

PART THREE

Financial Section

Message from the Chief Financial Officer

In FY 2007, the Department of the Interior continued its journey towards management excellence, established clear performance metrics, and increased the levels of accountability. Details on our journey towards management excellence are captured in the Department's FY 2007 Performance and Accountability Report. 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.

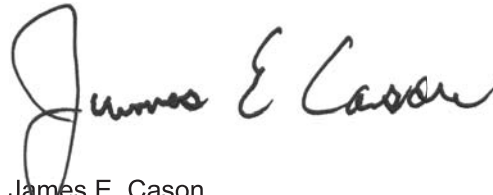
I am pleased to report that for the eleventh consecutive year we have received an unqualified ("clean") opinion on the Department's consolidated financial statements from our auditors. This is the best possible audit result and affirms our commitment to financial reporting excellence. Along with this opinion, the Department had other noteworthy accomplishments in FY 2007. The Department:



- ◆ Received the prestigious Association of Government Accountants' Certificate of Excellence in Accountability Reporting. This marks the sixth consecutive year that the Department has been recognized for quality reporting.
- ◆ Met or exceeded 79% of the 205 performance outcome measures from our GPRA Strategic Plan. This is the third year we have reported on our performance against these measures. In FY 2006, we met or exceeded 67% of our measures; in FY 2005, we met or exceeded 76.2% of our measures.
- ◆ Continued the implementation of the Department's Financial and Business Management System with two Bureaus now using FBMS as the financial system of record. FBMS will replace Interior's legacy accounting and business systems and provide standard business practices supported by a single, integrated financial management system.
- ◆ Managed real property and facilities under our stewardship in accordance with the asset management plan to ensure these assets best serve the public.
- ◆ Continued progress in areas targeted by the President's Management Agenda. Efforts to improve our status for Financial Performance have moved us from red to yellow making Interior one of only six agencies who are not red for status or progress.
- ◆ Exceeded our annual performance goal of implementing 85% of GAO and OIG audit recommendations scheduled for completion in this fiscal year. For FY 2007, Interior achieved an actual implementation rate of 88%.
- ◆ Resolved one remaining auditor-reported material weakness.
- ◆ Complied with the requirements of OMB Circular No. 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.

- ◆ Improved our Intragovernmental Reconciliation process to ensure accurate reporting of business activity with our Federal trading partners. This is an integral element of the Combined Financial Report of the United States.

Our journey towards management excellence requires the focused, ongoing commitment and creativity of Interior's dedicated employees. During FY 2008, 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 pursuing clear goals, achieving performance measures, and aligning our workforce to effectively achieve those goals.

A handwritten signature in black ink that reads "James E. Cason". The signature is written in a cursive style with a large, stylized initial "J".

James E. Cason
Associate Deputy Secretary
and Chief Financial Officer

Principal Financial Statements

The principal financial statements included in Interior's FY 2007 Performance and Accountability Report 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 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 Custodial Activity

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

Balance Sheet
as of September 30, 2007 and 2006
(dollars in thousands)

	FY 2007	FY 2006
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 34,776,671	\$ 33,409,382
Investments, Net (Note 4)	7,322,545	8,094,833
Accounts and Interest Receivable (Note 5)	1,421,879	440,510
Loans and Interest Receivable, Net (Note 6)	2,827,301	2,631,887
Other	529	529
Total Intragovernmental Assets	46,348,925	44,577,141
Cash (Note 3)	756	825
Investments, Net (Note 4)	163,354	188,100
Accounts and Interest Receivable, Net (Note 5)	1,947,017	2,478,037
Loans and Interest Receivable, Net (Note 7)	127,285	181,137
Inventory and Related Property, Net (Note 8)	255,413	280,859
General Property, Plant and Equipment, Net (Note 9)	17,930,798	17,491,901
Other	209,972	234,987
Total Assets (Note 11)	\$ 66,983,520	\$ 65,432,987
Stewardship Assets (Note 10)		
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	\$ 590,852	\$ 44,946
Debt (Note 12)	858,007	1,056,572
Other		
Resources Payable to Treasury	2,030,690	2,094,244
Advances and Deferred Revenue	794,349	1,309,798
Custodial Liability	819,984	1,061,879
Other Liabilities	582,984	501,075
Total Intragovernmental Liabilities	5,676,866	6,068,514
Accounts Payable	1,076,948	1,109,655
Loan Guarantee Liability (Note 7)	41,434	92,380
Federal Employee and Veteran Benefits (Note 13)	1,363,633	1,387,423
Environmental and Disposal Liabilities (Note 14)	147,514	153,466
Other		
Contingent Liabilities (Note 14)	354,678	614,468
Advances and Deferred Revenue	741,258	747,359
Payments Due to States	639,507	812,588
Other Liabilities	937,076	952,122
Total Liabilities (Note 15)	\$ 10,978,914	\$ 11,937,975
Commitments and Contingencies (Note 14 and 17)		
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 24)	\$ 335,545	\$ 336,691
Unexpended Appropriations - Other Funds	3,774,190	3,890,857
Cumulative Results of Operations - Earmarked Funds (Note 24)	49,148,058	47,234,344
Cumulative Results of Operations - Other Funds	2,746,813	2,033,120
Total Net Position	56,004,606	53,495,012
Total Liabilities and Net Position	\$ 66,983,520	\$ 65,432,987

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

Statement of Net Cost
for the years ended September 30, 2007 and 2006
(dollars in thousands)

	FY 2007	FY 2006
RESOURCE PROTECTION		
Costs	\$ 4,459,531	\$ 3,946,834
Less: Earned Revenue	793,422	1,136,759
Net Cost	3,666,109	2,810,075
RESOURCE USE		
Costs	3,438,415	3,942,639
Less: Earned Revenue	1,294,116	1,327,167
Net Cost	2,144,299	2,615,472
RECREATION		
Costs	2,593,722	1,780,694
Less: Earned Revenue	338,687	370,645
Net Cost	2,255,035	1,410,049
SERVING COMMUNITIES		
Costs	5,091,113	6,518,561
Less: Earned Revenue	454,591	904,395
Net Cost	4,636,522	5,614,166
REIMBURSABLE ACTIVITY AND OTHER		
Costs	2,626,815	3,295,714
Less: Earned Revenue	1,690,094	2,340,934
Net Cost	936,721	954,780
TOTAL		
Costs	18,209,596	19,484,442
Less: Earned Revenue	4,570,910	6,079,900
Net Cost of Operations (Notes 20 and 22)	\$ 13,638,686	\$ 13,404,542

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

Statement of Changes in Net Position
for the years ended September 30, 2007 and 2006
(dollars in thousands)

	Earmarked (Note 24)	FY 2007 All Other	Consolidated	Earmarked (Note 24)	FY 2006 All Other	Consolidated
UNEXPENDED APPROPRIATIONS						
Beginning Balance	\$ 336,691	\$ 3,890,857	\$ 4,227,548	\$ 396,643	\$ 3,782,599	\$ 4,179,242
Adjustments						
Changes in Accounting Principles (Note 27)	2,511	25,888	28,399			
Beginning Balance, as adjusted	339,202	3,916,745	4,255,947	396,643	3,782,599	4,179,242
Budgetary Financing Sources						
Appropriations Received, General Funds	397,850	9,917,315	10,315,165	378,871	10,243,663	10,622,534
Appropriations Transferred In/(Out)	945	2,532	3,477	(6,043)	121,430	115,387
Appropriations-Used	(406,235)	(10,037,018)	(10,443,253)	(430,348)	(10,101,021)	(10,531,369)
Other Adjustments	3,783	(25,384)	(21,601)	(2,432)	(155,814)	(158,246)
Net Change	(3,657)	(142,555)	(146,212)	(59,952)	108,258	48,306
Ending Balance - Unexpended Appropriations	\$ 335,545	\$ 3,774,190	\$ 4,109,735	\$ 336,691	\$ 3,890,857	\$ 4,227,548
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	\$ 47,234,344	\$ 2,033,120	\$ 49,267,464	\$ 44,421,271	\$ 1,853,677	\$ 46,274,948
Adjustments						
Changes in Accounting Principles (Note 27)	(433,117)	(11,370)	(444,487)			
Beginning Balance, as adjusted	46,801,227	2,021,750	48,822,977	44,421,271	1,853,677	46,274,948
Budgetary Financing Sources						
Appropriations-Used	406,235	10,037,018	10,443,253	430,348	10,101,021	10,531,369
Royalties Retained (Note 16)	4,435,820	4,367	4,440,187	4,386,601	3,212	4,389,813
Non-Exchange Revenue	896,640	19,243	915,883	1,233,054	17,092	1,250,146
Transfers In/(Out) without Reimbursement	435,501	(37,082)	398,419	(43,666)	(150,619)	(194,285)
Donations and Forfeitures of Cash and Cash Equivalents	35,705	-	35,705	32,702	-	32,702
Other Budgetary Financing Sources	(14,471)	(150)	(14,621)	(223)	7,764	7,541
Other Adjustments	(718)	(50)	(768)	(393)	364	(29)
Other Financing Sources						
Donations and Forfeitures of Property	68	7,883	7,951	505	6,040	6,545
Transfers In/(Out) without Reimbursement	(53,125)	(12,497)	(65,622)	(132,964)	33,373	(99,591)
Imputed Financing from Costs Absorbed by Others (Note 18)	128,058	422,135	550,193	120,079	352,768	472,847
Total Financing Sources	6,269,713	10,440,867	16,710,580	6,026,043	10,371,015	16,397,058
Net Cost of Operations	(3,922,882)	(9,715,804)	(13,638,686)	(3,212,970)	(10,191,572)	(13,404,542)
Net Change	2,346,831	725,063	3,071,894	2,813,073	179,443	2,992,516
Ending Balance - Cumulative Results of Operations	49,148,058	2,746,813	51,894,871	47,234,344	2,033,120	49,267,464
TOTAL NET POSITION	\$ 49,483,603	\$ 6,521,003	\$ 56,004,606	\$ 47,571,035	\$ 5,923,977	\$ 53,495,012

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

Statement of Budgetary Resources
for the years ended September 30, 2007 and 2006
(dollars in thousands)

	Total Budgetary Accounts		Non-Budgetary Credit Program Financing Accounts	
	FY 2007	FY 2006	FY 2007	FY 2006
BUDGETARY RESOURCES:				
Unobligated balance, beginning of Fiscal Year:	\$ 6,185,985	\$ 5,710,929	\$ 108,580	\$ 83,309
Recoveries of prior year unpaid obligations	503,631	484,943	634	8
Budget Authority:				
Appropriation	16,405,771	16,124,453	-	-
Borrowing Authority	-	-	1,032	1,584
Spending authority from offsetting collections				
Earned:				
Collected	4,804,761	5,479,124	75,156	39,702
Change in receivables from Federal sources	(52,531)	(2,997)	-	-
Change in unfilled customer orders:				
Advance received	(501,618)	(306,820)	-	-
Without advance from Federal sources	22,782	(104,540)	-	-
Total Budget Authority	20,679,165	21,189,220	76,188	41,286
Nonexpenditure transfers, net, anticipated and actual	(671,663)	438,207	-	-
Temporarily not available pursuant to Public Law	-	(16,617)	-	-
Permanently not available	(36,895)	(186,788)	(47,063)	(3,255)
Total Budgetary Resources (Note 21)	\$ 26,660,223	\$ 27,619,894	\$ 138,339	\$ 121,348
STATUS OF BUDGETARY RESOURCES:				
Obligations incurred (Note 21):				
Direct	\$ 16,457,065	\$ 16,380,951	\$ 26,853	\$ 12,768
Reimbursable	4,478,735	5,052,958	-	-
Total Obligations incurred	20,935,800	21,433,909	26,853	12,768
Unobligated balance available (Note 21):				
Apportioned	5,499,829	5,987,182	111,486	108,580
Exempt from apportionment	66,727	58,325	-	-
Total Unobligated balance available	5,566,556	6,045,507	111,486	108,580
Unobligated balance not available (Note 21)	157,867	140,478	-	-
Total Status of Budgetary Resources	\$ 26,660,223	\$ 27,619,894	\$ 138,339	\$ 121,348
OBLIGATED BALANCE:				
Obligated balance, net:				
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 8,839,925	\$ 8,557,216	\$ 3,934	\$ 4,005
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(1,117,227)	(1,224,762)	-	-
Total unpaid obligated balances, net, beginning of Fiscal Year	7,722,698	7,332,454	3,934	4,005
Obligations incurred, net	20,935,800	21,433,909	26,853	12,768
Less: Gross outlays	(20,178,744)	(20,666,259)	(30,150)	(12,831)
Less: Recoveries of prior year unpaid obligations, actual	(503,631)	(484,943)	(634)	(8)
Change in uncollected customer payments from Federal sources	29,749	107,537	-	-
Total, unpaid obligated balance, net, end of period	\$ 8,005,872	\$ 7,722,698	\$ 3	\$ 3,934
OBLIGATED, NET, END OF PERIOD - BY COMPONENT:				
Unpaid obligations	9,093,349	8,839,925	3	3,934
Less: Uncollected customer payments from Federal sources	(1,087,477)	(1,117,227)	-	-
Total, unpaid obligated balance, net, end of period	\$ 8,005,872	\$ 7,722,698	\$ 3	\$ 3,934
NET OUTLAYS:				
Gross outlays	20,178,744	20,666,259	30,150	12,831
Less: Offsetting collections	(4,303,144)	(5,172,304)	(75,156)	(39,702)
Less: Distributed Offsetting receipts	(5,769,483)	(6,940,455)	-	-
Net Outlays(Receipts)	\$ 10,106,117	\$ 8,553,500	\$ (45,006)	\$ (26,871)

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

Statement of Custodial Activity
for the years ended September 30, 2007 and 2006
(dollars in thousands)

	FY 2007	FY 2006
REVENUES ON BEHALF OF THE FEDERAL GOVERNMENT		
Mineral Lease Revenue		
Rents and Royalties	\$ 10,004,182	\$ 10,660,720
Onshore Lease Sales	286,345	275,031
Offshore Lease Sales	387,689	949,875
Strategic Petroleum Reserve (Note 19)	306,191	(18,466)
Total Revenue	\$ 10,984,407	\$ 11,867,160
DISPOSITION OF REVENUE		
Distribution to Department of the Interior		
National Park Service Conservation Funds	1,049,000	898,304
Bureau of Reclamation	1,471,612	1,651,813
Minerals Management Service	2,324,674	2,295,815
Bureau of Land Management	75,554	71,821
Fish and Wildlife Service	1,785	1,608
Distribution to Other Federal Agencies		
Department of the Treasury	5,908,178	6,870,450
Department of Agriculture	77,367	73,531
Department of Commerce	1,000	25
Department of Energy (Note 19)	356,191	(18,466)
Distribution to Indian Tribes and Agencies	126,712	158,155
Distribution to States and Others	69,760	84,490
Change in Untransferred Revenue	(491,816)	(220,386)
Royalty Credits Redeemed (Note 26)	14,390	-
Total Disposition of Revenue	\$ 10,984,407	\$ 11,867,160
NET CUSTODIAL ACTIVITY	\$ -	\$ -

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

Notes to Principal Financial Statements

For the years ended
September 30, 2007
and 2006

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, 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), and Custodial Funds. 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 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
- ◆ Bureau of Land Management
- ◆ Bureau of Reclamation
- ◆ Office of Surface Mining and Reclamation Enforcement
- ◆ Minerals Management Service
(includes the Environmental Improvement and Restoration Fund)
- ◆ U.S. Geological Survey
- ◆ 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 certain Bureaus.

