK). Interior, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act (OCSLA) of 1953, may take part or all of its oil and gas RIK (a volume of the commodity) as opposed to in value (cash). Interior may either transfer the volume of oil or gas commodity taken in-kind to Federal agencies for internal use or sell the commodity on the open market at fair market value and transfer the cash received. Interior reflects RIK as mineral lease revenue on the Consolidated Statement of Custodial Activity.

Interior assists the Administration's initiative to fill the Strategic Petroleum Reserve, which was completed in July 2005. Interior transfered to DOE royalty oil received-in-kind from Federal leases in the Gulf of Mexico. Interior determines the value of the commodity transferred using the fair market value on the date of transfer. Interior reports these transfers as mineral lease revenue and transfers to the DOE on the Consolidated Statement of Custodial Activity. The current year Strategic Petroleum Reserve revenues and distribution to DOE represents changes to prior year estimates based on revised pipeline statements.

Sport Fish Restoration and Boating Trust Fund. Interior presents the Sport Fish Restoration and Boating Trust Fund (SFRBTF) in its financial statements in accordance with the requirements of Statement of Federal Financial Accounting Standard (SFFAS) No.27, "Identifying and Reporting Earmarked Funds." The source of funding for the SFRBTF includes excise taxes levied on the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. These funds are used to make grants available to States for support projects that restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands and projects that provide for public use and benefit from sport fish resources. The SFRBTF also provides funding for boating safety programs conducted by the U.S. Coast Guard and coastal wetlands initiatives conducted by the U.S. Army Corps of Engineers. The Appropriations Act of 1951 authorized amounts equal to revenues credited during the year to be used in the subsequent fiscal year. This inflow is recorded as permanent appropriations to remain available until expended.

Imputed Financing Sources. In certain instances, operating costs of Interior are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs, and certain legal judgments 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 for by other agencies, Interior recognizes these amounts as operating expenses. In addition, Interior recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Interior operations by other Federal agencies.

Advances and Deferred Revenue. Advances and deferred revenue from the public represents funding received from certain power customers who benefit from current and future power deliveries. The repayments are recognized as revenue incrementally as power benefits are provided. Advances and deferred revenue received from Federal agencies represent cash advances to the Interior Franchise Fund (IFF) and the National Business Center (NBC). IFF and NBC provide shared administrative services and commonly provide products to Federal agencies.

M. Personnel Compensation and Benefits

Annual and Sick Leave Program. 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 that were appropriated to Interior as of the date of the financial statements. The amount accrued is based upon current pay rates of the employees. Sick leave and other types of leave are expensed when used and no future liability is recognized for these amounts, as employees do not vest in these benefits.

Federal Employees Workers' Compensation Program. The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from Interior for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by Interior. Interior reimburses DOL for the amount of the actual claims as funds are appropriated for this purpose. There is generally a 2-to-3 year lag between payment by DOL and reimbursement by Interior. As a result, Interior recognizes a liability for the actual claims paid by DOL and to be reimbursed by Interior.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical, and miscellaneous costs. DOL determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

DOL also evaluates the estimated projections to ensure that the estimated future benefit payments are appropriate. The analysis includes three tests: (1) a comparison of the current-year projections to the prior-year projections; (2) a comparison of the prior-year projected payments to the current-year actual payments, excluding any new case payments that had arisen during the current year; and (3) a comparison of the current-year actual payment data to the prior-year actual payment data. Based on the outcome of this analysis, adjustments may be made to the estimated future benefit payments.

Federal Employees Group Life Insurance (FEGLI) Program. Most Interior employees are entitled to participate in the FEGLI Program. Participating employees can obtain "basic life" term life insurance, with the employee paying two-thirds of the cost and Interior paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. Government's service cost for the post-retirement portion of the basic life coverage. Because Interior's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, Interior has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and imputed financing source.

Retirement Programs. Interior employees participate in one of three retirement programs: (1) the Civil Service Retirement System (CSRS); (2) the Federal Employees Retirement System (FERS), which became effective on January 1, 1987; or (3) the United States Park Police (USPP) Pension Plan. 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 employees participating in FERS, Interior contributes an amount equal to 1% of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional 4% of pay. Employees participating in CSRS receive no matching contribution from Interior. During FY 2006, employees could contribute as much as $15,000 of their gross earnings to the plan.

OPM 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. Interior has recognized an imputed cost and imputed financing source for the difference between the estimated service cost and the contributions made by Interior and covered CSRS employees.

Police Officers hired on or before December 31, 1985, by the NPS participate in the USPP Pension Plan, which is administered by the District of Columbia. Each in-service member contributes 7% of their gross earnings. The normal retirement benefit is 2.5% for each year of service up to 20 with an additional 3% for each year beyond 20, but no more than an aggregate of 80%. Retirement is permitted after 20 years of service, but mandatory by the age of 60. Annual benefits paid from the USPP Pension Plan are funded on a pay-as-you-go basis through a permanent indefinite appropriation from the Treasury's General Fund.

Interior reports the USPP pension liability and associated expense in accordance with OMB guidance. An actuary estimates Interior's future cost to provide benefits to current and future retirees using economic assumptions and historical cost information. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations.

The actuarial liabilities are measured during the fiscal year, with a "roll-forward" or projection to the end of the year, in accordance with SFFAS Interpretation No. 3, Measurement Date for Pension and Retirement Health Care Liabilities. The "roll-forward" considers all major factors that affect the measurement that occurred during the reporting year, including any raises, cost-of-living allowances, and material changes in the number of participants.

N. 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 as expenses incurred by other agencies on behalf of Interior, including settlement of claims and litigation paid by Treasury's Judgment Fund and the partial funding of employee benefits by OPM.

Transactions and balances among the Interior's entities have been eliminated from the Balance Sheet, the Statement of Net Cost, and the Statement of Changes in Net Position. As provided for by OMB Circular No. A-136, the Statement of Budgetary Resources is presented on a combined basis, therefore, intra-departmental transactions and balances have not been eliminated from this statement. In accordance with OMB Circular No. A-136, intra-departmental transactions and balances have been eliminated from all the amounts on the

Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis. Intra-departmental transactions have been eliminated within the Statement of Custodial Activity. In order to present all custodial activity, the distributions to the Department's entities have not been eliminated on the Statement of Custodial Activity and the Statement of Changes in Net Position. The distributions, however, are reported separately on the Statement of Custodial Activity.

O. Possessory Interest and Leasehold Surrender Interest

Interior has contracts with organizations that manage and operate hotels, lodges, restaurants, gift shops, and other concession operations at various parks. In accordance with legislation and the contracts, some of these concessionaires have a possessory interest or leasehold surrender interest (PI/LSI) in certain real property construction or improvements that the concessionaire pays for and Interior approves.

A concessionaire's interest may be extinguished provided the concessionaire is compensated for the PI/LSI in accordance with concession laws and contracts. At the end of the contract period, PI/LSI amounts are negotiated and either incorporated into new contracts or extinguished through payment. Payment for this interest has been made by a subsequent concessionaire in most situations.

Interior does not report the assets used by concessioners in its financial statements because the concessioners control the benefits of the assets and have the responsibilities of the risks and maintenance of the assets. In addition, Interior does not report a PI/LSI liability at the time a concessioner receives PI/LSI because an event of financial consequence has not occurred. However, Interior does record a liability at the time that the Interior decides to discontinue a concession operation or take possession of the assets.

Interior has concession agreements which contain provisions that provide for the establishment of escrow type accounts to be used to develop, improve, and maintain visitor facilities. The concessioner periodically deposits a percentage of gross revenue in the account as provided in the concessioner agreement. These "Special Account" funds are maintained in separate interest-bearing bank accounts for the concessioners, are not assets of Interior, and may not be used in Interior operations. Therefore, the balances, inflows, and outflows of these concessioner Special Accounts are not recognized in the consolidated financial statements.

P. Resources Payable to Treasury

Interior receives appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Many of the projects have reimbursable components, for which Interior is required to recover the capital investment and operating costs through user fees, mainly the sale of water and power. These recoveries are deposited in Treasury's General Fund.

Interior records a liability when appropriations are expended on reimbursable components of a project. The liability is decreased when reimbursments are received from Interior's customers and subsequently transferred to Treasury's General Fund.

Q. Earmarked Funds

Earmarked funds are financed by specifically identified revenues and other financing sources. These funds are required by statute to be used for designated activities or purposes and must be accounted for separately from the Federal Government's general fund. The Balance Sheet and the Statement of Changes in Net Position are not presented in a comparable format because SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, does not allow prior year restatement of financial information.

R. Allocation Transfers

Interior receives budget resources from the Department of Transportation in the form of "allocation transfers" in order to perform maintenance to highways that are on Interior land. This activity is reported in DOT's financial statements for FY 2006 as Interior early implemented OMB Circular No. A-136 parent/child reporting requirements with the Department of Transportation (DOT) for the Highway Trust Fund, only.

S. Income Taxes

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

T. Estimates

Interior has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates.

U. Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of Interior to draw down funds from Treasury for expenses and liabilities.

Fund Balance with Treasury by fund type as of September 30, 2006 and 2005, consists of the following:

(dollars in thousands)	FY 2006	FY 2005
General Funds	$ 5,424,657	$ 5,070,334
Special Funds	25,464,346	23,879,261
Revolving Funds	2,027,366	2,590,741
Trust Funds	211,851	214,102
Other Fund Types	281,162	276,694
Total Fund Balance with Treasury by Fund Type	$ 33,409,382	$ 32,031,132

Interior's fund types and purpose are described below:

General Funds. These funds consist of expenditure accounts used to record financial transactions arising from congressional appropriations, as well as receipt accounts.

Special Funds. These accounts are credited with receipts from special sources that are earmarked by law for a specific purpose. These receipts are available for expenditure for special programs, such as providing housing for employees on field assignments; Land and Water Conservation and Historic Preservation Fund activities; sales of public lands, timber, mineral leases; cleanup associated with the Exxon Valdez oil spill; and operating science and cooperative programs.

Revolving Funds. These funds account for cash flows to and from the government resulting from operations of the helium operations, Interior franchise fund, and other bureau working capital funds. The revolving funds are restricted to the purposes set forth in the legislation that established the funds and related investment plans, and do not fund normal operating expenses of the bureau.

Trust Funds. These funds are used for the acceptance and administration of funds contributed from public and private sources and programs and in cooperation with other Federal and State agencies or private donors, and other activities such as maintaining the Boyhood Home of Abraham Lincoln; trust fund construction; highway maintenance and construction; and managing the Land and Resource Management trust fund, the Alaska Townsite Trustee fund, and the Aquatic Resources Trust Fund.

Other Fund Types. These include miscellaneous receipt accounts, transfer accounts, performance bonds, deposit and clearing accounts maintained to account for receipts, and disbursements awaiting proper classification.

Status of Fund Balance with Treasury as of September 30, 2006 and 2005, consists of the following:

(dollars in thousands)	FY 2006	FY 2005
Unobligated		
Available	$ 3,623,391	$ 3,968,467
Unavailable	201,887	207,134
Obligated Not Yet Disbursed	6,114,435	5,940,979
Subtotal	9,939,713	10,116,580
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	23,308,813	21,735,627
Clearing and Deposit Accounts	160,856	178,925
Subtotal	23,469,669	21,914,552
Total Status of Fund Balance with Treasury	$ 33,409,382	$ 32,031,132

The Status of the Fund Balance with Treasury may be classified as unobligated available, unobligated unavailable, and obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable amounts are primarily composed of funds in unavailable collection accounts, such as the Land and Water Conservation Fund and the Reclamation Fund, which are not available to Interior for use unless appropriated by Congress. The unavailable balance also includes amounts appropriated in prior fiscal years, which are not available to fund new obligations. The obligated, but not yet disbursed balance represents amounts designated for payment of goods and services ordered, but not yet received or goods and services received, but for which payment has not yet been made.

Obligated and unobligated balances reported for the status of fund balance with Treasury do not agree with obligated and unobligated balances reported on the Combined Statement of Budgetary Resources because the budgetary balances include amounts supported by other than fund balance with Treasury, such as investments in Treasury Securities and allocation transfers (transferring agency). Allocation transfers result in differences for both the transferring and receiving agency because the budgetary amounts are reported by the agency transferring the funds, but the proprietary amounts are reported by the receiving agency.

NOTE 3. CASH

The cash amount includes balances held by private banks and investing firms and change-making funds maintained in offices where maps are sold over the counter.

Cash as of September 30, 2006 and 2005, consists of the following:

(dollars in thousands)	FY 2006	FY 2005
Cash Not Yet Deposited to Treasury	$ 174	$ 622
Imprest Fund	651	648
Total Cash	$ 825	$ 1,270

NOTE 4. INVESTMENTS, NET

A. Investments in Treasury Securities

The BIA, BLM, BOR, Departmental Offices, MMS, NPS, OSM, and FWS invest funds in securities on behalf of various Interior programs.

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

Bureau of Land Management (BLM). The BLM is authorized to invest in special non-marketable par value and market-based book entry Treasury securities. These securities include Treasury bills, notes, bonds, and one-day certificates that may be purchased and sold as necessary to meet operating needs and legislated requirements. The BLM invests in these securities of the Treasury pursuant to authorizing legislation for three accounts: (1) the proceeds of certain land sales authorized by the Southern Nevada Public Land Management Act enacted in October 1998; (2) the proceeds of certain land sales authorized by the Lincoln County Land Act enacted in October 2000; and (3) the proceeds of certain oil and gas lease sales authorized by the Alaska Native Claims Settlement Act and the Alaska National Interest Lands Conservation Act, as amended July 17, 2000.

Bureau of Reclamation (BOR). BOR has investment authority in the Lower Colorado River Basin Development Fund and the San Gabriel Basin Restoration fund, both of which are classified as earmarked funds. The market value of these securities is equal to the cost.

Departmental Offices. Departmental Offices invest funds that are contributed to the Utah Reclamation Mitigation and Conservation Account by the Utah Reclamation Mitigation and Conservation Commission in non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Departmental Offices invest funds for the Natural Resource Damage Assessment and Restoration Fund (NRDAR), in non-marketable market-based securities issued by Treasury. Funds are invested in both long and short-term securities, depending upon the program's needs for their funds.

Departmental Offices invest a portion of Tribal Trust and Special Funds in marketable and non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Investment instruments are continually reviewed for appropriateness in conjunction with current tribal needs.

