

PART 3.
FINANCIAL
SECTION

Message from the Chief Financial Officer



In FY 2006, the Department of the Interior (Department) continued its journey towards management excellence by refining the definition of progress and increasing the levels of accountability. Details on our journey towards management excellence are captured in the Department's FY 2006 Performance and Accountability Report (PAR). The PAR provides the Department's most important financial and performance information. It is also our principal publication and report to Congress and the American people. This report details program leadership and stewardship of the resources and public funds entrusted to us.

I am pleased to report that for the tenth consecutive year we have received an unqualified (“clean”) opinion on the Department's consolidated financial statements from our auditors. This is the best possible audit result and affirms our commitment to financial reporting excellence. Along with this opinion, the Department had other noteworthy accomplishments in FY 2006. The Department:

- Received the prestigious Association of Government Accountants' Certificate of Excellence in Accountability Reporting for FY 2005. This marks the fifth consecutive year that the Department has been recognized for quality reporting;
- Issued a revised FY 2007 – FY 2012 unified Strategic Plan for the Department. The new strategic plan integrates and aligns bureau responsibilities under four major mission goals—resource protection, resource use, recreation, and serving communities—and will tie budget to performance;
- Met or exceeded 67% of the 209 performance outcome measures from our GPRA Strategic Plan. This is the third year we have reported on our performance against these measures. In FY 2005, we met or exceeded 76.2% of our measures; in FY 2004, we met or exceeded 70.4% of our measures;
- Continued implementation of new human resource strategies and processes. We have changed the employee performance management system to create a linkage to the Department's Strategic Plan goals and measures. This ensures that every employee's daily activities are aligned to improve service delivery and produce mission results. Our Human Capital Management Strategic Plan has identified challenges in such critical areas as Indian trust management, wildland fire management, and law enforcement;
- Continued implementation of an Activity-Based Costing/Management (ABC/M) system throughout the Department. The ABC/M system includes 316 crosscutting work activities that bureaus and Departmental offices either use directly, or to capture costs associated with specific work activities. ABC/M provides program and financial managers with the information needed to manage resources, monitor performance and evaluate outcomes effectively;
- Continued development and implementation of the Department's Financial and Business Management System (FBMS). The FBMS replaces Interior's legacy accounting and business systems while providing standard business practices supported by a single, integrated financial management system;

- Developed and published, in partnership with bureau asset management professionals, an approved asset management plan. This plan provides asset management policies and guidance, and documents the requirements for inventory and condition assessment of real property and facilities. The Department manages nearly every type of facility found in America's towns and cities—we have wastewater treatment plants, dams, electric generating facilities, houses, hotels, campgrounds, roads, boat docks, stables, and landfills. Understanding our assets and their condition, while managing them responsibly allows us to direct our resources to best serve the public;
- Made significant progress toward achieving the President's Management Agenda goals. We improved our status for E-Government and Real Property Management from red to yellow. While our status for Financial Management remains red, OMB has recognized our efforts to improve during the year, particularly in the area of correcting material weaknesses, and our progress score has been raised from yellow to green;
- Corrected two and downgraded two of the FMFIA material weaknesses carried over from FY 2005. We also corrected or downgraded 100% of the material weaknesses reported in the FY 2005 financial statement audits. One FMFIA material weakness is carried over into FY 2007. For a complete understanding of these issues and our commitment to accountability, please see the "Compliance with Legal and Regulatory Requirements" section;
- Exceeded our annual performance goal of implementing 85% of GAO and OIG audit recommendations scheduled for completion in this fiscal year. For FY 2006, Interior achieved an actual implementation rate of 91%; and
- Complied with the new requirements of OMB Circular A-123 Appendix A by documenting and testing the Department's internal controls over financial statements and issuing an unqualified assurance statement related to their effectiveness.

Our journey towards management excellence requires the ongoing commitment and creativity of Interior's dedicated employees. During FY 2007, mission, metrics, and management will continue to be the foundation on which we achieve results. We plan to strengthen this foundation and our "mission" by establishing clear goals, refining performance measures, and aligning our workforce to effectively achieve those goals.



R. Thomas Weimer
 Chief Financial Officer
 November 15, 2006

PRINCIPAL FINANCIAL STATEMENTS

The principal financial statements included in Interior's FY 2006 Annual Report on Performance and Accountability have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Circular No. A-136, "Financial Reporting Requirements." These statements include the following:

- Balance Sheet;
- Statement of Net Cost;
- Statement of Changes in Net Position;
- Statement of Budgetary Resources;
- Statement of Financing; and
- Statement of Custodial Activity.

The responsibility for the integrity of the financial information included in these statements rests with management of the Department of the Interior. The audit of Interior's principal financial statements was performed by an independent certified public accounting firm, selected by the Department's Office of Inspector General. The auditors' report issued by the independent certified public accounting firm is included in Part 3 of this report.

Balance Sheet
as of September 30, 2006
(dollars in thousands)

ASSETS	
Intragovernmental Assets:	
Fund Balance with Treasury (Note 2)	\$ 33,409,382
Investments, Net (Note 4)	8,094,833
Accounts and Interest Receivable (Note 5)	440,510
Loans and Interest Receivable, Net (Note 6)	2,631,887
Other (Note 11)	529
Total Intragovernmental Assets	44,577,141
Cash (Note 3)	825
Investments, Net (Note 4)	188,100
Accounts and Interest Receivable, Net (Note 5)	2,478,037
Loans and Interest Receivable, Net (Note 7)	181,137
Inventory and Related Property, Net (Note 8)	280,859
General Property, Plant, and Equipment, Net (Note 9)	17,491,901
Other (Note 11)	234,987
Stewardship Assets (Note 10)	
TOTAL ASSETS (Note 11)	\$ 65,432,987
LIABILITIES	
Intragovernmental Liabilities:	
Accounts Payable	\$ 44,946
Debt (Note 12)	1,056,572
Other	
Resources Payable to Treasury	2,094,244
Advances and Deferred Revenue	1,309,798
Custodial Liability	1,061,879
Other Liabilities	501,075
Total Intragovernmental Liabilities	6,068,514
Accounts Payable	1,109,655
Loan Guarantee Liability (Note 7)	92,380
Federal Employee and Veteran Benefits (Note 13)	1,387,423
Environmental and Disposal Liabilities (Note 14)	153,466
Other	
Contingent Liabilities (Note 14)	614,468
Advances and Deferred Revenue	747,359
Payments Due to States	812,588
Other Liabilities	952,122
TOTAL LIABILITIES (Note 15)	11,937,975
Commitments and Contingencies (Notes 14 and 17)	
Net Position	
Unexpended Appropriations - Earmarked Funds (Note 24)	336,691
Unexpended Appropriations - Other Funds	3,890,857
Cumulative Results of Operations - Earmarked Funds (Note 24)	47,234,344
Cumulative Results of Operations - Other Funds	2,033,120
Total Net Position	53,495,012
TOTAL LIABILITIES AND NET POSITION	\$ 65,432,987

The accompanying notes are an integral part of these financial statements.

Balance Sheet
as of September 30, 2005
(dollars in thousands)

ASSETS	
Intragovernmental Assets:	
Fund Balance with Treasury (Note 2)	\$ 32,031,132
Investments, Net (Note 4)	7,463,669
Accounts and Interest Receivable (Note 5)	508,677
Loans and Interest Receivable, Net (Note 6)	2,458,075
Other (Note 11)	1,405
Total Intragovernmental Assets	42,462,958
Cash (Note 3)	1,270
Investments, Net (Note 4)	199,125
Accounts and Interest Receivable, Net (Note 5)	2,660,566
Loans and Interest Receivable, Net (Note 7)	183,855
Inventory and Related Property, Net (Note 8)	305,695
General Property, Plant, and Equipment, Net (Note 9)	17,323,778
Other (Note 11)	296,653
Stewardship Assets (Note 10)	
TOTAL ASSETS (Note 11)	\$ 63,433,900
LIABILITIES	
Intragovernmental Liabilities:	
Accounts Payable	\$ 519,799
Debt (Note 12)	1,220,525
Other	
Resources Payable to Treasury	2,016,834
Advances and Deferred Revenue	1,626,524
Custodial Liability	996,371
Other Liabilities	497,410
Total Intragovernmental Liabilities	6,877,463
Accounts Payable	1,082,888
Loan Guarantee Liability (Note 7)	81,670
Federal Employee and Veteran Benefits (Note 13)	1,367,705
Environmental and Disposal Liabilities (Note 14)	120,808
Other	
Contingent Liabilities (Note 14)	631,174
Advances and Deferred Revenue	665,949
Payments Due to States	1,009,418
Other Liabilities	859,903
TOTAL LIABILITIES (Note 15)	12,696,978
Commitments and Contingencies (Notes 14 and 17)	
Net Position	
Unexpended Appropriations	4,179,242
Cumulative Results of Operations	46,557,680
Total Net Position	50,736,922
TOTAL LIABILITIES AND NET POSITION	\$ 63,433,900

The accompanying notes are an integral part of these financial statements.

Statement of Net Cost
for the fiscal years ended September 30, 2006 and 2005
(dollars in thousands)

	FY 2006	FY 2005
Resource Protection		
Costs	\$ 3,946,834	\$ 3,727,461
Less: Earned Revenue	1,136,759	1,428,697
Net Cost	2,810,075	2,298,764
Resource Use		
Costs	3,942,639	4,120,619
Less: Earned Revenue	1,327,167	1,217,758
Net Cost	2,615,472	2,902,861
Recreation		
Costs	1,780,694	1,847,534
Less: Earned Revenue	370,645	340,109
Net Cost	1,410,049	1,507,425
Serving Communities		
Costs	6,518,561	6,859,829
Less: Earned Revenue	904,395	1,026,009
Net Cost	5,614,166	5,833,820
Reimbursable Activity and Other		
Costs	3,295,714	3,195,202
Less: Earned Revenue	2,340,934	2,325,046
Net Cost	954,780	870,156
Total		
Costs	19,484,442	19,750,645
Less: Earned Revenue	6,079,900	6,337,619
Net Cost of Operations (Note 18)	\$ 13,404,542	\$ 13,413,026

Statement of Changes in Net Position
for the fiscal years ended September 30, 2006 and 2005
(dollars in thousands)

	Earmarked	All Other	FY 2006 Consolidated	FY 2005 Consolidated
	(Note 24)			
UNEXPENDED APPROPRIATIONS				
Beginning Balance	\$ 396,643	\$ 3,782,599	\$ 4,179,242	\$ 4,080,359
Budgetary Financing Sources				
Appropriations Received, General Funds	378,871	10,243,663	10,622,534	10,197,599
Appropriations Transferred In/(Out)	(6,043)	121,430	115,387	93,641
Appropriations-Used	(430,348)	(10,101,021)	(10,531,369)	(10,039,735)
Other Adjustments	(2,432)	(155,814)	(158,246)	(152,622)
Net Change	(59,952)	108,258	48,306	98,883
Ending Balance - Unexpended Appropriations	\$ 336,691	\$ 3,890,857	\$ 4,227,548	\$ 4,179,242
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	\$ 44,704,003	\$ 1,853,677	\$ 46,557,680	\$ 43,051,348
Adjustments				
Change in Accounting Principle (Note 26)	(282,732)	-	(282,732)	-
Beginning Balance, as adjusted	44,421,271	1,853,677	46,274,948	43,051,348
Budgetary Financing Sources				
Appropriations-Used	430,348	10,101,021	10,531,369	10,039,735
Royalties Retained (Note 16)	4,386,601	3,212	4,389,813	5,130,136
Non-Exchange Revenue	1,233,054	17,092	1,250,146	1,276,801
Transfers In/(Out) without Reimbursement	(43,666)	(150,619)	(194,285)	(58,601)
Donations and Forfeitures of Cash and Cash Equivalents	32,702	-	32,702	33,159
Other Budgetary Financing Sources	(223)	7,764	7,541	51,040
Other Adjustments	(393)	364	(29)	-
Other Financing Sources				
Donations and Forfeitures of Property	505	6,040	6,545	26,596
Transfers In/(Out) without Reimbursement	(132,964)	33,373	(99,591)	(31,041)
Imputed Financing from Costs Absorbed by Others (Note 19)	120,079	352,768	472,847	451,533
Total Financing Sources	6,026,043	10,371,015	16,397,058	16,919,358
Net Cost of Operations	(3,212,970)	(10,191,572)	(13,404,542)	(13,413,026)
Net Change	2,813,073	179,443	2,992,516	3,506,332
Ending Balance - Cumulative Results of Operations	\$ 47,234,344	\$ 2,033,120	\$ 49,267,464	\$ 46,557,680

The accompanying notes are an integral part of these financial statements.

Statement of Budgetary Resources
for the fiscal years ended September 30, 2006 and 2005
(dollars in thousands)

	Total Budgetary Accounts		Non-Budgetary Credit Program	
	FY 2006	FY 2005	FY 2006	FY 2005
Budgetary Resources:				
Unobligated balance, beginning of Fiscal Year:	\$ 5,710,929	\$ 5,209,456	\$ 83,309	\$ 76,836
Recoveries of prior year unpaid obligations	484,943	411,226	8	9
Budget Authority				
Appropriation	16,124,453	16,085,947	-	-
Borrowing Authority	-	-	1,584	1,095
Spending authority from offsetting collections				
Earned				
Collected	\$ 5,479,124	\$ 5,194,626	39,702	42,284
Change in receivables from Federal sources	(2,997)	75,028	-	-
Change in unfilled customer orders				
Advance received	(306,820)	51,822	-	-
Without advance from Federal sources	(104,540)	270,854	-	-
Total Budget Authority	21,189,220	21,678,277	41,286	43,379
Nonexpenditure transfers, net, anticipated and actual	438,207	(114,713)	-	-
Temporarily not available pursuant to Public Law	(16,617)	(11,853)	-	-
Permanently not available	(186,788)	(347,464)	(3,255)	(18,282)
Total Budgetary Resources (Note 21)	\$ 27,619,894	\$ 26,824,929	\$ 121,348	\$ 101,942
Status of Budgetary Resources:				
Obligations incurred (Note 21):				
Direct	\$ 16,380,951	\$ 16,019,806	\$ 12,768	\$ 18,633
Reimbursable	5,052,958	5,094,194	-	-
Total Obligations incurred	21,433,909	21,114,000	12,768	18,633
Unobligated balance available (Note 21):				
Apportioned	5,987,182	5,556,737	108,580	83,309
Exempt from apportionment	58,325	44,920	-	-
Total Unobligated balance available	6,045,507	5,601,657	108,580	83,309
Unobligated balance not available (Note 21)	140,478	109,272	-	-
Total Status of Budgetary Resources	\$ 27,619,894	\$ 26,824,929	\$ 121,348	\$ 101,942
Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 8,557,216	\$ 7,648,696	\$ 4,005	\$ 7,775
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(1,224,762)	(878,880)	-	-
Total unpaid obligated balances, net, beginning of Fiscal Year	7,332,454	6,769,816	4,005	7,775
Obligations incurred, net	21,433,909	21,114,000	12,768	18,633
Less: Gross outlays	(20,666,259)	(19,794,254)	(12,831)	(22,394)
Less: Recoveries of prior year unpaid obligations, actual	(484,943)	(411,226)	(8)	(9)
Change in uncollected customer payments from Federal sources	107,537	(345,882)	-	-
Total, unpaid obligated balance, net, end of period	\$ 7,722,698	\$ 7,332,454	\$ 3,934	\$ 4,005
Obligated Balance, net, end of period - by component:				
Unpaid obligations	8,839,925	8,557,216	3,934	4,005
Less: Uncollected customer payments from Federal sources	(1,117,227)	(1,224,762)	-	-
Total, unpaid obligated balance, net, end of period	\$ 7,722,698	\$ 7,332,454	\$ 3,934	\$ 4,005
Net Outlays:				
Gross outlays	20,666,259	19,794,254	12,831	22,394
Less: Offsetting collections	(5,172,304)	(5,246,450)	(39,702)	(42,284)
Less: Distributed Offsetting receipts	(6,940,455)	(5,904,495)	-	-
Net Outlays(Receipts)	\$ 8,553,500	\$ 8,643,309	\$ (26,871)	\$ (19,890)

The accompanying notes are an integral part of these financial statements.

Statement of Financing
for the fiscal years ended September 30, 2006 and 2005
(dollars in thousands)

	FY 2006	FY 2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 21,446,677	\$ 21,132,633
Less: Spending Authority From Offsetting Collections/Recoveries	(5,589,420)	(6,045,849)
Obligations Net of Offsetting Collections and Recoveries	15,857,257	15,086,784
Less: Offsetting Receipts	(6,940,455)	(5,904,495)
Net Obligations	8,916,802	9,182,289
Other Resources:		
Donations and Forfeitures of Property	6,545	26,596
Transfers In/Out Without Reimbursement	(99,591)	(31,041)
Imputed Financing From Costs Absorbed by Others	472,847	451,533
Net Other Resources Used to Finance Activities	379,801	447,088
Total Resources Used to Finance Activities	9,296,603	9,629,377
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(97,976)	(815,718)
Change in Unfilled Customer Orders	(413,712)	334,416
Resources That Fund Expenses Recognized in Prior Periods	(520,965)	(229,281)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	40,818	41,298
Offsetting Receipts Not Part of the Net Cost of Operations	4,983,557	3,506,569
Resources That Finance the Acquisition of Assets	(706,424)	(920,029)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	86,350	122,673
Allocation Transfers Reconciling Items, Parent (Note 22)	(32,341)	(33,613)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	3,339,307	2,006,315
Total Resources Used to Finance the Net Cost of Operations	12,635,910	11,635,692
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	5,724	10,155
Increase in Environmental and Disposal Liability	34,446	39,971
Upward/Downward Re-estimates in Credit Subsidy Expense	10,918	21,035
(Increase) in Exchange Revenue Receivable From the Public	(767)	(424)
Other	94,662	743,467
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	144,983	814,204
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	476,377	483,122
Revaluation of Assets or Liabilities	16,418	46,173
Allocation Transfers Reconciling Items, Child (Note 22)	124,400	411,612
Other	6,454	22,223
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	623,649	963,130
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	768,632	1,777,334
Net Cost of Operations	\$ 13,404,542	\$ 13,413,026

The accompanying notes are an integral part of these financial statements.

Statement of Custodial Activity
for the fiscal years ended September 30, 2006 and 2005
(dollars in thousands)

	FY 2006	FY 2005
Revenues on Behalf of the Federal Government		
Mineral Lease Revenue		
Rents and Royalties	\$ 10,660,720	\$ 8,972,260
Onshore Lease Sales	275,031	1,658,786
Offshore Lease Sales	949,875	560,622
Strategic Petroleum Reserve (Note 20)	(18,466)	1,194,618
Total Revenue	\$ 11,867,160	\$ 12,386,286
Disposition of Revenue		
Distribution to Department of the Interior		
National Park Service Conservation Funds	898,304	1,048,870
Bureau of Reclamation	1,651,813	1,289,055
Minerals Management Service	2,295,815	1,762,092
Bureau of Land Management	71,821	81,408
Fish and Wildlife Service	1,608	1,036
Distribution to Other Federal Agencies		
Department of the Treasury	6,870,450	5,502,464
Department of Agriculture	73,531	50,860
Department of Commerce	25	1
Department of Energy (Note 20)	(18,466)	1,194,618
Distribution to Indian Tribes and Agencies	158,155	114,025
Distribution to States and Others	84,490	73,706
Change in Untransferred Revenue	(220,386)	1,268,151
Total Disposition of Revenue	\$ 11,867,160	\$ 12,386,286
Net Custodial Activity	\$ -	\$ -

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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 transferred 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 reimbursements 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:						Value of
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):						Assets
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Foreclosed Property		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:

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):		Liabilities for		
Loan Guarantee Programs		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:		Fees and				
Loan Guarantee Programs		Interest Supplements	Defaults	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 -			Bureau of Indian Affairs -	
	Direct Loans (Credit Reform)	\$	54	Guaranteed Loan Programs	\$ 671
FY 2006	Total	\$	54		\$ 671
	Bureau of Reclamation -			Bureau of Indian Affairs -	
	Direct Loans (Credit Reform)	\$	78	Guaranteed 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 technical 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)	FY 2006	FY 2005
USPP Pension Plan Expense		
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)	FY 2006	FY 2005
USPP Pension Plan Liability		
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		Estimated Range of Loss		
(dollars in thousands)	Accrued Liabilities	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		Estimated Range of Loss		
(dollars in thousands)	Accrued Liabilities	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		Not Covered by Budgetary Resources		FY 2006
	Current	Non-Current	Current	Non-Current	
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		Not Covered by Budgetary Resources		FY 2005
	Current	Non-Current	Current	Non-Current	
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		Total
Fiscal Year	Federal	Public	Federal	Public	
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 recognized 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 rescinded 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 emergency 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.