The U.S. Bureau of Mines was closed in 1996. Although it no longer exists, certain transactions and data related to USBM programs and activities are reflected in Interior’s FY 2007 and FY 2006 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, and budgetary resources of 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 Interior in accordance with generally accepted accounting principles and OMB Circular No. A-136, “Financial Reporting Requirements.” GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, 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 2007 financial statements for the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activity.

Throughout the financial statements and notes, certain assets, liabilities, earned revenue, and costs have been classified as *intragovernmental* which 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 U.S. Department of the 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*, which 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.

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 nonmarketable par value or nonmarketable, 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.

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, a component of the Department of Energy. 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, 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.

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 the 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.

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 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 from 10 to 80 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 of other personal property, Interior has established a capitalization threshold of \$15,000. There are no restrictions on the use or convertibility of Interior's general purpose property, plant, and equipment.

In accordance with the implementation guidance for Statement of Federal Financial Accounting Standard 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, 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, 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 10 years for calculating amortization of software using the straight-line method.

Stewardship Assets. Stewardship assets consist 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. Note 10 and the

Required Supplementary Information 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 most 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 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 Statement of Changes in Net Position once goods and services have been received. The 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 Statement of Net Cost and serve to offset 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 Interior's operations and are reported on the Statement of Changes in Net Position.

With minor exceptions, all receipts of revenues by Federal agencies are processed through the 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 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 7, Interior reports these State amounts as "Royalties Retained," an other budgetary financing source on the Statement of Changes in Net Position rather than on the Statement of Net Cost, because MMS incurred minimal costs in earning this revenue.

The Southern Nevada Public Land Management Act, enacted in October 1998, authorizes the BLM to sell public land tracts that are interspersed with or adjacent to private land in the Las Vegas Valley. The BLM is authorized to invest 85 percent of the sales in interest bearing Treasury securities, while 10 percent of the proceeds are forwarded to the Southern Nevada Water Authority and 5 percent 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 visitors.

Custodial Revenue. Interior's Minerals Revenue Management, 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 States, the Office of the Special Trustee for American Indians, and the Indian Affairs for distribution to Indian Tribes and individual Indian mineral owners, other Federal agencies, and the U.S. Treasury accounts, 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. Interior, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act 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 Statement of Custodial Activity.

Interior assists the Administration's initiative to fill the Strategic Petroleum Reserve. Interior transfers 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 to DOE on the Statement of Custodial Activity.

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, 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 primarily represent cash advances to the Interior Franchise Fund and the National Business Center. 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 liability is recognized for these amounts, as employees do not vest in these benefits.

Federal Employees Workers' Compensation Program. The Federal Employees Compensation Act 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, 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. Interior recognizes an unfunded liability to DOL for these estimated future payments. 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

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 preretirement portion of coverage, Interior has recognized the entire service cost of the postretirement 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; (2) the Federal Employees Retirement System, which became effective on January 1, 1987; or (3)

the United States Park Police 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 percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional 4 percent of pay. Employees participating in CSRS receive no matching contribution from Interior. During FY 2007, employees could contribute as much as \$15,500 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 percent of their gross earnings. The normal retirement benefit is 2.5 percent for each year of service up to 20 with an additional 3 percent for each year beyond 20, but no more than an aggregate of 80 percent. 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 Interpretation of Federal Financial Accounting Standards Interpretation 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 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, intradepartmental transactions and balances have not been eliminated from this statement. Intradepartmental 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 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 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 for appropriations determined to be recoverable from project beneficiaries. 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.

R. Allocation Transfers

Interior is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one Department to obligate budget authority and outlay funds to another Department. A separate fund (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting

purposes. All allocation transfers of balances are credited to this account and subsequently obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived. Interior allocated funds, as a parent, to the Department of Agriculture, the Department of Transportation, and the Corps of Engineers. Interior receives allocation transfers, as the child, from the Department of Agriculture, the Department of Health and Human Services, the Department of Labor, the Department of Transportation, the Environmental Protection Agency, the General Services Administration, and the U.S. Agency for International Development.

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 related 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.

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, 2007 and 2006, consists of the following:

(dollars in thousands)	FY 2007	FY 2006
General Funds	\$ 5,455,504	\$ 5,424,657
Special Funds	27,352,216	25,464,346
Revolving Funds	1,426,978	2,027,366
Trust Funds	172,974	211,851
Other Fund Types	368,999	281,162
Total Fund Balance with Treasury by Fund Type	\$ 34,776,671	\$ 33,409,382

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 Interior.

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, and the Alaska Townsite Trustee 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, 2007 and 2006, consists of the following:

(dollars in thousands)	FY 2007	FY 2006
Unobligated		
Available	\$ 3,567,620	\$ 3,623,391
Unavailable	157,329	201,887
Obligated Not Yet Disbursed	6,032,685	6,114,435
Subtotal	9,757,634	9,939,713
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	24,824,285	23,308,813
Clearing and Deposit Accounts	194,752	160,856
Subtotal	25,019,037	23,469,669
Total Status of Fund Balance with Treasury	\$ 34,776,671	\$ 33,409,382

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.

NOTE 3. CASH

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

Cash as of September 30, 2007 and 2006, consists of the following:

(dollars in thousands)	FY 2007		FY 2006	
Cash Not Yet Deposited to Treasury	\$	221	\$	174
Imprest Fund		535		651
Total Cash	\$	756	\$	825

NOTE 4. INVESTMENTS, NET

A. Investments in Treasury Securities

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

Indian Affairs. IA 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. IA's investments in public securities are discussed more fully below.

Bureau of Land Management. BLM is authorized to invest in special nonmarketable 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. BLM invests in these Treasury securities 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 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. Investments consist of the cost of nonmarketable, market-based securities purchased through the Federal Investment Branch of the Bureau of the Public Debt and interest earned. 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 nonmarketable, 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, in nonmarketable, 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 nonmarketable, 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. Investments consist of nonmarketable, market-based Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. MMS has limited investment authority based on two categories: Environmental Improvement and Restoration and Custodial Investments.

The Environmental Improvement and Restoration Fund is available for investment under the Interior and Related Agencies Appropriations Act of 1998. Congress has permanently appropriated 20 percent of the prior fiscal year interest earned by the EIRF to the Department of Commerce. The remaining 80 percent 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 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.

National Park Service. The monies generated from the sale of the National Law Enforcement Officers Memorial Silver Dollar established the National Law Enforcement Officers Memorial Maintenance Fund and have been invested in a nonmarketable, market-based, interest bearing security.

Office of Surface Mining. Effective October 1, 1991, OSM was authorized to invest available Abandoned Mine Land funds in nonmarketable, market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt in the Treasury. 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 has investments in nonmarketable, 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 and the Multi-National Species Conservation Fund.

Investments as of September 30, 2007, consist of the following:

(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Indian Affairs	Marketable	\$ 74,419	\$ -	\$ 74,419	\$ 74,456
Bureau of Land Management	Nonmarketable, market-based	2,180,860	28,308	2,209,168	2,212,961
Bureau of Reclamation	Nonmarketable, market-based	401,370	-	401,370	401,459
Departmental Offices					
Utah Reclamation Mitigation and Conservation Account	Nonmarketable, market-based	170,116	16	170,132	170,517
Natural Resource Damage Assessment and Restoration Fund	Nonmarketable, market-based	236,113	505	236,618	236,710
Tribal Trust and Special Funds	Nonmarketable, market-based	77,050	-	77,050	77,050
	Marketable	53,428	(798)	52,630	52,841
Minerals Management Service - Restricted	Nonmarketable, market-based	1,104,241	(12,561)	1,091,680	1,094,377
Minerals Management Service - Custodial		48,881	45	48,926	48,932
National Park Service	Nonmarketable, market-based	1,455	(10)	1,445	1,455
Office of Surface Mining	Nonmarketable, market-based	2,362,172	821	2,362,993	2,355,161
U.S. Fish and Wildlife Service	Nonmarketable, market-based	573,667	(179)	573,488	575,290
Total U.S. Treasury Securities		7,283,772	16,147	7,299,919	7,301,209
Accrued Interest		22,626	-	22,626	-
Total Non-Public Investments		7,306,398	16,147	7,322,545	7,301,209
Public Securities					
Indian Affairs	Marketable	30	-	30	30
Departmental Offices - Tribal Trust and Special Funds	Marketable	161,400	19	161,419	162,082
Total Public Securities		161,430	19	161,449	162,112
Accrued Interest		1,905	-	1,905	-
Total Public Investments		163,335	19	163,354	162,112
Total Investments		\$ 7,469,733	\$ 16,166	\$ 7,485,899	\$ 7,463,321

B. Investments in Public Securities

IA 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 and similar Government-sponsored enterprises and Government corporations. Bonds and bank notes are issued by Federal Home Loan Bank and the

Federal Farm Credit Bank. Investments in public securities reflect investments held by IA'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.

Notes to Principal Financial Statements

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

(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
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					
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

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 as of September 30, 2007 and 2006:

(dollars in thousands)	FY 2007	FY 2006
Accounts and Interest Receivable from the Public		
Current	\$ 396,353	\$ 417,302
1 - 180 Days Past Due	62,816	200,524
181 - 365 Days Past Due	9,813	7,610
1 to 2 Years Past Due	171,337	9,414
Over 2 Years Past Due	79,281	91,370
Total Billed Accounts and Interest Receivable - Public	719,600	726,220
Unbilled Accounts and Interest Receivable	1,537,990	1,944,115
Total Accounts and Interest Receivable - Public	2,257,590	2,670,335
Allowance for Doubtful Accounts - Public	(310,573)	(192,298)
Total Accounts and Interest Receivable - Public, Net	\$ 1,947,017	\$ 2,478,037

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 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 water 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, 2007 and 2006, amounts not yet earned under unmatured repayment contracts were \$2.8 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 as of September 30, 2007 and 2006.

(dollars in thousands)	FY 2007	FY 2006
Accounts and Interest Receivable from Federal Agencies		
Billed	\$ 1,111,057	\$ 25,722
Unbilled	310,822	414,788
Total Accounts and Interest Receivable - Federal	\$ 1,421,879	\$ 440,510

NOTE 6. INTRAGOVERNMENTAL LOANS AND INTEREST RECEIVABLE, NET

Intragovernment Loans and Interest Receivable, as of September 30, 2007 and 2006, are summarized as follows.

(dollars in thousands)	FY 2007	FY 2006
Principal	\$ 6,599,293	\$ 6,378,188
Interest	2,192,969	2,053,503
Cumulative Repayments	(5,943,259)	(5,778,102)
Allowance for Non-Reimbursable Costs	(21,702)	(21,702)
Intragovernmental Loans and Interest Receivable, Net	\$ 2,827,301	\$ 2,631,887

Interest rates vary by project and pertinent legislation, and range from 4.9 percent to 7.6 percent for FY 2007 and 2.5 percent to 12.4 percent for FY 2006. 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 Federal 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. There have been 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.

IA 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.

Indian Affairs. IA provides guaranteed loans to Indian Tribes and organizations, Indian individuals, and Alaska Natives for economic development purposes. The IA loan program includes the Indian Direct Loan Program (which ceased providing loans in 1995), the Indian Loan Guarantee Program under the Federal 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 precredit 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 precredit 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.

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 2007 includes a modification and technical reestimates. In FY 2007, the Fort McDowell Indian Community Water Rights Settlement Revision Act of 2006 (Public Law 109-373) was enacted. The law provides for cancellation of the repayment obligation of the Fort McDowell Yavapai Nation to repay an outstanding Credit Reform loan of \$13 million, for which a \$200 thousand subsidy allowance had previously been recorded. A modification for \$4.4 million of the outstanding loan was received and recorded as an increase to the subsidy expense in FY 2007. The FY 2007 technical reestimate includes the remaining \$8.4 million required to liquidate the Fort McDowell Yavapai Nation loan and adjusts for differences between the projected cash flows that were expected versus actual cash flows for all other Credit Reform loans. This combination resulted in a net increase to the subsidy expense of \$23.3 million.

There were no additional loan appropriations in FY 2007; therefore subsidy rates do not apply.

Departmental Offices. Departmental Offices have two loans, one precredit reform loan to the U.S. Virgin Islands and one postcredit reform loan to the American Samoa Government.

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 July 2008. 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 ASG. 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 reserved the full loan amount based on a reassessment of the loan's collectability.