Minerals Management Service (MMS). Investments consist of non-marketable, market-based Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. The MMS has limited investment authority based on two categories: Environmental Improvement and Restoration and Custodial Investments.

The Environmental Improvement and Restoration Fund (EIRF) is available for investment under the Interior and Related Agencies Appropriations Act of 1998. Congress has permanently appropriated 20% of the prior fiscal year interest earned by the EIRF to the Department of Commerce. The remaining 80% of interest earned remains in the fund and may be appropriated by Congress to certain other agencies, as provided by the law. This investment was initially funded in 2000 by the settlement of the boundary dispute with the State of Alaska.

MMS is also required by regulation to invest the 1/5 Outer Continental Shelf (OCS) bid amounts from the apparent high bidders for all OCS lease sales. Should any of the apparent high bids be later rejected, the 1/5 bid and actual interest earned are returned to the bidder. The investment earned on accepted bids reverts to Treasury when the bids are accepted.

Investments as of September 30, 2006, consist of the following:

FY 2006

(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Bureau of Indian Affairs	Marketable	$ 69,480	$ -	$ 69,480	$ 69,525
Bureau of Land Management	Non-Marketable, market-based	2,332,347	25,503	2,357,850	2,357,290
Bureau of Reclamation	Non-Marketable, market-based	322,000	-	322,000	322,000
Departmental Offices					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	163,449	(1,406)	162,043	156,876
Natural Resource Damage Assessment and Restoration Fund	Non-Marketable, market-based	225,920	561	226,481	226,414
Tribal Trust and Special Funds	Non-Marketable, market-based	40,700	-	40,700	40,700
	Marketable	59,856	(466)	59,390	58,593
Minerals Management Service - Restricted	Non-Marketable, market-based	1,067,414	(10,371)	1,057,043	1,039,783
Minerals Management Service - Custodial	Non-Marketable, market-based	58,325	68	58,393	58,411
National Park Service	Non-Marketable, market-based	1,455	-	1,455	1,455
Office of Surface Mining	Non-Marketable, market-based	2,263,900	594	2,264,494	2,230,790
U.S. Fish and Wildlife Service	Non-Marketable, market-based	493,189	2,163	495,352	490,325
U.S. Fish and Wildlife Service - Sport Fish Restoration and Boating Trust Fund	Non-Marketable, market-based	952,739	1,804	954,543	950,635
Total U.S. Treasury Securities		8,050,774	18,450	8,069,224	8,002,797
Accrued Interest		25,609	-	25,609	-
Total Non-Public Investments		8,076,383	18,450	8,094,833	8,002,797
Public Securities					
Bureau of Indian Affairs	Marketable	1,052	-	1,052	1,052
Departmental Offices - Tribal Trust and Special Funds	Marketable	185,105	339	185,444	182,628
Total Public Securities		186,157	339	186,496	183,680
Accrued Interest		1,604	-	1,604	-
Total Public Investments		187,761	339	188,100	183,680
Total Investments		$ 8,264,144	$ 18,789	$ 8,282,933	$ 8,186,477

National Park Service (NPS). The "United States Commemorative Coin Act of 1996" mandates the minting and sale of several commemorative coins, including a National Law Enforcement Officers Memorial Silver Dollar. During FY 2006, the monies generated from the sale of the National Law Enforcement Officers Memorial Silver Dollar have been invested in a non-marketable, market-based, interest bearing security.

Office of Surface Mining (OSM). Effective October 1, 1991, the OSM was authorized to invest available Abandoned Mine Land (AML) funds in non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt in the Treasury. The OSM has authority to invest AML trust funds in Treasury bills, notes, bonds, and one-day certificates. A portion of the AML investment interest earned is transferred to the United Mine Workers of America Combined Benefit Fund to provide health benefits for certain eligible retired coal miners and dependents.

U.S. Fish and Wildlife Service (FWS). The FWS has investments in non-marketable market-based Treasury securities that consist of various bills purchased through the Federal Investment Branch of the Bureau of the Public Debt. The invested funds consist of excise tax receipts from the Federal Aid in Wildlife Restoration Fund, the Sport Fish Restoration and Boating Trust Fund (SFRBTF), and the Multi-National Species Conservation Fund.

Investments as of September 30, 2005, consist of the following:

FY 2005

(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Bureau of Indian Affairs	Marketable	$ 66,541	$ -	$ 66,541	$ 66,541
Bureau of Land Management	Non-Marketable, market-based	1,734,975	10,790	1,745,765	1,739,828
Departmental Offices					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	157,931	(2,248)	155,683	155,165
Natural Resource Damage Assessment and Restoration Fund	Non-Marketable, market-based	179,107	(1,225)	177,882	160,500
Tribal Trust and Special Funds	Non-Marketable, market-based	26,333	-	26,333	26,336
	Marketable	55,487	(215)	55,272	55,076
Minerals Management Service - Restricted	Non-Marketable, market-based	1,032,450	(6,803)	1,025,647	1,014,909
Minerals Management Service - Custodial	Non-Marketable, market-based	57,214	106	57,320	57,261
National Park Service	Non-Marketable, market-based	1,370	-	1,370	1,370
Office of Surface Mining	Non-Marketable, market-based	2,132,891	376	2,133,267	2,122,530
U.S. Fish and Wildlife Service	Non-Marketable, market-based	450,309	1,337	451,646	446,705
U.S. Fish and Wildlife Service - Sport Fish Restoration and Boating Trust Fund	Non-Marketable, market-based	1,543,745	983	1,544,728	1,473,847
Total U.S. Treasury Securities		7,438,353	3,101	7,441,454	7,320,068
Accrued Interest		22,215	-	22,215	-
Total Non-Public Investments		7,460,568	3,101	7,463,669	7,320,068
Public Securities					
Bureau of Indian Affairs	Marketable	1,065	-	1,065	1,066
Departmental Offices - Tribal Trust and Special Funds	Marketable	196,166	431	196,597	193,790
Total Public Securities		197,231	431	197,662	194,856
Accrued Interest		1,463	-	1,463	-
Total Public Investments		198,694	431	199,125	194,856
Total Investments		$ 7,659,262	$ 3,532	$ 7,662,794	$ 7,514,924

The Treasury collects, invests, and maintains on behalf of the FWS, the SFRBTF, which includes FWS's Sport Fish Restoration Account. Although the FWS has advisory authority for SFRBTF investment decisions, the Treasury has legal responsibility for investing SFRBTF funds.

Consistent with authorizing legislation and Treasury fiscal investment policies, the Secretary of the Treasury invests such portions of the SFRBTF balance deemed by the program agencies not necessary to meet current withdrawals to cover program and related costs as defined by law. Such investments are in non-marketable par value or non-marketable market-based securities as authorized by legislation and are issued and redeemed by the Federal Investment Branch of the Bureau of the Public Debt, in the Treasury. These securities are held in the name of the Secretary of the Treasury for the SFRBTF.

B. Investments in Public Securities

The BIA is authorized by law to invest irrigation and power receipts in marketable Treasury 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-sponsored enterprises and government corporations. Bonds and bank notes are issued by Federal Home Loan Bank, the Federal Judiciary, and the

Federal Farm Credit Bank. Investments in public securities reflect investments held by BIA's Power and Irrigation program and are recorded at cost.

Departmental Offices invest a portion of the Tribal Trust and Special Funds in marketable securities issued by government-sponsored entities. Investment instruments are continually reviewed for appropriateness in conjunction with current tribal needs.

NOTE 5. ACCOUNTS AND INTEREST RECEIVABLE, NET

Due From the Public, Net. 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 mineral leases sold by MMS, from which royalties are then collected, the sale of water and hydroelectric power by Reclamation, and water testing and other scientific studies conducted for State and local governments by the USGS. Fines and penalties are imposed by OSM, MMS, FWS, and other bureaus in the enforcement of various environmental laws and regulations. Unbilled receivables reflect work performed to date on agreements and uncollected revenue for royalties due subsequent to year-end, which will be billed in the future.

Accounts and Interest Receivable from the Public consists of the following:

(dollars in thousands)	FY 2006	FY 2005
Accounts and Interest Receivable from the Public		
Current	$ 417,302	$ 131,278
1 - 180 Days Past Due	200,524	129,914
181 - 365 Days Past Due	7,610	12,306
1 to 2 Years Past Due	9,414	26,885
Over 2 Years Past Due	91,370	98,954
Total Billed Accounts and Interest Receivable - Public	726,220	399,337
Unbilled Accounts and Interest Receivable	1,944,115	2,454,061
Total Accounts and Interest Receivable - Public	2,670,335	2,853,398
Allowance for Doubtful Accounts - Public	(192,298)	(192,832)
Total Accounts and Interest Receivable - Public, Net	$ 2,478,037	$ 2,660,566

Recovery of Reimbursable Capital Costs. Reclamation enters into long-term repayment contracts and water service contracts with non-Federal (public) water users that allow the use of irrigation, and municipal and industrial (M&I) water facilities in exchange for annual payments to repay a portion of the Federal investment allocation to the construction of reimbursable irrigation and M&I facilities. Also, power-marketing agencies enter into agreements with power users to recover capital investment costs allocated to power, on Reclamation's behalf. Costs associated with multipurpose plants are allocated to the various purposes through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. The typical repayment contract is up to 40 years, but may extend to 50 years or more if authorized by the Congress.

Unmatured repayment contracts are recognized on the Balance Sheet when the annual repayment amount is earned, at which time current accounts receivable and current period exchange revenue is recorded. As of September 30, 2006 and 2005, amounts not yet earned under unmatured repayment contracts were $2.4 billion and $2.5 billion respectively.

Due from Federal Agencies, Net. Accounts receivable due from Federal agencies arise from the sale of products and services to other Federal agencies, including the sale of maps, the performance of environmental and scientific services, and 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. Substantially all receivables from other Federal agencies are considered to be collectible, as there is no credit risk. However, an allowance for doubtful accounts is used occasionally to recognize billing disputes.

Accounts and Interest Receivable from Federal entities consist of the following:

(dollars in thousands)	FY 2006	FY 2005
Accounts and Interest Receivable from Federal Agencies		
Billed	$ 25,722	$ 21,059
Unbilled	414,788	487,618
Total Accounts and Interest Receivable - Federal	$ 440,510	$ 508,677

NOTE 6. INTRAGOVERNMENT LOANS AND INTEREST RECEIVABLE, NET

Intragovernment Loans and Interest Receivable, as of September 30, 2006 and 2005, are summarized as follows:

(dollars in thousands)	FY 2006	FY 2005
Principal	$ 6,378,188	$ 7,771,518
Interest	2,053,503	1,928,373
Cumulative Repayments	(5,778,102)	(7,220,114)
Allowance for Non-Reimbursable Costs	(21,702)	(21,702)
Intragovernmental Loans and Interest Receivable, Net	$ 2,631,887	$ 2,458,075

Interest rates vary by project and pertinent legislation, and range from 1.25% to 12.4% for the periods ended September 30, 2006 and 2005. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service.

NOTE 7. LOANS AND INTEREST RECEIVABLE, NET

Direct loans and loan guarantees made prior to FY 1992 were funded 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.

Direct loans and loan guarantees made after FY 1991 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 (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) 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 appropriations to fund any increases in subsidy due to interest rate fluctuations and changes in default rate estimates. In FY 2005 and FY 2006, there were no changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

Included in the financial statements is a subsidy reestimate computed at the end of the fiscal year. The amounts included in the consolidated financial statements are not reported in the budget until the following fiscal year.

BIA and Reclamation administer loan programs while the Departmental Offices and NPS provide loans on an individual basis under special circumstances. An analysis of the loans and the nature and amounts of the subsidy and associated administrative costs are provided in the following tables.

The subsidy rates disclosed pertain only to the current year cohorts. These rates cannot be applied to direct loans or guarantees for loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans or guarantees for loans reported in the current year could result from disbursements of loans from both the current year and prior year cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

Bureau of Indian Affairs. The BIA provides 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 (which ceased providing loans in 1995), the Indian Loan Guarantee Program under the Credit Reform Act, and a Liquidating Fund for loans made prior to 1992.

Interest is accrued daily on the outstanding principal balance of direct and assigned loans based on a 360-day year for pre-credit reform loans and a 365-day year for credit reform loans. The interest rate charged on each loan is the Indian Financing Act rate that was effective at the time the loan was made. Interest is accrued on current and delinquent loans. Late fees accrue if a payment is received 15 days after its due date. For pre-credit reform loans, the amount of interest and late fees receivable is reduced by an allowance for uncollectible accounts. For credit reform direct loans, the interest and late fees receivable are considered in the subsidy allowance account.

Bureau of Reclamation. Reclamation operates loan programs that provide Federal assistance to non-Federal organizations for constructing or improving water resource projects in the Western States. Reclamation's loan programs are authorized under the Small Reclamation Projects Act of 1956, the Distribution System Loans Act, the Rural Development and Policy Act of 1980, and the Rehabilitation and Betterment Act. The loan programs are classified into two categories, credit reform loans and other loans made prior to the Credit Reform Act.

Other loans consist primarily of drought relief and repayment loans. The other loans receivable balances represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance is determined by management for loan balances where collectibility is considered to be uncertain based on various factors, including age, past experience, present market and economic conditions, and characteristics of debtors.

Loan interest rates vary depending on the applicable legislation; in some cases, there is no stated interest rate on agricultural and Native American loans. Interest on applicable loans does not accrue until the loan enters repayment status.

The subsidy expense reported for FY 2006 includes interest and technical reestimates. These reestimates resulted in a net decrease to the subsidy cost allowance of $13.6 million for the period ended September 30, 2006. The technical reestimate adjusted for differences between the projected cash flows that were expected versus actual cash flows. The interest reestimate adjusted the subsidy allowance to provide for the prevailing interest rate at the time the loans were disbursed versus the interest rates assumed in the budget preparation process.

Departmental Offices. Departmental Offices have two loans, one pre-credit reform loan to the U.S. Virgin Islands and one post-credit reform loan to the American Samoa Government (ASG).

In 1977, a loan was extended to the Virgin Islands. The loan receivable from the Virgin Islands has an offsetting liability to the Federal Financing Bank. It has a final payment due date of January 2, 2007. Principal and interest are due in January and July of each year. Interest is based on the amortization schedule for the loan with the Federal Financing Bank. The interest is accrued at year end based upon the period of July - September.