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REQUIRED
SUPPLEMENTARY
INFORMATION
(UNAUDITED,
SEE AUDITORS'
REPORT)

This section includes the Combining Statement of Budgetary Resources (Budgetary Accounts), deferred maintenance information, and heritage asset and stewardship land information.

Combining Statement of Budgetary Resources
for the fiscal year ended September 30, 2006
(dollars in thousands)

	Interior Franchise Fund	Working Capital Fund	Water and Related Resources	National Park Service Operations	Management of Land and Resources
Budgetary Resources:					
Unobligated balance, beginning of Fiscal Year:	\$ 788,609	\$ 187,814	\$ 276,153	\$ 30,609	\$ 33,190
Recoveries of prior year unpaid obligations	-	6,574	27,091	10,020	24,327
Budget Authority					
Appropriation	-	-	892,556	1,744,599	860,791
Spending authority from offsetting collections					
Earned					
Collected	1,379,994	1,458,881	236,740	22,263	89,295
Change in receivables from Federal sources	(1,130)	16,956	(4,315)	86	1,674
Change in unfilled customer orders					
Advance received	(86,525)	(214,473)	12,642	-	-
Without advance from Federal sources	(71,777)	(43,764)	(6,761)	-	7,209
Total Budget Authority	1,220,562	1,217,600	1,130,862	1,766,948	958,969
Nonexpenditure transfers, net, anticipated and actual	-	-	(103,962)	164	-
Temporarily not available pursuant to Public Law	-	-	(7,017)	-	-
Permanently not available	-	-	(1,818)	(35,411)	(13,193)
Total Budgetary Resources	\$ 2,009,171	\$ 1,411,988	\$ 1,321,309	\$ 1,772,330	\$ 1,003,293
Status of Budgetary Resources:					
Obligations incurred:					
Direct					
Reimbursable	-	1,062	899,338	1,685,273	899,949
Total Obligations incurred	1,505,207	1,283,318	236,569	21,730	62,168
Unobligated balance available:					
Apportioned	503,964	127,608	185,354	52,282	41,176
Exempt from apportionment	-	-	48	-	-
Total Unobligated balance available	503,964	127,608	185,402	52,282	41,176
Unobligated balance not available	-	-	-	13,045	-
Total Status of Budgetary Resources	\$ 2,009,171	\$ 1,411,988	\$ 1,321,309	\$ 1,772,330	\$ 1,003,293
Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, beginning of Fiscal Year	703,246	780,667	441,970	417,869	237,296
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year					
	(158,943)	(372,493)	(53,870)	(264)	(22,978)
Total unpaid obligated balances, net, beginning of Fiscal Year	544,303	408,174	388,100	417,605	214,318
Obligations incurred, net	1,505,207	1,284,380	1,135,907	1,707,003	962,117
Less: Gross outlays	(1,395,633)	(1,459,881)	(962,567)	(1,745,476)	(937,226)
Less: Recoveries of prior year unpaid obligations, actual	-	(6,574)	(27,091)	(10,020)	(24,327)
Change in uncollected customer payments from Federal sources	72,907	26,808	11,076	(86)	(8,883)
Total unpaid obligated balance, net, end of period	\$ 726,784	\$ 252,907	\$ 545,425	\$ 369,026	\$ 205,999
Obligated balance, net, end of period - by component:					
Unpaid obligations	812,820	598,592	588,221	369,376	237,860
Less: Uncollected customer payments from Federal sources,	(86,036)	(345,685)	(42,796)	(350)	(31,861)
Total unpaid obligated balance, net, end of period	\$ 726,784	\$ 252,907	\$ 545,425	\$ 369,026	\$ 205,999
Net Outlays:					
Net Outlays					
Gross outlays	1,395,633	1,459,881	962,567	1,745,476	937,226
Less: Offsetting collections	(1,293,469)	(1,244,408)	(249,382)	(22,263)	(89,296)
Less: Distributed Offsetting receipts	-	-	(368)	-	-
Net Outlays(Receipts)	\$ 102,164	\$ 215,473	\$ 712,817	\$ 1,723,213	\$ 847,930

Combining Statement of Budgetary Resources
for the fiscal year ended September 30, 2006
(dollars in thousands)

Wildland Fire Management	Bureau of Land Mangement Operations	Fish and Wildlife Resource Management	Minerals Leasing and Associated Payments	Operation of Indian Programs	Survey, Investigation and Research	Other Budgetary Accounts	FY 2006 Total Budgetary Accounts
\$ 128,311	\$ 892,763	\$ 70,377	\$ -	\$ 362,233	\$ 52,864	\$ 2,888,006	\$ 5,710,929
24,927	71,721	17,399	-	40,835	7,277	254,772	484,943
866,564	862,343	1,016,278	2,110,432	1,991,490	995,205	4,784,195	16,124,453
27,813	-	203,249	-	274,175	435,933	1,350,781	5,479,124
(104)	-	(3,955)	-	1,355	(8,603)	(4,961)	(2,997)
(2,400)	-	2,090	-	(1,489)	(1,268)	(15,397)	(306,820)
(2,450)	-	(54,418)	-	45,559	8,739	13,123	(104,540)
889,423	862,343	1,163,244	2,110,432	2,311,090	1,430,006	6,127,741	21,189,220
97,366	116	10,590	-	535	1,500	431,898	438,207
-	-	-	-	-	-	(9,600)	(16,617)
(11,279)	-	(14,946)	-	(29,300)	(19,479)	(61,362)	(186,788)
\$ 1,128,748	\$ 1,826,943	\$ 1,246,664	\$ 2,110,432	\$ 2,685,393	\$ 1,472,168	\$ 9,631,455	\$ 27,619,894
951,287	266,547	1,044,070	2,110,432	1,957,502	983,362	5,582,129	16,380,951
24,184	-	126,586	-	281,978	438,493	1,072,725	5,052,958
975,471	266,547	1,170,656	2,110,432	2,239,480	1,421,855	6,654,854	21,433,909
153,277	1,560,396	74,371	-	372,507	27,033	2,889,214	5,987,182
-	-	-	-	-	-	58,277	58,325
153,277	1,560,396	74,371	-	372,507	27,033	2,947,491	6,045,507
-	-	1,637	-	73,406	23,280	29,110	140,478
\$ 1,128,748	\$ 1,826,943	\$ 1,246,664	\$ 2,110,432	\$ 2,685,393	\$ 1,472,168	\$ 9,631,455	\$ 27,619,894
298,213	877,886	386,568	-	262,403	278,270	3,872,828	8,557,216
(11,705)	-	(133,230)	-	(30,200)	(181,240)	(259,839)	(1,224,762)
286,508	877,886	253,338	-	232,203	97,030	3,612,989	7,332,454
975,471	266,547	1,170,656	2,110,432	2,239,480	1,421,855	6,654,854	21,433,909
(973,525)	(131,888)	(1,200,078)	(2,110,432)	(2,201,358)	(1,402,471)	(6,145,724)	(20,666,259)
(24,927)	(71,721)	(17,399)	-	(40,835)	(7,277)	(254,772)	(484,943)
2,554	-	58,373	-	(46,914)	(136)	(8,162)	107,537
\$ 266,081	\$ 940,824	\$ 264,890	\$ -	\$ 182,576	\$ 109,001	\$ 3,859,185	\$ 7,722,698
275,233	940,824	339,747	-	259,690	290,376	4,127,186	8,839,925
(9,152)	-	(74,857)	-	(77,114)	(181,375)	(268,001)	(1,117,227)
\$ 266,081	\$ 940,824	\$ 264,890	\$ -	\$ 182,576	\$ 109,001	\$ 3,859,185	\$ 7,722,698
973,525	131,888	1,200,078	2,110,432	2,201,358	1,402,471	6,145,724	20,666,259
(25,413)	-	(205,339)	-	(272,686)	(434,664)	(1,335,384)	(5,172,304)
-	(753,009)	-	(2,110,432)	-	-	(4,076,646)	(6,940,455)
\$ 948,112	\$ (621,121)	\$ 994,739	\$ -	\$ 1,928,672	\$ 967,807	\$ 733,694	\$ 8,553,500

Combining Statement of Budgetary Resources
for the fiscal year ended September 30, 2005
(dollars in thousands)

	Interior Franchise Fund	Working Capital Fund	Water and Related Resources	National Park Service Operations	Management of Land and Resources
Budgetary Resources:					
Unobligated balance, beginning of Fiscal Year:	\$ 734,962	\$ 12,552	\$ 268,834	\$ 87,256	\$ 34,750
Recoveries of prior year unpaid obligations	-	5,404	22,558	8,300	21,979
Budget Authority					
Appropriation	-	-	864,637	1,707,336	848,939
Spending authority from offsetting collections					
Earned					
Collected	1,565,624	1,266,947	195,254	21,178	97,434
Change in receivables from Federal sources	(1,338)	62,840	(1,945)	(75)	6,916
Change in unfilled customer orders					
Advance received	(58,036)	8,559	7,578	-	4
Without advance from Federal sources	(12,932)	217,613	6,279	-	1,614
Total Budget Authority	1,493,318	1,555,959	1,071,803	1,728,439	954,907
Nonexpenditure transfers, net, anticipated and actual	-	-	(83,480)	5,459	7,500
Temporarily not available pursuant to Public Law	-	-	(5,534)	-	-
Permanently not available	-	-	(1,342)	(35,474)	(12,113)
Total Budgetary Resources	\$ 2,228,280	\$ 1,573,915	\$ 1,272,839	\$ 1,793,980	\$ 1,007,023
Status of Budgetary Resources:					
Obligations incurred:					
Direct					
Reimbursable	-	1,228	797,128	1,743,014	903,436
Total Obligations incurred	1,439,671	1,384,872	199,557	20,357	70,396
Unobligated balance available:					
Apportioned	788,609	187,815	276,110	17,333	33,171
Exempt from apportionment	-	-	44	-	-
Total Unobligated balance available	788,609	187,815	276,154	17,333	33,171
Unobligated balance not available					
	-	-	-	13,276	20
Total Status of Budgetary Resources	\$ 2,228,280	\$ 1,573,915	\$ 1,272,839	\$ 1,793,980	\$ 1,007,023
Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, beginning of Fiscal Year	832,475	676,125	415,791	338,917	239,303
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year					
	(173,212)	(92,040)	(49,536)	(339)	(14,449)
Total unpaid obligated balances, net, beginning of Fiscal Year	659,263	584,085	366,255	338,578	224,854
Obligations incurred, net					
	1,439,671	1,386,100	996,685	1,763,371	973,832
Less: Gross outlays					
	(1,568,900)	(1,276,154)	(947,946)	(1,676,119)	(953,860)
Less: Recoveries of prior year unpaid obligations, actual					
	-	(5,404)	(22,558)	(8,300)	(21,979)
Change in uncollected customer payments from Federal sources					
	14,270	(280,453)	(4,334)	75	(8,530)
Total unpaid obligated balance, net, end of period	\$ 544,304	\$ 408,174	\$ 388,102	\$ 417,605	\$ 214,317
Obligated balance, net, end of period - by component:					
Unpaid obligations	703,246	780,667	441,972	417,869	237,296
Less: Uncollected customer payments from Federal sources,					
	(158,942)	(372,493)	(53,870)	(264)	(22,979)
Total unpaid obligated balance, net, end of period	\$ 544,304	\$ 408,174	\$ 388,102	\$ 417,605	\$ 214,317
Net Outlays:					
Net Outlays					
Gross outlays	1,568,900	1,276,154	947,946	1,676,119	953,860
Less: Offsetting collections					
	(1,507,588)	(1,275,506)	(202,832)	(21,178)	(97,438)
Less: Distributed Offsetting receipts					
	-	-	(354)	-	-
Net Outlays(Receipts)	\$ 61,312	\$ 648	\$ 744,760	\$ 1,654,941	\$ 856,422

Combining Statement of Budgetary Resources
for the fiscal year ended September 30, 2005
(dollars in thousands)

Wildland Fire Management	Bureau of Land Management Operations	Fish and Wildlife Resource Management	Minerals Leasing and Associated Payments	Operation of Indian Programs	Survey, Investigation and Research	Other Budgetary Accounts	FY 2005 Total Budgetary Accounts
\$ 89,402	\$ 565,892	\$ 63,428	\$ -	\$ 375,187	\$ 46,299	\$ 2,930,894	\$ 5,209,456
27,984	15,840	16,886	-	44,815	8,158	239,302	411,226
843,099	1,068,874	977,205	1,620,107	1,958,347	958,021	5,239,382	16,085,947
42,320	-	152,797	-	327,727	411,119	1,114,226	5,194,626
(3,642)	-	12,579	-	3,072	(7,334)	3,955	75,028
(8,599)	-	1,328	-	(54,287)	3,600	151,675	51,822
(6,727)	-	(19,766)	-	17,898	3,066	63,809	270,854
866,451	1,068,874	1,124,143	1,620,107	2,252,757	1,368,472	6,573,047	21,678,277
-	36	11,083	-	4,563	5,436	(65,310)	(114,713)
-	-	-	-	-	-	(6,319)	(11,853)
(11,804)	-	(14,312)	-	(31,065)	(20,716)	(220,638)	(347,464)
\$ 972,033	\$ 1,650,642	\$ 1,201,228	\$ 1,620,107	\$ 2,646,257	\$ 1,407,649	\$ 9,450,976	\$ 26,824,929
831,011	757,879	985,550	1,620,107	1,947,344	943,813	5,489,296	16,019,806
12,711	-	145,301	-	336,680	410,973	1,073,676	5,094,194
843,722	757,879	1,130,851	1,620,107	2,284,024	1,354,786	6,562,972	21,114,000
128,311	892,763	68,081	-	321,674	22,241	2,820,629	5,556,737
-	-	-	-	-	-	44,876	44,920
128,311	892,763	68,081	-	321,674	22,241	2,865,505	5,601,657
-	-	2,296	-	40,559	30,622	22,499	109,272
\$ 972,033	\$ 1,650,642	\$ 1,201,228	\$ 1,620,107	\$ 2,646,257	\$ 1,407,649	\$ 9,450,976	\$ 26,824,929
294,088	277,759	399,346	-	290,338	275,978	3,608,576	7,648,696
(22,074)	-	(140,417)	-	(9,230)	(185,507)	(192,076)	(878,880)
272,014	277,759	258,929	-	281,108	90,471	3,416,500	6,769,816
843,722	757,879	1,130,851	1,620,107	2,284,024	1,354,786	6,562,972	21,114,000
(811,614)	(141,912)	(1,126,743)	(1,620,107)	(2,267,146)	(1,344,336)	(6,059,417)	(19,794,254)
(27,984)	(15,840)	(16,886)	-	(44,815)	(8,158)	(239,302)	(411,226)
10,369	-	7,187	-	(20,970)	4,268	(67,764)	(345,882)
\$ 286,507	\$ 877,886	\$ 253,338	\$ -	\$ 232,201	\$ 97,031	\$ 3,612,989	\$ 7,332,454
298,212	877,886	386,568	-	262,401	278,271	3,872,828	8,557,216
(11,705)	-	(133,230)	-	(30,200)	(181,240)	(259,839)	(1,224,762)
\$ 286,507	\$ 877,886	\$ 253,338	\$ -	\$ 232,201	\$ 97,031	\$ 3,612,989	\$ 7,332,454
811,614	141,912	1,126,743	1,620,107	2,267,146	1,344,336	6,059,417	19,794,254
(33,722)	-	(154,125)	-	(273,442)	(414,720)	(1,265,899)	(5,246,450)
-	(1,043,478)	-	(1,620,107)	-	-	(3,240,556)	(5,904,495)
\$ 777,892	\$ (901,566)	\$ 972,618	\$ -	\$ 1,993,704	\$ 929,616	\$ 1,552,962	\$ 8,643,309

Deferred Maintenance

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

Inadequately funded maintenance may result from reduced budgets, reallocation of maintenance funds for emergency requirements, insufficient management systems or practices, and competition for resources from other program needs. Deterioration of facilities can adversely impact public health and safety, reduce employees' morale and productivity, and increase the need for costly major repair or early replacement of structures and equipment. Undue wear on facilities may not be immediately noticeable to users, but inadequate maintenance can require that a facility be replaced or undergo major reconstruction before reaching the end of its expected useful life.

The SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires annual disclosure of the estimated cost to remedy accumulated deferred maintenance on Interior property, plant, and equipment (PP&E). Both General PP&E and Stewardship PP&E are included, if applicable.

Deferred maintenance information is accumulated when maintenance was not performed when it should have been or when it was scheduled and was put off or delayed for a future period.

The Department has developed a 5-Year Plan that provides a framework for improved planning and management of maintenance and construction programs and better defines accumulated deferred maintenance funding needs. In developing the 5-Year Plan, the Department established uniform criteria for critical health and safety and resource protection projects. This criteria also facilitates a thorough review and provides consistent information to management for prioritization decisions. The standard requires that all deferred maintenance be reported regardless of when it might be performed, not just that which is included in the 5-Year Plan. The long-term goal is to have a single source of deferred maintenance backlog information based upon condition assessments recorded in a facilities maintenance management information system. This information does not include annual maintenance or capital improvements as defined in the Department's Budget Formulation Guidance.

Critical Deferred Maintenance

Categories of deferred maintenance for analytic purposes include:

- (a) Critical Health and Safety Deferred Maintenance -- poses a serious threat to public or employee safety or health;
- (b) Critical Resource Protection Deferred Maintenance -- poses a serious threat to natural or cultural resources;
- (c) Critical Mission Deferred Maintenance -- poses a serious threat to a bureau's ability to carry out its assigned mission; and
- (d) Compliance and Other Deferred Maintenance -- improves public or employee safety, health, or accessibility; compliance with codes, standards, laws, completes unmet programmatic needs and mandated programs; protection of natural or cultural resources related to a bureau's ability to carry out its assigned mission.

Critical Deferred Maintenance is the work prioritized for FY 2008-2012 in the Deferred Maintenance and Capital Improvement Plans for BLM, USGS, FWS, NPS, and BIA. The Department prioritizes deferred maintenance through these 5-year plans that identify the most critical needs.

Estimated Deferred Maintenance

Generally, deferred maintenance is not estimated on equipment. If, however, the nature of operations is such that deferred maintenance on equipment is considered significant and meaningful, the Department may report this information.

Due to the scope, nature, and variety of the assets entrusted to the Department, as well as the nature of deferred maintenance itself, exact estimates of deferred maintenance are very difficult to determine. Interior has calculated estimates of deferred maintenance based on data from a variety of systems, procedures, and data sources. The accumulation of deferred maintenance cost estimates, however, is not the primary purpose of many of these sources. The Department acknowledges that the reliability of these sources as a basis for deferred maintenance estimates may vary from bureau to bureau. The Department has implemented a cyclic/recurring condition assessment process to monitor, at least once every 5 years, the condition of buildings and other facilities. The 2006 process is similar to the process in place for FY 2005.

Condition Assessment Surveys

The Department uses Condition Assessment Surveys to determine deferred maintenance for each class of assets. A condition assessment survey is the periodic inspection of real property to determine its current condition and to provide a cost estimate for necessary repairs. Annual condition assessments are performed on all constructed assets with a current replacement value (CRV) of \$5,000 or more and are performed by field operating unit staff. Comprehensive condition assessments are performed on all constructed assets with a current replacement value of \$50,000 or more once every 5 years. Comprehensive assessments are usually performed under contract; the contract includes an inspection of the facility and all component systems, a summary of deficiencies found, and a recalculation of the current replacement value.

The Department's assessment of deferred maintenance is dependent upon the bureaus having accurate and complete facilities information. The accumulation of facility data provides the necessary information for compliance with the Statement of Federal Financial Accounting Standard that requires annual reporting of deferred maintenance of fixed assets. In previous years, the Department based condition on Good, Fair, and Poor; the Department's Asset Management Plan has changed these condition assessments to acceptable or unacceptable.

An acceptable level of condition for an asset is when all of an asset's critical deferred maintenance deficiencies have no deferred maintenance; non-critical systems of deferred maintenance may exist. Acceptable condition may vary by asset type. An unacceptable level of condition for an asset is when an asset's critical deferred maintenance deficiencies have been identified. The threshold used to determine acceptable and unacceptable will vary based on the mission and types of assets.

Interior's current estimate for deferred maintenance includes the following property categories: Roads, Bridges, and Trails; Irrigation, Dams and Other Water Structures; Buildings (e.g., Administration, Education, Housing, Historic Buildings); and, Other Structures (e.g., Recreation Sites, Hatcheries, etc.).

The estimate generally excludes vehicles and most other categories of operating equipment since ongoing maintenance is performed on these assets and such assets would be disposed of before they resulted in a critical deferred maintenance condition.