National Park Service. The NPS has a single noninterest 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. 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 2007 and 2006, 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 Interior in consultation with the Wolf Trap Foundation for the maintenance of structures, facilities, and equipment of the park.

Notes to Principal Financial Statements

Outstanding loan balances, as of September 30, 2007 and 2006, are summarized as follows.

(dollars in thousands)

A. Direct Loan and Loan Guarantee Program Names:	FY 2007	FY 2006
Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	\$ 12,114	\$ 13,836
Indian Affairs - Direct Loans (Credit Reform)	7,913	2,347
Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	102	422
Indian Affairs - Guaranteed Loans (Credit Reform)	507	633
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	47,301	50,466
Bureau of Reclamation - Direct Loans (Credit Reform)	55,628	106,820
Departmental Offices - Virgin Island (Pre-Credit Reform)	842	3,375
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	2,878	3,238
Total Loans and Interest Receivable, Net	\$ 127,285	\$ 181,137

(dollars in thousands)

B. Direct Loans Obligated Prior to 1992

Direct Loan Programs	Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):					Assets Related to Direct Loans, Net
	Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Foreclosed Property		
Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	\$ 11,324	\$ 1,713	\$ (923)	\$ -	\$ -	\$ 12,114
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	54,481	75	(7,255)	-	-	47,301
Departmental Offices - Virgin Island (Pre-Credit Reform)	793	49	-	-	-	842
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	2,878	-	-	-	-	2,878
FY 2007 Total	\$ 69,476	\$ 1,837	\$ (8,178)	\$ -	\$ -	\$ 63,135
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

(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
Indian Affairs - Direct Loans (Credit Reform)	\$ 6,200	\$ 180	\$ -	\$ 1,533	\$ 7,913
Bureau of Reclamation - Direct Loans (Credit Reform)	94,139	-	-	(38,511)	55,628
Departmental Offices - American Samoa Government (Credit Reform)	17,317	945	-	(18,262)	-
FY 2007 Total	\$ 117,656	\$ 1,125	\$ -	\$ (55,240)	\$ 63,541
Indian Affairs - Direct Loans (Credit Reform)	6,933	342	0	(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

(dollars in thousands)

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

Direct Loan Programs	FY 2007	FY 2006
Bureau of Reclamation - Direct Loans (Credit Reform)	\$ 9,213	\$ 8
Departmental Offices - American Samoa Government (Credit Reform)	-	19
Total	\$ 9,213	\$ 27

Notes to Principal Financial Statements

(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)	\$ -	\$ -	\$ -	\$ (713)	\$ (713)
Departmental Offices - American Samoa Government (Credit Reform)	-	-	-	-	-
FY 2007 Total	\$ -	\$ -	\$ -	\$ (713)	\$ (713)

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

Modifications and Reestimates					
Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	
Indian Affairs - Direct Loans (Credit Reform)	\$ -	\$ (2,628)	\$ (566)	\$ (3,194)	
Bureau of Reclamation - Direct Loans (Credit Reform)	4,404	-	23,330	27,734	
Departmental Offices - American Samoa Government (Credit Reform)	2,177	-	-	2,177	
FY 2007 Total	\$ 6,581	\$ (2,628)	\$ 22,764	\$ 26,717	

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)	

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2007	FY 2006
Indian Affairs - Direct Loans (Credit Reform)	\$ (3,194)	\$ 5,904
Bureau of Reclamation - Direct Loans (Credit Reform)	27,021	(13,559)
Departmental Offices - American Samoa Government (Credit Reform)	2,177	-
Total	\$ 26,004	\$ (7,655)

(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 2007 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 2006 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 2007	FY 2006
Beginning balance of the subsidy cost allowance	\$ 30,557	\$ 42,306
Add: Subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	-	-
(b) Other subsidy costs	(713)	-
Total of the above subsidy expense components	(713)	-
Adjustments:		
(a) Loan modification	6,581	-
(b) Loans written off	1,009	(264)
(c) Subsidy allowance amortization	2,049	(3,830)
(d) Other	(4,379)	-
Ending balance of the subsidy cost allowance before reestimates	35,104	38,212
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(2,628)	(5,219)
(b) Technical/default reestimate	22,764	(2,436)
Total of the above reestimate components	20,136	(7,655)
Ending balance of the subsidy cost allowance	\$ 55,240	\$ 30,557

Notes to Principal Financial Statements

(dollars in thousands)

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
Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	2,391	1,006	-	(3,295)	102
FY 2007 Total	\$ 2,391	\$ 1,006	\$ -	\$ (3,295)	\$ 102

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

(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)	Asset Values Related to Defaulted Guaranteed Loans Rec., Net
Indian Affairs - Guaranteed Loans (Credit Reform)	\$ 4,447	\$ 1,245	\$ -	\$ (5,185)	\$ 507
FY 2007 Total	\$ 4,447	\$ 1,245	\$ -	\$ (5,185)	\$ 507

Indian Affairs - Guaranteed Loans (Credit Reform)	\$ 5,610	\$ 1,437	\$ -	\$ (6,414)	\$ 633
FY 2006 Total	\$ 5,610	\$ 1,437	\$ -	\$ (6,414)	\$ 633

(dollars in thousands)

J. Guaranteed Loans Outstanding as of September 30, 2007:

Guaranteed Loans Outstanding		Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Loan Guarantee Programs			
Pre-1992		\$ 319	\$ 277
FY 1992		593	525
FY 1993		138	114
FY 1994		8,775	7,892
FY 1995		178	143
FY 1996		1,961	1,765
FY 1997		4,639	4,172
FY 1998		3,826	3,444
FY 1999		13,332	11,973
FY 2000		34,067	30,652
FY 2001		21,960	19,416
FY 2002		24,084	20,813
FY 2003		29,482	26,481
FY 2004		61,175	54,861
FY 2005		36,203	32,575
FY 2006		83,928	74,766
FY 2007		31,891	27,126
Total		\$ 356,551	\$ 316,995

New Guaranteed Loans Disbursed:

Loan Guarantee Programs		Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Amount Paid in FY 2007 for Prior Years		\$ 44,193	\$ 39,774
Amount Paid in FY 2007 for 2007 Guarantees		31,891	28,702
FY 2007	Total	\$ 76,084	\$ 68,476
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

Notes to Principal Financial Statements

(dollars in thousands)

K. Liability for Loan Guarantees:

Loan Guarantee Programs		Liabilities for Losses on Pre-1992 Guarantees Estimated Future Default Claims			Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees):						
Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)		\$	-	\$	41,434	\$ 41,434
FY 2007	Total	\$	-	\$	41,434	\$ 41,434
Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)		\$	-	\$	92,380	\$ 92,380
FY 2006	Total	\$	-	\$	92,380	\$ 92,380

(dollars in thousands)

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

Loan Guarantee Programs		Interest Supplements		Defaults	Fees and Other Collections		Other	Total	
Subsidy Expense for New Loan Guarantees:									
Indian Affairs - Guaranteed Loans (Credit Reform)		\$	2,622	\$	3,016	\$	(1,370)	\$ -	\$ 4,268
FY 2007	Total	\$	2,622	\$	3,016	\$	(1,370)	\$ -	\$ 4,268
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
Modifications and Reestimates:									
Loan Guarantee Programs		Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates				
Indian Affairs - Guaranteed Loans (Credit Reform)		\$	-	\$	(31,166)	\$	(25,547)	\$	(56,713)
FY 2007	Total	\$	-	\$	(31,166)	\$	(25,547)	\$	(56,713)
Indian Affairs - Guaranteed Loans (Credit Reform)		\$	-	\$	(464)	\$	5,481	\$	5,017
FY 2006	Total	\$	-	\$	(464)	\$	5,481	\$	5,017

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs		FY 2007	FY 2006		
Indian Affairs - Guaranteed Loans (Credit Reform)		\$	(52,445)	\$	7,862
Total		\$	(52,445)	\$	7,862

(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
Indian Affairs - Guaranteed Loans (Credit Reform)	3.0%	5.0%	-2.0%	0.0%	6.0%
FY 2007 Total	3.0%	5.0%	-2.0%	0.0%	6.0%
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%

(dollars in thousands)

N. Schedule for Reconciling Loan Guarantee Liability Balances

	FY 2007	FY 2006
Beginning balance of the loan guarantee liability	\$ 92,380	\$ 81,670
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	\$ 2,621	\$ 2,172
(b) Default costs (net of recoveries)	3,016	1,712
(c) Fees and other collections	(1,370)	(1,039)
Total of the above subsidy expense components	\$ 4,267	\$ 2,845
Adjustments:		
(a) Loan guarantee modification	-	-
(b) Fees received	1,805	1,092
(c) Interest supplements paid	(4,070)	(2,405)
(d) Claim payments to lenders	(1,540)	(289)
(e) Interest accumulation on the liability balance	5,861	4,541
(f) Other (recovery, revenue, and prior period adjustments)	(556)	(91)
Ending balance of the loan guarantee liability before reestimates	\$ 98,147	\$ 87,363
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(31,166)	(464)
(b) Technical/default reestimate	(25,547)	5,481
Total of the above reestimate components	\$ (56,713)	\$ 5,017
Ending balance of the loan guarantee liability	\$ 41,434	\$ 92,380

(dollars in thousands)

O. Administrative Expense:

Direct Loan Programs	Loan Guarantee Programs
Bureau of Reclamation - Direct Loans (Credit Reform)	Indian Affairs - Guaranteed Loan Programs
\$ 76	\$ 1,199
Departmental Offices - American Samoa Government (Credit Reform)	
-	-
FY 2007 Total	\$ 1,199
Bureau of Reclamation - Direct Loans (Credit Reform)	Indian Affairs - Guraranteed Loan Programs
\$ 54	\$ 671
Departmental Offices - American Samoa Government (Credit Reform)	
-	-
FY 2006 Total	\$ 671

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property as of September 30, 2007 and 2006, consists of the following:

(dollars in thousands)	FY 2007	FY 2006
Inventory		
Published Maps Held for Current/Future Sale	\$ 7,379	\$ 8,600
Gas and Storage Rights held for Current / Future Sales	907	927
Operating Materials		
Working Capital Fund: Inventory, Held for Use	1,010	199
Airplane Parts and Fuel, Held for Use	1,006	851
Stockpile Materials		
Recoverable Below-Ground Crude Helium Held in Reserve	7,235	7,235
Recoverable Below-Ground Crude Helium Held for Sale	244,765	271,065
Total Inventory and Related Property	262,302	288,877
Allowance for Obsolescence	(6,889)	(8,018)
Inventory and Related Property, Net	\$ 255,413	\$ 280,859

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, 2007, are shown in the following table.

FY 2007 (dollars in thousands)	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land and Land Improvements	\$ 2,090,597	\$ 74,817	\$ 2,015,780
Buildings	3,156,022	1,301,107	1,854,915
Structures and Facilities	20,015,177	9,359,854	10,655,323
Leasehold Improvements	70,016	22,613	47,403
Construction in Progress			
Construction in Progress - General	1,949,212	-	1,949,212
Construction in Progress in Abeyance	571,639	-	571,639
Equipment, Vehicles, and Aircraft	1,792,378	1,135,334	657,044
Assets Under Capital Lease	30,367	6,994	23,373
Internal Use Software:			
In Use	156,837	88,444	68,393
In Development	87,716	-	87,716
Total Property, Plant, and Equipment	\$ 29,919,961	\$ 11,989,163	\$ 17,930,798

Property, Plant, and Equipment categories with corresponding accumulated depreciation as of September 30, 2006, are shown in the following table.

FY 2006 (dollars in thousands)	Acquisition Cost	Accumulated Depreciation	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

NOTE 10. STEWARDSHIP ASSETS

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 NPS Organic Act (16 U.S.C. 1-4) and the Federal Land Policy and Management Act 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 Nonfederal 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, 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 that they are thoughtfully integrated into the needs of the surrounding communities. The cited legislation is implemented through Interior policy and guidance, whereby continuous program management evaluations and technical reviews ensure compliance.

The Required Supplementary Information 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 nonentity 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. Nonentity 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 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.

Nonentity 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.

Notes to Principal Financial Statements

Interior's assets as of September 30, 2007, are summarized into the following categories.

(dollars in thousands)	Entity Unrestricted	Entity Restricted	Non Entity Restricted	FY 2007
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 9,979,040	\$ 24,502,019	\$ 295,612	\$ 34,776,671
Investments, Net	5,812,382	1,419,391	90,772	7,322,545
Accounts and Interest Receivable	761,304	1,022	659,553	1,421,879
Loans and Interest Receivable, Net	-	2,827,301	-	2,827,301
Other				
Advances and Prepayments	529	-	-	529
Total Intragovernmental Assets	16,553,255	28,749,733	1,045,937	46,348,925
Cash	756	-	-	756
Investments, Net	163,354	-	-	163,354
Accounts and Interest Receivable, Net	177,925	4,414	1,764,678	1,947,017
Loans and Interest Receivable, Net	127,285	-	-	127,285
Inventory and Related Property, Net	255,413	-	-	255,413
General Property, Plant, and Equipment, Net	17,930,798	-	-	17,930,798
Other				
Advances and Prepayments	101,654	-	-	101,654
Net Power Rights	108,318	-	-	108,318
Subtotal	209,972	-	-	209,972
TOTAL ASSETS	\$ 35,418,758	\$ 28,754,147	\$ 2,810,615	\$ 66,983,520

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
TOTAL ASSETS	\$ 35,041,644	\$ 27,500,627	\$ 2,890,716	\$ 65,432,987

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, 2007 and 2006, is summarized as follows.