In 2001, a loan was extended to the American Samoa Government. The total has been approved for $18.6 million and made available to the ASG bearing interest at a rate equal to the Treasury cost of borrowing for obligations of similar duration. The proceeds of the loan were used by the ASG for debt reduction and fiscal reform. In FY 2005, Interior wrote off the entire loan based on a reassessment of the loan's collectibility.

National Park Service. The NPS has a single non-interest bearing loan with the Wolf Trap Foundation for the Performing Arts with an original loan principal totaling $8.5 million. The loan principal is to be repaid to the NPS within 25 years from June 1, 1991. The loan principal is repaid in equal annual installments of approximately $360,000, except for the first three annual payments of $215,000 per year. Repayment of the loan principal may include a credit of up to $60,000 annually, for public service tickets given to entities exempt from taxation pursuant to section 501(c) (3) of the Internal Revenue Code of 1986. In FY 2006 and 2005, the NPS granted the full $60,000 credit to Wolf Trap. The monies received for repayment of this loan may be retained until expended by the Secretary of the Interior in consultation with the Wolf Trap Foundation for the maintenance of structures, facilities, and equipment of the park.

Credit Reform balances as of September 30, 2006 and 2005, are summarized as follows:

(dollars in thousands)

A. Direct Loan and Loan Guarantee Program Names:	FY 2006	FY 2005
Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 13,836	$ 18,378
Bureau of Indian Affairs - Direct Loans (Credit Reform)	2,347	8,890
Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	422	317
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	633	546
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	50,466	53,598
Bureau of Reclamation - Direct Loans (Credit Reform)	106,820	92,870
Departmental Offices - Virgin Island (Pre-Credit Reform)	3,375	5,658
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	3,238	3,598
Total Loans and Interest Receivable, Net	$ 181,137	$ 183,855

(dollars in thousands)
Direct Loans

B. Direct Loans Obligated Prior to FY 1992:
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
	Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 15,905	$ 5,153	$ (7,222)	$ -	$ 13,836
	Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	57,644	77	(7,255)	-	50,466
	Departmental Offices - Virgin Island (Pre-Credit Reform)	3,239	136	-	-	3,375
	National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	3,238	-	-	-	3,238
FY 2006	Total	$ 80,026	$ 5,366	$ (14,477)	$ -	$ 70,915
	Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 17,154	$ 4,812	$ (3,588)	$ -	$ 18,378
	Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	60,775	78	(7,255)	-	53,598
	Departmental Offices - Virgin Island (Pre-Credit Reform)	5,523	135	-	-	5,658
	National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	3,598	-	-	-	3,598
FY 2005	Total	$ 87,050	$ 5,025	$ (10,843)	$ -	$ 81,232

(dollars in thousands)
C. Direct Loans Obligated After FY 1991:

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ 6,933	$ 342	$ -	$ (4,928)	$ 2,347
	Bureau of Reclamation - Direct Loans (Credit Reform)	114,329	-	-	(7,509)	106,820
	Departmental Offices - American Samoa Government (Credit Reform)	17,324	796	-	(18,120)	-
FY 2006	Total	$ 138,586	$ 1,138	$ -	$ (30,557)	$ 109,167
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ 7,774	$ 461	$ -	$ 655	$ 8,890
	Bureau of Reclamation - Direct Loans (Credit Reform)	117,881	-	-	(25,011)	92,870
	Departmental Offices - American Samoa Government (Credit Reform)	17,324	626	-	(17,950)	-
FY 2005	Total	$ 142,979	$ 1,087	$ -	$ (42,306)	$ 101,760

(dollars in thousands)
D. Total Amount of Direct Loans Disbursed (Post 1991):

Direct Loan Programs	FY 2006	FY 2005
Bureau of Reclamation - Direct Loans (Credit Reform)	$ 8	$ 10
Departmental Offices - American Samoa Government (Credit Reform)	19	-
Total	$ 27	$ 10

(dollars in thousands)
E. Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Direct Loans Disbursed:

	Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
	Bureau of Reclamation - Direct Loans (Credit Reform)	$ -	$ -	$ -	$ -	$ -
FY 2006	Total	$ -	$ -	$ -	$ -	$ -

	Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
	Bureau of Reclamation - Direct Loans (Credit Reform)	$ -	$ -	$ -	$ -	$ -
FY 2005	Total	$ -	$ -	$ -	$ -	$ -

Modifications and Reestimates

	Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ -	$ 3,770	$ 2,134	$ 5,904
	Bureau of Reclamation - Direct Loans (Credit Reform)	-	(8,989)	(4,570)	(13,559)
	Departmental Offices - American Samoa Government (Credit Reform)	-	-	-	-
FY 2006	Total	$ -	$ (5,219)	$ (2,436)	$ (7,655)
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ -	$ 51	$ 3	$ 54
	Bureau of Reclamation - Direct Loans (Credit Reform)	-	3,120	17,224	20,344
	Departmental Offices - American Samoa Government (Credit Reform)	15,387	-	-	15,387
FY 2005	Total	$ 15,387	$ 3,171	$ 17,227	$ 35,785

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2006	FY 2005
Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ 5,904	$ 54
Bureau of Reclamation - Direct Loans (Credit Reform)	(13,559)	20,344
Departmental Offices - American Samoa Government (Credit Reform)	-	15,387
Total	$ (7,655)	$ 35,785

(dollars in thousands)
F. Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans for the Cohorts:

	Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
	Bureau of Reclamation - Direct Loans (Credit Reform)	0.0%	0.0%	0.0%	0.0%	0.0%
	Departmental Offices - American Samoa Government (Credit Reform)	0.0%	0.0%	0.0%	0.0%	0.0%
FY 2006	Total	0.0%	0.0%	0.0%	0.0%	0.0%

	Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
	Bureau of Reclamation - Direct Loans (Credit Reform)	0.0%	0.0%	0.0%	0.0%	0.0%
	Departmental Offices - American Samoa Government (Credit Reform)	0.0%	0.0%	0.0%	0.0%	0.0%
FY 2005	Total	0.0%	0.0%	0.0%	0.0%	0.0%

(dollars in thousands)
G. Schedule for Reconciling Direct Loan Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

	FY 2006	**FY 2005**
Beginning balance of the subsidy cost allowance	$ 42,306	$ 12,333
Adjustments:		
(a) Loans written off	(264)	14,540
(b) Subsidy allowance amortization	(3,830)	(4,852)
(c) Other	-	(113)
Ending balance of the subsidy cost allowance before reestimates	38,212	21,908
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(5,219)	3,171
(b) Technical/default reestimate	(2,436)	17,227
Total of the above reestimate components	(7,655)	20,398
Ending balance of the subsidy cost allowance	$ 30,557	$ 42,306

The allowance for Subsidy Account reflects the unamortized credit reform subsidy for direct loans.

(dollars in thousands)
Defaulted Guaranteed Loans

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

	Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ 8,431	$ 5,634	$ -	$ (13,643)	$ 422
FY 2006	Total	$ 8,431	$ 5,634	$ -	$ (13,643)	$ 422
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ 6,804	$ 3,757	$ -	$ (10,244)	$ 317
FY 2005	Total	$ 6,804	$ 3,757	$ -	$ (10,244)	$ 317

(dollars in thousands)
I. Defaulted Guaranteed Loans from Post-1991 Guarantees (Present Value Method):

	Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 5,610	$ 1,437	$ -	$ (6,414)	$ 633
FY 2006	Total	$ 5,610	$ 1,437	$ -	$ (6,414)	$ 633
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 4,930	$ 1,052	$ -	$ (5,436)	$ 546
FY 2005	Total	$ 4,930	$ 1,052	$ -	$ (5,436)	$ 546

(dollars in thousands)
Loan Guarantees

J. Guaranteed Loans Outstanding as of September 30, 2006:

Guaranteed Loans Outstanding

	Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
	Pre-1992	$ 342	$ 295
	FY 1992	645	572
	FY 1993	265	222
	FY 1994	9,946	8,944
	FY 1995	1,734	1,395
	FY 1996	1,523	1,371
	FY 1997	5,455	4,855
	FY 1998	4,302	3,857
	FY 1999	15,725	14,127
	FY 2000	38,931	34,960
	FY 2001	23,083	20,382
	FY 2002	25,506	21,835
	FY 2003	41,705	37,383
	FY 2004	66,829	59,778
	FY 2005	34,467	31,013
	FY 2006	47,682	41,999
	Total	$ 318,140	$ 282,988

New Guaranteed Loans Disbursed:

	Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
	Amount Paid in FY 2006 for Prior Years	$ 14,024	$ 12,622
	Amount Paid in FY 2006 for 2006 Guarantees	47,744	42,970
FY 2006	Total	$ 61,768	$ 55,592
	Amount Paid in FY 2005 for Prior Years	$ 24,305	$ 21,874
	Amount Paid in FY 2005 for 2005 Guarantees	28,725	25,852
FY 2005	Total	$ 53,030	$ 47,726

(dollars in thousands)

K. Liability for Loan Guarantees:

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees):

	Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ -	$ 92,380	$ 92,380
FY 2006	Total	$ -	$ 92,380	$ 92,380
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ -	$ 81,670	$ 81,670
FY 2005	Total	$ -	$ 81,670	$ 81,670

(dollars in thousands)

L. Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees:

	Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 2,172	$ 1,712	$ (1,039)	$ -	$ 2,845
FY 2006	Total	$ 2,172	$ 1,712	$ (1,039)	$ -	$ 2,845
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 2,414	$ 2,011	$ (954)	$ -	$ 3,471
FY 2005	Total	$ 2,414	$ 2,011	$ (954)	$ -	$ 3,471

Modifications and Reestimates:

	Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ -	$ (464)	$ 5,481	$ 5,017
FY 2006	Total	$ -	$ (464)	$ 5,481	$ 5,017
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ -	$ 3,760	$ 14,955	$ 18,715
FY 2005	Total	$ -	$ 3,760	$ 14,955	$ 18,715

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	**FY 2006**	**FY 2005**
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 7,863	$ 22,186
Total	$ 7,863	$ 22,186

(dollars in thousands)
M. Subsidy Rates for Loan Guarantees by Program and Component:

	Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	3.5%	3.1%	-1.8%	0.0%	4.8%
FY 2006	Total	3.5%	3.1%	-1.8%	0.0%	4.8%
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	4.5%	4.1%	-1.8%	0.0%	6.8%
FY 2005	Total	4.5%	4.1%	-1.8%	0.0%	6.8%

(dollars in thousands)
N. Schedule for Reconciling Loan Guarantee Liability Balances

	FY 2006	**FY 2005**
Beginning balance of the loan guarantee liability	$ 81,670	$ 60,081
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	2,172	2,415
(b) Default costs (net of recoveries)	1,712	2,011
(c) Fees and other collections	(1,039)	(954)
Total of the above subsidy expense components	2,845	3,472
Adjustments:		
(a) Fees received	1,092	951
(b) Interest supplements paid	(2,405)	(1,657)
(c) Claim payments to lenders	(289)	(2,848)
(d) Interest accumulation on the liability balance	4,541	2,956
(e) Other (recovery, revenue, and prior period adjustments)	(91)	-
Ending balance of the loan guarantee liability before reestimates	87,363	62,955
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(464)	3,760
(b) Technical/default reestimate	5,481	14,955
Total of the above reestimate components	5,017	18,715
Ending balance of the loan guarantee liability	$ 92,380	$ 81,670

(dollars in thousands)
O. Administrative Expense:

	Direct Loan Programs			Loan Guarantee Programs		
	Bureau of Reclamation - Direct Loans (Credit Reform)	$	54	Bureau of Indian Affairs - Guaranteed Loan Programs	$	671
FY 2006	Total	$	54		$	671
	Bureau of Reclamation - Direct Loans (Credit Reform)	$	78	Bureau of Indian Affairs - Guraranteed Loan Programs	$	1,151
FY 2005	Total	$	78		$	1,151

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property as of September 30, 2006 and 2005, consists of the following:

(dollars in thousands)	**FY 2006**	**FY 2005**
Inventory		
Published Maps Held for Current/Future Sale	$ 8,600	$ 9,675
Gas and Storage Rights held for Current / Future Sales	927	1,055
Operating Materials		
Working Capital Fund: Inventory, Held for Use	199	306
Airplane Parts and Fuel, Held for Use	851	529
Stockpile Materials		
Recoverable Below-Ground Crude Helium Held in Reserve	7,235	6,948
Recoverable Below-Ground Crude Helium Held for Sale	271,065	296,070
Total Inventory and Related Property	288,877	314,583
Allowance for Obsolescence	(8,018)	(8,888)
Inventory and Related Property, Net	$ 280,859	$ 305,695

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

General Property, Plant, and Equipment, consists of that property which is used in operations and, with some exceptions, consumed over time. Property, Plant, and Equipment categories with corresponding accumulated depreciation as of September 30, 2006 and 2005, are shown in the following tables.

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	**FY 2006** Net Book Value
Land and Land Improvements	$ 2,073,341	$ 67,933	$ 2,005,408
Buildings	2,969,106	1,255,226	1,713,880
Structures and Facilities	19,916,130	9,186,962	10,729,168
Leasehold Improvements	38,296	11,925	26,371
Construction in Progress			
Construction in Progress - General	1,645,068	-	1,645,068
Construction in Progress in Abeyance	569,451	-	569,451
Equipment, Vehicles, and Aircraft	1,863,139	1,211,786	651,353
Assets Under Capital Lease	30,403	5,467	24,936
Internal Use Software:			
In Use	135,283	74,685	60,598
In Development	65,668	-	65,668
Total Property, Plant, and Equipment	$ 29,305,885	$ 11,813,984	$ 17,491,901

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	**FY 2005** Net Book Value
Land and Land Improvements	$ 2,044,787	$ 62,707	$ 1,982,080
Buildings	2,804,111	1,161,271	1,642,840
Structures and Facilities	19,746,770	8,967,840	10,778,930
Leasehold Improvements	37,015	7,587	29,428
Construction in Progress			
Construction in Progress - General	1,519,655	-	1,519,655
Construction in Progress in Abeyance	558,739	-	558,739
Equipment, Vehicles, and Aircraft	1,847,963	1,167,222	680,741
Assets Under Capital Lease	28,179	3,614	24,565
Internal Use Software:			
In Use	123,583	63,295	60,288
In Development	46,512	-	46,512
Total Property, Plant, and Equipment	$ 28,757,314	$ 11,433,536	$ 17,323,778

NOTE 10. STEWARDSHIP ASSETS

Effective October 1, 2005, Interior adopted SFFAS No. 29, *Heritage Assets and Stewardship Land*. This standard requires Federal agencies to reclassify all heritage asset and stewardship land information as basic except for condition information, which is considered required supplementary information. This reclassification will take place over a 4 year period beginning with FY 2006. The following is required basic information for this fiscal year.