Deferred Maintenance Estimate

Deferred maintenance information from the Feasibility software system represents the full inventory of all the identified deficiencies, but does not represent a backlog of specific repairs to be undertaken. Bureaus

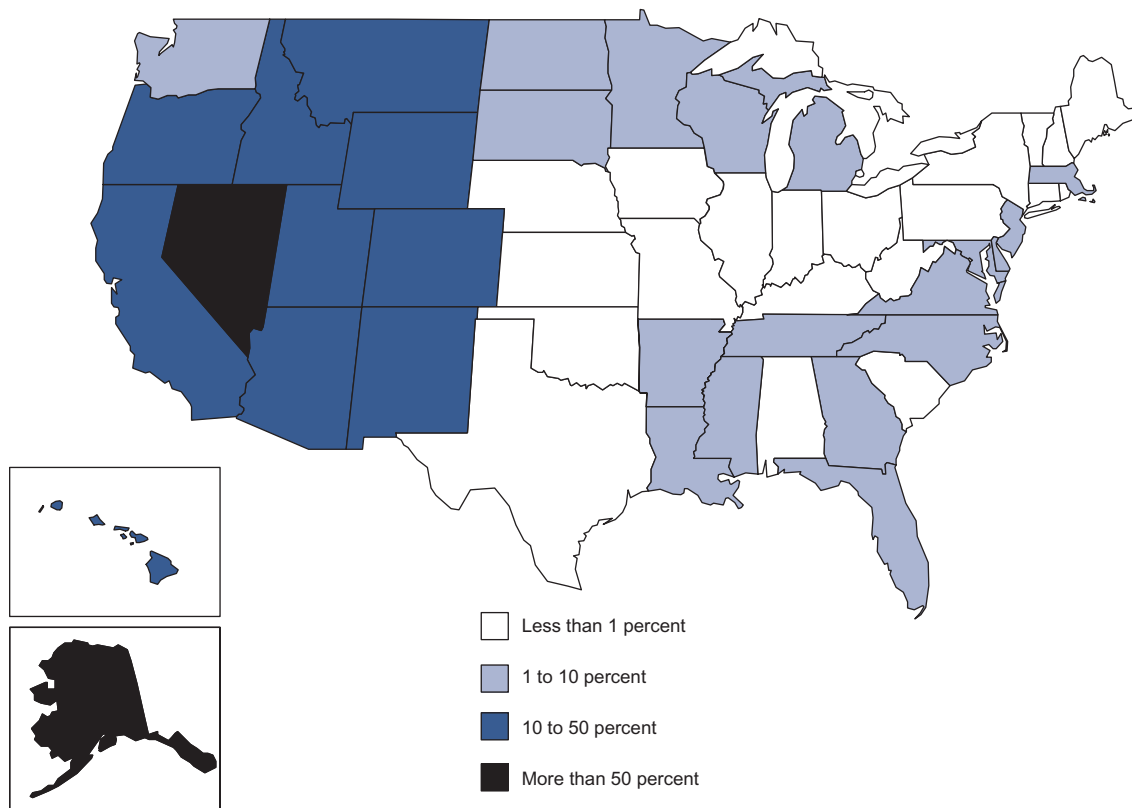
are developing performance measures to improve assets to an acceptable condition. Once these measures are in place and costs associated with achieving acceptable condition determined, this will become the deferred maintenance backlog amounts. As such, the Department's current approach for estimating the amount needed to correct deferred maintenance for property, plant, and equipment ranges from approximately \$9.6 billion to \$17.3 billion as summarized in Figure 3-1

FIGURE 3-1
FY 2006 Deferred Maintenance

Type of Deferred Maintenance	Estimated Range of Deferred Maintenance for 2006				Total	
	General PP&E		Stewardship PP&E		Low	High
	Low	High	Low	High		
Financial Statement Estimated Deferred Maintenance						
Roads Bridges and Trails	\$4,197,645	\$8,339,960	\$601,043	\$844,588	\$4,798,688	\$9,184,548
Irrigation, Dams, and Other Water Structures	1,192,836	1,563,062	198,526	283,643	1,391,362	1,846,705
Buildings (e.g Administration, Education, Housing, Historic Buildings)	1,518,622	2,425,048	598,747	1,278,996	2,117,369	3,704,044
Other Structures (eg Recreation sites, Hatcheries, etc.)	1,136,388	2,225,272	158,545	339,447	1,294,933	2,564,719
Total	8,045,491	14,553,342	1,556,861	2,746,674	9,602,352	17,300,016

FIGURE 3-2

State Acreage Managed by Interior as of September 30, 2006



Stewardship Lands

Most of the public lands managed by Interior were once a part of the 1.8 billion acres of public domain lands acquired by the Nation between 1781 and 1867. Each of America's 50 States, the District of Columbia, the Pacific Islands, the Virgin Islands, Guam, and Puerto Rico, contain lands that are managed by the Department of the Interior (Figure 3-2).

Interior-administered stewardship lands are vast and encompass a wide range of activities, including recreation, conservation, and functions vital to the health of the economy and the American people. These include national parks, national wildlife refuges, public lands, and many other lands of national and historical significance.

Land is defined as the solid part of the surface of the earth and excludes natural resources (that is, depletable and renewable resources) related to the land. Based on this definition, stewardship land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose(s). Information regarding the financial liabilities identified as probable or reasonably possible and that affect the condition of Stewardship Land are located in Note 14, "Contingent Liabilities and Environmental and Disposal Liabilities."

The Department of the Interior is in the process of implementing the various requirements of SFFAS No. 29, "Stewardship Land and Heritage Assets." During this implementation process, Interior has exercised the flexibility intended by this standard and modified its units of measure to more accurately reflect the major

categories of use. Depending on the individual bureau, these units may be reported based on the number of national wildlife refuges, national parks, geographic management areas, water projects, etc.

Each bureau within Interior that administers stewardship lands serves to preserve, conserve, protect, and interpret how best to manage the Nation's natural, cultural, and recreational resources. Some of these stewardship lands have been designated as multiple use, which Congress defines as management of both the land and the use of the land in a combination that will best meet the present and future needs of the American people. The resources and uses embraced by the multiple use concept include mineral development; natural, scenic, scientific, and historical values; outdoor recreation; livestock grazing; timber management; watersheds; and wildlife and fish habitat.

In general, units are added through Presidential/Congressional action; an authorization by Congress is required to remove units from Interior stewardship lands. However, boundaries of individual units may be expanded or altered by fee title purchase, transfer of jurisdiction, gift, or withdrawal from the public domain. The change in boundaries of individual units occurs to enhance the purpose for which the unit exists.

Bureau Stewardship Lands

Bureau of Land Management. The BLM has stewardship responsibility for the multiple-use management of natural resources on and beneath millions of acres of the Nation's "public lands." The Federal Land Policy and Management Act of 1976 defines public lands as "... any land and interest in land owned by the United States within the several States and administered by the Secretary of the Interior through the Bureau of Land Management, without regard to how the United States acquired ownership, except: (1) lands located on the Outer Continental Shelf, and (2) lands held for the benefit of Indians, Aleuts, and Eskimos." Lands managed by the BLM represent about one-eighth of the Nation's land surface, or approximately 42% of the lands under Federal ownership. The BLM manages lands in 30 States; most of the public lands are located in Alaska and the 11 Western States (Arizona, California, Colorado, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming).

The BLM is guided by principles of multiple use and sustained yield in managing the public lands. All of the public lands are managed for multiple use and are used for multiple resource values. The multiple uses of BLM lands may include: domestic livestock grazing, fish and wildlife development and utilization, mineral exploration and production, rights-of-way, outdoor recreation, or timber production.

Fish and Wildlife Service. Stewardship lands managed by FWS include the National Wildlife Refuges, National Fish Hatcheries, and Wetland Management Areas. Lands are acquired through a variety of methods, including withdrawal from the public domain, fee title purchase, transfer of jurisdiction, donation, or gift. The FWS purchases land through two primary sources of funding: the Migratory Bird Conservation Fund and the Land and Water Conservation Fund. The FWS lands are managed and used in accordance with the explicit purpose of the statutes that authorize their acquisition or designation and that direct their use and management.

National Park Service. NPS stewardship lands are used and managed in accordance with the statutes authorizing their acquisition or directing their use and management. At the end of FY 2005, the National Park System encompassed 388 park units. During FY 2006, two additional units were added. The African Burial Ground National Monument was established to protect the remaining portion of a burial ground in New York City. The Carter G. Woodson Home National Historic Site was designated to preserve and protect Dr. Woodson's residence which was the headquarters and center of operations for the Association for the Study of Negro Life and History (established in 1915).

Bureau of Reclamation. Reclamation operates largely as a business-type entity whose primary stated mission is to manage, develop, and protect water and related resources in an environmentally and economically sound

manner in the interest of the American people. Reclamation provides water and power throughout the 17 Western States. Reclamation lands are integral to project purposes, such as constructing and operating dams, reservoirs, water conveyance systems, and power facilities. The land is reported based on the projects managed by Reclamation.

Additions or withdrawals would represent: (a) new water projects being authorized and funded by Congress; (b) revocations by the Bureau of Land Management or Forest Service of all Stewardship Lands in a particular project; or (c) projects that have successfully completed the process of title transfers to a non-Federal entity. All the Stewardship Lands from the Upper Snake River, Lynn Crandall Project were disposed in August 2006 in Reclamation's land inventory system due to a completed withdrawal revocation by the Bureau of Land Management.

Bureau of Indian Affairs. Lands owned by the BIA are generally lands located within the boundaries of Indian Reservations (which are managed and owned by the individual Tribes) which have been withdrawn for administrative uses and are not directly related to general Property, Plant, and Equipment. These stewardship lands are generally used for schools, housing, recreation, and irrigation areas.

FIGURE 3-3
FY 2006 Stewardship Lands

Primary Land Management Categories	As of				Condition	
	Oct 05	Increase	Decrease	Sep 06	Acceptable	Needs Intervention
BIA - Other Recreation Land	15	-	-	15	100.0%	-
BIA - Cultural, Schools, and Housing	79	-	-	79	100.0%	-
BIA - Reclamation & Irrigation Areas	75	1	-	76	100.0%	-
BIA - Other Stewardship Lands	51	-	-	51	100.0%	-
BLM - Geographic Management Areas	126	-	-	126	100.0%	-
BOR - Federal Water and Related Projects	146	-	1	145	100.0%	-
FWS - National Wildlife Refuges	545	2	-	547	99.3%	0.7%
FWS - National Fish Hatcheries	86	-	-	86	100.0%	-
FWS - Wetland Management Districts	37	-	-	37	100.0%	-
NPS - Park Units	388	2	-	390	100.0%	-
OS - Commission Land	1	-	-	1	100.0%	-
Total Number of Units	1,549	5	1	1,553	99.7%	0.3%

Office of the Secretary/Departmental Offices - Utah Reclamation Mitigation and Conservation Commission.

The Utah Reclamation Mitigation and Conservation Commission (Commission) was established by Congress in 1992 under the Central Utah Project Completion Act. The Commission's mission is to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of Central Utah Project assets such as dams, power plants, roads, pipelines, aqueducts, operation and maintenance buildings, and visitor centers. Land acquired and investments made in order to mitigate the loss of fish and wildlife resources caused by Central Utah Project construction are not essential or integral parts of the dam, pipeline, etc., and are not "acquired for/in connection with the construction" of the project assets, even if the fish and wildlife mitigation is achieved in the immediate vicinity of the project asset.

Major Categories of Stewardship Lands

Interior's stewardship lands include a number of assets that are of special value to the Nation. The major categories of stewardship land (Figure 3-3) administered by the Department are:

Bureau of Indian Affairs: Other Recreation Lands. Primarily fishing sites where only tribal members are provided with access to rivers for fishing.

Bureau of Indian Affairs: Cultural, Schools, and Housing Lands. Consists of American Indian home sites, both Tribal and non-Tribal, and are administered by the Bureau of Indian Affairs (BIA). Also included is land associated with numerous Indian schools. These lands are used for a wide range of activities, including recreation, conservation, and functions vital to the culture and livelihood of American Indians and Alaska Natives.

Bureau of Indian Affairs: Reclamation and Irrigation Areas. This category includes lands used for various irrigation projects and agricultural lands which are used primarily for farming and grazing. These lands are administered by the BIA and the Bureau of Reclamation.

Bureau of Indian Affairs: Other Stewardship Lands. Used primarily for farming and grazing, but includes forest and wildlife areas in Montana and Wisconsin. This category also includes office space.

Bureau of Land Management: Geographic Management Areas. The BLM reports its stewardship land by 12 “administrative” States whose boundaries largely follow one or more political State lines; the administrative States are further divided into 126 administrative management areas. Specific land use plans are developed and implemented for each of these administrative management areas to manage the land’s resources for both present and future periods.

Bureau of Reclamation: Federal Water and Related Projects. Federal water and related projects are water projects that have been authorized and funded by Congress. These projects include dams, reservoirs, canals, laterals, and various other types of water related properties. The lands for these projects were acquired or withdrawn from the public domain to construct, operate, and maintain the projects. Recreational activities such as fishing, boating, camping, etc., are authorized on these withdrawn lands.

Fish and Wildlife Service: National Wildlife Refuges (NWR). NWRs are managed so that the fish, wildlife, and plants that depend on these lands for habitat are sustained for the short and long term. These lands are protected in perpetuity for as long as they remain in the NWR System.

Fish and Wildlife Service: National Fish Hatcheries. National Fish Hatcheries are involved in the conservation, restoration, and management of fish and wildlife resources and their habitats. In addition to ensuring that the fishery and aquatic resources are protected, additional recreational opportunities such as fishing, hiking, and bird watching are offered to the public.

Fish and Wildlife Service: Wetland Management Districts. Wetland Management Districts are important components of the National Wildlife Refuge System. They differ from refuges, which frequently consist of a single contiguous parcel of land, in that they consist of scattered small parcels of land. Their primary purpose is to conserve waterfowl nesting and rearing habitats. They consist of Waterfowl Production Areas (owned in fee title) and Wetland or Grassland Easements (privately-owned lands with a government easement overlaying them).

Office of the Secretary/Departmental Offices -- Commission Land: The Utah Reclamation Mitigation and Conservation Commission. The Commission was created to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of Central Utah Project assets. The Commission acquires land for fish and wildlife habitat (wetland, riparian and/or upland) for both aquatic and terrestrial species and land or easements to provide public access to fish and wildlife resources that, once acquired, are also managed to maintain habitat values.

Condition of Stewardship Lands

The Department is required to report on the condition of stewardship land. Land is defined as the solid part of the surface of the earth and excludes natural resources (that is, depletable resources and renewable resources) related to the land. Based on this definition, stewardship land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose(s). Information regarding the financial liabilities identified as probable or reasonably possible and that potentially affect the condition of Stewardship Land are located in Note 14, “Contingent Liabilities and Environmental and Disposal Liabilities.”

Heritage Assets

Interior is steward for a large, varied, and scientifically important body of heritage assets, both non-collectible and collectible in nature. Some are National Historic Landmarks that are exceptional in illustrating the heritage of the United States. Cultural landscapes are complex resources that range in size from large rural tracts to small formal gardens. Collectible heritage assets include library and museum collections.

Heritage assets administered by the Department are unique in that many assets are interrelated and often overlap various categories of heritage assets, including stewardship lands. Some stewardship land assets are also considered to be non-collectible heritage assets, such as national parks and fish and wildlife refuges. Also, subsets of lands within the National Park System may have additional stewardship asset designations such as wilderness areas, wild and scenic rivers, trails, national battlefields, and national recreation areas. The Department is reporting on assets that are Presidentially, Congressionally, or Secretarially designated.

The Condition of Non-Collectible Heritage assets is dependent on whether it is land-based, in which case the condition of the asset would be based on the condition of the land; or structural, in which case the Asset Management Plan definitions would be incorporated. Overall, the condition of Interior Heritage Assets, both collectible and non-collectible, is acceptable

Non-Collectible Heritage Assets

Interior’s heritage assets come from public domain or acquired lands, historic properties under Interior’s management, and donations. Interior has a responsibility to inventory, preserve, and interpret these resources for the benefit of the American people and does not normally dispose of such property. Withdrawals of non-collectible heritage assets are due primarily to redesignations by Congress, natural destruction or deterioration of the asset, or transfer to another Federal agency. Descriptions of the 31 types of non-collectible heritage assets are detailed below (see Figure 3-4).

Cooperative Management and Protection Area: The BLM manages one congressionally designated Cooperative Management and Protection Area, the Steens Mountain Cooperative Management and Protection Area, located in southeastern Oregon. Cooperative and innovative management projects will be maintained and enhanced by the BLM, private landowners, tribes, and other public interest groups.

Headwaters Forest Reserve: The Headwaters Forest Reserve, located in central Humboldt County, California, was acquired from private owners by the BLM and the State of California. While title is held by BLM, this area is co-managed by the BLM and the State of California to protect the stands of old-growth redwoods that provide habitat for a threatened seabird, the Marbled Murrelet, as well as the headwaters that serve as a habitat for the threatened Coho Salmon and other fisheries.

Lake Totatonten Special Management Area: The U.S. Congress authorized the creation of the Lake Totatonten Special Management Area located in the interior of Alaska. Lake Totatonten, the central feature of this special management area, is particularly important to waterfowl, which use the area for migration, staging, molting, and nesting. The lake and its surrounding hills are also home to moose, bear, and furbearers.

National Battlefield: A National Battlefield is an area of land on which a single historic battle or multiple historic battles took place during varying lengths of time. This general title includes national battlefields, national battlefield parks, national battlefield sites, and national military parks. In 1958, a NPS committee recommended national battlefield as the single title for all such park lands. Congress names the park units and the NPS uses the official names. No further descriptions or distinctions are maintained by the NPS.

National Conservation Areas: Congress designates National Conservation Areas so that present and future generations of Americans can benefit from the conservation, protection, enhancement, use, and management of these areas and enjoy their natural, recreational, cultural, wildlife, aquatic, archeological, paleontological, historical, educational, and/or scientific resources and values. National Conservation Areas are managed by BLM.

National Historic Landmarks: The Historic Sites Act of 1935 authorizes the Secretary of the Interior to designate National Historic Landmarks as the Federal Government's official recognition of the national significance of historic properties. These landmarks possess exceptional value or quality in illustrating or interpreting the heritage of the United States in history, architecture, archeology, technology, and culture. They also possess a high degree of integrity of location, design, setting, materials, workmanship, feeling, and association. National Historic Landmarks are managed by BIA, Reclamation, FWS, BLM, and NPS.

National Historic Sites: Usually, a National Historic Site contains a single historical feature that was directly associated with its subject. Derived from the Historic Sites Act of 1935, some historic sites were established by Secretaries of the Interior; but most have been authorized by acts of Congress.

National Historical Parks: This designation generally applies to Historic Parks that extend beyond single properties or buildings.

National Lakeshores: National Lakeshores, all on the Great Lakes, closely parallel the seashores in character and use.

National Memorials: A National Memorial is commemorative of an historic person or episode; it need not occupy a site historically connected with its subject.

National Monuments: National Monuments are normally designated by Congress to protect historic landmarks, historic and prehistoric structures, or other objects of historic or scientific interest on the public lands. The Antiquities Act of 1906 authorized the President to declare by public proclamation landmarks, structures, and other objects of historic or scientific interest situated on lands owned or controlled by the government to be national monuments. National Monuments are managed by BLM, FWS, and NPS.

National Natural Landmarks: National Natural Landmarks are designated by the Secretary of the Interior. To qualify as a national natural landmark, the area must contain an outstanding representative example(s) of the Nation's natural heritage, including terrestrial communities, aquatic communities, landforms, geological features, habitats of native plant and animal species, or fossil evidence of the development of life on earth and must be located within the boundaries of the United States or on the Continental Shelf. National Natural Landmarks are managed by Reclamation, FWS, NPS, and BLM.

National Parks: Generally, National Parks are large natural places that encompass a wide variety of attributes, sometimes including significant historic assets. Hunting, mining, and consumption activities are not authorized on these properties.

National Parkways: The title National Parkway refers to a roadway and the parkland paralleling the roadway. All were intended for scenic motoring along a protected corridor and often connect cultural sites.

National Preserves: National Preserves are areas having characteristics associated with national parks, but in which Congress has permitted continued public hunting, trapping, oil/gas exploration, and extraction.

National Recreation Areas: A National Recreation Area is an area designated by Congress to assure the conservation and protection of natural, scenic, historic, pastoral, and fish and wildlife values and to provide for the enhancement of recreational values. National Recreation Areas are generally centered on large reservoirs and emphasize water-based recreation with some located near major population centers. BLM manages one such area, the White Mountains National Recreation Area in Alaska, which is named for its unusual, jagged, white limestone ridgeline. NPS manages these urban parks to combine scarce open spaces with the preservation of significant historic resources and important natural areas in locations that can provide outdoor recreation for large numbers of people.

National Reserves: National Reserves are similar to National Preserves; it is possible that management may be transferred to local or State authorities. The first reserve, City of Rocks, was established in 1988.