(dollars in thousands)	FY 2006 Beginning Balance	Borrowing / (Repayments), Net	FY 2006 Ending Balance	Borrowing / (Repayments), Net	FY 2007 Ending Balance
Helium Fund	\$ 1,074,204	\$ (160,000)	\$ 914,204	\$ (150,000)	\$ 764,204
Credit Reform Borrowings	140,798	(1,669)	139,129	(46,120)	93,009
Federal Financing Bank	5,523	(2,284)	3,239	(2,445)	794
Total Debt Due to Treasury	\$ 1,220,525	\$ (163,953)	\$ 1,056,572	\$ (198,565)	\$ 858,007

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 intra-Governmental 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, 2007 and 2006, is summarized as follows.

(dollars in thousands)	FY 2007	FY 2006
Principal	\$ 251,651	\$ 251,651
Interest		
Balance, Beginning of Year	662,553	822,553
Repayments	(150,000)	(160,000)
Balance, End of Year	512,553	662,553
Total Debt Due to Treasury	\$ 764,204	\$ 914,204

B. Intragovernmental Debt to Treasury under Credit Reform

IA, 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.

Indian Affairs. The Credit Reform Act authorizes IA 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 percent to 11.12 percent. These loans have various maturity dates from 2008 to 2029.

Bureau of Reclamation. As discussed in Note 7, Reclamation establishes 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 3.63 to 7.59 percent for FY 2007 and 4.67 to 7.59 percent 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 5.53 percent. 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. 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 loan has a final payment due date of July 1, 2008.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

Federal Employee and Veteran Benefits Payable as of September 30, 2007 and 2006, consisted of the following.

(dollars in thousands)	FY 2007	FY 2006
Federal Employee and Veteran Benefits Payable		
U.S. Park Police Pension Actuarial Liability	\$ 671,179	\$ 677,257
U.S. Park Police Pension Current Liability	33,121	31,343
Federal Employees Compensation Actuarial Liability	659,333	678,823
Total Federal Employee and Veteran Benefits Payable	\$ 1,363,633	\$ 1,387,423

U.S. Park Police Pension Plan. In estimating the U.S. Park Police Pension Plan liability and associated expense, the NPS's actuary applies economic assumptions 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 Expressed In Percentages	FY 2007	FY 2006
Interest Rate	6.25	6.25
Inflationary Rate	3.50	3.50
Projected Salary Increase	4.25	4.25

(dollars in thousands)

USPP Pension Plan Expense	FY 2007	FY 2006
Normal Costs	\$ 200	\$ 500
Interest	43,100	41,300
Assumption Changes at Beginning of Year	(14,479)	19,743
Total Pension Expenses	\$ 28,821	\$ 61,543

(dollars in thousands)

USPP Pension Plan Liability	FY 2007	FY 2006
Beginning Balance	\$ 708,600	\$ 678,400
Total Pension Expense	28,821	61,543
Less Benefit Payments	(33,121)	(31,343)
Ending Balance	\$ 704,300	\$ 708,600

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, 2007 and 2006, are summarized in the categories below.

(dollars in thousands)	FY 2007 Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Contingent Liabilities			
Probable	\$ 354,678	\$ 354,678	\$ 2,077,491
Reasonably Possible		292,462	3,023,145
Environmental and Disposal Liabilities			
Probable	\$ 147,514	\$ 147,514	\$ 355,142
Reasonably Possible		74,085	209,281
(dollars in thousands)	FY 2006 Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Contingent Liabilities			
Probable	\$ 614,468	\$ 614,468	\$ 2,432,156
Reasonably Possible		371,877	1,651,958
Environmental and Disposal Liabilities			
Probable	\$ 153,466	\$ 153,466	\$ 323,479
Reasonably Possible		126,869	302,895

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 and judicial claims,

contract related actions, 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 antidiscrimination 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, interaction with trust territory in the Pacific Islands, operation of wildlife refuges, law enforcement of Interior-managed land, general management activities on Interior land, resource related claims, 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 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, Resource Conservation and Recovery Act, Oil Pollution Act, Clean Water Act, Clean Air Act, Safe Drinking Water Act, and Asbestos Hazard Emergency Response Act. 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., nonfriable asbestos), are not subject to cleanup under applicable law. The current policy is that 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.

Interior's liabilities covered and not covered by budgetary resources as of September 30, 2007, are as follows.

(dollars in thousands)	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2007
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	\$ 62,818	\$ -	\$ -	\$ 528,034	\$ 590,852
Debt	50,000	807,164	49	794	858,007
Other					
Resources Payable to Treasury	-	-	44,894	1,985,796	2,030,690
Advances and Deferred Revenue	793,018	-	979	352	794,349
Custodial Liability	-	-	670,752	149,232	819,984
Other Liabilities					
Accrued Employee Benefits	41,996	-	24,571	35,675	102,242
Judgment Fund	-	-	-	192,277	192,277
Unfunded FECA Liability	-	-	35,792	58,636	94,428
Other Miscellaneous Liabilities	361	-	97,349	96,327	194,037
Total Other Liabilities	42,357	-	157,712	382,915	582,984
Total Other Intragovernmental Liabilities	835,375	-	874,337	2,518,295	4,228,007
Total Intragovernmental Liabilities	948,193	807,164	874,386	3,047,123	5,676,866
Public Liabilities:					
Accounts Payable	1,004,063	72,885	-	-	1,076,948
Loan Guarantee Liability	-	41,434	-	-	41,434
Federal Employee and Veterans' Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	671,179	671,179
U.S. Park Police Pension Current Liability	33,121	-	-	-	33,121
FECA Actuarial Liability	-	-	6,186	653,147	659,333
Total Federal Employee Veterans' Benefits	33,121	-	6,186	1,324,326	1,363,633
Environmental and Disposal Liabilities	-	-	-	147,514	147,514
Other					
Contingent Liabilities	-	-	-	354,678	354,678
Advances and Deferred Revenue	205,028	-	237,362	298,868	741,258
Payments Due to States	-	-	490,275	149,232	639,507
Other Liabilities					
Accrued Payroll and Benefits	196,762	-	-	-	196,762
Unfunded Annual Leave	-	-	24,906	330,299	355,205
Capital Leases	2,606	273	12	22,709	25,600
Custodial Liability	-	-	17,703	-	17,703
Secure Rural Schools Act Payable	-	-	110,213	-	110,213
Storm Damage	38,328	71,182	-	-	109,510
Other Miscellaneous Liabilities	18,760	1,688	26,514	75,121	122,083
Total Other Liabilities	256,456	73,143	179,348	428,129	937,076
Total Other Public Liabilities	461,484	73,143	906,985	1,230,907	2,672,519
Total Public Liabilities	1,498,668	187,462	913,171	2,702,747	5,302,048
Total Liabilities	\$ 2,446,861	\$ 994,626	\$ 1,787,557	\$ 5,749,870	\$ 10,978,914

Notes to Principal Financial Statements

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

NOTE 16. ROYALTIES RETAINED

Royalties Retained include mineral receipts transferred to Interior totaling \$4,440 and \$4,390 million for the periods ended September 30, 2007 and 2006, 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 Statement of Changes in Net Position in accordance with Federal accounting

standards and are considered other sources of budgetary financing.

MMS received \$1,732 million and \$1,931 million of revenue in FY 2007 and 2006 that they subsequently provided to the States. In addition, MMS received approximately \$250 million for Coastal Impact Assistance Program (grant program) in FY 2007.

NOTE 17. LEASES**Capital Leases**

Capital leases as of September 30, 2007 and 2006, consist of the following:

(dollars in thousands)	FY 2007	FY 2006
Real Property	\$ 28,000	\$ 28,000
Personal Property	2,367	2,403
Accumulated Amortization	(6,994)	(5,467)

(dollars in thousands)	Real Property	Personal Property	Total
Fiscal Year			
2008	\$ 2,085	\$ 598	\$ 2,683
2009	2,172	294	2,466
2010	2,172	-	2,172
2011	2,172	-	2,172
2012	2,172	-	2,172
Thereafter	25,285	-	25,285
Total Future Capital Lease Payments	36,058	892	36,950
Less: Imputed Interest	11,263	87	11,350
Less: Executory Costs	-	-	-
FY 2007 Net Capital Lease Liability	\$ 24,795	\$ 805	\$ 25,600
FY 2006 Net Capital Lease Liability	\$ 25,541	\$ 1,377	\$ 26,918

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 above.

Operating Leases

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

Future Operating Lease Payments

(dollars in thousands)	Real Property		Personal Property		Total
Fiscal Year	Federal	Public	Federal	Public	
2008	\$ 261,659	\$ 65,281	\$ 61,710	\$ 3,711	\$ 392,361
2009	251,347	62,548	63,251	3,316	380,462
2010	244,634	58,198	64,833	2,910	370,575
2011	236,949	50,261	66,453	2,918	356,581
2012	196,051	43,435	68,115	2,980	310,581
Thereafter	127,456	408,541	-	-	535,997
Total Future Operating Lease Payments	\$ 1,318,096	\$ 688,264	\$ 324,362	\$ 15,835	\$ 2,346,557

Most of Interior's facilities are obtained through the General Services Administration, which charges an amount that approximates commercial rental rates. The terms of Interior's 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 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 agreements frequently exceed one year, although a definite period is not always specified.

For real and personal property, future payments are calculated based on the terms of the agreement or if the agreement is silent, an annual inflationary factor of 2.4 percent for FY 2008 and 2.5 percent for FY 2009 and beyond. The inflationary factors are applied against the actual 2007 rental expense. For agreements that have an indefinite period of performance, future payments are calculated only for 5 years.

NOTE 18. 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 SFFAS 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 Statement of Changes in Net Position. Costs paid by other agencies on behalf of Interior were \$550 million and \$473 million during FY 2007 and FY 2006, respectively. Interior's

imputed costs that were recognized in the financial statements but eliminated for consolidation purposes were \$94 million and \$65 million during FY 2007 and FY 2006, 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 nonprofit conservation organizations and had an estimated value of \$1 million in FY 2006. There were no donations in FY 2007. During FY 2007 and FY 2006, the costs associated with acquiring, constructing, and renovating heritage assets were \$134 million and \$159 million, respectively. The costs associated with acquiring and improving stewardship lands were \$132 million and \$159 million during FY 2007 and FY 2006, respectively.

NOTE 19. STRATEGIC PETROLEUM RESERVE

Interior transfers barrels of oil, drawn from Federal leases within the Gulf of Mexico, to the DOE as a means to refill selected Strategic Petroleum Reserve locations. This is in accordance with no-cost transfer arrangements of Royalty-in-Kind crude oil. The transferred oil is reflected as mineral lease revenue and a distribution of revenue to the DOE on the Statement of Custodial Activity. The new SPR fill initiative began in July 2007.

The value of oil transferred in FY 2007 was approximately \$306 million, which includes the final revision to the estimates for FY 2006 and is included in \$356 million of distributions to the Department of Energy on the Statement of Custodial

Activity. The value of the oil was based on actual volumes reported on pipeline statements applied to commodity prices at on-shore market centers, less actual monthly value differences between offshore and onshore market centers that were bid by the successful bidders on the RIK volumes. The volume of oil transferred in September 2007 was estimated based on nominations (projected production) from the suppliers as the actuals were not available. In addition, the value of the September oil was estimated based on August pricing. The FY 2006 activity (\$18) million represented subsequent revisions to pipeline statements and final revisions to estimates.

NOTE 20. 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 by Mission Goals from Interior's Strategic Plan.

The Government Performance Results Act requires Federal agencies to revise their Strategic Plans every three years. Accordingly, Interior's Strategic Plan was updated in FY 2007. The Mission Goals in the current Strategic Plan remain the same as those in the previous plan; however, composition of the programs and costs associated to the individual

Mission Goals is different in the current Strategic Plan than in the previous one and the performance measures within each of the Mission Goals changed. As a result, the FY 2007 Statement of Net Cost is not comparable to the FY 2006 Statement of Net Cost.

Resource Protection and Recreation end outcome goals had gains for FY 2007. Resource Use and Serving Communities end outcome goals had a decline for FY 2007.

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 15 Department level end outcome goals identified in Interior's FY 2007 Strategic Plan.

Notes to Principal Financial Statements

FY 2007 Intragovernmental Costs and Exchange Revenue by Responsibility Segment

(dollars in thousands)	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other	Minerals Management Service
Resource Protection					
Intragovernmental Costs	\$ 311	\$ 116,219	\$ 24,268	\$ 17,506	\$ 240
Public Costs	491	384,543	43,232	56,974	931
Total Costs	802	500,762	67,500	74,480	1,171
Intragovernmental Earned Revenue	-	125,761	6,592	7,764	-
Public Earned Revenue	-	63,520	42,366	1,033	-
Total Earned Revenue	-	189,281	48,958	8,797	-
Net Costs	\$ 802	\$ 311,481	\$ 18,542	\$ 65,683	\$ 1,171
Resource Use					
Intragovernmental Costs	\$ -	\$ 80,410	\$ 417,105	\$ 1,936	\$ 97,833
Public Costs	-	236,884	925,449	5,896	1,756,180
Total Costs	-	317,294	1,342,554	7,832	1,854,013
Intragovernmental Earned Revenue	-	1,380	244,342	-	-
Public Earned Revenue	-	303,160	569,244	-	181,995
Total Earned Revenue	-	304,540	813,586	-	181,995
Net Costs	\$ -	\$ 12,754	\$ 528,968	\$ 7,832	\$ 1,672,018
Recreation					
Intragovernmental Costs	\$ -	\$ 32,165	\$ 11,497	\$ -	\$ -
Public Costs	-	178,338	24,149	-	-
Total Costs	-	210,503	35,646	-	-
Intragovernmental Earned Revenue	-	4,181	4,399	-	-
Public Earned Revenue	-	23,909	19,566	-	-
Total Earned Revenue	-	28,090	23,965	-	-
Net Costs	\$ -	\$ 182,413	\$ 11,681	\$ -	\$ -
Serving Communities					
Intragovernmental Costs	\$ 425,065	\$ 383,376	\$ -	\$ 144,127	\$ -
Public Costs	2,189,397	1,281,805	-	814,035	-
Total Costs	2,614,462	1,665,181	-	958,162	-
Intragovernmental Earned Revenue	237,950	88,604	-	18,202	-
Public Earned Revenue	121,873	35,751	-	20,757	-
Total Earned Revenue	359,823	124,355	-	38,959	-
Net Costs	\$ 2,254,639	\$ 1,540,826	\$ -	\$ 919,203	\$ -
Reimbursable Activity and Other					
Intragovernmental Costs	\$ -	\$ -	\$ 216,655	\$ 345,612	\$ 1,753
Public Costs	-	-	275,409	2,113,977	9,132
Total Costs	-	-	492,064	2,459,589	10,885
Intragovernmental Earned Revenue	-	-	379,377	2,322,443	10,661
Public Earned Revenue	-	-	45,880	3,793	640
Total Earned Revenue	-	-	425,257	2,326,236	11,301
Net Costs	\$ -	\$ -	\$ 66,807	\$ 133,353	\$ (416)
Total					
Intragovernmental Costs	\$ 425,376	\$ 612,170	\$ 669,525	\$ 509,181	\$ 99,826
Public Costs	2,189,888	2,081,570	1,268,239	2,990,882	1,766,243
Total Costs	2,615,264	2,693,740	1,937,764	3,500,063	1,866,069
Intragovernmental Earned Revenue	237,950	219,926	634,710	2,348,409	10,661
Public Earned Revenue	121,873	426,340	677,056	25,583	182,635
Total Earned Revenue	359,823	646,266	1,311,766	2,373,992	193,296
Net Cost of Operations	\$ 2,255,441	\$ 2,047,474	\$ 625,998	\$ 1,126,071	\$ 1,672,773