Interior's mission is to protect and manage the Nation's natural resources and cultural heritage. To ensure that these resources are preserved and sustained for the benefit and enjoyment of future generations, Congress has enacted legislation to assist in asset management.

The predominant laws governing the Management of stewardship land are the Organic Act (16 U.S.C. 1-4) and the Federal Land Policy and Management Act (FLPMA) of 1976 (43 U.S.C. 1701 et seq., Public Law 94-579, Sec. 103 (e)). However, there are many other significant laws that provide additional guidance on various aspects of stewardship land. Combined, these laws direct the management of the land for the benefit of present and future generations.

One of the most significant laws, FLPMA, created the concept of multiple use. Management of public lands and their resources are used in a combination that best meets the present and future needs of the American people. Today this law stands as one of the greatest legislative accomplishments in land management.

The preservation and management of heritage assets located on Federal lands or preserved in Federal and Non-Federal facilities is guided chiefly by the Antiquities Act of 1906 (16 U.S.C. 431-433), the Archaeological Resources Protection Act of 1979, as amended (16 U.S.C. 470aa-mm), Curation of Federally-Owned and Administered Archeological Collections (36 C.F.R Part 79), the Native American Graves Protection and Repatriation Act of 1990 (NAGPRA), the National Historic Preservation Act (16 U.S.C. 468-468d), and Executive Order 13287 "Preserve America". These laws, however, present only a fraction of the many laws and regulations put in place that govern the preservation and management of stewardship assets.

Through these laws and regulations, Interior strives to preserve and manage stewardship land and heritage assets so that their value is preserved intelligently and they are thoughtfully integrated into the needs of the surrounding communities. The sited legislation is implemented through Interior policy and guidance, whereby continuous program management evaluations and techical reviews ensure compliance.

The Required Supplementary Information (RSI) section of this report provides additional information concerning stewardship land and heritage assets.

NOTE 11. ASSETS ANALYSIS

Assets of Interior include entity assets (unrestricted and restricted) and non-entity assets. Unrestricted assets are those available for use by Interior. Restricted assets, as defined by Interior, are certain large unavailable receipt funds that are only available for Interior use when appropriated by Congress. Non-entity assets are currently held by, but not available to Interior, and will be forwarded to Treasury or other agencies at a future date.

Entity restricted assets consist of the Land and Water Conservation Fund, the Historic Preservation Fund, the portion of the Sport Fish Restoration and Boating Trust Fund not designated for other Federal agencies, the Environmental Improvement and Restoration Fund, the Reclamation Fund, and other unavailable receipt funds. See Note 24, Earmarked Funds, for additional information on some of these funds.

Non-entity assets, restricted by nature, consist of MMS's custodial royalty activity, a portion of the Sport Fish Restoration and Boating Trust Fund that is held for others, amounts in deposit, miscellaneous receipts, special receipts, and budget clearing accounts held for others.

The Interior's assets as of September 30, 2006, are summarized into the following categories:

(dollars in thousands)	Entity Unrestricted	Entity Restricted	Non Entity Restricted	**FY 2006**
Intragovernmental Assets:				
Fund Balance with Treasury	$ 10,129,995	$ 23,039,999	$ 239,388	$ 33,409,382
Investments, Net	6,188,608	1,808,561	97,664	8,094,833
Accounts and Interest Receivable	156,853	16,065	267,592	440,510
Loans and Interest Receivable, Net	-	2,631,887	-	2,631,887
Other				
Advances and Prepayments	529	-	-	529
Total Intragovernmental Assets	16,475,985	27,496,512	604,644	44,577,141
Cash	825	-	-	825
Investments, Net	188,100	-	-	188,100
Accounts and Interest Receivable, Net	187,850	4,115	2,286,072	2,478,037
Loans and Interest Receivable, Net	181,137	-	-	181,137
Inventory and Related Property, Net	280,859	-	-	280,859
General Property, Plant, and Equipment, Net	17,491,901	-	-	17,491,901
Other				
Advances and Prepayments	112,955	-	-	112,955
Net Power Rights	122,032	-	-	122,032
Subtotal	234,987	-	-	234,987
Stewardship Assets				
TOTAL ASSETS	$ 35,041,644	$ 27,500,627	$ 2,890,716	$ 65,432,987

The Interior's assets as of September 30, 2005, are summarized into the following categories:

(dollars in thousands)	Entity Unrestricted	Entity Restricted	Non Entity Restricted	**FY 2005**
Intragovernmental Assets:				
Fund Balance with Treasury	$ 10,291,182	$ 21,500,893	$ 239,057	$ 32,031,132
Investments, Net	5,092,465	1,713,703	657,501	7,463,669
Accounts and Interest Receivable	151,958	12,614	344,105	508,677
Loans and Interest Receivable, Net	-	2,458,075	-	2,458,075
Other				
Advances and Prepayments	1,405	-	-	1,405
Total Intragovernmental Assets	15,537,010	25,685,285	1,240,663	42,462,958
Cash	1,270	-	-	1,270
Investments, Net	199,125	-	-	199,125
Accounts and Interest Receivable, Net	213,750	4,860	2,441,956	2,660,566
Loans and Interest Receivable, Net	130,256	33,901	19,698	183,855
Inventory and Related Property, Net	305,695	-	-	305,695
General Property, Plant, and Equipment, Net	17,323,778	-	-	17,323,778
Other				
Advances and Prepayments	136,074	-	-	136,074
Net Power Rights	160,579	-	-	160,579
Subtotal	296,653	-	-	296,653
Stewardship Assets				
TOTAL ASSETS	$ 34,007,537	$ 25,724,046	$ 3,702,317	$ 63,433,900

NOTE 12. INTRAGOVERNMENTAL DEBT

Interior's debt to Treasury consists of: (1) the helium production fund; (2) borrowings to finance the credit reform loan programs; and (3) borrowings to finance loans under the Federal Financing Bank.

Intragovernmental debt to Treasury activity as of September 30, 2006 and 2005, is summarized as follows:

(dollars in thousands)	FY 2005 Beginning Balance	Borrowing / (Repayments), Net	**FY 2005** Ending Balance	Borrowing / (Repayments), Net	**FY 2006** Ending Balance
Helium Fund	$ 1,139,204	$ (65,000)	$ 1,074,204	$ (160,000)	$ 914,204
Credit Reform Borrowings	158,034	(17,236)	140,798	(1,669)	139,129
Federal Financing Bank	7,641	(2,118)	5,523	(2,284)	3,239
Total Debt Due to Treasury	$ 1,304,879	$ (84,354)	$ 1,220,525	$ (163,953)	$ 1,056,572

A. Helium Fund - Bureau of Land Management

The Helium Fund was established in the late 1950s and early 1960s to ensure that the Federal 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 Federal 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 intragovernmental nature of the loan, unless the loan is forgiven, the funds for repayment to Treasury must come from the 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 principal reported in the following table reflects the amount recorded by Treasury for the net worth capital and retained earnings of the Helium Fund. It also includes 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. Furthermore, the principal balance, which includes borrowings 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.

Until FY 2002, Interior had generally paid $10 million annually on its debt to Treasury. Due to the increased revenue in the helium fund, as a result of the sale of stockpile crude helium which began in March 2003 and will continue until January 1, 2015, Interior is planning to repay at least $50 million each year, with exact amounts depending on annual revenues collected. The repayments will continue until the debt is repaid or until the stockpile crude helium sales cease. At that time the repayment plan will be revised.

Debt related to the Helium Fund as of September 30, 2006 and 2005, is summarized as follows:

(dollars in thousands)	FY 2006	FY 2005
Principal	$ 251,651	$ 251,651
Interest		
Balance, Beginning of Year	822,553	887,553
Repayments	(160,000)	(65,000)
Balance, End of Year	662,553	822,553
Total Debt Due to Treasury	$ 914,204	$ 1,074,204

B. Intragovernmental Debt to Treasury under Credit Reform

BIA, Reclamation, and Departmental Offices (Office of Insular Affairs) have borrowed funds from Treasury in accordance with the Credit Reform Act of 1990 to fund loans under various loan programs.

Bureau of Indian Affairs. The Credit Reform Act authorizes the BIA to borrow from Treasury the amount of a direct loan disbursement, less the subsidy. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets and other cash flows) associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

Interest is accrued daily on the outstanding principal balance of direct and assigned loans based on a 365-day year for credit reform loans. The interest rate charged on each loan is the Indian Financing Act Rate that was effective at the time the loan was made and ranges from 4.87% to 11.12%. These loans have various maturity dates from 2007 to 2028.

Bureau of Reclamation. As discussed in Note 7, Reclamation makes loans that are subject to the provisions of Credit Reform. Under the Credit Reform Act, loans consist of two components - the part borrowed from the Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury ranges from 6.01 to 6.82% for FY 2005 and 4.67 to 7.59% for FY 2006.

Departmental Offices. Interest is accrued annually based on the prevailing market yield on Treasury securities of comparable maturity. The weighted average interest rate used to calculate interest owed to Treasury is 5.4%. The loan has a final payment date of September 30, 2027.

C. Intragovernmental Debt to Treasury - Federal Financing Bank

Departmental Offices (Office of Insular Affairs) has borrowed funds from Treasury in accordance with the Federal Financing Bank Act of 1973 for the purpose of operating a direct loan and loan guarantee program. Interest is based on the amortization schedule for the loan with the Federal Financing Bank. Principal and interest payments are due in January and July of each year. Interest is accrued at year end based upon the July to September period. The interest rate charged on each loan ranges from 7.85% to 12.7%. The loan has a final payment due date of January 2, 2007.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

Federal Employee and Veteran Benefits Payable as of September 30, 2006 and 2005, consisted of the following:

(dollars in thousands)	FY 2006	FY 2005
Federal Employee and Veteran Benefits Payable		
U.S. Park Police Pension Actuarial Liability	$ 677,257	$ 648,751
U.S. Park Police Pension Current Liability	31,343	29,649
Federal Employees Compensation Actuarial Liability	678,823	689,305
Total Federal Employee and Veteran Benefits Payable	$ 1,387,423	$ 1,367,705

U.S. Park Police Pension Plan. In estimating the U.S. Park Police Pension Plan (USPP Pension Plan) liability and associated expense, the NPS's actuary applies economic assumption to historical cost information to estimate the government's future cost to provide benefits to current and future retirees. The estimate is adjusted by the time value of money and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations. The following table presents the significant economic assumptions used to estimate the USPP Pension Plan liability and associated expenses and the change in the USPP Pension Plan Liability.

Economic Assumptions Used	FY 2006	FY 2005
Interest Rate	6.25	6.25
Inflationary Rate	3.50	3.25
Projected Salary Increase	4.25	4.00

(dollars in thousands) USPP Pension Plan Expense	FY 2006	FY 2005
Normal Costs	$ 500	$ 1,700
Interest	41,300	42,300
Assumption Changes at Beginning of Year	19,743	24,549
Total Pension Expenses	$ 61,543	$ 68,549

(dollars in thousands) USPP Pension Plan Liability	FY 2006	FY 2005
Beginning Balance	$ 678,400	$ 639,500
Total Pension Expense	61,543	68,549
Less Benefit Payments	(31,343)	(29,649)
Ending Balance	$ 708,600	$ 678,400

In FY 2005, Interior used OPM's assumptions for interest, inflation, and salary increases to calculate the actuarial USPP Pension Plan Liability and associated expense. However, OPM subsequently adjusted their assumptions which caused Interior's assumptions to differ slightly. The impact on the actuarial USPP Pension Plan liability and associated expense, because of the difference, is not significant.

NOTE 14. CONTINGENT LIABILITIES AND ENVIRONMENTAL AND DISPOSAL LIABILITIES

Interior is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the Federal Government and has responsibility to remediate sites with environmental contamination. Interior has accrued liabilities where losses are determined to be probable and the amounts can be estimated. Interior has disclosed contingent liabilities where the conditions for liability recognition are not met but the likelihood of unfavorable outcome is more than remote.

The accrued and potential Contingent Liabilities and Environmental and Disposal Liabilities as of September 30, 2006 and 2005, are summarized in the categories below:

FY 2006 (dollars in thousands)	Accrued Liabilities	Estimated Range of Loss Lower End	Upper End
Contingent Liabilities			
Probable	$ 614,468	$ 614,468	$ 2,432,156
Reasonably Possible		371,877	1,651,958
Environmental and Disposal Liabilities			
Probable	$ 153,466	$ 153,466	$ 323,479
Reasonably Possible		126,869	302,895

FY 2005 (dollars in thousands)	Accrued Liabilities	Estimated Range of Loss Lower End	Upper End
Contingent Liabilities			
Probable	$ 631,174	$ 631,174	$ 1,627,889
Reasonably Possible		325,728	1,588,978
Environmental and Disposal Liabilities			
Probable	$ 120,808	$ 120,808	$ 171,077
Reasonably Possible		60,427	239,978

General Contingent Liabilities. General Contingent Liabilities consist of numerous lawsuits and claims filed against Interior which are awaiting adjudication. They typically relate to Federal Tort Claims Act administrative claims, tribal and Indian trust-related matters, personnel and employment-related matters, and various land and resource related claims and adjudications. Most of the cash settlements are expected to be paid out of the Judgment Fund, which is maintained by Treasury, rather than the operating resources of Interior. In suits brought through the Contract Disputes Act of 1978 and awards under federal anti-discrimination and whistleblower protection acts, Interior is required to reimburse the Judgment Fund from future agency appropriations.

No amounts have been accrued in the financial records for claims where the amount of potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

Matters for which the likelihood of an unfavorable outcome is less than probable but more than remote involve a wide variety of allegations and claims. These matters arise in the course of carrying out Interior programs and operations, including interaction with tribes and individual Indians, law enforcement of Interior-managed land, general management activities on Interior land, and operations of reclamation projects. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect Interior's financial position or results of operations.

Additional pending litigation relates to the Secretary of the Interior's management of the monies and lands held in trust by the Federal Government for Indian tribes and individuals. Tribal trust cases involve claims for trust fund and asset mismanagement, accounting, and other declaratory relief. A class action lawsuit brought on behalf of beneficiaries of the Individual Indian Money (IIM) trust accounts alleges breach of trust obligations in the management of IIM account funds. No estimate or range of loss can reasonably be made regarding financial liability that may result from judgment or settlement of the tribal trust cases or IIM trust fund litigation. Accounting efforts to date have not revealed evidence of material systemic errors.