National Rivers: There are several variations to this category: National River and Recreation Area, National Scenic River, Wild River, etc. The first was authorized in 1964 and others were established following passage of the Wild and Scenic Rivers Act of 1968.

National Seashores: National Seashores have been established on the Atlantic, Gulf, and Pacific coasts; some are developed and some relatively primitive. Hunting is allowed at many of these sites.

National Trails System: Since the passage of the National Trails System Act in 1968, BLM and NPS have assumed responsibility over several National Historic or Scenic Trails designated by Congress. BLM manages over 85 % of all of the Federal miles along national historic trails. These trails are designated by the Departmental Secretary (Interior or Agriculture) having jurisdiction over the particular trail area. Designations include National Historic Trails, National Scenic Trails, and National Recreation Trails.

National Wild and Scenic Rivers: The National Wild and Scenic Rivers System includes a total of 38 rivers in five States. These nationally recognized rivers encompass some of the Nation's greatest diversity and concentrations of recreational, natural, and cultural resources. Included among the BLM-managed wild and scenic rivers is the Fortymile River in Alaska, which is the longest designated river in the National Wild and Scenic Rivers System.

Rivers designated in the National Wild and Scenic Rivers System are classified in one of three categories (wild, scenic, and recreational), depending on the extent of development and accessibility along each section. In addition to being free flowing, these rivers and their immediate environments must possess at least one outstanding remarkable value—scenic, recreational, geologic, fish and wildlife, historic, cultural, or other similar values. When evaluating rivers for possible designation, the Department also considers whether the river meets suitability factors such as: the amount of public land acreage in the immediate environment of the river; funds required for acquisition, facility development and management; local or State interest in helping to manage the river; support for designation; and competing uses for the river. Studies to determine eligibility may be the responsibility of either the Department of the Interior (NPS, FWS, and BLM), the Department of Agriculture (the U.S. Forest Service), or the shared responsibility of both agencies. Only an Act of Congress may remove a river from the System.

National Wildlife Refuges (NWR): NWRs are managed so that the fish, wildlife, and plants that depend on these lands for habitat are sustained for both the short and long term. These lands are protected in perpetuity for as long as they remain in the NWR System.

FIGURE 3-4
FY 2006 Non-Collectible Heritage Assets

Primary Non-Collectible Heritage Asset Categories	As of Oct 05	Increase	Decrease	As of Se 06	Condition Expressed as a Percentage						
					Land Based			Structurally Based			
					Acceptable	Needs Intervention	Total	Acceptable	Unacceptable	Unknown	Total
Cooperative Management and Protection Areas	1	-	-	1	100%	-	100%	-	-	-	-
Headwaters Forest Reserve	1	-	-	1	100%	-	100%	-	-	-	-
Lake Todatonten Special Management Area	1	-	-	1	100%	-	100%	-	-	-	-
National Battlefield Parks	3	-	-	3	-	-	-	100%	-	-	100%
National Battlefield Sites	1	-	-	1	100%	-	100%	-	-	-	-
National Battlefields	11	-	-	11	100%	-	100%	100%	-	-	100%
National Conservation Areas	13	-	-	13	100%	-	100%	-	-	-	-
National Historic Landmarks (NHL)	214	9	17	206	50%	50%	100%	85%	10%	5%	100%
National Historic Sites	77	1	-	78	100%	-	100%	99%	1%	-	100%
National Historic Trails	10	-	-	10	100%	-	100%	-	-	-	-
National Historical Parks	42	-	-	42	100%	-	100%	97%	3%	-	100%
National Lakeshores	4	-	-	4	-	-	-	100%	-	-	100%
National Memorials	28	-	-	28	100%	-	100%	94%	6%	-	100%
National Military Parks	9	-	-	9	100%	-	100%	100%	-	-	100%
National Monuments	89	2	-	91	100%	-	100%	94%	6%	-	100%
National Natural Landmarks (NNL)	105	4	-	109	100%	-	100%	-	-	-	-
National Parks	58	-	-	58	100%	-	100%	98%	2%	-	100%
National Parkways	4	-	-	4	100%	-	100%	100%	-	-	100%
National Preserves	18	-	-	18	100%	-	100%	94%	6%	-	100%
National Recreation Areas	19	-	-	19	100%	-	100%	100%	-	-	100%
National Recreation Trails	70	8	-	78	100%	-	100%	100%	-	-	100%
National Reserves	2	-	-	2	100%	-	100%	-	-	-	-
National Rivers	5	-	-	5	100%	-	100%	100%	-	-	100%
National Scenic Trails	5	1	-	6	100%	-	100%	-	-	-	-
National Seashores	10	-	-	10	-	-	-	100%	-	-	100%
National Wild and Scenic Rivers	56	-	-	56	100%	-	100%	100%	-	-	100%
National Wildlife Refuges	545	2	-	547	100%	-	100%	-	-	-	-
Outstanding Natural Area	1	-	-	1	100%	-	100%	-	-	-	-
International Historic Sites	1	-	-	1	-	-	-	100%	-	-	100%
Wilderness Areas	297	2	-	299	100%	-	100%	-	-	-	-
Other	11	-	-	11	100%	-	100%	100%	-	-	100%
Total	1,711	29	17	1,723	99.7%	0.3%	100%	93%	5%	2%	100%

Outstanding Natural Area: An Outstanding Natural Area consists of protected lands designated either by Congress or administratively by an agency to preserve exceptional, rare, or unusual natural characteristics and to provide for the protection or enhancement of natural, educational, or scientific values. These areas are protected by allowing physical and biological processes to operate, usually without direct human intervention. BLM manages one such area, the Yaquina Head Outstanding Natural Area, located in Newport, Oregon. Yaquina Head also has been designated as a Globally Important Bird Area by the American Bird Conservancy and the National Audubon Society.

International Historic Site: These are relevant to the respective countries' histories. The lone International Historic Site, Saint Croix International Historic Sites, is relevant to both U.S. and Canadian history and is managed by the NPS.

Wilderness Areas: Wilderness Areas are Federal lands that have been designated by Congress, are defined by the Wilderness Act of 1964, as a place where the earth and its community of life are untrammled by man, where man himself is a visitor and does not remain and are devoted to the public for purposes of recreational, scenic, scientific, educational, conservatorial, and historical use. These areas, which are generally greater than 5,000 acres, appear to have been affected primarily by the forces of nature, with human development substantially unnoticeable. Wilderness areas provide outstanding opportunities for solitude or primitive and unconfined types of recreation. The Act further defined wilderness as “an area of undeveloped Federal land retaining its primeval character and influence without permanent improvements or human habitation, which is protected and managed so as to preserve its natural condition.”

BLM administers 177 wilderness areas and FWS administers 75 wilderness areas in 26 States. The locations of these wilderness areas ensure that these lands represent the wide diversity of resources found on the public lands. Protective management helps ensure the protection and integrity of natural and biological processes on all public lands. Wilderness areas exist within 47 NPS units.

Other: Other includes those park units that cannot be readily included in any of the standard categories. Examples include: Catoctin Mountain Park, Maryland; Constitution Gardens, District of Columbia; National Capital Parks located in the District of Columbia, Maryland, and Virginia; the White House; the National Mall; and Wolf Trap National Park for the Performing Arts.

Interior’s non-collectible heritage assets are shown in Figure 3-4.

Collectible Heritage Assets

The Department is steward of a large, unique, and diversified collection of library holdings and museum collections (Figures 3-5 and 3-6, respectively). These assets are held in both Federal and non-Federal facilities.

Library Collections

The Departmental Library collection represents a national resource in the disciplines vital to the mission of the Department. The collection covers Native American culture and history, American history, National Parks, geology, nature, wildlife management, public lands management, and law. In addition, the Library’s collection of online databases and access to other electronic information sources enable Departmental personnel and other researchers to access needed information from their computers. Departmental policy dictates that copies of all publications produced by or for its bureaus and offices will be deposited in the Library collection. The Library serves Interior employees in the Washington, D.C., area and field offices throughout the Nation, and enhances its ability to fulfill its responsibilities by providing an informative Web site at <http://library.doi.gov>, online access to the catalog of holdings over the Web site, and training sessions to familiarize Departmental staff with the treasures of the collection.

U.S. Geological Survey library holdings, collected during more than a century of providing library services, are an invaluable legacy to the Nation. The legislation that founded the USGS decreed that copies of reports published by the USGS should be given to the library in exchange for publications of State and national geological surveys

FIGURE 3-5
FY 2006 Library Collections

Interior Library Collections	As of Oct 05	Increase	Decrease	As of Sep 06	Condition of Library Collections			
					Good	Fair	Poor	Unknown
Departmental Library	1	-	-	1	100%	-	-	-
U.S. Geological Survey Library	4	-	-	4	100%	-	-	-
Total	5	-	-	5	100%	-	-	-

and societies. The USGS four library collections provide scientific information needed by Interior researchers, as well as researchers of other government agencies, universities, and professional communities. Besides providing resources for USGS scientific investigations, the library collections provide access to geographical, technical, and historical literature in paper and electronic formats for the general public and the industry. These libraries are housed in Reston, Virginia; Menlo Park, California; Denver, Colorado; and, Flagstaff, Arizona.

Museum Collections

Department of the Interior museum collections are intimately associated with the lands and cultural and natural resources for which Interior bureaus share stewardship responsibilities. Disciplines represented include art, ethnography, archeology, documents, history, biology, paleontology, and geology.

Bureaus and offices may add (accession) items to the museum collections by donation, purchase, transfer, or field collection and, depending on bureau-specific authority, by exchange. Bureaus and offices may remove items from the museum collections in response to involuntary loss, theft, or destruction. Departmental offices and the NPS also have congressional authority to remove (deaccession) items selectively by adhering to strict procedures and the highest ethical standards and to make every effort to retain the items for public ownership.

Museum collections are housed in both Federal and non-Federal institutions in an effort to maximize accessibility to the public while reducing costs to bureaus. Museum collections managed by Interior bureaus are important both for their intrinsic value and for their usefulness that supports Interior's mission of managing Federal land, cultural resources, and natural resources. Cataloging the collections continues to be a priority within Interior bureaus and has improved each year.

FIGURE 3-6

FY 2006 Museum Collections

Interior Museum Collections	As of Oct-05		As of Sep-06		Condition of Museum Collections			
	Incr	Dec	Incr	Dec	Good	Fair	Poor	Unkn
Held at Interior Bureau Facilities	592	12	15	589	35%	21%	18%	26%
Held at Non-Interior Bureau Facilities	520	1	94	427	35%	21%	1%	43%
Total	1,112	13	109	1,016				

Facilities housing Department museum collections must meet specific environmental, security, fire protection, housekeeping, physical examination and conservation treatment, storage, and exhibit space standards as described in Departmental Manual Section 411, Chapter 3. These standards require facilities that house collections to maintain their stewardship responsibilities by adhering to best practices as defined by industry standards and interpretations.

Bureau Highlights

National Park Service. The NPS museum collections support the NPS mission to foster understanding, appreciation, and enjoyment of natural and cultural heritage. They are tangible and accessible evidence of the resources, significant events, and peoples associated with NPS lands. The collections include items ranging from historic furnishings in the home of John Adams, flags that flew over Fort Sumter, Thomas Edison's handwritten notes on inventions, the tools and furnishings of a working ranch in Montana, botanical specimens from Yosemite, and archeological items from Mesa Verde. These museum collections, from 360 NPS units and managed at 321 NPS locations, are important not only individually, but also because of their direct association with the nationally significant sites in the National Park System.

Notable acquisitions in FY 2006 include a chair that was in the presidential box the night Abraham Lincoln was shot at Ford's Theatre National Historic Site and six Bird Cage Windsor chairs, originally owned and used by Clara Barton in her Glen Echo home at the Clara Barton National Historic Site.

Hurricanes Katrina, Wilma, and Rita impacted NPS collections in Florida, Louisiana, Mississippi, and Texas. The NPS worked diligently to remove the damaged items/facilities to locations for repair and/or restoration. A great deal of progress has been made to return the damaged items to their previous condition and return them to their original locations.

Bureau of Land Management. Museum collections under BLM's stewardship consist principally of archeological, historical, and paleontological materials that are managed to professional standards and in compliance with applicable laws, and are accessible to the public. Most collections originating from BLM-managed land are housed in non-Federal facilities throughout the country. Collections are used to teach museum visitors about life in the past. Researchers value the collections from public lands as a source of material for scientific data that becomes a permanent part of study and display collections. Scientific publications, textbooks, and articles for the general public are based on information taken from these collections.

In addition to the more than 100 non-Federal facilities that house BLM objects, BLM curates objects in three BLM facilities. These facilities are located in Dolores, Colorado; Billings, Montana; and Flagstaff Hill, Oregon.

Bureau of Reclamation. Reclamation collects information on the size, location, and condition of its museum property collections. Beginning in FY 2006, Reclamation reported collectible heritage assets that have been accessioned as museum property as defined and required by 411 DM 3.4.A. Each facility contains one Reclamation collection; therefore, the number of collections reported is the same as the number of Interior and non-Interior facilities housing Reclamation collections. FY 2006 additions were from authorized archaeological projects or from collections that were moved between facilities.

The withdrawals from fiscal year 2005 are primarily the result of the strict application of museum property as defined by 411 DM and of updating collection records. Museum property is defined as items or collections formally accessioned into a property management system. Because most of Reclamation's previously reported collections have not been accessioned, they cannot be classified as museum property. Reclamation expects to report significant additions in the number of collections as they are accessioned over the next 2 years. Actual management of these collections will not change.

Other withdrawals occurred because one non-Interior facility no longer holds Reclamation museum property; and two facilities previously reported as non-Reclamation have been removed from that category and are now reported as Interior facilities.

Bureau of Indian Affairs. BIA museum property collections are collected and preserved to further the mission of the bureau by documenting bureau activities, such as the history of Indian schools and celebrating government-to-government relations between the Federal Government and Tribal governments. Collections are exhibited in Indian schools and displayed in BIA administrative offices, illustrating the history, mission, and activities of the bureau, as well as highlighting traditional and contemporary American Indian culture. Collections are managed in museums, universities, and other repositories and are made available to Tribes, and the public through research, exhibitions, and publications that document and highlight Tribal histories and Indian traditions.

BIA museum collections are housed at 108 BIA facilities and 65 non-Federal facilities.

Fish and Wildlife Service. The FWS museum collections are used for educational and interpretive programs; research on changes to habitat and wildlife; and, maintaining the history and traditions of FWS Programs and employees. These collections are maintained in 137 offices or on loan to 217 non-Federal repositories for

study and long-term care. In an effort to assist field stations in managing their collections, FWS released a new museum property software package for tracking essential information and preparing annual reports.

Also in FY 2006, the FWS became the chair of the newly formed Heritage Asset Partnership, a committee recommending improvements on how to better maintain the materials and use them for education and interpretation, while providing expertise to the Department in its heritage asset management functions.

U.S. Geological Survey. The USGS manages a widespread collection of natural history specimens and cultural objects that support the mission of the bureau in many science and administrative centers throughout the United States. These unique collections serve to illustrate important achievements and challenges to the earth sciences, to document the history of the USGS, and to enlighten those who use the collections. The museum collections are divided into two major categories: historical (including art, history, ethnography, and documents) and zoology.

Minerals Management Service. The MMS maintains a cultural museum collection that consists of art, ethnography, history, documents, and geology items. The assets within the collection are fully documented and are in good condition.

Office of the Secretary/Departmental Offices. Components of Departmental Offices museum collections include The Indian Arts and Crafts Board (IACB) which manages three regional museums, the National Business Center, which manages the Departmental Museum in the Main Interior Building in Washington, D.C., and one museum collection managed by the Office of the Special Trustee (OST) for American Indians.

The Departmental Museum hosted an exhibition on Lewis and Clark Revisited and was named in the top photography exhibitions in Washington, D.C., by critic Louis Jacobson. An exhibition on Eleanor Roosevelt and Val-Kill Industries was featured in articles in the *New York Times*, *Chicago Tribune*, and *Town and Country Magazine*.

The Indian Arts and Crafts Board manages three museums in Rapid City, South Dakota; Browning, Montana; and Anadarko, Oklahoma. These museums play a vital role in promoting authentic Indian arts and crafts through their permanent exhibitions, changing promotional sales exhibitions, and public educational activities. The museums serve as major economic, cultural, and educational attractions in their respective regions.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED, SEE AUDITORS' REPORT)

Stewardship Investments

Investment in Research and Development provides reliable, credible, objective, and unbiased scientific results to improve the basic understanding of natural resources and to assist in enhancing land and resource management decisions across the Nation, within and outside of the Department. These research and development activities encompass examinations of geological structures, mineral resources, and products within and outside the national domain. Earth science research and information is used to save lives and property, safeguard human health, enhance the economic vitality of the Nation and its people, assess resources, characterize environments, and predict the impact of contamination. This information aids in solving critical societal problems through research, investigation, and the application of State-of-the-Art geographic and cartographic methods.

Interior's research and development activities are presented in Figure 3-7 in three major categories:

Basic research. A study to gain knowledge or understanding of the fundamental aspects of specific phenomena or observable facts without specific applications and products in mind;

Applied research. A systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and

Developmental Research. The systematic use of knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.

Highlights of Research and Development at Interior Bureaus

U.S. Geological Survey. The USGS is the earth and natural science research bureau of the Department and the only integrated natural science bureau in the Federal Government. By combining biology, geology, hydrology, and geography in one agency, the USGS is uniquely positioned to provide science information and conduct scientific research that ensures an integrated approach to advance

FIGURE 3-7

**FY 2006 Investment in Research and Development
(in millions)**

Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	TOTAL
Basic Research	\$87	\$77	\$71	\$79	\$72	\$386
Applied Research	893	768	842	763	696	3,962
Developmental	92	107	78	76	89	442
TOTAL	\$1,072	\$952	\$991	\$918	\$857	\$4,790

scientific knowledge and inform decisions. USGS research and data products support the Department's resource and land management needs and provide the science needed by other Federal, State, Tribal, and local governmental agencies to guide planning, management, and regulatory programs.

USGS has implemented several monitoring and analysis tools for natural-hazard events that provide decisionmakers access to real-time information to better understand, plan for, and respond to the environmental and ecological impact of natural-hazard events. Among these tools are the Geospatial Multi-Agency Coordination (GeoMAC) system, which provides the public and fire responders with up-to-date information about the locations of wildfires (<http://geomac.gov>) and the Natural Hazards Support System (NHSS), which integrates near-real-time data for multiple types of natural-hazard events (<http://nhss.cr.usgs.gov>). These tools allow users to easily monitor a single natural-hazard event and to see the geospatial relationships between the event and other activities that may have an impact on that event, such as the progress of a wildland fire and/or heavy rain, both of which are tracked by other types of data systems.

Collaborative studies by the City of Austin, Texas, and the USGS have identified coal-tar-based sealcoat—the black, shiny emulsion painted or sprayed on asphalt pavement, such as parking lots—as a major and previously unrecognized source of polycyclic aromatic hydrocarbon (PAH) contamination. Several PAHs are suspected human carcinogens and toxic to aquatic life. Studies in Austin, Texas, showed that particles in

runoff from coal-tar based sealcoated parking lots had concentrations of PAHs that were about 65 times higher than concentrations in particles washed off parking lots that had not been sealcoated. Studies by USGS scientists demonstrated possible connections between PAHs in particles washed off sealed parking lots and PAHs in suspended sediment in four streams in Austin and Fort Worth, Texas. Currently, the use of coal-tar-based sealcoat is not federally regulated; however, as a result of the work conducted by the USGS and the City of Austin, Texas, to address PAH contamination in streams, the City of Austin, Texas, Council banned the use of coal-tar-based sealcoat, effective in January 2006.

The USGS Landsat 5 Flight Operations Anomaly Team was selected by the American Institute of Aeronautics and Astronautics (AIAA) to receive the International Space Operations Award for Outstanding Achievement for 2006. The team received the award at the 9th International Conference on Space Operations in Rome, Italy, on June 19 to 23, 2006. Quoting the citation, the USGS team received the award, “for dedicated efforts in recovering Landsat 5 from two potentially mission-ending hardware anomalies and restoring the mission to full operations.” In November 2005, the solar array that generates power for Landsat 5 stopped working properly; in March 2006, the downlink transmitter that sends image data to ground stations tripped a circuit breaker and stopped transmitting data. In each case, the Flight Operations Anomaly Team was able to devise corrective procedures and restore the 22-year-old Landsat 5 spacecraft to full operations. As a result of the team's efforts, image data from Landsat 5 continues to be available to scientists around the world.

National Park Service. Through appropriations for natural resource stewardship (encompassing natural resource research support and natural resource management, including the Natural Resource Preservation Program [NRPP], and the Cultural Resource Preservation Program [CRPP]), the NPS performs a wide range of mission-oriented research in support of its natural and cultural resource stewardship responsibilities. This work constitutes applied research focusing on park-based needs for scientific and scholarly information related to park management.