Notes to Principal Financial Statements

National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra- Department Activity	FY 2007
\$ 208,268	\$ 18,695	\$ 274,591	\$ 352,779	\$ (232,959)	\$ 779,918
660,634	195,963	1,403,918	932,927	-	3,679,613
868,902	214,658	1,678,509	1,285,706	(232,959)	4,459,531
16,478	370	80,865	263,052	(164,081)	336,801
75,044	1,184	73,779	199,695	-	456,621
91,522	1,554	154,644	462,747	(164,081)	793,422
\$ 777,380	\$ 213,104	\$ 1,523,865	\$ 822,959	\$ (68,878)	\$ 3,666,109
\$ -	\$ 13,273	\$ 2,536	\$ 30,599	\$ (298,392)	\$ 345,300
-	90,633	6,433	71,640	-	3,093,115
-	103,906	8,969	102,239	(298,392)	3,438,415
-	766	154	7,926	(15,960)	238,608
-	42	25	1,042	-	1,055,508
-	808	179	8,968	(15,960)	1,294,116
\$ -	\$ 103,098	\$ 8,790	\$ 93,271	\$ (282,432)	\$ 2,144,299
\$ 449,843	\$ -	\$ 38,524	\$ -	\$ (75,310)	\$ 456,719
1,496,994	-	437,522	-	-	2,137,003
1,946,837	-	476,046	-	(75,310)	2,593,722
45,413	-	9,677	-	(14,350)	49,320
242,121	-	3,771	-	-	289,367
287,534	-	13,448	-	(14,350)	338,687
\$ 1,659,303	\$ -	\$ 462,598	\$ -	\$ (60,960)	\$ 2,255,035
\$ -	\$ 3	\$ 24,665	\$ 29,317	\$ (391,143)	\$ 615,410
-	10,130	81,595	98,741	-	4,475,703
-	10,133	106,260	128,058	(391,143)	5,091,113
-	-	4,555	8,991	(86,654)	271,648
-	-	3,324	1,238	-	182,943
-	-	7,879	10,229	(86,654)	454,591
\$ -	\$ 10,133	\$ 98,381	\$ 117,829	\$ (304,489)	\$ 4,636,522
\$ -	\$ -	\$ -	\$ -	\$ (450,052)	\$ 113,968
-	114,329	-	-	-	2,512,847
-	114,329	-	-	(450,052)	2,626,815
-	-	-	-	(1,072,700)	1,639,781
-	-	-	-	-	50,313
-	-	-	-	(1,072,700)	1,690,094
\$ -	\$ 114,329	\$ -	\$ -	\$ 622,648	\$ 936,721
\$ 658,111	\$ 31,971	\$ 340,316	\$ 412,695	\$ (1,447,856)	\$ 2,311,315
2,157,628	411,055	1,929,468	1,103,308	-	15,898,281
2,815,739	443,026	2,269,784	1,516,003	(1,447,856)	18,209,596
61,891	1,136	95,251	279,969	(1,353,745)	2,536,158
317,165	1,226	80,899	201,975	-	2,034,752
379,056	2,362	176,150	481,944	(1,353,745)	4,570,910
\$ 2,436,683	\$ 440,664	\$ 2,093,634	\$ 1,034,059	\$ (94,111)	\$ 13,638,686

Notes to Principal Financial Statements

FY 2006 Intragovernmental Costs and Exchange Revenue by Responsibility Segment

(dollars in thousands)	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other	Minerals Management Service
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	73,268
Public Costs	-	291,676	962,300	7,827	2,208,488
Total Costs	-	383,135	1,342,474	9,354	2,281,756
Intragovernmental Earned Revenue	-	1,437	219,330	-	-
Public Earned Revenue	-	298,081	656,403	21	160,380
Total Earned Revenue	-	299,518	875,733	21	160,380
Net Costs	-	83,617	466,741	9,333	2,121,376
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	5,529
Public Costs	2,557,484	956,588	-	719,894	22,738
Total Costs	2,898,523	1,285,735	-	860,827	28,267
Intragovernmental Earned Revenue	273,212	95,216	-	18,075	-
Public Earned Revenue	137,778	131,029	-	14,037	10,827
Total Earned Revenue	410,990	226,245	-	32,112	10,827
Net Costs	2,487,533	1,059,490	-	828,715	17,440
Reimbursable Activity and Other					
Intragovernmental Costs	-	-	225,828	343,438	3,400
Public Costs	-	-	312,134	2,766,539	11,329
Total Costs	-	-	537,962	3,109,977	14,729
Intragovernmental Earned Revenue	-	-	408,082	2,870,228	14,422
Public Earned Revenue	-	-	42,792	14,938	1,446
Total Earned Revenue	-	-	450,874	2,885,166	15,868
Net Costs	-	-	87,088	224,811	(1,139)
Total					
Intragovernmental Costs	341,039	536,656	644,058	508,598	82,197
Public Costs	2,557,484	1,626,306	1,337,966	3,523,591	2,242,555
Total Costs	2,898,523	2,162,962	1,982,024	4,032,189	2,324,752
Intragovernmental Earned Revenue	273,212	195,191	635,591	2,895,255	14,422
Public Earned Revenue	137,778	1,208,765	747,676	30,875	172,653
Total Earned Revenue	410,990	1,403,956	1,383,267	2,926,130	187,075
Net Cost of Operations	\$ 2,487,533	\$ 759,006	\$ 598,757	\$ 1,106,059	\$ 2,137,677

Notes to Principal Financial Statements

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
-	17,300	2,785	26,907	(295,686)	297,734
-	97,958	6,784	69,872	-	3,644,905
-	115,258	9,569	96,779	(295,686)	3,942,639
-	1,410	46	6,153	(16,842)	211,534
-	164	31	553	-	1,115,633
-	1,574	77	6,706	(16,842)	1,327,167
-	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
91,961	8,030	34,964	314,835	(425,421)	841,017
277,585	127,152	185,658	830,445	-	5,677,544
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
1,296	5	5,810	183,949	-	484,731
6,190	330	12,367	385,573	(180,239)	904,395
363,356	134,852	208,255	759,707	(245,182)	5,614,166
-	-	-	-	(436,778)	135,888
-	69,824	-	-	-	3,159,826
-	69,824	-	-	(436,778)	3,295,714
-	-	-	-	(1,010,974)	2,281,758
-	-	-	-	-	59,176
-	-	-	-	(1,010,974)	2,340,934
-	69,824	-	-	574,196	954,780
680,186	26,076	362,929	402,739	(1,371,451)	2,213,027
2,393,516	368,623	2,101,847	1,119,527	-	17,271,415
3,073,702	394,699	2,464,776	1,522,266	(1,371,451)	19,484,442
84,899	1,735	97,944	276,376	(1,305,979)	3,168,646
299,301	174	121,859	192,173	-	2,911,254
384,200	1,909	219,803	468,549	(1,305,979)	6,079,900
\$ 2,689,502	\$ 392,790	\$ 2,244,973	\$ 1,053,717	\$ (65,472)	\$ 13,404,542

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 \$26,798,562 thousand and \$27,741,242 thousand as of September 30, 2007 and 2006, 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 balances available as of September 30, 2007 and 2006, were \$5,678,042 thousand and \$6,154,087 thousand, respectively. In addition, Interior's undelivered orders as of September 30, 2007 and 2006, were \$7,661,210 thousand and \$7,372,826 thousand, 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, 2007 and 2006, are as follows:

(dollars in thousands) FY 2007	Apportioned	Exempt from Apportionment	Total
Obligations Incurred:			
Direct	\$ 16,391,071	\$ 92,847	\$ 16,483,918
Reimbursable	4,478,735	-	4,478,735
Total Obligations Incurred	\$ 20,869,806	\$ 92,847	\$ 20,962,653

(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

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.

IA receives borrowing authority from Treasury for its loan programs in accordance with the 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. The balance in this account as of September 30, 2007 and 2006 was \$100 thousand and \$6,827 thousand, respectively. IA'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, 2007 and 2006, were \$8,229 thousand and \$22,888 thousand, respectively.

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 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 do not include appropriated dedicated and earmarked receipts. Dedicated and earmarked receipts are accounted for as either exchange or nonexchange revenue.

Legal Arrangements Affecting Use of Unobligated Balances. Interior's unobligated unavailable balances as of September 30, 2007 and 2006, are disclosed in the table below.

(dollars in thousands)	FY 2007	FY 2006
Unapportioned amounts unavailable for future apportionments	\$ 543	\$ 2,741
Expired Authority	157,324	137,739
Total Budgetary Accounts	157,867	140,480
Non-Budgetary Credit Program Financing Accounts	-	(2)
Unobligated Balance Unavailable	\$ 157,867	\$ 140,478

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 two 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, IA receives contract authority from DOT's Highway Trust Fund for the maintenance and

construction of roads and bridges on IA 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 and the Budget of the United States Government. The 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 2006 amounts was released in February 2007, and the President's Budget with the FY 2007 amounts is estimated to be released in February 2008. Both can be located

Notes to Principal Financial Statements

at the OMB website <<http://www.whitehouse.gov/omb>>. As such, the actual amounts for FY 2007 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 SBR for the period ended September 30, 2006, differ from the amounts presented as 2006 Actuals in the President's FY 2008 Budget. Differences are presented and labeled on the following table.

(dollars in millions)	FY 2006 Amount per President's Budget *	FY 2006 Amount per Statement of Budgetary Resources	Difference	Explanation
Budgetary Resources:				
Unobligated Balance, Beginning of Fiscal Year	\$ 5,717	\$ 5,794	\$ (77)	A, B
Recoveries of Prior Year Unpaid Obligations	424	485	(61)	A
Appropriations Received	16,808	16,124	684	A, C, D
Nonexpenditure Transfers, net	(153)	438	(591)	B, C, G
Total Budgetary Resources	\$ 25,590	\$ 27,741	\$ (2,151)	A, B, D, F, G
Status of Budgetary Resources:				
Obligations Incurred	\$ 21,503	\$ 21,447	\$ 56	A, B, D
Unobligated Balance - Available/Not Available	6,189	6,295	(106)	A, B, D, G
Total Status of Budgetary Resources	\$ 25,590	\$ 27,741	\$ (2,151)	A, B, D, F, G
Net Outlays:				
Gross Outlays	\$ 20,761	\$ 20,679	\$ 82	B, D
Less: Offsetting Collections	(4,987)	(5,212)	225	A
Less: Offsetting Receipts	\$ (6,506)	\$ (6,940)	\$ 434	E

* Source: Fiscal Year 2006 Actual amounts as published in the Appendix to the Budget of the United States Government, Fiscal Year 2008

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

realized and transfer line items of the Statement of Budgetary Resources. The write-off does not impact the President's Budget.

B. 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 changes in child accounts received after the SBR was published and adjustments to the Working Capital Fund for obligations that were included in the President's Budget and not in the Statement of Budgetary Resources.

Effective October 1, 2006, Interior adopted the reporting provisions of trust funds with multiple program agencies included in OMB Circular No. A-136. Under such provisions, Interior no longer reports the Sport Fish Restoration and Boating Trust Fund and instead the U.S. Coast Guard does the reporting of the SFRBTF and Interior reports the account receivables due from and accounts payable due to other program agencies. As a result of this new accounting principle, there was a write-off relating to a SFRBTF payable in the amount of \$604 million. This write-off is in the Statement of Budgetary Resources, but did not impact the President's Budget. Interior does not report certain amounts in the Statement of Budgetary Resources that are reported in the President's Budget.

C. Fish and Wildlife Service. Differences are primarily due to a change in accounting principle. As a result of the new accounting principle, the Sport Fish payable write off (\$604 million) was adjusted in the Appropriations

- 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 was rescinded before the act was passed. It is, however, included in the President's Budget.
- E. Offsetting Receipts.** Differences relate to receipts reported in the SBR, but not in the President's Budget. The difference could only be reported at a high level because the President's Budget does not include details.
- F. Total Budgetary Resources.** 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 Statement of Budgetary Resources.
- G. Parent/Child Reporting.** Changes to child account received after the Statement of Budgetary Resources submitted for FY 2006 are not in the Statement of Budgetary Resources, but are in the President's Budget.

NOTE 22. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Effective FY 2007, the Statement of Financing is presented as a footnote disclosure and is no longer a basic financial statement in accordance with OMB Circular No. A-136. The Statement of Financing is now reported in the notes and referred to as "Reconciliation of Net Cost of Operations to Budget". Departmental Offices, in accordance with OMB Circular No. A-136, did not report a FY 2006 Statement of Financing, and instead has included the FY 2006 Statement of Financing in the note disclosure to provide comparative disclosures. The reconciliation of net cost of operations to budget for FY 2007 and FY 2006 is as follows.