Environmental and Disposal Liability. Interior is subject to 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 may be present. The major Federal laws covering environmental response, cleanup and monitoring are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), Oil Pollution Act (OPA), Clean Water Act (CWA), Clean Air Act (CAA), Safe Drinking Water Act (SDWA), and Asbestos Hazard Emergency Response Act (AHERA). Responsible parties, which may include Federal agencies under certain circumstances, are required to remove releases of hazardous substances from facilities they own, operate, or at which they arranged for the disposal of such substances. There are no material changes in total estimated cleanup costs that are due to changes in law and technology. Estimated environmental and disposal liabilities include expected future cleanup costs, and for those sites where future liability is unknown, the cost of studies necessary to evaluate response requirements.

Certain Departmental facilities may have regulated materials, e.g., asbestos, used in the construction or later renovation of the facility. These materials, while in an undisturbed or encapsulated state (e.g., non-friable asbestos), are not subject to cleanup under applicable law. The current policy is, unless and until the materials become friable or otherwise capable of causing contamination, the costs for monitoring or other management of these materials are not to be accrued as environmental cleanup. Currently, any cost for remediation or abatement would only accrue if the material becomes friable or is otherwise released into the environment. Under normal circumstances, remediation or abatement is limited to situations such as the remodeling or demolition of a building containing such materials. Costs would then be reported in the same manner as any other environmental liability.

NOTE 15. LIABILITIES ANALYSIS

Liabilities covered by budgetary resources are funded liabilities to be paid with existing budgetary resources. Liabilities not covered by budgetary resources represent those unfunded liabilities for which congressional action is needed before budgetary resources can be provided.

Change in Unfunded Liabilities. The Consolidated Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in this footnote. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities which are reported on the Consolidating Statement of Financing. These requirements are dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Consolidated Statement of Financing.

The Interior's liabilities covered and not covered by budgetary resources as of September 30, 2006, are as follows:

(dollars in thousands)	Covered by Budgetary Resources Current	Covered by Budgetary Resources Non-Current	Not Covered by Budgetary Resources Current	Not Covered by Budgetary Resources Non-Current	**FY 2006**
Intragovernmental Liabilities:					
Accounts Payable	$ 44,946	$ -	$ -	$ -	$ 44,946
Debt	47,718	1,003,196	717	4,941	1,056,572
Other					
Resources Payable to Treasury	-	-	46,215	2,048,029	2,094,244
Advances and Deferred Revenue	1,305,721	-	3,083	994	1,309,798
Custodial Liability	-	-	747,131	314,748	1,061,879
Other Liabilities					
Accrued Employee Benefits	39,853	-	19,139	34,530	93,522
Judgment Fund	-	-	-	180,572	180,572
Unfunded FECA Liability	-	-	37,200	58,081	95,281
Other Miscellaneous Liabilities	27	-	97,979	33,694	131,700
Total Other Liabilities	39,880	-	154,318	306,877	501,075
Total Other Intragovernmental Liabilities	1,345,601	-	950,747	2,670,648	4,966,996
Total Intragovernmental Liabilities	1,438,265	1,003,196	951,464	2,675,589	6,068,514
Public Liabilities:					
Accounts Payable	1,034,621	75,028	-	6	1,109,655
Loan Guarantee Liability	-	92,380	-	-	92,380
Federal Employee and Veterans' Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	677,257	677,257
U.S. Park Police Pension Current Liability	31,343	-	-	-	31,343
FECA Actuarial Liability	-	-	6,520	672,303	678,823
Total Federal Employee Veterans' Benefits	31,343	-	6,520	1,349,560	1,387,423
Environmental and Disposal Liabilities	-	60	-	153,406	153,466
Other					
Contingent Liabilities	-	-	-	614,468	614,468
Advances and Deferred Revenue	198,975	-	241,700	306,684	747,359
Payments Due to States	-	-	497,840	314,748	812,588
Other Liabilities					
Accrued Payroll and Benefits	195,405	-	-	-	195,405
Unfunded Annual Leave	-	-	9,278	343,806	353,084
Capital Leases	1,997	1,354	12	23,555	26,918
Custodial Liability	-	-	22,242	-	22,242
Secure Rural Schools Act Payable	-	-	106,719	-	106,719
Storm Damage	56,211	101,495	-	-	157,706
Other Miscellaneous Liabilities	19,789	1,363	6,127	62,769	90,048
Total Other Liabilities	273,402	104,212	144,378	430,130	952,122
Total Other Public Liabilities	472,377	104,212	883,918	1,666,030	3,126,537
Total Public Liabilities	1,538,341	271,680	890,438	3,169,002	5,869,461
Total Liabilities	$ 2,976,606	$ 1,274,876	$ 1,841,902	$ 5,844,591	$ 11,937,975

The Interior's liabilities covered and not covered by budgetary resources as of September 30, 2005, are as follows:

(dollars in thousands)	Covered by Budgetary Resources Current	Covered by Budgetary Resources Non-Current	Not Covered by Budgetary Resources Current	Not Covered by Budgetary Resources Non-Current	**FY 2005**
Intragovernmental Liabilities:					
Accounts Payable	$ 79,869	$ -	$ -	$ 439,930	$ 519,799
Debt	50,000	1,164,867	717	4,941	1,220,525
Other					
Resources Payable to Treasury	-	-	49,974	1,966,860	2,016,834
Advances and Deferred Revenue	1,624,228	-	1,146	1,150	1,626,524
Custodial Liability	-	-	996,371	-	996,371
Other Liabilities					
Accrued Employee Benefits	38,220	-	18,869	32,890	89,979
Judgment Fund	-	-	-	180,510	180,510
Unfunded FECA Liability	-	-	34,886	56,458	91,344
Other Miscellaneous Liabilities	13	-	88,555	47,009	135,577
Total Other Liabilities	38,233	-	142,310	316,867	497,410
Total Other Intragovernmental Liabilities	1,662,461	-	1,189,801	2,284,877	5,137,139
Total Intragovernmental Liabilities	1,792,330	1,164,867	1,190,518	2,729,748	6,877,463
Public Liabilities:					
Accounts Payable	1,005,716	77,172	-	-	1,082,888
Loan Guarantee Liability	-	81,670	-	-	81,670
Federal Employee and Veterans' Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	648,751	648,751
U.S. Park Police Pension Current Liability	29,649	-	-	-	29,649
FECA Actuarial Liability	-	-	-	689,305	689,305
Total Federal Employee Veterans' Benefits	29,649	-	-	1,338,056	1,367,705
Environmental and Disposal Liabilities	-	1,540	-	119,268	120,808
Other					
Contingent Liabilities	-	-	3,190	627,984	631,174
Advances and Deferred Revenue	147,665	-	204,624	313,660	665,949
Payments Due to States	-	-	1,009,418	-	1,009,418
Other Liabilities					
Accrued Payroll and Benefits	195,305	-	-	-	195,305
Unfunded Annual Leave	-	-	2,986	345,466	348,452
Capital Leases	-	-	51	26,252	26,303
Custodial Liability	-	-	23,303	-	23,303
Secure Rural Schools Act Payable	-	-	106,810	-	106,810
Storm Damage	4,646	-	26,206	64,488	95,340
Other Miscellaneous Liabilities	28,629	-	1,449	34,312	64,390
Total Other Liabilities	228,580	-	160,805	470,518	859,903
Total Other Public Liabilities	376,245	-	1,378,037	1,412,162	3,166,444
Total Public Liabilities	1,411,610	160,382	1,378,037	2,869,486	5,819,515
Total Liabilities	$ 3,203,940	$ 1,325,249	$ 2,568,555	$ 5,599,234	$ 12,696,978

NOTE 16. ROYALTIES RETAINED

Royalties Retained include mineral receipts transferred to the Interior totaling $4,390 and $5,130 million for the fiscal years ended September 30, 2006 and 2005, respectively. These amounts include transfers to the Land and Water Conservation Fund, to MMS for distribution to States, and to offset costs incurred by MMS related to royalty collections and the Reclamation Fund. These amounts are presented on the Consolidated Statement of Changes in Net Position in accordance with Federal accounting standards and are considered other sources of budgetary financing.

MMS received $1,931 million and $2,229 million of revenue in FY 2006 and 2005 that they subsequently provided to the States.

NOTE 17. LEASES

Capital Leases

Capital leases as of September 30, 2006 and 2005, consist of the following:

(dollars in thousands)	FY 2006	FY 2005
Real Property	$ 28,000	$ 28,000
Personal Property	2,403	179
Accumulated Amortization	(5,467)	(3,614)

Interior's capital leases are with the public and consist of a 20-year lease for the Western Archeological and Conservation Center in Tucson, Arizona, and 3-year leases for copiers. The aggregate of Interior's future minimum lease payments for capital leases are presented in the table below:

(dollars in thousands) Fiscal Year	Real Property	Personal Property	Total
2007	$ 1,997	$ 630	$ 2,627
2008	2,085	533	2,618
2009	2,172	397	2,569
2010	2,172	-	2,172
2011	2,172	-	2,172
Thereafter	27,456	-	27,456
Total Future Capital Lease Payments	38,054	1,560	39,614
Less: Imputed Interest	12,513	183	12,696
Less: Executory Costs	-	-	-
FY 2006 Net Capital Lease Liability	$ 25,541	$ 1,377	$ 26,918
FY 2005 Net Capital Lease Liability	$ 26,251	$ 52	$ 26,303

Operating Leases

The aggregate of Interior's future minimum lease payments for operating leases are presented in the table below:

(dollars in thousands)	Real Property		Personal Property		
Fiscal Year	Federal	Public	Federal	Public	Total
2007	$ 254,747	$ 53,401	$ 48,300	$ 3,859	$ 360,307
2008	243,442	49,979	49,459	3,778	346,658
2009	221,357	49,618	50,643	3,522	325,140
2010	212,374	47,900	51,858	3,259	315,391
2011	204,330	43,087	53,103	3,317	303,837
Thereafter	335,655	409,484	12,562	-	757,701
Total Future Operating Lease Payments	$ 1,471,905	$ 653,469	$ 265,925	$ 17,735	$ 2,409,034

Most of Interior's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The terms of Interior's rental agreements with GSA will vary according to whether the underlying assets are owned by GSA (or another Federal agency) or rented by GSA from the private sector. For federally-owned property, Interior either periodically executes an agreement with GSA or enters into cancelable agreements, some of which do not have a formal lease expiration date. Interior can vacate these properties after giving 120-to-180 days notice of the intent to vacate. However, Interior normally occupies these properties for an extended period of time with little variation from year to year. Interior also leases personal property from GSA and other entities. The terms for GSA personal property leases frequently exceed one year, although a definite lease period is not always specified.

For real and personal property, future operating lease payments are calculated based on the terms of the lease or if the lease is silent, an annual inflationary factor of 2.4% for FY 2007 and beyond. The inflationary factors are applied against the actual 2006 rental expense. For operating leases that have an indefinite period of performance, future lease payments are only calculated for 5 years.

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

The tables on the following pages present Interior's earned revenues for sales of goods and services to Federal agencies and the public, gross costs associated with Federal agencies and the public, and net cost of operations by program and by responsibility segment.

Responsibility Segment Presentation. OMB Circular No. A-136 "Financial Reporting Requirements" requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Interior presented the earned revenue and gross costs in FY 2006 and FY 2005 by the Mission Goals in the FY 2004 Strategic Plan. The primary Mission Goals are: Resource Protection, Resource Use, Recreation, and Serving Communities. Management Excellence costs are part of mission area goal costs. Reimbursable costs are comprised of services provided to other Federal agencies not part of Interior's core mission. These Mission Goals are supported by 17 Department-level end outcome goals identified in Interior's FY 2004 Strategic Plan.

NOTE 19. COSTS

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 Interior'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 OPM. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting," Interior recognizes identified costs paid for Interior by other agencies as expenses of Interior. The funding for these costs is reflected as imputed financing sources on the Consolidated Statement of Changes in Net Position. Costs paid by other agencies on behalf of Interior were $473 million and $452 million during FY 2006 and FY 2005, respectively. Interior's imputed costs that were recongnized in the financial statements but eliminated for consolidation purposes were $65 million and $48 million during FY 2006 and FY 2005, respectively.

Interior also receives donated heritage assets such as stewardship land, cultural landscapes, and library and museum objects. These donations are received from the public or from non-profit conservation organizations and have an estimated value of $1 million and $184 million for FY 2006 and FY 2005, respectively. During FY 2006 and FY 2005, the costs associated with acquiring, constructing, and renovating heritage assets were $159 million and $175 million, respectively. The costs associated with acquiring and improving stewardship lands were $159 million and $240 million during FY 2006 and FY 2005, respectively.

NOTE 20. STRATEGIC PETROLEUM RESERVE

During FY 2005, MMS transferred to the Department of Energy (DOE) approximately 25.6 million barrels of oil, respectively, drawn from Federal leases within the Gulf of Mexico. The Interior transferred this petroleum to the DOE to increase the strategic petroleum reserve. This initiative was completed in July 2005. The estimated value of the petroleum transferred in FY 2005 was $1,195 million.

During FY 2006, subsequent revisions to the petroleum estimate were made based on revised pipeline statements, thus decreasing the reserve value by $18 million.