The NRPP provides funding for park natural resource management-related projects that are beyond the funding capabilities of the parks themselves. These funds are relied on by parks for the highest priority individual projects. The CRPP provides funding for cultural resource research and resource management projects in the fields of archeology, ethnography, historic architecture, historic landscape architecture, history, and museum collections. The outlays and expenditure levels for research vary each year in response to the needs and priorities identified by the parks.

A variety of research projects are underway, including:

- a multi-agency collaborative study among U.S. Geological Survey, National Oceanographic and Atmospheric Administration, Alaska Department of Fish and Game, and NPS addressing hypotheses on harbor seal declines in Glacier Bay National Park Reserve;
- mapping and categorizing the geology and aquifers of the Tomahawk Creek Basin in Buffalo National River, Arkansas, which will provide the park with the science-based information needed to develop management actions to protect karst aquifers, their recharge basins, and the streams that feed the Buffalo River;
- Acadia National Park, Maine, has drafted a Cultural Landscape Report for the historic motor road system; and
- Shenandoah National Park, Virginia, began a special history study of the Lewis Mountain Development, built in 1938-1941 to serve African-American Park visitors. With its development, Shenandoah National Park became racially segregated.

Minerals Management Service. The MMS manages the mineral resources on 1.76 billion acres of the Outer Continental Shelf (OCS) to ensure that exploration, development, and production activities are conducted in a manner that conserves natural resources, provides for the safety of offshore workers, provides for a fair return to the public for the mineral rights conveyed, and assures protection of the environment.

MMS research supports the prediction of potential environmental impacts and aids in the development of mitigating measures to ensure safe, pollution-free operations. The Environmental Studies Program provides environmental and socioeconomic information to support decisionmaking for all phases of the OCS minerals management program. The Technology Assessment and Research program pursues engineering studies focusing on operational safety, pollution prevention, and effective spill response.

Bureau of Reclamation. Reclamation invests in applied research programs to aid in the water and energy management challenges facing the arid Western States. Programs focus on the improvement of water management, the development of solutions pertaining to flood hydrology, water quality, irrigation return flows, and the delivery of hydropower to the West. The information obtained through these programs provides water management solutions and techniques that yield future benefits to the Nation. Research and Development activities support Reclamation's outcome goal to deliver water consistent with applicable State and Federal law, in an environmentally responsible and cost-efficient manner.

Office of the Secretary/Departmental Offices - Central Utah Project Completion Act. In order to provide for the completion of the Central Utah Project, Public Law 102-575 was enacted on October 30, 1992. Funds authorized pursuant to this Act are appropriated annually to the Secretary of the Interior and made available to the Central Utah Water Conservancy District. Examples are:

- Provo River Studies is a hydrologic study of the Provo River Basin and a feasibility study of direct delivery of Colorado River Basin water from the

Strawberry Reservoir or elsewhere in the Strawberry Collection system to the Provo River Basin; and

- Studies conducted by the Central Utah Water Conservancy District include evaluations to determine: the feasibility of reducing salinity in Utah Lake and the effects of demands on the Provo River, including historical diversion, decrees, and water rights.

Office of the Secretary/Departmental Offices - Utah Reclamation Mitigation and Conservation Commission. The Commission invests in research calculated to determine the means by which mitigation measures or programs could be achieved (applied) or to determine the best method or design for an identified mitigation measure (developmental). In FY 2006, the Commission’s research focused primarily on the Sage Grouse (a Northern American bird threatened by loss and deterioration of sage-steppe grassland habitat and predation) and the June Sucker (a fish occurring naturally only in Utah Lake and the Provo River and is federally listed as endangered).

Bureau of Land Management. The primary objective of the BLM’s research and development program is to make better use of new data, information, and knowledge to improve the management of the Nation’s lands and resources. The BLM’s research and development program focuses on working with partners to identify scientific information needs and then communicating those needs to research agencies, universities, and other non-governmental organizations. In FY 2006, the BLM began new and continued past research and developmental efforts, including:

- Initiating a study to develop and test new options for young stand management to meet Northwest Forest Plan objectives in western Oregon;
- Analyzing Mancos shale landscapes in the Gunnison Gorge Conservation Area, Colorado, for salt and sediment contributions in relation to plant populations, soil chemistry, and erosion properties and how salinity and selenium affect surface and ground water; and
- Studying the effects of fragmented habitats and energy development on sage grouse ecology and behavior in the Great Basin and adjacent areas.

Investment in Human Capital

Investment in human capital refers to education and training programs financed by the Federal Government for the benefit of the public; investment in human capital does not include education and training expenses for Federal employees. The Department plays a vital role in providing quality educational opportunities from early childhood throughout life, with consideration given to the mental, physical, emotional, spiritual, and cultural aspects of the people served.

The Department’s investments in human capital are shown in *Figure 3-8*.

Job Corps Program

Interior provides residential education and job training to disadvantaged youth through participation in the Job Corps Program. The Job Corps, established in 1964, is the Nation’s largest national job training and education program and offers job training, basic education, social skills training, and support services to young people ages 16-24 that face multiple barriers to employment. Job Corps Civilian Conservation Centers are operated by the Departments of the Interior and Agriculture and are located on National Wildlife Refuges, in National Parks, and in National Forests. Job Corps students perform valuable work to improve these public lands. In FY 2006, a total of approximately \$52 million was expended by the Department for the Job Corps Program.

FIGURE 3-8
FY 2006 Investment in Human Capital
(in millions)

Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	TOTAL
Educational Programs	\$607	\$560	\$570	\$549	\$542	\$2,828
Job Corps Program	56	60	57	53	52	278
Other	15	12	12	12	11	62
TOTAL	\$678	\$632	\$639	\$614	\$605	\$3,168

Bureau Job Corps Program Highlights

Bureau of Reclamation. Reclamation operates six Job Corps Centers, based on an interagency agreement with the Department of Labor, to educate and train disadvantaged youth. In FY 2006, Reclamation expended approximately \$31.6 million in residential education and job training, including courses in computer technology, painting, woodworking,

welding, culinary arts, and social and leadership development.

Job Corps is a self-paced, open entry/exit program. This means it takes some students longer than others to graduate. Depending on incoming educational levels, it can take a student between 8 months and 2 years to complete the program and graduate. Therefore, the number of graduates does not always equal the number of enrollees. In fact, the number of graduates can exceed the number of enrollees if the average length of stay is less than 1 year. The following chart shows the number of Reclamation Center graduates as a percentage of the total Center enrollment and the number of graduates placed into jobs within 1 year of graduation as a percentage of the graduates in the placement pool.

FY 2006 Reclamation Center Graduates						
Center	Graduates	Enrollment	Percent	Graduates Placed	Graduate Placement Pool	Percent
Centennial Nampa, Idaho	255	261	98	311	343	91
Columbia Basin, Moses Lake, WA	190	232	82	236	268	88
Ft. Simcoe, White Swan, WA	165	229	72	211	238	89
Weber Basin, Ogden, Utah	176	212	83	153	177	86
Collbran, Collbran, CO	152	203	75	176	191	92
Treasure Lake, Indianahoma, OK	128	156	82	110	131	84

National Park Service. The NPS operates three Job Corps Civilian Conservation Centers: the Oconaluftee Center in North Carolina; the Great Onyx Center in Mammoth Cave, Kentucky; and the Harpers Ferry Center in Harpers Ferry, West Virginia. Student capacity is approximately 200 students for each of the Centers.

Job Corps centers are rated on the attainment of goals for graduates and student placements in jobs once students leave the program. Students graduate from the program with a high school diploma or general equivalency diploma (GED). Graduates obtain jobs in various industries, including business technology, transportation (trucking), plumbing, and building and construction. FY 2006 graduates and placements for the three NPS centers are:

FY 2006 General Education Diploma/High School Diploma					
Center	GED/HSD Graduates	Total Students	Percent of Students	Percent of Targeted Goal	Percent of Goal Met
Great Onyx	97	263	37	47	78
Harpers Ferry	82	192	43	50	86
Oconaluftee	105	240	44	46	96

FY 2006 Placements					
Center	Placements	Total Students	Percent of Students	Percent of Targeted Goal	Percent of Goal Met
Great Onyx	204	238	86	95	90
Harpers Ferry	152	174	87	95	92
Oconaluftee	145	176	82	95	87

FY 2006 Career Technical Graduates					
Center	Graduates	Total Students	Percent of Students	Percent of Targeted Goal	Percent of Goal Met
Great Onyx	186	354	53	65	81
Harpers Ferry	141	232	61	65	94
Oconaluftee	149	293	51	65	78

The Centers offer a variety of career technical training programs (carpentry, landscaping, plumbing, brick and masonry, health occupations, and urban forestry). Members of the team at Mammoth Cave participate as part of the firefighting component of Interior and were deployed on several occasions for firefighting and camp crew duty.

U.S. Fish and Wildlife Service. FWS began FY 2006 operating one Job Corps Civilian Conservation Center: Treasure Lake, located at the Wichita Mountains Wildlife Refuge in Indianahoma, Oklahoma. Effective for FY 2006, the statistics for students served, graduates, and placements are:

FY 2006 FWS Ratings					
Center	Students Served	Graduates	Percent	Placements	Percent of Graduate Placements
Treasure Lake	390	122	31	104	85

Effective July 2006, operation of the Treasure Lake Job Corps Center was transferred from FWS to Reclamation.

Bureau of Indian Affairs Education Programs

Within the BIA, the Bureau of Indian Education (BIE) takes the lead in the area of education. The BIE vision and long-range goal is to unite and promote healthy Indian communities through lifelong learning. This goal is implemented through the commitment to provide quality educational opportunities from early childhood throughout life.

Adult Education

The adult education program provides opportunities for adult Indians and Alaska Natives to obtain a GED and provides educational opportunities for American Indians and Alaskan Natives to improve their employment skills and abilities.

Post-Secondary Education Programs

Post-secondary programs consist of operating grants and supplemental funds for Tribal Colleges and Universities. Funds also support the Undergraduate and Graduate Scholarship Programs, Haskell Indian Nations University, and Southwestern Indian Polytechnic Institute. The Undergraduate and Graduate Scholarship Program is administered by the BIA and by Tribes under self-determination contracts, grants, or self-governance compacts. The Undergraduate Scholarship program provides financial assistance for eligible American Indian and Alaska Native students attending accredited post-secondary institutions. Each scholarship award is based on the student's certified financial aid requirements for Title IV Federal Assistance, such as the Pell Grant.

477 Program

The Indian Employment, Training and Related Services Act (P.L. 102-477) allows federally-recognized Tribes to consolidate funding from the Department of Labor, Health and Human Services, and Interior to provide employment, education, training, childcare, welfare reform, and related services. The Tribal governments are allowed to integrate the employment, training, and related services in order to improve services. These services reduce joblessness in Indian communities and foster economic development on Indian lands, while serving tribally determined goals that are consistent with policies of self-determination and self-governance.

Other Education Programs

The Johnson O'Malley (JOM) Program provides supplemental financial assistance to meet the unique and specialized education needs of eligible Indian (age 3 through grade 12) students attending public schools. JOM is the only BIA program that provides for the culturally-related and supplementary academic needs of Indian children attending public schools. The Tribal Design Program allows Tribes to design services to meet the needs of their local communities. Several Tribes utilize these programs to upgrade and improve Tribal employee skills in the use of computer technology.

School Operations

The Indian School Equalization Program (ISEP) provides formula-based funding for BIE-operated grant, contract elementary, and secondary schools. Funds are distributed using the ISEP formula which considers Weighted Student Units in order to provide basic educational programs for Indian children grades K through 12. This funding is for the operation of Bureau-funded schools, i.e., funding for school staff, school programs, textbooks and general supplies that are used by the school to educate Indian children. The School Operations Program consists of ISEP, Transportation, Family and Child Education, and Administrative Cost Funds.

The total number of schools and students for school year 2004-2005 and 2005-2006 are summarized as follows:

School Operations	School Year 2004-2005		School Year 2006-2006	
	Schools	Students	Schools	Students
Contract/Grant Schools	122	29,403	123	29,826
Bureau-Operated Schools	62	18,218	61	17,866
Totals	184	47,621	184	47,692

Investment in Non-Federal Physical Property

The Department of the Interior provides a long-term benefit to the public by maintaining its commitment to investing in non-Federal physical property. Non-Federal physical property refers to expenses incurred by the Federal Government for the purchase, construction, or major renovation of physical property owned by State and local governments and insular

FIGURE 3-9
FY 2006 Investment in Non-Federal Physical Property
(in millions)

Category	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	TOTAL
Dams and Other Water Structures	\$161.6	\$244.7	\$213.2	\$244.8	\$340.2	\$1,204.5
Land	8.7	65.0	120.0	90.4	79.9	364.0
Roads and Bridges	259.2	240.8	217.0	112.5	121.9	951.4
Schools and Public Buildings	149.6	89.1	99.7	93.8	100.1	532.3
Not Classified	169.0	1.0	1.0	15.0	22.4	208.4
Total	\$748.1	\$640.6	\$650.9	\$556.5	\$664.5	\$3,260.6

areas, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets.

Interior's investment in non-Federal physical property is shown in *Figure 3-9*.

Bureau of Indian Affairs. BIA's investment in non-Federal physical property includes schools, dormitories and other infrastructures, Indian Reservation and Roads (IRR) program, and the Indian Reservation Roads Bridge Program (IRRBP).

The Office of Facility Management and Construction, in conjunction with the BIA, owns or provides funds for a considerable number and variety of buildings and other associated facilities across the Nation, including buildings with historic and architectural significance. The BIA's construction program is a multifaceted, intricate operation that encompasses the areas of Education, Public Safety and Justice, Resource Management, and General Administration.

Education facilities serve a number of schools that provide educational opportunities for approximately 48,000 students. The BIA also provides funding for administrative buildings at a number of Tribal locations. Facilities benefitting from this program include dormitories, detention centers, numerous irrigation facilities, and dams requiring repair to alleviate hazardous conditions. Additionally, program sub-activities include minor improvements, repair and replacement, portable classrooms, emergency repairs, demolition and reduction of excess space,

environmental projects, telecommunication improvements and repair, seismic safety, and emergency management systems. Finally, the BIA is continually striving to correct code and standard deficiencies when identified.

The BIA Division of Transportation jointly administers the IRR Program and the IRRBP with the Federal Highway Administration. The purpose of the IRR Program is to provide safe and adequate transportation and public road access to and within Indian reservations, Indian lands, and communities for Indians and Alaska Natives, visitors, recreational users, resource users, and others, while contributing to economic development, self-determination, and employment of Indians and Alaska Natives.

As of October 2005, the IRR system consisted of approximately 28,589 miles of BIA and tribally-owned public roads and 33,990 miles of State, county, and local government public roads, as well as an inventory of over 824 BIA-owned bridges.

Bureau of Reclamation. Reclamation's investments in non-Federal physical property provide assistance through a variety of measures, all related to water and related resources management. Reclamation incurs expenses for specific programs to provide for the construction or improvement of structures and facilities used in State and local irrigation projects and water quality improvement projects. Reclamation-wide programs improve State and local fish and wildlife habitats through activities such as the construction or betterment of structures or facilities.

Fish and Wildlife Service. FWS's investments in non-Federal physical property include major additions, alterations, or replacements; the purchase of major equipment; and the purchase of improvements of other physical assets for purposes of enhancing fish and wildlife management in States and for land restoration, species protection, recreational hunting and boating improvements, and habitat loss prevention.

National Park Service. Congress may annually appropriate funds to the NPS for work on non-NPS facilities that is done by individuals who are not NPS employees. These funds are referred to as "Pass Through" appropriations because the role of the NPS is limited primarily to preparing an agreement that allows the funds to be obligated and certifying and processing subsequent payments for the work when completed. More than 90% of the funds are obligated within the year they are appropriated. Once obligated, fund expenditure is entirely dependent on the party receiving the funds. Only cash assets are associated with these projects. During FY 2006, \$17.1 million was expended for these pass through projects.

Departmental Offices - The Office of Insular Affairs. The Office of Insular Affairs (OIA) carries out the Secretary of the Interior's responsibilities for U.S. affiliated insular areas. These include the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as the three freely associated States of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The OIA achieves its mission by improving the financial management practices of insular governments, increasing economic development, and increasing Federal responsiveness to the unique needs of island communities. The OIA hopes to increase the resources available to the insular area governments while promoting economic self-sufficiency.

The OIA provides capital improvement grants to the insular areas. The capital investment in Non-Federal physical property in the territories was approximately \$34 million in FY 2006. The monies were distributed with 21% to American Samoa, 10% to the Virgin Islands, 5% to Guam, and 64% to the Commonwealth of the Northern Mariana Islands.

Office of the Secretary/Departmental Offices - Central Utah Project Completion Act. The Central Utah Project Completion Act (CUPCA) authorized the Utah Reclamation Mitigation and Conservation Commission to invest in fish and wildlife habitat improvements on non-Federal properties because the Federal reclamation projects in Utah affected fish and wildlife resources beyond the boundaries of the Reclamation projects and opportunities to mitigate on Federal lands are often limited. FY 2006 activities include the continuation of activities on the Duchesne Strawberry Diversion Structures, Wetlands around Great Salt Lake, and Fish Hatchery Production.

OTHER SUPPLEMENTARY INFORMATION (SEE AUDITORS' REPORT)

Other Supplementary Information includes the Consolidating Balance Sheet and the Consolidating Statement of Changes in Net Position.

Special Account Funds. NPS has concession agreements which contain provisions that provided 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, and are not assets of the NPS and may not be used in NPS operations. Therefore, the balances, inflows, and outflows of these concessioner special accounts are not recognized in the consolidated financial statements of the NPS. The concessioners reported that these special accounts balances totaled approximately \$43.9 million and \$40.5 million (unaudited), as of September 30, 2006 and 2005, respectively.