Change in Unfunded Liabilities. This note 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 Note 15. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities. 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 this note.

Notes to Principal Financial Statements

The reconciliation of net cost of operations to budgetary accounts for the periods ending September 30, 2007 and 2006 are as follows:

(dollars in thousands)	FY 2007	FY 2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 20,962,653	\$ 21,446,677
Less: Spending Authority From Offsetting Collections/Recoveries	(4,852,815)	(5,589,420)
Obligations Net of Offsetting Collections and Recoveries	16,109,838	15,857,257
Less: Offsetting Receipts	(5,769,483)	(6,940,455)
Net Obligations	10,340,355	8,916,802
Other Resources:		
Donations and Forfeitures of Property	7,951	6,545
Transfers In/Out Without Reimbursement	(65,622)	(99,591)
Imputed Financing From Costs Absorbed by Others	550,193	472,847
Net Other Resources Used to Finance Activities	492,522	379,801
Total Resources Used to Finance Activities	10,832,877	9,296,603
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	(289,783)	(97,976)
Change in Unfilled Customer Orders	(478,836)	(413,712)
Resources That Fund Expenses Recognized in Prior Periods	(660,990)	(520,965)
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	76,614	40,818
Offsetting Receipts Not Part of the Net Cost of Operations	4,622,307	4,983,557
Resources That Finance the Acquisition of Assets	(1,031,711)	(706,424)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations		
Net Cost of Operations	(24,308)	86,350
Allocation Transfers Reconciling Items, Parent	30,571	(32,341)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	2,243,864	3,339,307
Total Resources Used to Finance the Net Cost of Operations	13,076,741	12,635,910
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	4,573	5,724
Increase in Environmental and Disposal Liability	10,464	34,446
Upward/Downward Re-estimates in Credit Subsidy Expense	(36,899)	10,918
(Increase) in Exchange Revenue Receivable From the Public	(12,333)	(767)
Other	83,446	94,662
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	49,251	144,983
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	476,926	476,377
Revaluation of Assets or Liabilities	21,408	16,418
Allocation Transfers Reconciling Items, Child	9,006	124,400
Other	5,354	6,454
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	512,694	623,649
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	561,945	768,632
Net Cost of Operations	\$ 13,638,686	\$ 13,404,542

NOTE 23. INDIAN TRUST FUNDS

Interior, through the Office of the Special Trustee for American Indians, maintains approximately 1,800 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately \$2,881 million and \$2,921 million as of September 30, 2007, and September 30, 2006, 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 nonexpendable (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 371,000 open Individual Indian Monies accounts with a fund balance of approximately \$424 million and \$418 million as of September 30, 2007 and 2006, 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, 2007, and 2006. 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;

Notes to Principal Financial Statements

- ◆ 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, or are expected to file 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, 2007 and 2006, are as follows:

Individual Indian Monies Trust Funds
Statement of Assets and Trust Fund Balances - Modified Cash Basis
As of September 30, 2007 and 2006

(dollars in thousands)	FY 2007	FY 2006
ASSETS		
Cash and cash equivalents	\$ 48,325	\$ 61,938
Investments	372,592	353,886
Accrued interest receivable	2,780	2,450
TOTAL ASSETS	\$ 423,697	\$ 418,274
TRUST FUND BALANCES, held for Individual Indians	\$ 423,697	\$ 418,274

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances - Modified Cash Basis
For the Fiscal Years Ended September 30, 2007 and 2006

(dollars in thousands)	FY 2007	FY 2006
Receipts	\$ 303,677	\$ 355,094
Interest earned on invested funds	20,806	20,582
Gain (Loss) on disposition of investments, Net	459	(2,729)
Disbursements	(319,519)	(374,542)
Increase (decrease) in trust fund balances, net	5,423	(1,595)
Trust Fund Balances - Beginning of Year	418,274	419,869
Trust Fund Balances - End of Year	\$ 423,697	\$ 418,274

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, 2007 and 2006, are as follows:

Tribal and Other Trust Funds
Statement of Assets and Trust Fund Balances - Cash Basis
as of September 30, 2007 and 2006

(dollars in thousands)	FY 2007	FY 2006
ASSETS		
Cash and cash equivalents	\$ 602,502	\$ 503,399
Investments	2,278,157	2,417,827
TOTAL ASSETS	\$ 2,880,659	\$ 2,921,226
TRUST FUND BALANCES		
Held for Indian tribes	\$ 2,590,799	\$ 2,637,066
Held by Department of the Interior and considered to be U.S. Government funds	289,860	284,160
TOTAL TRUST FUND BALANCES	\$ 2,880,659	\$ 2,921,226

Tribal and Other Trust Funds
Statement of Changes in Trust Fund Balances - Cash Basis
For the Fiscal Years Ended September 30, 2007 and 2006

(dollars in thousands)	FY 2007	FY 2006
Receipts	\$ 339,159	\$ 338,896
Interest Received	139,315	121,566
Gain (Loss) on disposition of investments, Net	604	24
Disbursements	(519,645)	(421,078)
Increase (Decrease) in trust fund balances, net	(40,567)	39,408
Trust Fund Balances - Beginning of Year	2,921,226	2,881,818
Trust Fund Balances - End of Year	\$ 2,880,659	\$ 2,921,226

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.

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. Governmentwide 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.

Interior's earmarked funds are as follows:

The Land and Water Conservation Fund. The Land and Water Conservation Fund 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.

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. 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.

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 transferred via warrants to Bureaus within Interior and 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 nonreimbursable. 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 nonreimbursable. Capital investment costs are recovered over a 40-year period but may extend to 50 years or more, if authorized by Congress. Recovered 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 the Central Arizona Project, Federal revenues from the Boulder Canyon and the 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 requires that all operators of coal mining operations pay a reclamation fee on every ton of coal produced. The fees through September 30, 2007, are 35 cents per ton of surface mined coal, 15 cents per ton of coal mined underground, and 10 cents per ton on lignite. On December 20, 2006, the Surface Mining Control and Reclamation Act Amendments of 2006 became law as part of the Tax Relief and Health Care Act of 2006 (Public Law 109-432). This law extends the statutory fee rates through September 30, 2021, and eliminates the requirement that Interior establish fee rates thereafter based upon amounts transferred to the United Mine Workers of America Combined Benefit Fund. The new law reduces existing fee rates by 10 percent for FY 2008 through 2012, and another 10 percent for FY 2013 through 2021.

The fees are deposited in the Abandoned Mine Land Reclamation Fund, which is used primarily to fund abandoned mine land reclamation projects. Under authority of Public Law 101-509, Interior began investing AML funds in U.S. Treasury Securities in the early 1990s.

Southern Nevada Public Land Management Fund. The Southern Nevada Public Land Management Act, 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 percent of the sales in interest-bearing Treasury securities, while 10 percent of the proceeds go to the Southern Nevada Water Authority and 5 percent 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 is a distribution of the Alaska Escrow Fund in which half of the principal is invested in Treasury Securities. Monies from the EIRF are invested and earn interest until further congressional action. Congress permanently appropriates 20 percent of prior fiscal year interest earned by the EIRF to the Department of Commerce for marine research activities. The remaining 80 percent earns interest and can be appropriated by Congress to other agencies, as provided by the law. Assets are not 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 27, *Identifying and Reporting Earmarked Funds*.

Notes to Principal Financial Statements

Interior's earmarked funds as of September 30, 2007, consist of the following:

(dollars in thousands)	Land and Water Conservation Fund	Historic Preservation Fund	Reclamation Fund
ASSETS			
Fund Balance with Treasury	\$ 15,372,152	\$ 2,684,312	\$ 6,567,639
Investments, Net	-	-	-
Accounts Receivable, Net	-	-	523,586
Loans Receivable, Net	-	-	2,827,301
General Property, Plant, and Equipment, Net	-	-	-
Other Assets	-	416	-
TOTAL ASSETS	\$ 15,372,152	\$ 2,684,728	\$ 9,918,526
LIABILITIES			
Accounts Payable	-	3	-
Debt	-	-	-
Other Liabilities	-	3	53
TOTAL LIABILITIES	-	6	53
NET POSITION			
Unexpended Appropriations	-	-	-
Cumulative Results of Operations	15,372,152	2,684,722	9,918,473
TOTAL NET POSITION	15,372,152	2,684,722	9,918,473
TOTAL LIABILITIES AND NET POSITION	\$ 15,372,152	\$ 2,684,728	\$ 9,918,526
COST/REVENUE			
Gross Costs	-	62,792	1,057
Earned Revenue	-	-	(335,383)
NET COST OF OPERATIONS	\$ -	\$ 62,792	\$ (334,326)
NET POSITION			
Net Position, Beginning Balance	14,836,220	2,597,823	8,993,132
Change in Accounting Principle	-	-	-
Net Position, Beginning Balance as Adjusted	14,836,220	2,597,823	8,993,132
Appropriations Received/Transferred and Other Adjustments	-	-	-
Royalties Retained	902,079	151,723	1,326,070
Non-Exchange Revenue and Donations	-	-	9,600
Other Financing sources	-	-	-
Transfers In/(Out) without Reimbursement	(366,147)	-	(733,278)
Imputed Financing from Costs Absorbed by Others	-	-	112
Other	-	(2,032)	(11,489)
Net Cost of Operations	-	(62,792)	334,326
Change in Net Position	535,932	86,899	925,341
NET POSITION, ENDING BALANCE	\$ 15,372,152	\$ 2,684,722	\$ 9,918,473

Notes to Principal Financial Statements

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 2007
\$ 763,270	\$ 3,305	\$ 152,356	\$ 512	\$ 126,645	\$ 1	\$ 2,761,345	\$ 28,431,537
-	391,391	-	2,371,561	2,120,657	1,097,829	1,120,138	7,101,576
22,530	10,551	355	2,411	1	-	1,790,977	2,350,411
-	-	-	-	-	-	-	2,827,301
7,373,681	2,972,426	2,398,884	2	14,984	-	569,897	13,329,874
22,238	115,910	30	-	20	-	259,004	397,618
\$ 8,181,719	\$ 3,493,583	\$ 2,551,625	\$ 2,374,486	\$ 2,262,307	\$ 1,097,830	\$ 6,501,361	\$ 54,438,317
99,039	16,089	85,993	10,302	93,130	-	604,301	908,857
-	-	-	-	-	-	764,204	764,204
2,042,633	2,454	211,099	10,633	252	-	1,014,526	3,281,653
2,141,672	18,543	297,092	20,935	93,382	-	2,383,031	4,954,714
206,521	11,313	8,458	-	-	-	109,253	335,545
5,833,526	3,463,727	2,246,075	2,353,551	2,168,925	1,097,830	4,009,077	49,148,058
6,040,047	3,475,040	2,254,533	2,353,551	2,168,925	1,097,830	4,118,330	49,483,603
\$ 8,181,719	\$ 3,493,583	\$ 2,551,625	\$ 2,374,486	\$ 2,262,307	\$ 1,097,830	\$ 6,501,361	\$ 54,438,317
1,042,109	176,790	96,168	327,356	246,704	-	3,726,911	5,679,887
(185,605)	(176,928)	(86,331)	(1,441)	(147,788)	-	(823,529)	(1,757,005)
\$ 856,504	\$ (138)	\$ 9,837	\$ 325,915	\$ 98,916	\$ -	\$ 2,903,382	\$ 3,922,882
5,947,569	3,448,683	2,188,772	2,269,877	2,261,111	1,062,797	3,965,051	47,571,035
-	-	-	-	43,427	-	(474,033)	(430,606)
5,947,569	3,448,683	2,188,772	2,269,877	2,304,538	1,062,797	3,491,018	47,140,429
109,090	26,999	70,467	-	-	-	196,022	402,578
-	-	-	-	-	-	2,055,948	4,435,820
67	-	1	411,542	-	35,033	476,170	932,413
733,162	(780)	(2,363)	(1,953)	(37,054)	-	790,789	382,376
106,663	-	7,493	-	357	-	13,433	128,058
-	-	-	-	-	-	(1,668)	(15,189)
(856,504)	138	(9,837)	(325,915)	(98,916)	-	(2,903,382)	(3,922,882)
92,478	26,357	65,761	83,674	(135,613)	35,033	627,312	2,343,174
\$ 6,040,047	\$ 3,475,040	\$ 2,254,533	\$ 2,353,551	\$ 2,168,925	\$ 1,097,830	\$ 4,118,330	\$ 49,483,603

Notes to Principal Financial Statements

Interior's earmarked funds as of September 30, 2006, consist of the following:

(dollars in thousands)	Land and Water Conservation Fund	Historic 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
Net Position, Beginning Balance as Adjusted	14,303,499	2,663,580	7,952,124
Appropriations Received/Transferred and Other Adjustments	-	-	-
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

Notes to Principal Financial Statements

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	3,573,436	44,817,914
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

NOTE 25. DEDICATED COLLECTIONS

Dedicated collections as of September 30, 2007 and 2006, consist of the following:

(dollars in thousands)	FY 2007		FY 2006	
ASSETS				
Fund Balance with Treasury	\$	(34)	\$	(34)
Investments, Net		293,551		287,655
TOTAL ASSETS	\$	293,517	\$	287,621
TOTAL LIABILITIES				
		-		-
NET POSITION		293,517		287,621
TOTAL LIABILITIES AND NET POSITION		293,517		287,621
CHANGE IN NET POSITION				
Net Position, Beginning Balance	\$	287,621	\$	280,000
Cumulative Results of Operations:				
Non-exchange Revenue		16,327		14,165
Transfers In/(Out) without Reimbursement		7,500		8,111
Program Costs		(17,929)		(14,665)
Exchange Revenue		(2)		10
NET POSITION, ENDING BALANCE	\$	293,517	\$	287,621

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 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 awards, settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

NOTE 26. ROYALTY CREDITS REDEEMED

Section 383 of the Energy Policy Act of 2005 grants lessees royalty relief until a Congressionally designated amount, plus interest, is recovered from Federal offshore royalty payments. This relief was granted to compensate for the competitive oil and gas drainage of the West Delta field in Louisiana that occurred in the late 1980's. The royalty credits redeemed in FY 2007 were \$14,390 thousand.