(dollars in thousands)	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
Resource Protection				
Intragovernmental Costs	$ -	$ 83,653	$ 29,471	$ 22,700
Public Costs	-	265,639	38,954	29,331
Total Costs	-	349,292	68,425	52,031
Intragovernmental Earned Revenue	-	92,327	3,641	6,952
Public Earned Revenue	-	758,118	25,113	1,879
Total Earned Revenue	-	850,445	28,754	8,831
Net Costs	-	(501,153)	39,671	43,200
Resource Use				
Intragovernmental Costs	-	91,459	380,174	1,527
Public Costs	-	291,676	962,300	7,827
Total Costs	-	383,135	1,342,474	9,354
Intragovernmental Earned Revenue	-	1,437	219,330	-
Public Earned Revenue	-	298,081	656,403	21
Total Earned Revenue	-	299,518	875,733	21
Net Costs	-	83,617	466,741	9,333
Recreation				
Intragovernmental Costs	-	32,397	8,585	-
Public Costs	-	112,403	24,578	-
Total Costs	-	144,800	33,163	-
Intragovernmental Earned Revenue	-	6,211	4,538	-
Public Earned Revenue	-	21,537	23,368	-
Total Earned Revenue	-	27,748	27,906	-
Net Costs	-	117,052	5,257	-
Serving Communities				
Intragovernmental Costs	341,039	329,147	-	140,933
Public Costs	2,557,484	956,588	-	719,894
Total Costs	2,898,523	1,285,735	-	860,827
Intragovernmental Earned Revenue	273,212	95,216	-	18,075
Public Earned Revenue	137,778	131,029	-	14,037
Total Earned Revenue	410,990	226,245	-	32,112
Net Costs	2,487,533	1,059,490	-	828,715
Reimbursable Activity and Other				
Intragovernmental Costs	-	-	225,828	343,438
Public Costs	-	-	312,134	2,766,539
Total Costs	-	-	537,962	3,109,977
Intragovernmental Earned Revenue	-	-	408,082	2,870,228
Public Earned Revenue	-	-	42,792	14,938
Total Earned Revenue	-	-	450,874	2,885,166
Net Costs	-	-	87,088	224,811
Total				
Intragovernmental Costs	341,039	536,656	644,058	508,598
Public Costs	2,557,484	1,626,306	1,337,966	3,523,591
Total Costs	2,898,523	2,162,962	1,982,024	4,032,189
Intragovernmental Earned Revenue	273,212	195,191	635,591	2,895,255
Public Earned Revenue	137,778	1,208,765	747,676	30,875
Total Earned Revenue	410,990	1,403,956	1,383,267	2,926,130
Net Cost of Operations	$ 2,487,533	$ 759,006	$ 598,757	$ 1,106,059

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra-Department Activity	**FY 2006**
$ -	$ 352,872	$ 746	$ 285,452	$ 60,997	$ (171,853)	$ 664,038
-	1,223,071	73,689	1,432,902	219,210	-	3,282,796
-	1,575,943	74,435	1,718,354	280,207	(171,853)	3,946,834
-	26,120	-	81,765	68,599	(75,418)	203,986
-	28,485	5	111,502	7,671	-	932,773
-	54,605	5	193,267	76,270	(75,418)	1,136,759
-	1,521,338	74,430	1,525,087	203,937	(96,435)	2,810,075
73,268	-	17,300	2,785	26,907	(295,686)	297,734
2,208,488	-	97,958	6,784	69,872	-	3,644,905
2,281,756	-	115,258	9,569	96,779	(295,686)	3,942,639
-	-	1,410	46	6,153	(16,842)	211,534
160,380	-	164	31	553	-	1,115,633
160,380	-	1,574	77	6,706	(16,842)	1,327,167
2,121,376	-	113,684	9,492	90,073	(278,844)	2,615,472
-	235,353	-	39,728	-	(41,713)	274,350
-	892,860	-	476,503	-	-	1,506,344
-	1,128,213	-	516,231	-	(41,713)	1,780,694
-	53,885	-	9,576	-	(22,506)	51,704
-	269,520	-	4,516	-	-	318,941
-	323,405	-	14,092	-	(22,506)	370,645
-	804,808	-	502,139	-	(19,207)	1,410,049
5,529	91,961	8,030	34,964	314,835	(425,421)	841,017
22,738	277,585	127,152	185,658	830,445	-	5,677,544
28,267	369,546	135,182	220,622	1,145,280	(425,421)	6,518,561
-	4,894	325	6,557	201,624	(180,239)	419,664
10,827	1,296	5	5,810	183,949	-	484,731
10,827	6,190	330	12,367	385,573	(180,239)	904,395
17,440	363,356	134,852	208,255	759,707	(245,182)	5,614,166
3,400	-	-	-	-	(436,778)	135,888
11,329	-	69,824	-	-	-	3,159,826
14,729	-	69,824	-	-	(436,778)	3,295,714
14,422	-	-	-	-	(1,010,974)	2,281,758
1,446	-	-	-	-	-	59,176
15,868	-	-	-	-	(1,010,974)	2,340,934
(1,139)	-	69,824	-	-	574,196	954,780
82,197	680,186	26,076	362,929	402,739	(1,371,451)	2,213,027
2,242,555	2,393,516	368,623	2,101,847	1,119,527	-	17,271,415
2,324,752	3,073,702	394,699	2,464,776	1,522,266	(1,371,451)	19,484,442
14,422	84,899	1,735	97,944	276,376	(1,305,979)	3,168,646
172,653	299,301	174	121,859	192,173	-	2,911,254
187,075	384,200	1,909	219,803	468,549	(1,305,979)	6,079,900
$ 2,137,677	$ 2,689,502	$ 392,790	$ 2,244,973	$ 1,053,717	$ (65,472)	$ 13,404,542

(dollars in thousands)	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
Resource Protection				
Intragovernmental Costs	$ -	$ 86,741	$ 16,031	$ 12,989
Public Costs	-	277,431	25,459	14,722
Total Costs	-	364,172	41,490	27,711
Intragovernmental Earned Revenue	-	40,518	7,456	3,613
Public Earned Revenue	-	1,186,084	1,035	-
Total Earned Revenue	-	1,226,602	8,491	3,613
Net Costs	-	(862,430)	32,999	24,098
Resource Use				
Intragovernmental Costs	-	83,043	426,180	1,339
Public Costs	-	263,143	896,358	4,489
Total Costs	-	346,186	1,322,538	5,828
Intragovernmental Earned Revenue	-	2,468	262,414	102
Public Earned Revenue	-	217,766	605,780	-
Total Earned Revenue	-	220,234	868,194	102
Net Costs	-	125,952	454,344	5,726
Recreation				
Intragovernmental Costs	-	30,327	8,548	-
Public Costs	-	157,457	19,173	-
Total Costs	-	187,784	27,721	-
Intragovernmental Earned Revenue	-	5,512	1,118	-
Public Earned Revenue	-	15,181	12,537	-
Total Earned Revenue	-	20,693	13,655	-
Net Costs	-	167,091	14,066	-
Serving Communities				
Intragovernmental Costs	377,576	308,550	-	135,938
Public Costs	2,858,199	1,049,182	-	760,161
Total Costs	3,235,775	1,357,732	-	896,099
Intragovernmental Earned Revenue	332,594	102,535	-	16,905
Public Earned Revenue	118,979	227,815	-	15,004
Total Earned Revenue	451,573	330,350	-	31,909
Net Costs	2,784,202	1,027,382	-	864,190
Reimbursable Activity and Other				
Intragovernmental Costs	-	-	198,893	339,688
Public Costs	-	-	298,076	2,725,141
Total Costs	-	-	496,969	3,064,829
Intragovernmental Earned Revenue	-	-	373,164	2,858,559
Public Earned Revenue	-	-	38,969	24,942
Total Earned Revenue	-	-	412,133	2,883,501
Net Costs	-	-	84,836	181,328
Total				
Intragovernmental Costs	377,576	508,661	649,652	489,954
Public Costs	2,858,199	1,747,213	1,239,066	3,504,513
Total Costs	3,235,775	2,255,874	1,888,718	3,994,467
Intragovernmental Earned Revenue	332,594	151,033	644,152	2,879,179
Public Earned Revenue	118,979	1,646,846	658,321	39,946
Total Earned Revenue	451,573	1,797,879	1,302,473	2,919,125
Net Cost of Operations	$ 2,784,202	$ 457,995	$ 586,245	$ 1,075,342

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra-Department Activity	**FY 2005**
$ -	$ 357,709	$ 930	$ 246,292	$ 59,798	$ (137,437)	$ 643,053
-	1,173,611	59,182	1,317,434	216,569	-	3,084,408
-	1,531,320	60,112	1,563,726	276,367	(137,437)	3,727,461
-	7,248	-	80,446	61,207	(70,414)	130,074
-	27,979	1	74,560	8,964	-	1,298,623
-	35,227	1	155,006	70,171	(70,414)	1,428,697
-	1,496,093	60,111	1,408,720	206,196	(67,023)	2,298,764
71,533	-	17,250	8,225	26,720	(279,917)	354,373
2,460,628	-	50,398	20,517	70,713	-	3,766,246
2,532,161	-	67,648	28,742	97,433	(279,917)	4,120,619
-	-	1,462	169	5,503	(5,512)	266,606
126,657	-	59	72	818	-	951,152
126,657	-	1,521	241	6,321	(5,512)	1,217,758
2,405,504	-	66,127	28,501	91,112	(274,405)	2,902,861
-	223,560	-	60,182	-	(49,485)	273,132
-	896,208	-	501,564	-	-	1,574,402
-	1,119,768	-	561,746	-	(49,485)	1,847,534
-	44,599	-	10,383	-	(17,171)	44,441
-	258,433	-	9,517	-	-	295,668
-	303,032	-	19,900	-	(17,171)	340,109
-	816,736	-	541,846	-	(32,314)	1,507,425
9,822	88,826	7,755	34,391	292,300	(400,952)	854,206
21,341	260,621	110,989	129,139	815,991	-	6,005,623
31,163	349,447	118,744	163,530	1,108,291	(400,952)	6,859,829
-	1,013	86	5,349	194,064	(182,013)	470,533
9,700	1,304	1	7,878	174,795	-	555,476
9,700	2,317	87	13,227	368,859	(182,013)	1,026,009
21,463	347,130	118,657	150,303	739,432	(218,939)	5,833,820
5,472	4	-	(3,621)	-	(441,430)	99,006
7,650	-	61,684	3,645	-	-	3,096,196
13,122	4	61,684	24	-	(441,430)	3,195,202
13,630	-	-	496	-	(985,661)	2,260,188
668	-	-	279	-	-	64,858
14,298	-	-	775	-	(985,661)	2,325,046
(1,176)	4	61,684	(751)	-	544,231	870,156
86,827	670,099	25,935	345,469	378,818	(1,309,221)	2,223,770
2,489,619	2,330,440	282,253	1,972,299	1,103,273	-	17,526,875
2,576,446	3,000,539	308,188	2,317,768	1,482,091	(1,309,221)	19,750,645
13,630	52,860	1,548	96,843	260,774	(1,260,771)	3,171,842
137,025	287,716	61	92,306	184,577	-	3,165,777
150,655	340,576	1,609	189,149	445,351	(1,260,771)	6,337,619
$ 2,425,791	$ 2,659,963	$ 306,579	$ 2,128,619	$ 1,036,740	$ (48,450)	$ 13,413,026

NOTE 21. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources provides information about how budgetary resources were made available, as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into generally accepted accounting principles for the Federal Government. The total Budgetary Resources of $27,741 million and $26,927 million as of September 30, 2006 and 2005, respectively, include new budget authority, unobligated balances at the beginning of the year and transferred in/out during the year, spending authority from offsetting collections, recoveries of prior year obligations and any adjustment to these resources. Interior's unobligated balance available as of September 30, 2006 and 2005, was $6,154 million and $5,685 million, respectively. In addition, Interior's undelivered orders as of September 30, 2006 and 2005 was $7,373 million and $7,272 million, respectively.

Apportionment of Obligations Incurred. The following table contains only Category B apportionments since Interior does not receive Category A. Interior's obligations incurred as of September 30, 2006 and 2005 are as follows:

(dollars in thousands) **FY 2006**	Apportioned	Exempt from Apportionment	Total
Obligations Incurred:			
Direct	$ 16,294,427	$ 99,292	$ 16,393,719
Reimbursable	5,052,958	-	5,052,958
Total Obligations Incurred	$ 21,347,385	$ 99,292	$ 21,446,677

(dollars in thousands) **FY 2005**	Apportioned	Exempt from Apportionment	Total
Obligations Incurred:			
Direct	$ 15,963,959	$ 74,480	$ 16,038,439
Reimbursable	5,094,194	-	5,094,194
Total Obligations Incurred	$ 21,058,153	$ 74,480	$ 21,132,633

Reclamation Trust Funds and Colorado River Dam Fund - Boulder Canyon Project are the only funds classified as not subject to apportionment.

Repayment Requirements, Financing Sources for Repayment, and other Terms of Borrowing Authority Used. Reclamation's borrowing authority is provided under the Credit Reform Act of 1990 (see Note 7, Loans and Interest Receivable, Net for additional information on Credit Reform loans). The repayment terms and provisions of these loans are not more than 40 years from the date when the principal benefits of the projects first became available. Interest on the debt is determined by the Treasury as of the beginning of the fiscal year in which the contract is executed, on the basis of the average market yields on outstanding marketable obligations of the United States. Collections in excess of the interest due to the Treasury is applied to the outstanding principal owed to the Treasury.

BIA receives borrowing authority from Treasury for its loan programs in accordance with the Federal Credit Reform Act of 1990 and related legislation. The guaranteed loan financing fund can borrow funds when the cash balance in a financing fund cohort is insufficient to pay default claims, interest subsidy payments, downward subsidy reestimates, or the interest on prior Treasury borrowings. In FY 2005, BIA exercised its statutory authority and borrowed $100,000 from Treasury. No new authority was granted or exercised in FY 2006. The balance in this account as of September 30, 2006 and 2005, was $6.8 million.

BIA's direct loan program ended in 1995. However, borrowings arising from direct loans made between 1992 and 1995 are still outstanding. These borrowings are being repaid as scheduled and as of September 30, 2006 and 2005, were $22.9 million.

In 2001, the Bureau of the Public Debt extended a loan to the Departmental Offices for the purpose of operating a direct loan to the American Samoa Government. Interest is accrued annually based on the prevailing market yield on Treasury securities of comparable maturity. The loan has a final payment due date of September 30, 2027.

Permanent Indefinite Appropriations. Permanent indefinite appropriations are appropriations given to Interior through public laws, which authorize the retention of certain receipts. These appropriations do not specify amounts, but are dependent upon the amount of receipts collected. All Interior bureaus use one or more permanent no-year appropriations to finance operating costs and purchase property, plant, and equipment. Interior has approximately 70 permanent indefinite appropriations. Most of these appropriations are used for special environmental programs and to carry out obligations of the Secretary of the Interior.

Appropriations Received. Appropriations received on the Consolidated Statement of Changes in Net Position differs from that reported on the Combined Statement of Budgetary Resources because Appropriations Received on the Consolidated Statement of Changes in Net Position does not include appropriated dedicated and earmarked receipts. Dedicated and earmarked receipts are accounted for as either exchange or non-exchange revenue.