Consolidating Balance Sheet
as of September 30, 2006
(dollars in thousands)

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,527,303	\$ 1,200,472	\$ 7,030,401	\$ 2,042,376
Investments, Net	69,525	2,361,521	322,046	490,372
Accounts and Interest Receivable	6,939	16,081	663,573	121,759
Loans and Interest Receivable, Net	-	-	2,631,887	-
Other	2,351	718	1,007	2,331
Total Intragovernmental Assets	1,606,118	3,578,792	10,648,914	2,656,838
Cash	190	54	117	-
Investments, Net	1,052	-	-	187,048
Accounts and Interest Receivable, Net	31,541	10,570	29,752	40,747
Loans and Interest Receivable, Net	17,238	-	157,286	3,375
Inventory and Related Property, Net	-	279,425	-	852
General Property, Plant, and Equipment, Net	1,338,650	410,097	13,071,874	387,528
Other	77,481	108	141,235	2,180
Stewardship Assets				
TOTAL ASSETS	\$ 3,072,270	\$ 4,279,046	\$ 24,049,178	\$ 3,278,568
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	\$ 10,471	\$ 48,387	\$ 29,142	\$ 8,411
Debt	29,715	914,204	95,141	17,512
Other				
Resources Payable to Treasury	14,216	-	1,844,710	235,221
Advances and Deferred Revenue	91,514	7,530	5,285	1,218,018
Custodial Liability	-	280	-	-
Other Liabilities	170,398	147,629	70,057	6,715
Total Intragovernmental Liabilities	316,314	1,118,030	2,044,335	1,485,877
Accounts Payable	32,136	36,353	213,734	411,326
Loan Guarantee Liability	92,380	-	-	-
Federal Employee and Veteran Benefits	116,092	94,915	88,353	16,300
Environmental and Disposal Liabilities	55,096	1,721	46,871	1,300
Other				
Contingent Liabilities	57,790	2,465	962	-
Advances and Deferred Revenue	14,810	133,203	497,050	13,205
Payments Due to States	-	-	-	-
Other Liabilities	50,679	193,883	50,860	55,440
TOTAL LIABILITIES	735,297	1,580,570	2,942,165	1,983,448
Commitments and Contingencies				
Net Position				
Unexpended Appropriations - Earmarked Funds	13	6,268	249,501	3,728
Unexpended Appropriations - Other Funds	1,334,894	498,309	96,590	415,458
Cumulative Results of Operations - Earmarked Funds	281,173	1,848,762	20,550,111	453,744
Cumulative Results of Operations - Other Funds	720,893	345,137	210,811	422,190
Total Net Position	2,336,973	2,698,476	21,107,013	1,295,120
TOTAL LIABILITIES AND NET POSITION	\$ 3,072,270	\$ 4,279,046	\$ 24,049,178	\$ 3,278,568

Consolidating Balance Sheet
as of September 30, 2006
(dollars in thousands)

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 Total
\$ 148,541	\$ 19,517,770	\$ 46,487	\$ 1,638,372	\$ 257,660	\$ -	\$ 33,409,382
1,121,188	1,464	2,272,960	1,455,757	-	-	8,094,833
268,185	23,196	19	35,668	52,291	(747,201)	440,510
-	-	-	-	-	-	2,631,887
18	8,213	130	697	3,149	(18,085)	529
1,537,932	19,550,643	2,319,596	3,130,494	313,100	(765,286)	44,577,141
-	427	-	37	-	-	825
-	-	-	-	-	-	188,100
2,265,045	7,381	1,970	16,142	74,889	-	2,478,037
-	3,238	-	-	-	-	181,137
-	-	-	-	582	-	280,859
24,451	1,148,971	2,537	974,702	133,091	-	17,491,901
-	12,839	840	282	22	-	234,987
\$ 3,827,428	\$ 20,723,499	\$ 2,324,943	\$ 4,121,657	\$ 521,684	\$ (765,286)	\$ 65,432,987
\$ 3,838	\$ 25,354	\$ 88	\$ 5,236	\$ 5,448	\$ (91,429)	\$ 44,946
-	-	-	-	-	-	1,056,572
-	-	-	-	97	-	2,094,244
-	2,745	4	1,094	2,537	(18,929)	1,309,798
1,701,399	-	-	-	-	(639,800)	1,061,879
3,702	62,095	1,589	21,744	32,274	(15,128)	501,075
1,708,939	90,194	1,681	28,074	40,356	(765,286)	6,068,514
18,223	253,331	7,849	78,349	58,354	-	1,109,655
-	-	-	-	-	-	92,380
9,038	957,500	3,543	62,809	38,873	-	1,387,423
-	26,300	-	22,112	66	-	153,466
550,000	1,631	99	242	1,279	-	614,468
55,112	10,784	930	10,847	11,418	-	747,359
812,588	-	-	-	-	-	812,588
83,620	175,163	6,829	229,288	106,360	-	952,122
3,237,520	1,514,903	20,931	431,721	256,706	(765,286)	11,937,975
-	(3,796)	-	80,977	-	-	336,691
24,768	859,470	39,828	428,310	193,230	-	3,890,857
1,067,265	18,436,205	2,270,955	2,323,050	3,079	-	47,234,344
(502,125)	(83,283)	(6,771)	857,599	68,669	-	2,033,120
589,908	19,208,596	2,304,012	3,689,936	264,978	-	53,495,012
\$ 3,827,428	\$ 20,723,499	\$ 2,324,943	\$ 4,121,657	\$ 521,684	\$ (765,286)	\$ 65,432,987

Consolidating Balance Sheet
as of September 30, 2005
(dollars in thousands)

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,508,092	\$ 1,064,535	\$ 6,090,731	\$ 2,356,864
Investments, Net	66,541	1,749,802	-	416,998
Accounts and Interest Receivable	7,231	15,389	825,974	106,594
Loans and Interest Receivable, Net	-	-	2,458,075	-
Other	2,556	1,278	1,423	2,278
Total Intragovernmental Assets	1,584,420	2,831,004	9,376,203	2,882,734
Cash	638	56	100	-
Investments, Net	1,065	-	-	198,060
Accounts and Interest Receivable, Net	26,330	10,367	31,459	48,017
Loans and Interest Receivable, Net	28,131	-	146,468	5,658
Inventory and Related Property, Net	-	304,378	-	528
General Property, Plant, and Equipment, Net	1,372,343	388,934	13,015,525	337,671
Other	82,632	77	198,315	3,613
Stewardship Assets				
TOTAL ASSETS	\$ 3,095,559	\$ 3,534,816	\$ 22,768,070	\$ 3,476,281
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	\$ 55,408	\$ 38,982	\$ 24,651	\$ 8,907
Debt	29,715	1,074,204	96,811	19,795
Other				
Resources Payable to Treasury	21,041	-	1,780,970	214,742
Advances and Deferred Revenue	94,756	9,950	8,780	1,526,044
Custodial Liability	-	57,518	-	-
Other Liabilities	158,477	131,393	88,996	5,375
Total Intragovernmental Liabilities	359,397	1,312,047	2,000,208	1,774,863
Accounts Payable	89,795	37,364	201,542	388,731
Loan Guarantee Liability	81,670	-	-	-
Federal Employee and Veteran Benefits	121,283	94,971	88,702	17,437
Environmental and Disposal Liabilities	51,576	3,491	35,360	1,300
Other				
Contingent Liabilities	62,487	1,465	9,515	-
Advances and Deferred Revenue	11,757	102,889	455,289	12,048
Payments Due to States	-	-	-	-
Other Liabilities	59,993	193,808	52,427	59,533
TOTAL LIABILITIES	837,958	1,746,035	2,843,043	2,253,912
Commitments and Contingencies				
Net Position				
Unexpended Appropriations	1,242,504	471,557	350,519	402,540
Cumulative Results of Operations	1,015,097	1,317,224	19,574,508	819,829
Total Net Position	2,257,601	1,788,781	19,925,027	1,222,369
TOTAL LIABILITIES AND NET POSITION	\$ 3,095,559	\$ 3,534,816	\$ 22,768,070	\$ 3,476,281

Consolidating Balance Sheet
as of September 30, 2005
(dollars in thousands)

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 Total
\$ 111,724	\$ 19,152,506	\$ 49,332	\$ 1,457,266	\$ 240,082	\$ -	\$ 32,031,132
1,088,246	1,370	2,141,599	1,999,113	-	-	7,463,669
401,539	23,253	34	28,913	58,048	(958,298)	508,677
-	-	-	-	-	-	2,458,075
107	6,910	43	1,368	2,519	(17,077)	1,405
1,601,616	19,184,039	2,191,008	3,486,660	300,649	(975,375)	42,462,958
-	425	-	50	1	-	1,270
-	-	-	-	-	-	199,125
2,426,051	8,971	11,439	22,004	75,928	-	2,660,566
-	3,598	-	-	-	-	183,855
-	-	-	-	789	-	305,695
28,543	1,098,686	2,417	917,489	162,170	-	17,323,778
2	11,746	-	210	58	-	296,653
\$ 4,056,212	\$ 20,307,465	\$ 2,204,864	\$ 4,426,413	\$ 539,595	\$ (975,375)	\$ 63,433,900
\$ 2,825	\$ 18,013	\$ 52	\$ 446,923	\$ 8,670	\$ (84,632)	\$ 519,799
-	-	-	-	-	-	1,220,525
-	-	-	-	81	-	2,016,834
536	2,575	208	976	2,229	(19,530)	1,626,524
1,799,017	-	-	-	-	(860,164)	996,371
3,759	61,238	1,576	23,034	34,611	(11,049)	497,410
1,806,137	81,826	1,836	470,933	45,591	(975,375)	6,877,463
21,510	211,874	7,098	59,301	65,673	-	1,082,888
-	-	-	-	-	-	81,670
9,837	928,328	3,867	62,270	41,010	-	1,367,705
-	14,966	-	14,033	82	-	120,808
550,690	2,139	2,570	100	2,208	-	631,174
52,503	11,457	907	8,561	10,538	-	665,949
1,009,418	-	-	-	-	-	1,009,418
40,783	187,358	6,243	151,240	108,518	-	859,903
3,490,878	1,437,948	22,521	766,438	273,620	(975,375)	12,696,978
8,574	944,005	41,544	536,093	181,906	-	4,179,242
556,760	17,925,512	2,140,799	3,123,882	84,069	-	46,557,680
565,334	18,869,517	2,182,343	3,659,975	265,975	-	50,736,922
\$ 4,056,212	\$ 20,307,465	\$ 2,204,864	\$ 4,426,413	\$ 539,595	\$ (975,375)	\$ 63,433,900

Consolidating Statement of Changes in Net Position
for the fiscal year ended September 30, 2006
(dollars in thousands)

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
UNEXPENDED APPROPRIATIONS				
Beginning Balance				
Earmarked Funds	\$ 13	\$ 7,414	\$ 286,742	\$ 18,604
All Other Funds	1,242,490	464,143	63,777	383,936
Budgetary Financing Sources				
Appropriations Received				
Earmarked Funds	-	105,974	198,030	-
All Other Funds	2,331,607	1,854,351	39,058	1,144,516
Appropriations Transferred In/(Out)				
Earmarked Funds	-	-	(6,980)	937
All Other Funds	241,420	(268,872)	48,342	(41,652)
Appropriations-Used				
Earmarked Funds	-	(107,120)	(226,473)	(15,772)
All Other Funds	(2,446,663)	(1,523,257)	(54,217)	(1,061,606)
Other Adjustments				
Earmarked Funds	-	-	(1,818)	(40)
All Other Funds	(33,960)	(28,056)	(370)	(9,737)
Net Change				
Earmarked Funds	-	(1,146)	(37,241)	(14,875)
All Other Funds	92,404	34,166	32,813	31,521
Ending Balance				
Earmarked Funds	13	6,268	249,501	3,729
All Other Funds	1,334,894	498,309	96,590	415,457
Ending Balance All Funds - Unexpended Appropriations	\$ 1,334,907	\$ 504,577	\$ 346,091	\$ 419,186

Consolidating Statement of Changes in Net Position
for the fiscal year ended September 30, 2006
(dollars in thousands)

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 Total
\$ -	\$ (3,811)	\$ -	\$ 87,681	\$ -	\$ -	\$ 396,643
8,574	947,817	41,544	448,412	181,906	-	3,782,599
-	-	-	74,867	-	-	378,871
184,651	2,334,357	110,435	1,249,483	995,205	-	10,243,663
-	-	-	-	-	-	(6,043)
(3,343)	54,328	-	89,184	2,023	-	121,430
-	-	-	(80,983)	-	-	(430,348)
(162,523)	(2,434,252)	(109,298)	(1,342,780)	(966,425)	-	(10,101,021)
-	14	-	(588)	-	-	(2,432)
(2,591)	(42,779)	(2,854)	(15,989)	(19,478)	-	(155,814)
-	14	-	(6,704)	-	-	(59,952)
16,194	(88,346)	(1,717)	(20,102)	11,325	-	108,258
-	(3,797)	-	80,977	-	-	336,691
24,768	859,471	39,827	428,310	193,231	-	3,890,857
\$ 24,768	\$ 855,674	\$ 39,827	\$ 509,287	\$ 193,231	\$ -	\$ 4,227,548

Consolidating Statement of Changes in Net Position - Continued
for the fiscal year ended September 30, 2006
(dollars in thousands)

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance				
Earmarked Funds	\$ 263,984	\$ 1,013,264	\$ 19,350,254	\$ 423,159
All Other Funds	751,113	303,959	224,253	396,669
Adjustments				
Change in Accounting Principle				
Earmarked Funds	(3,060)	(2,765)	(1)	-
All Other Funds	-	-	-	-
Beginning Balance, as adjusted				
Earmarked Funds	260,924	1,010,499	19,350,253	423,159
All Other Funds	751,113	303,959	224,253	396,669
Budgetary Financing Sources				
Appropriations-Used				
Earmarked Funds	-	107,120	226,473	15,772
All Other Funds	2,446,663	1,523,257	54,217	1,061,606
Royalties Retained				
Earmarked Funds	-	68,609	1,487,423	-
All Other Funds	-	3,212	-	-
Non-Exchange Revenue				
Earmarked Funds	12	(14)	4	60,477
All Other Funds	50	33	-	14,594
Transfers In/(Out) without Reimbursement				
Earmarked Funds	-	(16,285)	50,816	(7,947)
All Other Funds	(6,065)	(121,434)	(54,357)	(16,704)
Donations and Forfeitures of Cash and Cash Equivalents				
Earmarked Funds	-	-	-	193
All Other Funds	-	-	-	-
Other Budgetary Financing Sources				
Earmarked Funds	-	3	-	420
All Other Funds	-	-	-	(2,343)
Other Adjustments				
Earmarked Funds	(74)	-	-	74
All Other Funds	-	(4,401)	-	4,370
Other Financing Sources				
Donations and Forfeitures of Property				
Earmarked Funds	-	-	505	-
All Other Funds	54	-	-	4,124
Transfers In/(Out) without Reimbursement				
Earmarked Funds	(118)	19,046	(100,742)	-
All Other Funds	(20,915)	(20,366)	13,257	1,848
Imputed Financing from Costs Absorbed by Others				
Earmarked Funds	805	5,916	107,556	614
All Other Funds	57,149	73,750	20	25,064
Total Financing Sources	2,477,561	1,638,446	1,785,172	1,162,162
Net Cost of Operations				
Earmarked Funds	19,624	653,867	(572,178)	(39,018)
All Other Funds	(2,507,157)	(1,412,873)	(26,580)	(1,067,039)
Net Change				
Earmarked Funds	20,249	838,262	1,199,857	30,585
All Other Funds	(30,221)	41,178	(13,443)	25,520
Ending Balance				
Earmarked Funds	281,173	1,848,761	20,550,110	453,744
All Other Funds	720,892	345,137	210,810	422,189
Ending Balance All Funds - Cumulative Results of Operations	\$ 1,002,065	\$ 2,193,898	\$ 20,760,920	\$ 875,933

Consolidating Statement of Changes in Net Position - Continued
for the fiscal year ended September 30, 2006
(dollars in thousands)

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 Total
\$ 1,036,226	\$ 18,072,936	\$ 2,149,987	\$ 2,390,472	\$ 3,721	\$ -	\$ 44,704,003
(479,466)	(147,423)	(9,187)	733,411	80,348	-	1,853,677
-	(69,565)	-	(207,341)	-	-	(282,732)
-	-	-	-	-	-	-
1,036,226	18,003,371	2,149,987	2,183,131	3,721	-	44,421,271
(479,466)	(147,423)	(9,187)	733,411	80,348	-	1,853,677
-	-	-	80,983	-	-	430,348
162,523	2,434,252	109,298	1,342,780	966,425	-	10,101,021
1,931,073	897,888	-	1,608	-	-	4,386,601
-	-	-	-	-	-	3,212
31,869	-	399,467	741,239	-	-	1,233,054
-	83	26	2,288	18	-	17,092
6,903	(315,961)	-	237,930	878	-	(43,666)
-	25,340	-	22,451	150	-	(150,619)
-	27,017	-	3,093	2,399	-	32,702
-	-	-	-	-	-	-
-	(646)	-	-	-	-	(223)
-	1,436	-	8,671	-	-	7,764
-	-	(393)	-	-	-	(393)
-	-	393	2	-	-	364
-	-	-	-	-	-	505
-	265	-	-	1,597	-	6,040
-	6,688	-	(57,838)	-	-	(132,964)
(1,253)	(5,140)	(379)	64,321	2,000	-	33,373
-	-	-	5,188	-	-	120,079
14,941	115,256	7,762	56,366	67,931	(65,471)	352,768
2,146,056	3,186,478	516,174	2,509,082	1,041,398	(65,471)	16,397,058
(1,938,806)	(182,151)	(278,106)	(872,282)	(3,920)	-	(3,212,970)
(198,870)	(2,507,352)	(114,684)	(1,372,690)	(1,049,798)	65,471	(10,191,572)
31,039	432,835	120,968	139,921	(643)	-	2,813,073
(22,659)	64,140	2,416	124,189	(11,677)	-	179,443
1,067,265	18,436,206	2,270,955	2,323,052	3,078	-	47,234,344
(502,125)	(83,283)	(6,771)	857,600	68,671	-	2,033,120
\$ 565,140	\$ 18,352,923	\$ 2,264,184	\$ 3,180,652	\$ 71,749	\$ -	\$ 49,267,464

Consolidating Statement of Changes in Net Position
for the fiscal year ended September 30, 2005
(dollars in thousands)

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
UNEXPENDED APPROPRIATIONS				
Beginning Balance	\$ 1,177,903	\$ 461,140	\$ 325,934	\$ 403,846
Budgetary Financing Sources				
Appropriations Received, General Funds	2,338,479	1,931,631	190,227	1,085,382
Appropriations Transferred In/Out	248,839	(354,432)	41,639	(40,010)
Appropriations-Used	(2,491,411)	(1,541,145)	(205,939)	(1,036,231)
Other Adjustments	(31,305)	(25,638)	(1,342)	(10,447)
Net Change	64,602	10,416	24,585	(1,306)
Ending Balance - Unexpended Appropriations	\$ 1,242,505	\$ 471,556	\$ 350,519	\$ 402,540
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	\$ 975,708	\$ 189,694	\$ 18,217,214	\$ 695,334
Budgetary Financing Sources				
Appropriations-Used	2,491,411	1,541,145	205,939	1,036,231
Royalties Retained	-	81,408	1,763,969	-
Non-Exchange Revenue	153	(166)	15	84,908
Transfers In/Out without Reimbursement	240,178	(115,127)	(78,763)	5,015
Donations and Forfeitures of Cash and Cash Equivalents	-	-	-	22
Other Budgetary Financing Sources	(4,968)	14	33,958	14,020
Other Adjustments	-	-	-	27,269
Other Financing Sources				
Donations and Forfeitures of Property	16,165	-	2,177	5,547
Transfers In/Out without Reimbursement	12,218	(1,621)	(51,621)	3,271
Imputed Financing from Costs Absorbed by Others	68,435	79,870	67,863	23,556
Total Financing Sources	2,823,592	1,585,523	1,943,537	1,199,839
Net Cost of Operations	(2,784,203)	(457,994)	(586,244)	(1,075,343)
Net Change	39,389	1,127,529	1,357,293	124,496
Ending Balance - Cumulative Results of Operations	\$ 1,015,097	\$ 1,317,223	\$ 19,574,507	\$ 819,830

Consolidating Statement of Changes in Net Position
for the fiscal year ended September 30, 2005
(dollars in thousands)

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 Total
\$ 7,450	\$ 1,000,273	\$ 38,490	\$ 501,980	\$ 163,343	\$ -	\$ 4,080,359
169,175	2,238,294	109,805	1,176,585	958,021	-	10,197,599
3,343	102,345	-	86,270	5,647	-	93,641
(168,927)	(2,354,429)	(104,439)	(1,212,825)	(924,389)	-	(10,039,735)
(2,467)	(42,478)	(2,311)	(15,918)	(20,716)	-	(152,622)
1,124	(56,268)	3,055	34,112	18,563	-	98,883
\$ 8,574	\$ 944,005	\$ 41,545	\$ 536,092	\$ 181,906	\$ -	\$ 4,179,242
\$ 562,153	\$ 17,278,154	\$ 1,967,879	\$ 3,039,504	\$ 125,708	\$ -	\$ 43,051,348
168,927	2,354,429	104,439	1,212,825	924,389	-	10,039,735
2,229,170	1,054,553	-	1,036	-	-	5,130,136
29,273	33	368,898	793,791	(104)	-	1,276,801
7,006	(245,745)	-	127,309	1,526	-	(58,601)
-	27,578	-	3,287	2,272	-	33,159
-	(388)	-	8,404	-	-	51,040
(27,269)	-	-	-	-	-	-
-	612	-	-	2,095	-	26,596
(838)	1,776	(666)	4,289	2,151	-	(31,041)
14,128	114,472	6,828	62,060	62,772	(48,451)	451,533
2,420,397	3,307,320	479,499	2,213,001	995,101	(48,451)	16,919,358
(2,425,790)	(2,659,962)	(306,580)	(2,128,621)	(1,036,740)	48,451	(13,413,026)
(5,393)	647,358	172,919	84,380	(41,639)	-	3,506,332
\$ 556,760	\$ 17,925,512	\$ 2,140,798	\$ 3,123,884	\$ 84,069	\$ -	\$ 46,557,680

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United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

NOV 15 2006

Memorandum

To: Secretary

From: *for* Earl E. Devaney
Inspector General

Maury T. Kudaal

Subject: Independent Auditors' Report on the Department of the Interior Financial Statements for Fiscal Years 2006 and 2005 (Report No. X-IN-MOA-0018-2006)

INTRODUCTION

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Department of Interior (DOI) financial statements for fiscal years 2006 and 2005. The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576), as amended, requires the DOI Inspector General or an independent auditor, as determined by the Inspector General, to audit the DOI financial statements.

Under a contract issued by DOI and monitored by the Office of Inspector General (OIG), KPMG, an independent public accounting firm, performed an audit of the DOI fiscal years 2006 and 2005 financial statements. The contract required that the audit be performed in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

RESULTS OF INDEPENDENT AUDIT

In its audit report dated November 15, 2006, KPMG issued an unqualified opinion on the DOI financial statements. However, KPMG identified eight reportable conditions in the DOI internal controls over financial reporting, of which one was considered to be a material weakness. KPMG also found one deficiency in the DOI internal controls over Required Supplementary Information. In addition, KPMG identified three instances where DOI did not comply with laws and regulations, including one instance of noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).

KPMG has also audited the financial statements for the Bureau of Indian Affairs, Bureau of Land Management, Bureau of Reclamation, Departmental Offices, Minerals Management Service, National Park Service, U.S. Fish and Wildlife Service, and the U.S. Geological Survey. In addition, KPMG audited the balance sheets of the Office of Surface Mining.