Redeemed amounts are treated as paid for purposes of satisfying the royalty obligations of the lessee. The repayment obligation is recorded as an unfunded liability in Interior's financial records. Credits redeemed under this provision are recorded as a cost to the Federal Government, for which a custodial distribution of cash to the U.S. Treasury does not occur.

NOTE 27. CHANGES IN ACCOUNTING PRINCIPLES

Parent/Child Reporting. Effective as of October 1, 2006, Interior adopted the parent/child provisions of OMB Circular No. A-136. Federal agencies (child) that received allocated budget authority through another Federal agency (parent) are required to provide the parent all of their financial activity. In prior guidance, child agencies that received allocated budget authority were allowed to report proprietary activity in their financial statements, if material to them. Interior did not fully apply the parent/child provisions of OMB Circular No. A-136 to the FY 2006 Financial Statements; therefore, the FY 2006 Financial Statements are not comparable to the FY 2007 Financial Statements.

In FY 2006, Interior and the Department of Transportation agreed to use the Highway Trust Fund as a pilot for this new reporting requirement. Beginning in FY 2007, Interior implemented the reporting requirements for all other allocated budget authority.

In FY 2007, the cumulative effect of this change in accounting principle resulted in an approximate increase of \$54 million to assets and an approximate decrease of \$6 million to liabilities on the Balance Sheet. This also resulted in an approximate corresponding increase of \$28 million and \$32 million to the beginning balances of unexpended appropriations and cumulative results of operations, respectively, on the Statement of Changes in Net Position.

Sport Fish Restoration and Boating Trust Fund.

Effective October 1, 2006, Interior adopted the reporting provisions of trust funds with multiple program agencies included in OMB Circular No. A-136. Under such provisions, Interior no longer reports the corpus of SFRBTF and instead the U.S. Coast Guard reports the SFRBTF and Interior reports the accounts receivables due from and accounts payable due to other program agencies. In accordance with OMB Circular No. A-136, Interior did not apply the reporting provisions of trust funds with multiple program agencies to the FY 2006 financial statements.

In FY 2007, the OMB issued additional reporting guidance under OMB Circular No. A-136 that required changes to the reporting of the SFRBTF. The U.S. Coast Guard now reports the SFRBTF and Interior reports a receivable from and payables to other Federal agencies. The cumulative effect of this change in accounting principle resulted in an increase of \$12 million to assets and \$488 million to liabilities on the Balance Sheet. This also resulted in a net decrease of \$476 million to the beginning balance of cumulative results of operations on the Statement of Changes in Net Position.

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, 2007**

(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:	\$ 503,964	\$ 127,608	\$ 185,402	\$ 65,327	\$ 41,176
Recoveries of prior year unpaid obligations	-	6,574	15,185	8,382	22,063
Budget Authority					
Appropriation	-	270	901,309	1,767,667	866,911
Spending authority from offsetting collections	-	-	-	-	-
Earned					
Collected	1,086,985	1,235,009	198,671	19,587	85,988
Change in receivables from Federal sources	15,395	(56,535)	6,084	32	6,322
Change in unfiled customer orders					
Advance received	(445,534)	(69,233)	33,442	-	(34)
Without advance from Federal sources	(30,511)	(128,769)	27,051	-	1,563
Anticipated for rest of year, without advances	-	-	-	-	-
Total Budget Authority	626,335	980,742	1,166,557	1,787,286	960,750
Nonexpenditure transfers, net, anticipated and actual	-	8	(92,916)	(4,266)	-
Temporarily not available pursuant to Public Law	-	-	-	-	-
Permanently not available	-	-	-	(6,138)	-
Total Budgetary Resources	\$ 1,130,299	\$ 1,114,932	\$ 1,274,228	\$ 1,850,591	\$ 1,023,989
Status of Budgetary Resources:					
Obligations incurred:					
Direct	-	334	828,916	1,759,879	921,933
Reimbursable	1,011,091	1,015,366	236,968	19,586	57,130
Total Obligations incurred	1,011,091	1,015,700	1,065,884	1,779,465	979,063
Unobligated balance available:					
Apportioned	119,208	99,232	208,289	53,684	44,926
Exempt from apportionment	-	-	48	(120)	-
Total Unobligated balance available	119,208	99,232	208,337	53,564	44,926
Unobligated balance not available	-	-	7	17,562	-
Total Status of Budgetary Resources	\$ 1,130,299	\$ 1,114,932	\$ 1,274,228	\$ 1,850,591	\$ 1,023,989
Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, beginning of Fiscal Year	812,820	598,592	588,221	369,376	237,860
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(86,036)	(345,685)	(42,796)	(350)	(31,861)
Total unpaid obligated balances, net, beginning of Fiscal Year	726,784	252,907	545,425	369,026	205,999
Obligations incurred, net	1,011,091	1,015,700	1,065,884	1,779,465	979,063
Less: Gross outlays	(1,200,968)	(1,174,247)	(1,003,729)	(1,722,116)	(918,253)
Less: Recoveries of prior year unpaid obligations, actual	-	(6,574)	(15,185)	(8,382)	(22,063)
Change in uncollected customer payments from Federal sources	15,116	185,304	(33,135)	(32)	(7,885)
Total unpaid obligated balance, net, end of period	\$ 552,023	\$ 273,090	\$ 559,260	\$ 417,961	\$ 236,861
Obligated balance, net, end of period - by component:					
Unpaid obligations	622,942	433,472	635,189	418,343	276,607
Less: Uncollected customer payments from Federal sources,	(70,919)	(160,382)	(75,929)	(382)	(39,746)
Total unpaid obligated balance, net, end of period	\$ 552,023	\$ 273,090	\$ 559,260	\$ 417,961	\$ 236,861
Net Outlays:					
Net Outlays					
Gross outlays	1,200,968	1,174,247	1,003,729	1,722,116	918,253
Less: Offsetting collections	(641,451)	(1,165,776)	(232,113)	(19,587)	(85,954)
Less: Distributed Offsetting receipts	-	-	(434)	-	-
Net Outlays(Receipts)	\$ 559,517	\$ 8,471	\$ 771,182	\$ 1,702,529	\$ 832,299

**Combining Statement of Budgetary Resources
for the fiscal year ended September 30, 2007**

(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 2007 Total Budgetary Accounts
\$ 153,277	\$ 1,560,396	\$ 76,008	\$ -	\$ 445,913	\$ 50,313	\$ 2,976,601	\$ 6,185,985
20,548	59,421	24,030	-	9,117	7,018	331,293	503,631
853,355	219,630	1,021,368	1,880,900	1,988,222	988,049	5,918,090	16,405,771
-	-	-	-	-	-	-	-
22,482	-	162,591	-	227,337	452,161	1,313,950	4,804,761
(864)	-	(8,186)	-	7,341	(17,224)	(4,896)	(52,531)
(145)	-	3,675	-	(15,631)	(2,007)	(6,151)	(501,618)
(1,507)	-	(7,405)	-	130,155	(2,015)	34,220	22,782
-	-	-	-	-	-	-	-
873,321	219,630	1,172,043	1,880,900	2,337,424	1,418,964	7,255,213	20,679,165
18,282	40	-	-	334	6,159	(599,304)	(671,663)
-	-	-	-	-	-	-	-
-	-	(602)	-	-	(6,669)	(23,486)	(36,895)
\$ 1,065,428	\$ 1,839,487	\$ 1,271,479	\$ 1,880,900	\$ 2,792,788	\$ 1,475,785	\$ 9,940,317	\$ 26,660,223
995,251	785,352	1,049,974	1,880,900	1,954,219	995,825	5,284,482	16,457,065
15,350	-	132,345	-	237,716	429,335	1,323,848	4,478,735
1,010,601	785,352	1,182,319	1,880,900	2,191,935	1,425,160	6,608,330	20,935,800
54,827	1,054,135	84,447	-	511,744	29,900	3,239,437	5,499,829
-	-	-	-	-	-	66,799	66,727
54,827	1,054,135	84,447	-	511,744	29,900	3,306,236	5,566,556
-	-	4,713	-	89,109	20,725	25,751	157,867
\$ 1,065,428	\$ 1,839,487	\$ 1,271,479	\$ 1,880,900	\$ 2,792,788	\$ 1,475,785	\$ 9,940,317	\$ 26,660,223
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
1,010,601	785,352	1,182,319	1,880,900	2,191,935	1,425,160	6,608,330	20,935,800
(978,378)	(281,265)	(1,150,585)	(1,880,900)	(2,145,909)	(1,409,588)	(6,312,806)	(20,178,744)
(20,548)	(59,421)	(24,030)	-	(9,117)	(7,018)	(331,293)	(503,631)
2,371	-	15,591	-	(137,496)	19,239	(29,324)	29,749
\$ 280,127	\$ 1,385,490	\$ 288,185	\$ -	\$ 81,989	\$ 136,794	\$ 3,794,092	\$ 8,005,872
286,907	1,385,490	347,451	-	296,599	298,931	4,091,418	9,093,349
(6,780)	-	(59,266)	-	(214,610)	(162,137)	(297,326)	(1,087,477)
\$ 280,127	\$ 1,385,490	\$ 288,185	\$ -	\$ 81,989	\$ 136,794	\$ 3,794,092	\$ 8,005,872
978,378	281,265	1,150,585	1,880,900	2,145,909	1,409,588	6,312,806	20,178,744
(22,337)	-	(166,266)	-	(211,706)	(450,154)	(1,307,800)	(4,303,144)
-	(213,686)	-	(1,880,900)	-	-	(3,674,463)	(5,769,483)
\$ 956,041	\$ 67,579	\$ 984,319	\$ -	\$ 1,934,203	\$ 959,434	\$ 1,330,543	\$ 10,106,117

**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	1,505,207	1,283,318	236,569	21,730	62,168
Total Obligations incurred	1,505,207	1,284,380	1,135,907	1,707,003	962,117
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 Management 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

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, 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 6, "Accounting for Property, Plant, and Equipment," SFFAS 14, "Amendments to Deferred Maintenance Reporting Amending SFFAS 6, Accounting for Property, Plant and Equipment and SFFAS 8, Supplementary Stewardship Reporting," and SFFAS 29, "Stewardship Land and Heritage Assets," requires annual disclosure of the estimated cost to remedy accumulated deferred maintenance on Interior property, plant, and equipment. 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. These criteria also facilitate a thorough review and provide 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, BOR, and IA. 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.

FIGURE 3-1

FY 2007 Deferred Maintenance Estimates (in thousands)						
Type of Deferred Maintenance	General PP&E		Stewardship PP&E		Total	
	Low	High	Low	High	Low	High
Financial Statement Estimated Deferred Maintenance						
Roads Bridges and Trails	\$4,338,085	\$8,488,081	\$894,265	\$1,241,666	\$5,232,350	\$9,729,747
Irrigation, Dams, and Other Water Structures	1,815,744	2,414,023	336,309	523,921	\$2,152,053	\$2,937,944
Buildings (e.g Administration, Education, Housing, Historic Buildings)	1,654,663	2,585,140	574,418	1,224,574	\$2,229,081	\$3,809,714
Other Structures (eg Recreation sites, Hatcheries, etc.)	1,538,747	2,983,308	145,441	311,023	\$1,684,188	\$3,294,331
Total	\$9,347,239	\$16,470,552	\$1,950,433	\$3,301,184	\$11,297,672	\$19,771,736

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 2007 process is similar to the process in place for FY 2006.

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 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 standard that requires annual reporting of deferred maintenance of fixed assets.

An acceptable level of condition for an asset is when all of an asset’s critical deferred maintenance deficiencies have no deferred maintenance; noncritical 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 as serious. 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, and Historic Buildings); and Other Structures (e.g., Recreation Sites, Hatcheries).

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 total amount needed to correct deferred maintenance for PP&E ranges from approximately \$11.3 billion to \$19.8 billion as summarized in Figure 3-1.

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.

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 of the American people. These include National Parks, National Wildlife Refuges, Public Lands, and many other lands of national and historical significance.

Interior has exercised the flexibility intended by SFFAS 29, "Stewardship Land and Heritage Assets," and established its units of measure to 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 and/or 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 percent 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. Multiple uses 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

FIGURE 3-2

Primary Land Management Categories	As of Oct			As of Sep		Condition	
	06	Increase	Decrease	07	Acceptable	Needs Intervention	
IA - Other Recreation Land	15	-	-	15	100.0%	-	
IA - Cultural, Schools, and Housing	79	-	1	78	100.0%	-	
IA - Reclamation & Irrigation Areas	76	-	-	76	100.0%	-	
IA - Other Stewardship Lands	51	-	2	49	100.0%	-	
BLM - Geographic Management Areas	126	-	-	126	100.0%	-	
BOR - Federal Water and Related Projects	145	-	-	145	100.0%	-	
FWS - National Wildlife Refuges	547	1	-	548	99.3%	0.7%	
FWS - National Fish Hatcheries	86	1	-	87	100.0%	-	
FWS - Wetland Management Districts	37	-	-	37	100.0%	-	
NPS - Park Units	390	1	-	391	100.0%	-	
OS - Commision Land	1	-	-	1	100.0%	-	
Total Number of Units	1,553	3	3	1,553	99.7%	0.3%	

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 acquisition or designation and that direct use and management of the land.

National Park Service. NPS stewardship lands are used and managed in accordance with the statutes authorizing acquisition or directing use and management.