Legal Arrangements Affecting Use of Unobligated Balances. Interior's unobligated unavailable balances as of September 30, 2006 and 2005, are disclosed in the table below:

(dollars in thousands)	FY 2006	FY 2005
Unapportioned amounts unavailable for future apportionments	$ 2,741	$ 6,533
Expired Authority	137,739	102,739
Total Budgetary Accounts	140,480	109,272
Non-Budgetary Credit Program Financing Accounts	(2)	-
Unobligated Balance Unavailable	$ 140,478	$ 109,272

Unobligated balances, whose period of availability has expired are not available to fund new obligations, but are available to pay for adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for 5 fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until: (1) specifically rescinded by law; or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for 2 consecutive years.

The appropriation law, Public Law 109-54, is the major source of funding for the BLM's operating programs and directs that a definite sum of the BLM's wildland firefighting authority be applied to the construction of fire facilities. These authorizations also direct how BLM must treat other assets it may acquire as a result of executing its operating programs. Also, BIA receives contract authority from DOT's Highway Trust Fund for the maintenance and construction of roads and bridges on BIA and Trust property.

All appropriation language contains specific and/or general authorizations. These authorizations may be defined as legislative parameters that frame the funding and Federal agency policy for executing programs. These authorizations also direct how Interior must treat other assets it may acquire as a result of executing operating programs. Since both specific and general authorizations are integral components of all legislation, Interior does not view them as restrictions or legal encumbrances on available funding.

Explanation of Differences between the Combined Statement of Budgetary Resources (SBR) and the Budget of the United States Government. The Combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government). The President's Budget with the actual FY 2005 amounts was released in February 2006, and the President's Budget with the FY 2006 amounts is estimated to be released in February 2007, and both can be located at the OMB Web site (*http://www.whitehouse.gov/omb*). As such, the actual amounts for FY 2006 in the President's Budget have not been published at the time these financial statements were prepared.

Budgetary resources and the status of those resources presented in the Combined SBR for the period ended September 30, 2005, differ from the amounts presented as 2005 Actuals in the President's FY 2007 Budget. Differences are presented and labeled on the following table:

(dollars in millions)	FY 2005 Amount per President's Budget *	FY 2005 Amount per Statement of Budgetary Resources	Difference	Explanation
Budgetary Resources:				
Unobligated Balance, Beginning of Fiscal Year	$ 5,238	$ 5,286	$ (48)	A,C,D,F
Recoveries of Prior Year Unpaid Obligations	360	411	(51)	D,E,F
Appropriations Received	16,218	16,086	132	C,D
Contract Authority	30	-	30	D
Spending Authority From Offsetting Collections	5,777	5,635	142	F
Nonexpenditure Transfers, net	(100)	(115)	15	D,F
Temporarily Not Available Pursuant to Public Law	(42)	(12)	(30)	D,F
Permanently Not Available	(372)	(366)	(6)	D
Total Budgetary Resources	24,921	26,927	(2,006)	A,C,D,E, F
Status of Budgetary Resources:				
Obligations Incurred	21,330	21,133	197	A,C,E,F
Unobligated Balance - Available/Not Available	5,663	5,794	(131)	C,D,F
Total Status of Budgetary Resources	24,921	26,927	(2,006)	A,C,D,E, F
Change in Obligated Balance:				
Obligated Balance, Net, Beginning of Fiscal Year	6,773	6,778	(5)	A,B,F
Change in Uncollected Customer Payments from Fed Sources	(354)	(346)	(8)	C,E
Obligated Balance, Net, End of Fiscal Year	(7,418)	(7,336)	(82)	A, B, C, E, F
Net Outlays:				
Gross Outlays	19,947	19,817	130	A,B,C,D,E
Less: Offsetting Collections	(5,124)	(5,289)	165	F
Less: Offsetting Receipts	(5,504)	(5,904)	400	G

* Source: Fiscal Year 2005 Actual amounts as published in the Appendix to the Budget of the United States Government, Fiscal Year 2007

A. Bureau of Indian Affairs. Differences are primarily due to $22 million that relates to a FY 2004 beginning balance adjustment with the Fund Balance with Treasury for funds 14X2301 and 14X2303 included in the SBR, but not in the President's Budget. Additional differences relate to Credit Reform Financing funds that are included in the SBR, but not in the President's Budget.

B. Bureau of Land Management. The difference relates to timing. An adjustment was made to the Wildland Fire Management appropriation that was included in the President's Budget, but did not appear in the BLM's FY 2005 Annual Report because the report was published prior to the adjustment being made.

C. Departmental Offices. Differences are primarily due to Interior including pass through appropriations and payments to Tribal Trust and Special Trust Fund Accounts [14215265 and 14218030] in the SBR that were not included in the President's Budget. Additional differences relate to transfer of funds from the Land and Water Conservation Fund to the Departmental Management for appraisal services and Take Pride in America activities.

D. National Park Service. Differences are primarily due to the Concession Improvement Account that is included in the President's Budget, but not in the SBR. Other differences relate to contract authority that is included in the annual appropriations act, but is recinded before the act was passed. It is, however, included in the President's Budget.

E. Minerals Management Service. The President's Budget did not include a "total budgetary resources available for obligations" line for the following funds: Mineral Leasing; National Forest Fund; Leases of Lands Acquired for Flood Control, Navigation, and Allied Purpose; and Oil Spill Research which were included in the SBR. Additional differences relate to the reclassification of Reimbursement and Other Income Earned/Collected to Delivered Orders, Paid in FY 2006 for the transfer of the Interior Franchise Fund from MMS to the National Business Center.

F. Expired Accounts. Differences relate to expired accounts being included in the SBR, but not in the President's Budget.

G. Offsetting Receipts. Differences relate to receipts reported in the SBR, but not in the President's Budget.

NOTE 22. ALLOCATION TRANSFERS RECONCILING ITEMS

Interior provides and receives budget resources from other Federal entities in the form of "allocation transfers." The recipient agency (Child) reports the proprietary activity in their Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. However, the budgetary activity for these allocation transfers is reported by the providing agency (Parent) in their Statement of Budgetary Resources. This treatment creates a reconciling difference between the proprietary statements and the Statement of Budgetary Resources, which is shown in the Statement of Financing.

The following table summarizes the allocation transfers and related amounts that are reported as reconciling differences in the Statement of Financing:

(dollars in thousands)

Trading Partner	Nature and Purpose of Transfer	FY 2006	FY 2005
Interior as the Recipient Agency (Child):			
Department of Transportation - Highway Trust	Maintenance of Highways on Interior Land	$ -	$ 295,302
Department of Labor - Job Corps	Employee and Training services	61,631	64,229
Health and Human Services	Child Development and Employment	57,290	44,442
U. S. Department of Agriculture	Forest Protection and Utilization	4,653	3,889
Environmental Protection Agency	Hazard Sub Resp Trust Fund	877	989
General Services Administration	Electronic Government	(142)	202
Other		91	2,559
Subtotal		124,400	411,612
Interior as the Providing Agency (Parent):			
Department of Transportation	Highway Construction	19	792
U.S. Corps of Engineers	Land Acquisition and State Assistance	13,044	32,721
Department of Agriculture	To fund Soil Conservation Programs	-	100
Other		19,278	-
Subtotal		32,341	33,613
Net Allocation Transfer Reconciling Items		$ 92,059	$ 377,999

NOTE 23. INDIAN TRUST FUNDS

Interior, through the Office of the Special Trustee for American Indians (OST), maintains approximately 1,450 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately $2,921 million and $2,882 million as of September 30, 2006 and 2005, respectively.

The balances that have accumulated in the Tribal and Other Trust Funds have resulted from judgment awards, settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

The trust fund balances for Tribal and Other Trust Funds contain two categories:

1. Trust funds held for Indian Tribes (considered non-Federal funds); and
2. Trust funds held by Interior, for future transfer to a tribe upon satisfaction of certain conditions or where the corpus of the fund is non-expendable (considered Federal funds).

The non-Federal and Federal funds are reflected as separate components of the fund balance in the Tribal and Other Trust Funds financial statements. The trust funds considered Federal funds are reflected in Interior's financial statements.

OST also maintains about 323,000 open Individual Indian Monies (IIM) accounts with a fund balance of approximately $418 million and $420 million as of September 30, 2006 and 2005, respectively.

The IIM Trust Funds are primarily funds on deposit for individual Indians with a beneficial interest in those funds. IIM account holders realize receipts primarily from settlement of claims, land-use agreements; royalties on natural resource depletion; other proceeds derived directly from trust resources, receipt of judgment and tribal per capita distributions; and investment income.

Summaries of the financial statements of the Tribal and Other Trust Funds and the IIM Trust Funds are at the end of this note. The amounts in the summaries do not include the values related to trust lands or other trust resources managed by Interior.

Financial Statements and Basis of Accounting. The Tribal and Other Trust Fund Statement of Assets and Trust Fund Balances and Statement of Changes in Trust Fund Balances were prepared using a cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. The cash basis of accounting differs from GAAP in that receivables and payables are not accrued and investment premiums and discounts are not amortized or accreted. Receipts are recorded when received, disbursements are recorded when paid, and investments are stated at historical cost.

The IIM Trust Funds Statement of Assets and Trust Fund Balances and Statement of Changes in Trust Fund Balances were prepared using a modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. The modified cash basis of accounting differs from GAAP in that receivables and payables are not accrued with the exception of interest earned on invested funds (including discount accretion and premium amortization). Receipts are recorded when received with the exception of interest, and disbursements are recorded when paid. Interest is recorded when earned, including accretion/amortization of investment discounts and premiums. Investments are stated at amortized cost.

Audit Results. With Office of Inspector General oversight, independent auditors audited the Tribal and Other Trust Funds and the IIM Trust Funds financial statements as of September 30, 2006, and 2005. The independent auditors indicated that the financial statements were prepared on the cash or modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. In addition, the independent auditors' reports were qualified as a result of the following:

- It was not practicable for the independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances reflected in the financial statements due to issues with certain Interior trust-related systems and processes, which provide required trust financial information to OST;

- Regarding the Tribal and Other Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the trust fund balances reflected by OST and have requested an accounting of their funds. Some of these parties have filed lawsuits against the U.S. Government; and

- Regarding the IIM Trust Funds, certain parties for whom OST holds monetary assets in trust have filed a class action lawsuit for an accounting of the individuals' trust funds, which may or may not lead to claims against the U.S. Government.

For more information, see Note 14, Contingent Liabilities.

Individual Indian Monies Trust Funds statements of assets and trust fund balances and statements of changes in trust fund balances prepared using a modified cash basis of accounting as of September 30, 2006 and 2005, are as follows:

Individual Indian Monies Trust Funds
Statement of Assets and Trust Fund Balances - Modified Cash Basis
As of September 30, 2006 and 2005

(dollars in thousands)	FY 2006	FY 2005
ASSETS		
Cash and cash equivalents	$ 61,938	$ 28,333
Investments	353,886	388,586
Accrued interest receivable	2,450	2,950
TOTAL ASSETS	$ 418,274	$ 419,869
TRUST FUND BALANCES, held for Individual Indians	$ 418,274	$ 419,869

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances - Modified Cash Basis
For the Fiscal Years Ended September 30, 2006 and 2005

(dollars in thousands)	FY 2006	FY 2005
Receipts	$ 355,094	$ 275,569
Interest earned on invested funds	20,582	18,197
Gain (Loss) on disposition of investments, Net	(2,729)	7,813
Disbursements	(374,542)	(278,407)
Increase (decrease) in trust fund balances, net	(1,595)	23,172
Trust Fund Balances - Beginning of Year	419,869	396,697
Trust Fund Balances - End of Year	$ 418,274	$ 419,869

Note: The independent auditors expressed a qualified opinion on these financial statements.
See " Audit Results" section above.

Tribal and Other Trust Funds statements of assets and trust fund balances and statements of changes in trust fund balances prepared using a cash basis of accounting as of September 30, 2006 and 2005, are as follows:

Tribal and Other Trust Funds
Statement of Assets and Trust Fund Balances - Cash Basis
as of September 30, 2006 and 2005

(dollars in thousands)	FY 2006	FY 2005
ASSETS		
Cash and cash equivalents	$ 503,399	$ 501,596
Investments	2,417,827	2,380,222
TOTAL ASSETS	$ 2,921,226	$ 2,881,818
TRUST FUND BALANCES		
Held for Indian tribes	$ 2,637,066	$ 2,604,516
Held by Department of the Interior and considered to be U.S. Government funds	284,160	277,302
TOTAL TRUST FUND BALANCES	$ 2,921,226	$ 2,881,818

Tribal and Other Trust Funds
Statement of Changes in Trust Fund Balances - Cash Basis
For the Fiscal Years Ended September 30, 2006 and 2005

(dollars in thousands)	FY 2006	FY 2005
Receipts	$ 338,896	$ 352,920
Interest Received	121,566	146,330
Gain (Loss) on disposition of investments, Net	24	18,487
Disbursements	(421,078)	(611,151)
Increase (Decrease) in trust fund balances, net	39,408	(93,414)
Trust Fund Balances - Beginning of Year	2,881,818	2,975,232
Trust Fund Balances - End of Year	$ 2,921,226	$ 2,881,818

Note: The independent auditors expressed a qualified opinion on these financial statements.
See " Audit Results" section above.

NOTE 24. EARMARKED FUNDS

Earmarked funds are specifically identified revenues and other financing sources required by statute to be used for designated activities, benefits or purposes that must be accounted for separately from the government's general revenues.