EVALUATION OF KPMG AUDIT PERFORMANCE

To ensure the quality of the audit work performed, the OIG:

- reviewed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit at key points;
- coordinated periodic meetings with DOI management to discuss audit progress, findings, and recommendations;
- reviewed and accepted KPMG's audit report; and
- performed other procedures we deemed necessary.

KPMG is responsible for the attached auditors' report dated November 15, 2006, and the conclusions expressed therein. We do not express an opinion on DOI financial statements, internal controls, or on whether DOI financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations.

REPORT DISTRIBUTION

The legislation, as amended, creating the OIG (5 U.S.C.A. app. 3) requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

The OIG appreciates the courtesies and cooperation extended to KPMG and the OIG staff during the audit. If you have any questions regarding the report, please contact me at 202-208-5745.

Attachment

cc: Chief Financial Officer
Chief Information Officer
Director, Office of Financial Management
Associate Director, Finance, Policy and Operations, Office of Financial Management
Audit Liaison Officer, Office of Financial Management
Focus Group Leader, Management Control and Audit Followup, Office of Financial Management



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Assistant Secretary for Policy, Management, and Budget and Inspector General
U.S. Department of the Interior:

We have audited the accompanying balance sheets of the U.S. Department of the Interior (Interior) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2006 audit, we also considered Interior's internal controls over financial reporting, Required Supplementary Stewardship Information, and performance measures, and tested Interior's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that Interior's financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, in fiscal year 2006, Interior changed its method of accounting for and reporting of earmarked funds, heritage assets, stewardship land, and certain allocation transfers to adopt changes in accounting standards and Office of Management and Budget (OMB) requirements.

Our consideration of internal controls over financial reporting, Required Supplementary Stewardship Information, and performance measures resulted in the following conditions being identified as reportable conditions:

Reportable Condition Considered to be a Material Weakness

A. Controls over the Indian Trust funds

Other Reportable Conditions

- B. Application and general controls over financial management systems
- C. Controls over property, plant, and equipment
- D. Reporting the Sport Fish Restoration and Boating Trust Fund
- E. Controls over the U.S. Park Police Pension Plan
- F. Controls over charge cards
- G. Control assessment and assurance statement process
- H. Controls over spending authority

We also noted the following deficiency in internal control over Required Supplementary Information that, in our judgment, could adversely affect Interior's ability to collect, process, record, and summarize this information.



I. Museum Collections

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*:

- J. *Single Audit Act Amendments of 1996*
- K. Potential non-compliance with the *Anti-Deficiency Act*, acquisition regulations, and leasing laws and regulations
- L. *Federal Financial Management Improvement Act of 1996*

The following sections discuss our opinion on Interior's financial statements; our consideration of Interior's internal controls over financial reporting, Required Supplementary Stewardship Information, and performance measures; our tests of Interior's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the U.S. Department of the Interior as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Interior as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 24 and 26 to the financial statements, Interior changed its method of accounting for and reporting of earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*. Also, as discussed in Note 10 to the financial statements, Interior changed its method of reporting for heritage assets and stewardship land in fiscal year 2006 to adopt the applicable provisions of SFFAS No. 29, *Heritage Assets and Stewardship Land*. Finally, as discussed in Note 26 to the financial statements, Interior changed its method of accounting for and reporting certain allocation transfers in fiscal year 2006, to adopt new OMB requirements.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the Required Supplementary Information for museum collections is not presented in conformity with U.S. generally accepted accounting principles because the Required Supplementary Information disclosures for museum collections are not



complete and disclose the condition of the facility that houses the museum collection, rather than the condition of the underlying museum collection.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating information in the Other Supplementary Information section is presented for purposes of additional analysis of the financial statements rather than to present the financial position and changes in net position of Interior's components individually. The consolidating information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Performance Data and Analysis section, the Other Accompanying Information section, and the special account funds in the Other Supplementary Information within the Financial section are presented for purposes of additional analysis and are not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

In our fiscal year 2006 audit, we noted certain matters, described below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable condition A is a material weakness. Exhibit I presents the status of prior year reportable conditions.

We noted certain additional matters that we have reported to management of Interior in a separate letter dated November 15, 2006.

A. Controls over the Indian Trust Funds

The United States Congress has designated the Secretary of the Interior as the trustee delegate with responsibility for the monetary and non-monetary resources held in trust on behalf of American Indian Tribes (Tribal Trust Funds), individual Indians, and other trust funds (hereafter collectively referred to as the Indian Trust Funds). The Secretary carries out this fiduciary responsibility through the Office of the Special Trustee for American Indians (OST), the Bureau of Indian Affairs (BIA), other Interior bureaus, and agreements with American Indian Tribes.



The Indian Trust Funds' balances include appropriated accounts that are considered Federal funds and non-Federal accounts that belong to beneficiaries of the Indian Trust Funds. The Federal accounts are reflected in Interior's financial statements, while the non-Federal accounts, which represent the majority of the Indian Trust Funds, are not reflected in Interior's financial statements. However, the Indian Trust Funds' transactions and balances are disclosed in Note 23 to Interior's financial statements, in accordance with Federal accounting standards.

Interior has invested a significant amount of resources to improve its controls over Indian Trust Funds; however, we noted that Interior needs to continue its efforts to resolve historical differences for items 1, 2, 3, and 4 below, and to improve procedures and internal controls for item 5 below, to ensure that the Indian Trust Funds' activity and balances are recorded properly and timely, as follows:

1. *Trust Fund Balances*

The financial information systems and internal control procedures used in the processing of Indian Trust Funds' transactions and determination of the Indian Trust Funds' balances have suffered historically from a variety of system and procedural internal control weaknesses. In addition, Interior is burdened with the ongoing impact of decades of accumulated discrepancies in the accounting records. Furthermore, certain Indian Trust Funds' beneficiaries do not agree with the trust fund balances and/or have requested an accounting of the Indian Trust Funds. Interior has invested a significant amount of resources identifying historical records and preparing an accounting of the Indian Trust Funds' balances and will continue with this historical accounting effort.

2. *Individual Indian Monies Subsidiary Ledger*

The control account for Individual Indian Monies (IIM) account holders represents the aggregate net balance of trust funds held on behalf of IIM account holders, as reflected in the detailed subsidiary ledger of IIM accounts (subsidiary ledger). The control account balance has historically not agreed to the sum of the balances from the subsidiary ledger, and it cannot be determined which balance, if either, is correct. As of September 30, 2006 and 2005, the aggregate sum of all positive balances included in the subsidiary ledger exceeded the control account by approximately \$6 million. Accordingly, IIM account holders with positive balances may have received lower interest earnings. In addition, as of September 30, 2006 and 2005, the subsidiary ledger contained negative account balances totaling approximately \$44 million (of which approximately \$164,000 and \$192,000 was attributed to individual Indian accounts as of September 30, 2006 and 2005, respectively).

3. *Special Deposit Accounts*

As of September 30, 2006 and 2005, there were approximately 22,000 and 20,000 special deposit accounts reflected in the subsidiary ledger with balances totaling approximately \$36 million and \$40 million, respectively. In accordance with Title 25 of the Code of Federal Regulations and as directed by BIA, OST records receipts into special deposit accounts within the subsidiary ledger when the recipient trust fund account is unknown at the time of receipt. When BIA identifies the trust fund account(s), OST transfers the amount from the special deposit account(s) to the designated trust fund account(s) in accordance with BIA instructions. A significant number of special deposit accounts have remained inactive for the past several years and new special deposit accounts were



established during fiscal year 2006 and 2005. A significant number of special deposit accounts continue to require resolution.

4. *Undistributed Interest and Unusual Balances*

OST and/or BIA have not been able to determine the proper recipients of undistributed interest of approximately \$5.2 million and \$4.3 million as of September 30, 2006 and 2005, respectively. Furthermore, there were Tribal Trust Funds' accounts with negative cash balances totaling approximately \$721,000 and \$724,000 as of September 30, 2006 and 2005, respectively, that required resolution.

5. *Entering and Maintaining Trust Fund Information*

The regional and agency offices of BIA perform a critical role in the initial input and subsequent changes to the Indian Trust Funds' information disclosed by Interior. We noted weaknesses in the following areas:

a. *Trust Fund Systems*

BIA had not completed implementation of an automated system for tracking and processing activities of the Indian trust assets. Agency offices use "off-the-shelf" software, internally developed software, in-house databases, and manual processes to manage ownership records, track lease activity, account for receivables/revenue, and determine distribution amounts. BIA has developed an automated system for certain activities and completed the first phase of the roll-out in September 2006. The second phase of the rollout is expected to be completed in all agency offices by September 30, 2007. This situation increases the risk that transactions are recorded inaccurately and untimely.

b. *Accounts Receivable*

BIA had not fully developed and communicated standardized policies and procedures for establishing, tracking, and pursuing accounts receivable for the Indian Trust Funds. This resulted in inconsistent processes and increases the risk that amounts due to Indian Trust Funds are not identified and ultimately collected.

c. *Probate Backlog*

BIA did not consistently enter probate orders for land title into the trust management systems timely. Although BIA made progress in reducing the backlog, BIA indicated that it had probate orders that had not been prepared, adjudicated, recorded, and/or encoded. BIA expects to have the backlog resolved by September 2008. This increases the potential for untimely distributions of income to the account holders of the Indian Trust Funds.

d. *Supervised and Restricted Accounts*

BIA did not consistently perform reviews over active supervised accounts, nor did it maintain documentation for supervised accounts, including social service assessment and evaluation forms, disbursement documentation, annual review documentation, court orders, and notification of restriction letters. Additionally, BIA did not consistently perform reviews over active supervised accounts for contracted or compacted tribes. Finally, although each of the regions that we visited had compiled a listing of active supervised accounts, the regions expended significant efforts



generating the listing. BIA has since identified a report from the Trust Fund Accounting System (TFAS) which lists all active supervised accounts and needs to work with OST to validate the completeness of this report and, once validated, ensure its timely distribution to the appropriate agency offices.

Recommendation

We recommend that Interior develop and implement procedures and internal controls to address the deficiencies in controls related to Indian Trust Funds.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with the significance of our findings because management believes that the controls are operating effectively and the differences between the supported records and recorded transactions are not widespread or systemic based on the work completed to date. Therefore, management believes that this is a reportable condition.

Auditors' Response to Management's Response

As summarized above, management had not resolved significant financial reporting differences from prior periods and weaknesses in BIA trust-related systems and processes continue to exist at September 30, 2006. Therefore, we continue to believe that the weaknesses identified constitute a material weakness.

B. Application and General Controls over Financial Management Systems

Interior continues to improve the security and controls over its information systems; however, we determined that Interior needed to improve controls in the areas described below, as required by OMB Circular No. A-130, *Management of Federal Information Resources*. These conditions could have affected Interior's ability to prevent and detect unauthorized changes to financial information, to control electronic access to sensitive information, and to protect its information.

1. Entity-wide Security Program and Planning

An entity-wide security program, including security policies and a related implementation plan, is the foundation of an entity's security control structure. Interior did not have policies in place to require entity-wide segregation of duties within certain information system functions. In addition, Interior needs to improve its certification and accreditation documentation to ensure it includes all required information and considers changes made to systems and processes. Additionally, Interior did not perform all needed steps in the risk assessment process for certain systems. Furthermore, Interior components did not follow the Interior implementation requirements for two financial applications, resulting in an incomplete certification and accreditation of such financial applications.

Interior did not consistently perform appropriate background checks for information technology and security personnel. In addition, Interior did not ensure new employees signed acknowledgements of the responsibilities for computer use forms before receiving access to systems and applications and the forms for one system did not indicate corrective actions for violations. Furthermore, Interior needs to improve its monitoring process to ensure that information technology employees complete Interior's required training programs.



2. *Access Controls*

Access controls protect computer resources from unauthorized modification, disclosure, and loss. Interior did not fully establish controls to prevent and detect unauthorized access. In addition, Interior had not fully documented the process for requesting, granting, monitoring, and terminating user access for two of its financial applications. Interior also did not consistently review systems and applications to ensure that all users are authorized and the level of access rights is appropriate or maintain evidence that such reviews were performed. Furthermore, Interior did not always review and approve access rights for individuals that transferred within Interior or consistently maintain user access forms for system access. Although terminated employees' system access was disabled or scheduled to be disabled, Interior did not remove access of certain terminated employees in a timely manner. Furthermore, Interior needs to improve exit clearance procedures and process.

Although, Interior has processes to grant and approve physical and logical access to contractors, Interior needs to improve its processes to verify that contractors have appropriate background investigations, completed security training and non-disclosure agreements, and to verify that separated contractors' access was revoked in a timely manner.

Interior had not consistently implemented policies that require management to monitor security violations and inactive accounts. In addition, Interior did not generate or review security profile changes and activity logs for certain systems and applications.

3. *System Software Controls*

System software controls protect computer resources from unauthorized modification, disclosure, and loss. Interior had not formally documented policies and procedures for restricting access to certain system software and needs to improve system software change controls for one system. Although Interior documented a change management methodology to control changes to such operating system software, the policies do not include detailed testing procedures or separate procedures for addressing emergency changes. Additionally, Interior did not test changes to the operating system software. Furthermore, Interior did not have controls in place to prevent system software from being installed without management approval.

Interior did not have formal procedures for limiting administrator access to three of its financial applications or appropriately segregate system software responsibilities for one financial application. Interior also did not implement controls to prevent and detect unauthorized access to one financial application or perform audit logging over access to and modification of sensitive or critical files for the financial application. Furthermore, Interior did not fully implement a process to ensure that unauthorized modifications by system administrators are detected and reported.

4. *Software Development and Change Controls*

Software development and change controls ensure that only authorized programs and modifications are implemented. Interior has not formally developed, documented, or implemented data processing procedures to control and standardize the maintenance of one financial application. In addition, Interior has not developed formal change



management procedures for one financial system, which includes a database and operating system. Although Interior documented program changes to financial applications, the documentation is not consistent and standardized for program changes and emergency changes to financial applications. Furthermore, Interior did not prepare and maintain change request forms, plans or testing documentation and Interior did not complete a post-change management review after installing emergency operating system patches for one financial system.

Interior did not use library management software to control changes to one of its financial systems. Furthermore, certain system configurations did not adequately segregate duties as the configurations provided individuals, who are involved with programming, testing and migrating changes to production, access to the source code, test, and production libraries.

5. *Service Continuity*

Service continuity plans protect information resources, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur. Interior had not fully developed and documented a comprehensive contingency plan for certain financial applications. In addition, Interior has not updated its continuity of operations plan for one information technology environment. Although Interior has contingency plans, one data center contingency plan did not indicate emergency processing priorities and was not approved by management. Interior did not have sufficient evidence of contingency plan testing for one of its systems and has not recently tested one of its contingency plans. Furthermore, Interior had not developed processes to ensure that employees are periodically trained on their roles and responsibilities in regards to certain contingency plans.

Interior did not consistently test the backup files for certain financial applications. In addition, Interior had not fully documented procedures that require periodic testing of a data center's equipment and disposing of electronic media that are not required to be maintained. Furthermore, Interior did not maintain a tape library log of all the tapes for one of its data centers or maintain all approvals for individuals' access to a tape storage facility.

6. *Segregation of Responsibilities*

Proper segregation of responsibilities helps prevent and detect unauthorized actions. Interior did not formally document application-specific roles or access privileges that should be segregated for certain financial systems or formally document compensating controls when access privileges cannot be segregated. In addition, Interior did not consistently require management to review the design and operation of segregation of responsibility controls.

Recommendation

We recommend that Interior continue to improve the security and general controls over its financial management systems. These improvements should address each of the areas discussed above and include the specific recommendations that we provided to management, as well as other areas that might affect the information technology control environment to ensure adequate security and protection of the information systems.



Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendations.

C. Controls Over Property, Plant, and Equipment

Interior needs to continue improving controls over accounting for property, plant, and equipment, to ensure that transactions are promptly recorded and properly classified and accounted for, to prepare timely and reliable financial reports. We noted control weaknesses in the following areas:

1. Interior capitalized costs that should have been expensed; recorded transactions in the current year that occurred in prior years; and recorded dates, costs, asset type, and other information that did not agree with the supporting documentation for 41 of the 394 park property amounts that we tested. In addition, Interior did not transfer construction projects from the construction-in-progress account to real property accounts at the time of completion for certain construction projects.
2. Interior capitalized \$93 million of costs related to water and power structures that should have been expensed, because costs related to research and development, environmental studies, or were assets owned by other parties.
3. Interior did not have formally documented procedures to ensure that interest during construction of water and power structures and related interest on investment are accurately calculated and recorded. In addition, Interior did not have a complete listing of projects that should have interest applied during construction of water structures. Furthermore, Interior did not consistently demonstrate that management reviewed and approved such projects or did not perform the reviews of such projects, timely.

As a result of our observations, Interior analyzed and adjusted its property, plant, and equipment balances accordingly.

Recommendations

We recommend that Interior implement the following recommendations to improve controls over its property, plant, and equipment balances:

1. Continue to train personnel on the difference between costs that should be capitalized versus expensed.
2. Implement procedures requiring supervisors to review disbursement transactions and the related source documents to ensure that transactions are properly expensed or capitalized and to ensure that the dates, asset type, and amounts recorded match the supporting documentation.
3. Implement procedures requiring personnel to review items in the construction-in-progress subsidiary ledger to identify projects, or components of projects that have been completed and therefore should be moved to the real property subsidiary ledger or should be expensed because they do not meet the capitalization criteria.
4. Formally document procedures to ensure that interest applied during construction of water and power structures are accurately calculated and recorded.
5. Maintain a current listing of projects that should have interest applied during construction of water and power structures.
6. Require managers to review project listings that have interest applied during construction in a timely manner and document approval on the project listings.

***Management Response***

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our findings because management believes that procedures to establish cost structures were in place and differences were identified and corrected.

Auditors' Response to Management's Response

As summarized above, Interior has significant internal control weaknesses because we identified that Interior recorded transactions in error at a rate of approximately 11% for the sample of transactions tested, incorrectly recorded \$93 million of costs, and did not have certain controls in place related to property balances of approximately \$14 billion as of September 30, 2006. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.

D. Reporting the Sport Fish Restoration and Boating Trust Fund

In fiscal year 2006, Interior adopted the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, which became effective October 1, 2005. SFFAS No. 27 defines earmarked funds and requires separate reporting for earmarked fund activity and balances in the financial statements and note disclosures. SFFAS No. 27 also indicates that an agency should report their portion of a trust fund on the financial statements if that portion of the trust fund can be clearly identified to the agency. The Sport Fish Restoration and Boating Trust Fund (SFRBTF) has multiple benefiting agencies, including Interior, U.S. Army Corps of Engineers and the U.S. Coast Guard. Although, Interior properly identified the SFRBTF as an earmarked fund, Interior did not fully establish controls to properly record Interior's portion of the SFRBTF in the financial statements. As a result of our observations, Interior analyzed and adjusted the financial statements as of and for the year ended September 30, 2006.

Recommendations

We recommend that Interior:

1. Enhance internal controls to ensure that new accounting standards are implemented properly and in a timely manner.
2. Continue to provide the U.S. Army Corps of Engineers and the U.S. Coast Guard their respective account balances and activity related to the SFRBTF on a monthly basis.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our findings because management believes that Interior was required to report the balances because the other agencies did not cooperate.

Auditors' Response to Management's Response

As summarized above, Interior has significant internal control weaknesses because Interior did not properly record the SFRBTF, which has assets totaling approximately \$1 billion, and Interior adjusted its financial statements as a result of our observations. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.



E. Controls over the U.S. Park Police Pension Plan

Interior is required to determine and record a liability for the actuarial present value of the future benefits of the U.S. Park Police Pension Plan (USPP Pension Plan). Because Interior is not the plan administrator, Interior obtained the census data to calculate the liability from the District of Columbia, the plan administrator. As part of our testing of the USPP Pension Plan liability, we recalculated a sample of the annuity payments and identified differences between the census data file and the supporting documentation for 90 of the 112 annuity participants tested. These differences included both under and over payments and netted to approximately 1% of the total annuity payments that we tested. In addition, we compared the census data file to the supporting documentation for 145 annuity and active participants and identified 5 differences in gender, age, and other factors. Interior in consultation with its actuaries, evaluated the differences identified and concluded that the USPP Pension Plan liability was fairly stated as of September 30, 2006. However, all census data differences need to be resolved so as not to affect future actuarial projections and to ensure pension payments for retirees are not adversely affected.

Recommendation

We recommend that Interior work with the District of Columbia to investigate and resolve differences between the census data and the supporting documentation to ensure that pension liabilities and costs are properly presented in Interior's financial statements.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our findings because management believes that the differences are small and are in the process of being resolved.

Auditors' Response to Management's Response

As summarized above, Interior has significant internal control weaknesses related to pension liabilities of approximately \$708 million as of September 30, 2006, because we identified numerous differences between the census data, including benefit payments, and the supporting documentation that have not been resolved. Specifically, we identified individual benefit payment differences that ranged from underpayments of 69% to overpayments of 41% for 81% of the benefit payments tested. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.