Effective October 1, 2005, Interior adopted SFFAS No. 27, *Identifying and Reporting Earmarked Funds*. This statement requires a disclosure that separately lists earmarked funds by official title in a condensed financial format. Since this statement does not allow prior year restatement of financial information, FY 2005 is not presented in this note. Accordingly, Interior's earmarked funds as of September 30, 2006, consist of the following:

(dollars in thousands)	Land and Water Conservation Fund	Historical Preservation Fund	Reclamation Fund
ASSETS			
Fund Balance with Treasury	$ 14,836,220	$ 2,597,465	$ 5,699,905
Investments, Net	-	-	-
Accounts Receivable, Net	-	-	661,373
Loans Receivable, Net	-	-	2,631,887
General Property, Plant, and Equipment, Net	-	-	-
Other Assets	-	373	-
TOTAL ASSETS	$ 14,836,220	$ 2,597,838	$ 8,993,165
LIABILITIES			
Accounts Payable	-	3	1
Debt	-	-	-
Other Liabilities	-	12	31
TOTAL LIABILITIES	-	15	32
NET POSITION			
Unexpended Appropriations	-	-	-
Cumulative Results of Operations	14,836,220	2,597,823	8,993,133
TOTAL NET POSITION	14,836,220	2,597,823	8,993,133
TOTAL LIABILITIES AND NET POSITION	$ 14,836,220	$ 2,597,838	$ 8,993,165
COST/REVENUE			
Gross Costs	-	65,543	(6,305)
Earned Revenue	-	-	(389,861)
NET COST OF OPERATIONS	$ -	$ 65,543	$ (396,166)
NET POSITION			
Net Position, Beginning Balance	14,303,499	2,663,580	7,952,124
Change in Accounting Principle	-	-	-
Net Position, Beginning Balance as Adjusted	14,303,499	2,663,580	7,952,124
Appropriations Received/Transferred	-	-	-
Royalties Retained	894,587	1,904	1,487,424
Non-Exchange Revenue and Donations	-	-	5
Other Financing sources			
Transfers In/(Out) without Reimbursement	(361,866)	(394)	(842,626)
Imputed Financing from Costs Absorbed by Others	-	-	40
Other	-	(1,724)	-
Net Cost of Operations	-	(65,543)	396,166
Change in Net Position	532,721	(65,757)	1,041,009
NET POSITION, ENDING BALANCE	$ 14,836,220	$ 2,597,823	$ 8,993,133

	Water and Related Resources	Lower Colorado River Basin Fund	Upper Colorado River Basin Fund	Abandoned Mine Land Fund	Southern Nevada Public Land Mgmt Fund	Environmental Improvement and Restoration Fund	Other Earmarked Funds	FY 2006
	$ 730,744	$ 38,647	$ 153,375	$ 1,005	$ 673	$ -	$ 2,487,036	$ 26,545,070
	-	305,043	-	2,272,961	2,277,571	1,062,796	1,979,243	7,897,614
	15,522	8,759	1,488	1,886	-	-	1,391,764	2,080,792
	-	-	-	-	-	-	-	2,631,887
	7,329,633	2,988,498	2,343,420	-	9,386	-	515,339	13,186,276
	21,314	120,377	-	570	-	-	284,509	427,143
	$ 8,097,213	$ 3,461,324	$ 2,498,283	$ 2,276,422	$ 2,287,630	$ 1,062,796	$ 6,657,891	$ 52,768,782
	124,000	11,119	90,546	5,577	24,630	-	580,513	836,389
	-	-	-	-	-	-	914,204	914,204
	2,025,645	1,522	218,964	969	1,888	-	1,198,123	3,447,154
	2,149,645	12,641	309,510	6,546	26,518	-	2,692,840	5,197,747
	210,820	8,077	11,609	-	-	-	106,185	336,691
	5,736,748	3,440,606	2,177,164	2,269,876	2,261,112	1,062,796	3,858,866	47,234,344
	5,947,568	3,448,683	2,188,773	2,269,876	2,261,112	1,062,796	3,965,051	47,571,035
	$ 8,097,213	$ 3,461,324	$ 2,498,283	$ 2,276,422	$ 2,287,630	$ 1,062,796	$ 6,657,891	$ 52,768,782
	1,124,451	163,008	115,626	278,226	42,233	-	3,928,028	5,710,810
	(201,701)	(189,236)	(84,832)	(331)	(745,529)	-	(886,350)	(2,497,840)
	$ 922,750	$ (26,228)	$ 30,794	$ 277,895	$ (703,296)	$ -	$ 3,041,678	$ 3,212,970
	5,961,232	3,402,052	2,124,633	2,148,891	1,657,538	1,030,929	3,856,168	45,100,646
	-	-	-	-	-	-	(282,732)	(282,732)
	5,961,232	3,402,052	2,124,633	2,148,891	1,657,538	1,030,929	3,573,436	44,817,914
	92,250	24,808	62,274	-	-	-	191,064	370,396
	-	-	-	-	-	-	2,002,686	4,386,601
	9	497	-	399,274	-	31,867	834,609	1,266,261
	746,123	(4,902)	(4,101)	-	(100,096)	-	391,232	(176,630)
	70,704	-	36,761	-	374	-	12,200	120,079
	-	-	-	(394)	-	-	1,502	(616)
	(922,750)	26,228	(30,794)	(277,895)	703,296	-	(3,041,678)	(3,212,970)
	(13,664)	46,631	64,140	120,985	603,574	31,867	391,615	2,753,121
	$ 5,947,568	$ 3,448,683	$ 2,188,773	$ 2,269,876	$ 2,261,112	$ 1,062,796	$ 3,965,051	$ 47,571,035

Investments in Treasury Securities. Interior invests funds in securities on behalf of various Interior programs. The Federal Government does not set aside assets to pay future expenditures associated with earmarked funds. The cash generated from earmarked funds is used by the U.S. Treasury for general government purposes. Treasury securities are issued to the earmarked fund as evidence of earmarked receipts. These securities are an asset to the earmarked fund and are presented as Investments in the following tables. Treasury securities are a liability of the U.S. Treasury and are eliminated in the consolidation of the U.S. Government-wide financial statements. Treasury will finance any future redemption of the securities by an earmarked fund in the same manner that all other government expenditures are financed.

The Land and Water Conservation Fund. The Land and Water Conservation Fund (LWCF) was enacted in 1964 (Public Law 88-578) to create and maintain a nationwide legacy of high quality recreation areas and facilities. The LWCF Act established a funding source for both Federal acquisition of authorized national park, conservation, and recreation areas, as well as grants to State and local governments to help them acquire, develop, and improve outdoor recreation areas. The fund is accounted for by the information provided by MMS and is reported as a restricted asset.

Annually, amounts for the LWCF under Public Law 89-665 are transferred from MMS to the NPS, the majority of which are from royalties from Outer Continental Shelf oil deposits. Each year, amounts from the LWCF are warranted to some of the bureaus within Interior and the rest to the Department of Agriculture's Forest Service.

The Historic Preservation Fund (HPF). The HPF provides matching grants to encourage private and non-Federal investment in historic preservation efforts nationwide, and assists State and local governments, and Indian Tribes with expanding and accelerating their historic preservation activities nationwide. HPF grants serve as a catalyst and "seed money" to preserve and protect our Nation's irreplaceable heritage for current and future generations. The fund is accounted for by the information provided by MMS and is reported as a restricted asset.

Annually, amounts for the HPF under Public Law 89-665 are transferred from MMS to the NPS, the majority of which are from royalties from Outer Continental Shelf oil deposits. Each year, amounts from the HPF are warranted to some of the bureaus within Interior and the rest to the Department of Agriculture's Forest Service.

Reclamation Fund. The Reclamation Fund was established by the Reclamation Act of 1902 (32 Statute [Stat.] 388). It is a restricted, unavailable receipt fund into which a substantial portion of Reclamation's revenues (mostly repayment of capital investment costs, associated interest, and operating and material reimbursements from water and power users) and receipts from other Federal agencies (primarily revenues from certain Federal mineral royalties and hydropower transmission) are deposited. No expenditures are made directly from the Reclamation Fund, however, funds are transferred from the Reclamation Fund into Reclamation's appropriated expenditure funds or to other Federal agencies pursuant to congressional appropriation acts to invest and reinvest in the reclamation of arid lands in the Western United States. Costs associated with multipurpose plants are allocated to the various purposes, principally; power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as fish and wildlife enhancement, recreation, and flood control can be non-reimbursable. Capital investment costs are recovered over a 40-year period, but may extend to 50 years or more if authorized by the Congress.

Water and Related Resources Fund. The Water and Related Resources Fund receives most of its funding from appropriations derived from the Reclamation Fund. These funds are used for Reclamation's central mission of delivering water and generating hydropower in the Western United States. Costs associated with multipurpose structures and facilities are allocated to various purposes. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. Costs associated with purposes such as fish and wildlife enhancement, recreation, and flood control can be non-reimbursable. Capital investment costs are recovered over a 40-year period but may extend to 50 years or more if authorized by Congress. Recovery of capital investment costs and revenue generated from these activities are returned to the Reclamation Fund.

Lower Colorado River Basin Fund. The Lower Colorado River Basin Fund receives funding from multiple sources for specific purposes as provided under Public Law 90-537 and amended by Public Law 108-451. Funding sources include appropriations, Federal revenue from Central Arizona Project, Federal revenues from the Boulder Canyon and Parker-Davis Project, the Western Area Power Administration, Federal revenue from the Northwest-Pacific Southwest intertie in the States of Nevada and Arizona, and revenues earned from investing in Treasury securities. Funding sources may be retained and are available without further appropriation. The fund provides for irrigation development and management activities within the Lower Colorado River Basin including operation, maintenance, replacements, and emergency expenditures for facilities of the Colorado River storage project and participating projects.

Upper Colorado River Basin Fund. The Upper Colorado River Basin Fund receives funding from appropriations, water users, and the Western Area Power Administration. Funding sources may be retained and are available without further appropriation. Public Law 90-537 provides that appropriations and revenues collected in connection with the operation of the Colorado River storage project shall be available for operations, maintenance, replacements, and emercency expenditures for facilities of the Colorado River storage project and participating projects.

Abandoned Mine Land Fund. Public Law 95-87 authorizes the collection of a Coal Mine Operators fee. Fees of 35 cents per ton of surface mined coal, 15 cents per ton of coal mined underground, and 10 cents per ton of lignite are collected from active mining operations. The fees are deposited in the Abandoned Mine Land (AML) Reclamation Fund, which is used to fund abandoned mine land reclamation projects.

Expenditures from the AML Fund may only be made as a consequence of appropriations or other laws. AML reclamation is accomplished primarily by States and Tribes and is funded by grants. Grant funding levels are determined by Interior's annual appropriation and consider the individual State or Tribe's needs, the State and Federal shares, as well as emergency and special funding requirements.

Under authority of Public Law 101-509, Interior began investing AML funds in U.S. Treasury Securities. Beginning in 1996, under a requirement of the Energy Policy Act of 1992 (Public Law 102-486), Interior began an annual transfer from the investment interest earned to the United Mine Workers of America Combined Benefit Fund (UMWA CBF). This transfer is used to defray anticipated health care costs for eligible union coal mine workers who retired on or before July 20, 1992, and their dependents.

Southern Nevada Public Land Management Fund. The Southern Nevada Public Land Management Act (SNPLMA), enacted in October 1998, authorizes BLM to sell public land tracts that are interspersed with or adjacent to private land in the Las Vegas Valley. BLM is authorized to invest 85% of the sales in interest-bearing Treasury securities, while 10% of the proceeds go to the Southern Nevada Water Authority and 5% goes to the State of Nevada's Education Fund. The revenues generated from the land sales and investments enable BLM and other government entities to acquire environmentally sensitive lands and build or maintain trails, day-use areas, campgrounds, etc., to benefit public land visitors.

Environmental Improvement and Restoration Fund. The Environmental Improvement and Restoration Fund (EIRF) was a distribution of the Alaska Escrow Fund in which half of the principal was invested in Treasury Securities. The purpose of EIRF is to invest the monies and earn interest until there is further congressional action. Congress has permanently appropriated 20% of the prior fiscal year interest earned by the EIRF to the Department of Commerce each year for marine research activities. The remaining 80% remains in the fund to earn interest and may be appropriated by Congress to certain other agencies, as provided by the law. No assets are available to Interior unless appropriated by Congress.

Other Earmarked Funds. Interior is responsible for the management of numerous earmarked funds with a variety of purposes. Funds presented on an individual basis represent the majority of Interior's net position attributable to earmarked funds. All other earmarked funds have been aggregated in accordance with SFFAS No. 27.

NOTE 25. DEDICATED COLLECTIONS

Dedicated Collections as of September 30, 2006 and 2005 consist of the following:

(dollars in thousands)		FY 2006		FY 2005
ASSETS				
Fund Balance with Treasury	$	(34)	$	(34)
Investments		287,655		280,034
TOTAL ASSETS	$	287,621	$	280,000
TOTAL LIABILITIES		-		-
NET POSITION		287,621		280,000
TOTAL LIABILITIES AND NET POSITION	$	287,621	$	280,000
CHANGE IN NET POSITION				
Net Position, Beginning Balance		280,000		268,447
Cumulative Results of Operations:				
Non-exchange Revenue		14,165		11,870
Transfers In/(Out) without Reimbursement		8,111		7,889
Program Costs		(14,665)		(8,752)
Exchange Revenue		10		546
NET POSITION, ENDING BALANCE	$	287,621	$	280,000

Office of the Special Trustee for American Indians. Established by the American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412), the Office of the Special Trustee for American Indians (OST) was created to improve the accountability and management of Indian funds held in trust by the Federal Government. OST manages and is accountable for Tribal Trust and Special Funds that are reported in these financial statements. Financing sources for these funds are from judgment/award monies from Federal sources and other lease and rental income from the public.

NOTE 26. CHANGES IN ACCOUNTING PRINCIPLE

In July 2006, an updated OMB Circular No. A-136 was issued to the Federal community delineating Federal financial reporting requirements. In prior versions of this guidance, Federal agencies (child) who received allocated budget authority through another Federal agency (parent) were allowed to report proprietary activity in their financial statements, if material to them. However, beginning in FY 2007, child agencies will be required to provide parent agencies all of their financial activity. Only parent agencies will report this financial activity in their financial statements. Early implementation is allowed if both parent and child agency agree.

In FY 2006, Interior and the Department of Transportation agreed to use the Highway Trust Fund as a pilot for this new reporting requirement. The cumulative effect of this change in accounting principle resulted in a decrease of $111 million to assets and $21 million to liabilities on the Balance Sheet. This resulted in a corresponding decrease of $90 million to the beginning balance of cumulative results of operations on the Statement of Changes in Net Position.

Effective October 1, 2005, Interior adopted SFFAS No. 27, *Identifying and Reporting Earmarked Funds*. This standard requires Federal agencies who are responsible for carrying out the program financed by a trust fund to report the assets, liabilities, revenue, and expenses of the trust. In the case of multiple responsible agencies, each component agency is required to report their portion of the trust, if clearly identifiable. Prior to this guidance, Federal agencies who had the preponderance of activity reported this information.

In accordance with this standard, Interior is no longer reporting the Corps of Engineers' and the U.S. Coast Guard's share of the Sport Fish Restoration and Boating Trust Fund. The cumulative effect of this change in accounting principle resulted in a decrease of $633 million to assets and $440 million to liabilities on the Balance Sheet. This also resulted in a corresponding decrease of $193 million to the beginning balance of cumulative results of operations on the Statement of Changes in Net Position.