F. Controls over Charge Cards

Interior issues purchase, fleet, and travel charge cards to its employees to streamline acquisition and payment procedures and to reduce the administrative burden associated with traditional and emergency purchasing of travel items, supplies, and services. Interior uses charge cards to purchase goods and services totaling several hundred million dollars. In conjunction with the issuance of these cards, Interior published the *Integrated Charge Card Program Guide*. This guide sets forth restrictions on the use of the cards as well as certain internal control procedures such as timely and complete reconciliation of billing statements by the cardholders and approving officials.

However, we determined that Interior did not consistently follow these internal control procedures because we identified 125 exceptions in the 470 statements that we tested at five of the nine Interior components. For example, cardholders and supervisors did not always sign and date the charge card statements, did not consistently sign and date the charge card in a timely manner, did not consistently maintain charge card receipts to support the charges, and split



purchase transactions to be under the charge card limit. In addition, Interior did not routinely investigate and resolve transactions on the unusual charge card transaction reports. Furthermore, Interior had not consistently terminated cards of former employees.

Recommendations

We recommend that Interior perform the following:

1. Continue to provide training to personnel on proper charge card procedures.
2. Require approving officials to be more diligent in monitoring and enforcing compliance with Interior's charge card policies.
3. Allocate sufficient resources to oversee compliance with DOI charge card policies and procedures, including investigating and resolving transactions on the unusual charge card transaction reports.
4. Terminate charge cards at the time an employee separates from Interior employment.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendations.

G. Control Assessment and Assurance Statement Process

The Federal Managers' Financial Integrity Act (FMFIA) requires Interior to establish and maintain effective internal control and annually evaluate and report on the effectiveness of the internal control. OMB Circular No. A-123, Management's *Responsibility for Internal Control*, Appendix A, provides the methodology for management to assess, document, test, and report on the internal controls over financial reporting in accordance with section 4 of FMFIA.

Although Interior established an effective plan to assess, document, test, and report on internal controls over financial reporting, certain Interior components did not fully execute the plan. As a result, Interior did not consistently identify, document and test key financial controls for its custodial revenue and disbursements, accounts receivable, custodial liabilities, state liabilities, certain journal entries, property and equipment, and other financial balances; did not fully document the procedures performed to test the design and operating effectiveness of certain controls; did not consistently document its evaluation of the test results; and did not adequately document the population tested, sample size tested, or the period tested. As a result of our observations, management performed additional controls testing and improved its assessment documentation. However; Interior needs to improve its assessment process to ensure key controls are identified, documented, and tested.

In addition, the material weakness reported for Controls over the Indian Trust Funds was not reflected in Interior's FMFIA assurance statement because management did not believe it constituted a material weakness.

Recommendations

We recommend that Interior improve its assurance process to:

1. Identify, document, and test key financial controls over significant financial statement balances.
2. Document procedures performed to test the design and operating effectiveness of the controls and the evaluation of testing results.
3. Document the population tested, sample size tested, and the period tested.



4. Require management to review the documentation supporting the assurance statement before signing the assurance statement.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings and indicated that Interior focused its resources on the items most material and at risk to the financial reporting process, and agreed with our recommendations.

Auditors' Response to Management's Response

As summarized above, Interior has significant internal control weaknesses because Interior needs to improve its assessment process to ensure key controls are identified, documented, and tested. In addition, Interior identified and tested additional controls and improved its documentation after we had identified the deficiencies and after management had signed assurance statements indicating that they had completed the testing and evaluation. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.

H. Controls over Spending Authority

Interior needs to improve its procedures and controls over spending authority, to ensure that funding documentation consistently demonstrates that Interior met the appropriate regulations, including the bona fide need requirements. The Interior Office of Inspector General (OIG) conducted an audit of the Interior purchases made on behalf of the Department of Defense and determined that 5 of the 12 funding documents it selected from fiscal year 2006, and 19 of the 49 funding documents selected from fiscal year 2005, may not have met the appropriate regulations, including the bona fide need requirements. In addition, we identified 3 funding documents that Interior accepted after the period of availability of the referenced appropriations. As a result, Interior may have spent expired funds. The OIG also indicated that Interior obligated the government in advance of receiving funding for one contract and that Interior awarded a 10-year \$94 million sole source contract primarily related to office space that may have violated procurement and leasing laws and regulations. Interior is working with the OIG and OMB to resolve these matters.

Recommendations

We recommend that Interior improve controls over spending authority as follows:

1. Implement controls to ensure bona fide need is established before accepting funding documents.
2. Improve the funding documentation obtained to ensure that the documentation demonstrates Interior has met the appropriate regulations, including the bona fide need requirements, and does not spend expired funds.
3. Review related funding and obligation documents to ensure that obligations are not recorded in advance of receiving funding.
4. Require the Solicitor's Office to formally review and approve contracts related to office space prior to entering into the contract.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our recommendations; however, management did not agree with the conclusions, including that a potential *Anti-Deficiency Act* violation may have occurred.



Auditors' Response to Management's Response

As summarized above, Interior should continue working with the OIG and OMB to resolve these matters. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to performance measures reported in the Management's Discussion and Analysis section would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the internal control and its operation related to Required Supplementary Stewardship Information that we considered to be material weaknesses as defined above.

Further, in our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY INFORMATION

We noted a deficiency in internal control over Required Supplementary Information described in the following paragraphs that, in our judgment, could adversely affect Interior's ability to collect, process, record, and summarize Required Supplementary Information.

I. Museum Collections

Interior has museum collections at over 1,000 locations across the United States that include art, millions of ethnography, archeology, documents, history, biology, paleontology, and geology items. Interior did not establish controls to determine and disclose the condition of museum collections in accordance with applicable accounting standards, because Interior disclosed the condition of only the facility that houses the collection, rather than the condition of the underlying museum collections. In addition, Interior has not assessed the condition of all the facilities housing its collections.



Interior considers museum collections to be in stable condition if the facility housing the museum collection is in stable condition. If a collection is housed in a poor facility, the condition of the collection would be considered “poor”, regardless of the actual condition of the collection itself. If that same collection is moved to a new facility which is in good condition, the collection would then be considered in “good” condition because the surrounding environment is in “good” condition, and any environmental problems contributing to the deterioration of the collection would improve because of the condition of the new facility. SFFAS No. 29 requires entities to report the condition of museum collections as required supplementary information and defines condition as the physical state of an asset. SFFAS No. 29 also indicates that the condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Therefore Interior’s policy for museum collection disclosure is not in accordance with the applicable accounting requirements.

Recommendation

We recommend that Interior assess and disclose the condition of the museum collections, rather than the facility that houses the collections.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our findings because management believes that its disclosures are in accordance with SFFAS No. 29 and museum industry practices.

Auditors’ Response to Management’s Response

As summarized above, Interior needs to establish controls to determine and disclose the condition of museum collections in accordance with applicable accounting standards. SFFAS No. 29 defines condition as the physical state of an asset and indicates that the condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. By only disclosing the condition of the facility housing the collection, Interior did not inform financial statement users of the condition of the underlying museum collections. Therefore, we continue to believe that the weaknesses identified constitute a reportable condition.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and are described below.

J. Single Audit Act Amendments of 1996

Interior is required to monitor its grantees in accordance with the *Single Audit Act Amendments of 1996*, and the related OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Although Interior has improved its processes of monitoring grantees, Interior did not obtain Single Audit reports within 9 months of the grantee’s fiscal year-end for certain grantees in fiscal year 2006 and did not issue management decisions on audit findings within six months after receipt of audit reports or ensure that the grantees completed appropriate



and timely corrective action on such findings for 30 of the 38 grantees tested at certain components.

Recommendation

We recommend that in fiscal year 2007, Interior obtain single audit reports and issue management decisions on audit findings in accordance with the requirements of the *Single Audit Act Amendments of 1996* and the related OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings, and its comments were responsive to our recommendations.

K. Potential Non-compliance with the *Anti-Deficiency Act*, Acquisition Regulations, and Leasing Laws and Regulations

As further discussed in the Internal Control Over Financial Reporting section of this report, Interior may have violated the *Anti-Deficiency Act* because Interior spent potentially expired funds and obligated the government in advance of receiving funding for one contract. In addition, Interior awarded a contract related to office space potentially in violation of 40 USC 101, which provides General Services Administration exclusive authority for leases; section 8020 of the Defense appropriation act; and 10 USC 2676, Acquisition Limitation, which precludes military department leases without specific lease authority. As a result, any obligations and expenses under this contract may have violated the *Anti-Deficiency Act*. Interior is working with the OIG and OMB to resolve these matters.

Recommendations

We recommend that in fiscal year 2007, Interior continue working with the OIG and OMB to:

1. Investigate and resolve the potential noncompliance with the *Anti-Deficiency Act*, procurement regulations, and leasing laws and regulations.
2. Improve its contracting processes and controls to ensure compliance with the *Anti-Deficiency Act*, acquisition regulations, and leasing laws and regulations.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our recommendations; however, management did not agree with the finding conclusions, including that a potential *Anti-Deficiency Act* violation may have occurred.

Auditors' Response to Management's Response

As summarized above, we recommend that Interior continue working with the OIG and OMB to resolve these matters.

* * * * *

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.



The results of our tests of FFMIA disclosed instances, described below, where Interior's financial management systems did not substantially comply with applicable Federal accounting standards. The results of our tests of FFMIA disclosed no instances in which Interior's financial management systems did not substantially comply with the Federal financial management systems requirements or the United States Standard General Ledger at the transaction level.

L. Federal Financial Management Improvement Act of 1996

Interior is required to prepare its financial statements in accordance with Federal accounting standards. As discussed in the Internal Control over Financial Reporting section of this report, we identified one material weakness related to controls over Indian Trust Funds that affected Interior's ability to prepare its financial statements and related disclosures in accordance with Federal accounting standards. Also as discussed in the Internal Control Over Required Supplementary Information section of this report, Interior needs to complete and revise its condition of museum collections disclosures to comply with Federal accounting standards. As a result of these conditions, Interior's financial management systems do not substantially comply with applicable Federal accounting standards.

Recommendation

We recommend that in fiscal year 2007, Interior improve procedures and internal controls to ensure that the financial statements and related disclosures are prepared in accordance with the Federal accounting standards.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our findings because management believes that it does not have a material weakness and because management believes that its museum collection disclosures are in accordance with the standards.

Auditors' Response to Management's Response

We continue to believe that Interior has a material weakness in internal controls because Interior had not resolved significant financial reporting differences from prior periods and weaknesses in BIA trust-related systems and processes continue to exist at September 30, 2006. In addition, we believe that Interior needs to disclose the condition of the museum collection in accordance with the accounting standards. Therefore, we continue to recommend that Interior improve procedures and internal controls to ensure that the financial statements and related disclosures are prepared in accordance with the Federal accounting standards.

* * * * *

RESPONSIBILITIES

Management's Responsibilities. The United States Code, Title 31, Sections 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, Interior prepares and submits financial statements in accordance with OMB Circular No. A-136.



Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal controls; and
- Complying with laws, regulations, contracts, and grant agreements applicable to Interior, including FFMIA.

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 financial statements of Interior based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2006 audit, we considered Interior's internal control over financial reporting by obtaining an understanding of Interior's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on Interior's internal control over financial reporting. Consequently, we do not provide an opinion thereon.



As required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, we considered Interior's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of Interior's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over Required Supplementary Stewardship Information in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Interior's fiscal year 2006 financial statements are free of material misstatement, we performed tests of Interior's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Interior. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether Interior's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

RESTRICTED USE

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

KPMG LLP

November 15, 2006

U.S. DEPARTMENT OF THE INTERIOR

Status of Prior Year Findings

September 30, 2006

Ref	Condition	Status
A	Controls over implementing new accounting policies and procedure	This has been corrected.
B	Controls over the Indian Trust funds	This has not been corrected and is repeated at finding A.
C	Reconciliation of intragovernmental transactions and balances	This has been corrected.
D	Application and general controls over financial management systems	This has been partially corrected and is repeated at finding B.
E	Controls over property, plant, and equipment	This has not been corrected and is repeated at finding C.
F	Controls over accruals	This has been corrected.
G	Controls over environmental contingencies	This has been corrected.
H	Financial management at the Bureau of Indian Affairs	This has been corrected.
I	Controls over revenue	This has been corrected.
J	Controls over grants	This has been corrected.
K	Segregation of responsibilities over purchases and entries	This has been corrected.
L	Controls over charge cards	This has not been corrected and is repeated at finding F.
M	Controls over obligations	This has been corrected.
N	Controls over the U.S. Park Police Pension Plan	This has not been corrected and is repeated at finding E.
O	Stewardship Reporting	This has been partially corrected and is repeated at finding I.
P	Deferred maintenance estimates	This has been corrected.
Q	<i>Single Audit Act Amendments of 1996</i>	This has not been corrected and is repeated at finding J.

U.S. DEPARTMENT OF THE INTERIOR

Status of Prior Year Findings, Continued

September 30, 2006

Ref	Condition	Status
R	<i>Debt Collection Improvement Act of 1996</i>	This has been corrected.
S	OMB Circular No. A-25, <i>User Charges</i>	This has been corrected.
T	<i>Federal Financial Management Improvement Act of 1996</i>	This has not been corrected and is repeated at finding L.



United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240



Memorandum

To: Earl E. Devaney
Inspector General

11-15-06P05:04 RCVD

KPMG LLP
2001 M Street, NW
Washington, DC 20036

From: R. Thomas Weimer *R. Thomas Weimer*
Assistant Secretary – Policy, Management and Budget

Subject: Management's Response to Independent Auditors' Report for Fiscal Year 2006
(Assignment No. X-IN-MOA-0018-2006)

The Department has reviewed the draft report prepared by KPMG LLP and provides its response to the findings and recommendations. We are pleased that the result of the audit is an unqualified opinion on the Department Consolidated Financial Statements. The Department appreciates the recognition noted in several findings and recommendations of the improvement and progress achieved during Fiscal Year 2006. We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management in the Department of the Interior.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Reportable Conditions that are considered to be Material Weaknesses

A. Controls over the Indian Trust funds

Management does not concur. A variety of actions already have been taken to significantly improve internal control activities and systems for Indian Trust Funds and extensive amounts of documentation have been provided for consideration. Additional activities are underway to continue the substantial improvement in controls over the Indian trust funds noted in the audit report for both OST and BIA. Based on the results of our extensive internal controls testing, these controls are in place and operating effectively; therefore, there is no adverse material impact on the current financial internal control environment.

We believe that there is a high degree of accuracy in the Trust Fund account balances, the accounting and asset management resource systems are reliable, and monies are being properly and timely accounted for. Upon careful consideration of the significant corrective action progress achieved and the procedures and internal controls that have been implemented, we

believe that our efforts to address the deficiencies in controls related to Indian Trust Funds are substantially complete and that this would more accurately be classified as a reportable condition.

Other Reportable Conditions

B. Application and general controls over financial management systems

Management concurs. During FY 2006 Interior has substantially improved its policies and guidance, and will continue its efforts to enhance application and general controls over financial management systems during FY 2007 to address the issues noted in the audit report. We note, however, that although compliance with policies and guidance needs improvement, actual physical testing of our financial systems has demonstrated positive results. We are not aware of any breaches or successful penetration attempts over the past year.

C. Controls over property, plant, and equipment

Management does not concur. Formal procedures were in place to establish cost structures to ensure that costs are recorded appropriately as capitalized or expensed, review procedures are in place, interest is being applied appropriately, and project listings are maintained. The differences were identified during management's review and appropriate actions were taken to correct prior period transactions. An adjustment of \$93 million was made to correct the accounting for certain assets. This is less than 1 percent of Interior's reported property, plant, and equipment.

D. Reporting the Sport Fish Restoration and Boating Trust Fund

Management does not concur. Interior had controls in place and operating to identify new accounting treatments and standards in a timely and effective manner. Implementation of the new standard that addressed the Fund required significant preparation and coordination. The standard's requirements are that when multiple responsible entities can be **clearly identified** (emphasis added) then each entity should report their portion. It continues on to state that when those portions cannot be separated, the entity with the program management responsibility should report the fund.

Interior attempted to engage all parties related to this fund many times throughout the year. Absent their cooperation, we were forced to continue to report the fund in its entirety. That this was not completed until the fund management agency and the other component entities cooperated and collaborated on the preferred treatment of these funds were coordinated does not represent a weakness in internal controls.

E. Controls over the U.S. Park Police Pension Plan

Management does not concur. During FY 2006, a contractor performed a complete audit of the data supporting the U.S. Park Police actuarial liability. Specifically, using all of the supporting annuitant documentation from the plan administrator, the initial annuity amount and the FY 2006 annuity for each annuitant were recalculated. All differences were summarized and

are in the process of being resolved. The differences identified were .15% of current year payments, and less than .01% of the total liability.

F. Controls over charge cards

Management concurs. Interior continues to believe it has a generally well-managed charge card program, although compliance issues are identified in several bureaus and offices. Interior continued to: monitor approving official reviews; train and otherwise educate cardholders, agency/organization program coordinators (A/OPCs), and approving officials on charge card responsibilities; and monitor the use of charge cards. In addition, through quarterly reviews of the personnel/payroll system, Interior continued to identify newly-appointed supervisors who will have approving official responsibility and to identify open accounts of former employees that need to be closed by the A/OPC.

G. Control assessment and assurance statement process

Management partially concurs. OMB Circular Number A-123, *Management's Responsibility for Internal Control*, Appendix A, (A-123) provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. The Department took a top-down approach in assessing internal controls over financial reporting to support management's assurance at the department-wide level. The top-down approach focused the Department's resources on the items most material and most at risk to the Department's financial reporting. Interior management believes it complied with all of the minimum indicators of compliance of A-123, Appendix A (see OMB Bulletin No. 06-03, Section 7.20), so that it has complied with Circular No. A-123, Appendix A.

However, Interior management concurs that the recommendations made can assist in its constant effort to improve its assurance process, documentation, and testing of key controls.

H. Controls over spending authority

Management partially concurs. Interior management concurs that the recommendations made can assist in its constant effort to improve its controls and has already taken significant action to address the recommendations made in the audit. However, management has been reviewing the referenced Office of Inspector General (OIG) draft findings, and, to date, does not agree with the OIG conclusions, including the finding that a potential Anti-Deficiency Act violation has occurred.

INTERNAL CONTROL OVER RSI AND RSSI

I. Museum Collections

Management does not concur. Our approach to accounting for museum collections was in accordance with FASAB SFFAS No. 29 and established industry practices. For example, the American Association of Museums bases their accreditation criteria in a large part upon the

environmental conditions, protections that the facilities can sustain, and industry best practices that directly tie to this concept. In addition, the Heritage Health Index Report on the State of America's Collections identified safe environment and proper care of collections to be the most fundamental responsibility of preservation. The facts and the flexibilities in this standard, as well as our participation in the Governmentwide task force developing implementation guidance, have confirmed our approach and interpretation.

We believe that our interpretive differences should not be considered a non-compliance or significant deficiency because the standard allows maximum flexibility for the preparer to base their presentation on their reading of the standard.

INSTANCES OF NONCOMPLIANCE OR OTHER MATTERS

J. Single Audit Act Amendments of 1996

Management concurs. During FY 2006 Interior has taken steps to obtain single audit reports and issue management decisions on audit findings, timely, and to improve the process. During FY 2007 the Department will continue working to revise policies and processes to improve compliance with the Single Audit Act and OMB Circular Number A-133.

K. Potential non-compliance with the *Anti-Deficiency Act*, acquisition regulations, and leasing laws and regulations

Management partially concurs. Interior management concurs that the recommendations made can assist in its constant effort to improve its controls and has already taken significant action to address the recommendations made in the audit. However, management has been reviewing the referenced Office of Inspector General (OIG) draft findings, and, to date, does not agree with the OIG conclusions, including the finding that a potential Anti-Deficiency Act violation may have occurred.

L. Federal Financial Management Improvement Act of 1996

Management does not concur. As detailed under Section I, Interior believes that their financial management systems related to museum collection condition disclosures do comply with the applicable Federal accounting standard. This compliance is confirmed by our work with the implementation task force.

Furthermore, as discussed in Section A, it is Interior's position that the material weakness regarding control over Indian Trust Funds is no longer a material weakness. Significant corrective actions have been taken; we believe that there is a high degree of accuracy in the Trust Fund account balances; that the accounting and asset management resource systems are reliable, and that monies are now properly and timely being accounted for. Upon careful consideration of the significant corrective action progress achieved and the procedures and internal controls that have been implemented to address the deficiencies in controls related to Indian Trust Funds, management has downgraded the matter to a bureau-level reportable condition. We believe that the Department's financial statements and related disclosures are in full compliance with the Federal accounting standards and that substantial compliance is achieved.