At the end of FY 2006, the National Park System encompassed 390 park units. During FY 2007, an additional unit was added. Sand Creek Massacre National Historic Site memorializes the massacre of some 160 Cheyenne and Arapaho people on November 29, 1864, by members of a Colorado militia. This site is considered sacred by Native peoples and the four Tribes (Southern Cheyenne and Arapaho tribes, Northern Cheyenne, and Northern Arapaho Tribes) will continue to use the site for ceremonial purposes.

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 transfer to a non-Federal entity. Both of these actions occur very infrequently as Congress has not authorized a new water project in many years, and the title transfer process also requires Congressional authorization and typically takes years to accomplish.

Indian Affairs. Lands owned by the IA 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 PP&E. These stewardship lands are generally used for schools, housing, recreation, and irrigation areas.

Office of the Secretary/Departmental Offices – Utah Reclamation Mitigation and Conservation Commission. The Utah Reclamation Mitigation and Conservation 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 Reclamation project assets such as dams, power plants, roads, pipelines, aqueducts, operation and maintenance buildings, and visitor centers. The Commission’s program is separate

and distinct from acquisition and construction of Reclamation PP&E. Even if the fish and wildlife mitigation is achieved in the immediate vicinity of the project asset, land acquired and investments made in order to mitigate for the loss of fish and wildlife resources caused by Reclamation project construction is not an essential or integral part of the dam, pipeline, etc., and is not “acquired for or in connection with the construction” of the project asset.

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 provide habitat to the extent practicable.

Major Categories of Stewardship Lands

Interior’s stewardship lands include a number of assets that are of special value to the Nation. Descriptions of the major categories of stewardship land included in the above chart are:

Indian Affairs: Other Recreation Land. This category consists primarily of fishing sites where only tribal members are provided with access to rivers for fishing.

Indian Affairs: Cultural, Schools, and Housing Land. These areas are primarily American Indian home sites, both tribal and non-tribal, which are administered by the Indian Affairs. Also included is the Sherman Institute Cemetery located in Riverside, California, and land associated with several Indian schools, including 10 acres of the Turtle Mountain Community School in Belcourt, North Dakota.

Indian Affairs: Reclamation and Irrigation Areas. This category includes lands used for numerous irrigation projects and any buildings and water plants specifically associated with a project, as well as the irrigated land itself. Also included are water reservoirs and surrounding land such as the Weber Reservoir in Carson City, Nevada.

Indian Affairs: Other Stewardship Land. These lands are used primarily for farming and grazing, but include forest and wildlife areas in Montana and Wisconsin. This category also includes land developed for 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 are managed so that the fish, wildlife, and plants that depend on these lands for habitat benefit over both the short and long term. These lands are protected in perpetuity for as long as they remain in the NWR System. As new lands enter the NWR System, they are managed to maintain their natural state, to mitigate adverse effects of actions previously conducted by others, or to enhance existing conditions to improve benefits to fish, wildlife, and plant resources.

Fish and Wildlife Service: National Fish Hatchery System. 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, 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 NWR System. They differ from refuges, which frequently consist of a single contiguous parcel of land, in that they are generally scattered, small parcels of land. The primary purpose is to conserve waterfowl nesting and rearing habitats. Wetland Management Districts consist of Waterfowl Production Areas (owned in fee title) and Wetland or Grassland Easements (privately owned lands with a Government easement overlay).

National Park Service: Park Units. National Park units are used and managed in accordance with the statutes authorizing their establishment or directing their use and management. The NPS conducts various activities to preserve and protect land resources and to mitigate the effects of activities conducted previously on or near parks that adversely affect the natural state of the land.

Office of the Secretary/Departmental Offices – Commission Land. The Utah Reclamation Mitigation and Conservation 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 Reclamation 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 provide habitat to the extent practicable.

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. Non-collectible heritage assets include historic sites, historic and prehistoric structures, cultural landscapes, and many other resources. 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, 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. In addition, 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.

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 redesignation 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.

The condition of land based non-collectible heritage assets is based on the condition of the land, as described above. The condition of structure based non-collectible heritage assets is based on the requirements described in the deferred maintenance section.

FIGURE 3-3

Primary Non-Collectible Heritage Asset Categories					Condition Expressed as a Percentage								
	As of Oct 06	Increase	Decrease	As of Sep 07	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 Totodotonten 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)	206	2		208	100%		100%	85%	10%	5%			100%
National Historic Sites	78	1		79	100%		100%	100%					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%	100%					100%
National Military Parks	9			9	100%		100%	100%					100%
National Monuments	91			91	100%		100%	94%	6%				100%
National Natural Landmarks (NNL)	109	1		110	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	78	16	2	92	100%		100%	100%					100%
National Reserves	2			2	100%		100%						
National Rivers	5			5	100%		100%	100%					100%
National Scenic Trails	6			6	100%		100%						
National Seashores	10			10				100%					100%
National Wild and Scenic Rivers	56			56	100%		100%	50%	50%				100%
National Wildlife Refuges	547	1		548	99%	1%	100%						
Outstanding Natural Area	1			1	100%		100%						
International Historic Sites	1			1				100%					100%
Wilderness Areas	299	13		312	100%		100%						
Other	11			11	100%		100%	100%					100%
Total	1,723	34	2	1,755	99.7%	0.3%	100%	94%	5%	1%	1%	1%	100%

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 Totodotonten Special Management Area: The U.S. Congress authorized the creation of the Lake Totodotonten Special Management Area located in the interior of Alaska. Lake Totodotonten, 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 other furbearers and is managed by the BLM.

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, an 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 IA, 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: A National Lakeshore is a protected area of lakeshore that is maintained to preserve a significant portion of the diminishing shoreline of the Great Lakes for the benefit, inspiration, education, recreational use, and enjoyment of the public. Although National Lakeshores can be established on any natural freshwater lake, the existing four are all located on the Great Lakes. National Lakeshores closely parallel National Seashores in character and use.

National Memorials: A national memorial is commemorative of a 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.

National Parkways: The title 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; except 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: A National Seashore preserves shoreline areas and off-shore islands with natural and recreational significance with the dual goal of protecting precious, ecologically fragile land, while allowing the public to enjoy a unique resource. The national seashores are located on the Atlantic, Pacific, and Gulf coasts of the United States.

National Trails System: Since the passage of the National Trail System Act in 1968, BLM and NPS have assumed responsibility over several national historic or scenic trails designated by Congress. BLM manages over 85 percent of all of the Federal miles along national historic trails. These trails are designated each year 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 include a total of 11,408.9 river miles in 165 river units. 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. Twelve river segments totaling 1,086 river miles flow through national wildlife refuges; 7 of these river segments are in Alaska (1,049 river miles).

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: NWRs are managed so that the fish, wildlife, and plants that depend on these lands for habitat benefit over both the short and long term. These lands are protected for as long as they remain in the NWR System.

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.

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

Wilderness Areas: Wilderness Areas are defined 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. These areas are open to the public for purposes of recreational, scenic, scientific, educational, conservatorial, and historical use. Generally a wilderness area is greater than 5,000 acres and 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 Wilderness Act of 1964 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 190 wilderness areas, FWS administers 75 wilderness areas in 26 States, and the NPS administers wilderness areas within 47 NPS units. 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.

Other: This category includes those park units that cannot be readily included in any of the standard categories. Examples include: Catocin 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 3-3.

Collectible Heritage Assets

The Department is steward of a large, unique, and diversified collection of library holdings and museum collections (Figures 3-4 and 3-5, respectively). These assets are held in both Federal and non-Federal facilities.

Library Collections

Condition assessment standards were developed in FY 2007 for Interior libraries. These standards are in agreement with national standards (The National Information Standards Organization publication on the *Environmental Guidelines for the Storage of Paper Records*) and are based on temperature and humidity, exposure to light, gaseous contaminants, and particulates. Library facilities must meet the requirements of at least two of the four components to be considered in good or fair condition. As with the museum collections, the goal of safeguarding is to preserve the items in library collections for as long as possible and to manage their condition in accordance with the intended use and not to unduly hasten their deterioration.

The library materials are acquired from extensive exchange agreements with institutions and agencies worldwide, from research projects and purchases

from a wide variety of publishers and institutions. Items are withdrawn only after the professional library staff has made a critical analysis of the collection.

Departmental Offices manages the Interior Library. The collections in the Interior Library represent a national resource in the disciplines vital to the missions 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. Service to Interior Library customers is enhanced by the Library's ability to fulfill its responsibilities through an informative Web site at <http://library.doi.gov>, which provides on-line access to the catalog of holdings over the Web site.

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 and societies. The USGS's 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.

The USGS library collection contains many interesting collections. For example the Heringen collection, which includes military geology texts and maps that were looted by the Nazis from European

FIGURE 3-4

Interior Library Collections	As of Oct 06	Increase	Decrease	As of Sep 07	Condition of Library Collections			
					Good	Fair	Poor	Unknown
Departmental Library	1			1	100%			
U.S. Geological Survey Library	4			4	50%	50%		
Total	5			5				

libraries, including Russia, and hidden in a potash mine in Heringen Heese, Germany. At the end of World War II the items were transported to the United States by the military.

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 or, 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 within 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

the American public and our 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 our efforts toward that goal have improved each year.

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 Chapter 3 of Departmental Manual Section 411. These standards require facilities that house collections to maintain their stewardship responsibilities by adhering to best practices as defined by industry standards.

The primary focus within museum collections is preservation. Great attention is given to stabilizing objects in the condition in which they were received and preventing further deterioration. Museum objects are generally expected to be preserved indefinitely. The goal of safeguarding is to preserve the heritage asset for as long as possible and to manage the condition in accordance with the intended use and not to unduly hasten the deterioration.

FIGURE 3-5

Interior Museum Collections	As of Oct-06	Increase	Decrease	As of Sep 07	Condition of Museum Collections			
					Good	Fair	Poor	Unknown
Held at Interior Bureau Facilities	589	59	3	645	36%	19%	19%	26%
Held at Non-Interior Bureau Facilities	427	23	14	436	44%	25%	1%	30%
Total	1,016	82	17	1,081	39%	21%	12%	28%

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. For example, the collections include the following items:

- ◆ historic furnishings in the home of John Adams
- ◆ flags that flew over Fort Sumter
- ◆ Thomas Edison's handwritten notes on inventions
- ◆ tools and furnishings of a working ranch in Montana
- ◆ botanical specimens from Yosemite
- ◆ archeological items from Mesa Verde.

These museum collections are important not only individually but also because of their direct association with the nationally significant sites in the national park system. Representing 367 of the national park units, 8 related areas, and 9 administrative offices and centers, the collections are managed at 326 NPS locations.

Notable acquisitions in FY 2007 include the following:

- ◆ An extensive private collection of photographs and objects on the history of Skagway at Klondike Goldrush National Historical Park
- ◆ A 1903 landscape painting of Zion Canyon by Frederick S. Dellenbaugh at Zion National Park
- ◆ An 1865 tintype of the Lincoln Home draped in mourning for Abraham Lincoln's funeral at Lincoln Home National Historic Site
- ◆ An 1848 printed facsimile of the Declaration of Independence at Independence National Historical Park

- ◆ A rare 1862 letter dictated by Chimborazo patient Private Marcus P. Jackson of Company F, 45th Georgia Infantry at Richmond National Battlefield Park
- ◆ A collection of original historic records and photographs of W.E. Meadows, who was a conductor on the C&O Railroad from the late 19th to early 20th century at New River Gorge National River
- ◆ A letter signed by General George Washington authorizing the receipt of supplies and a pension and pay order, both directly related to the 1777–1778 winter encampment of the Continental Army at Valley Forge National Historical Park
- ◆ archives and objects documenting U.S. Borax's roots in California's Death Valley, where borate deposits were discovered in 1872, at Death Valley National Park.

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. Non-Federal facilities provide researchers and scientists with access to the collections and develop public exhibits using the collections.

In addition to the 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. It is BLM policy that museum collections will not be housed in field offices. Through partnerships with the NPS, collections of BLM paleontological materials are curated in three NPS units: Dinosaur National Monument in Vernal, Utah; Fossil Butte National Monument in Kemmerer, Wyoming; and John Day Fossil Beds National Monument in Kimberly, Oregon.

Bureau of Reclamation. Reclamation reports on collectible heritage assets that have been formally accessioned as museum property, as defined and required by 411 DM 3.4.A. Each facility contains one Reclamation collection as defined by the Department; therefore, the number of collections reported is the same as the number of Department and non-Department facilities housing Reclamation collections.

Indian Affairs. IA 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. IA 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 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 to highlight tribal histories and Indian traditions.

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 169 offices or on loan to 217 non-Federal repositories for study and long-term care.

The Service continues to maintain a collection of artwork at the Academy of Natural Sciences of Philadelphia under a long-term loan agreement. The collection consists of 487 pieces of artwork created by notable painters such as Louis Agassiz Fuertes, Ernest Thompson Seton, and Jay Norwood (Ding) Darling. The artists were commissioned by the Bureau of Biological Survey, a predecessor to the Service, during the late 19th and early 20th centuries to depict various wildlife species and landscapes for use in Government publications. Under the agreement, the Academy maintains the collection in a climate controlled and secure storage area to prevent deterioration and loss.

U.S. Geological Survey. The USGS manages a varied 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 collections also provide the public with an interpretive demonstration of the history and enterprise of the USGS. The museum collections are divided into two major categories: historical (including art, history, ethnography, and documents), and zoology.

USGS manages hundreds of historical objects that are loaned to other institutions for exhibits and placed on exhibit in the USGS National Center in Reston, Virginia, hallways or lobbies in regional offices, and science centers around the country. These collections are evidence of the resources, events, and people associated with USGS activities, and are studied by historians and scientists alike.

Mineral 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, which manages three regional museums; the National Business Center, which manages the Departmental Museum in the Main Interior Building in Washington, D.C.; and museum collections managed by the Office of the Special Trustee for American Indians.

The Departmental Museum instituted the first annual Rachel Carson Lecture as a joint venture between the program areas of the Cultural Resources Division. The program was developed and implemented in cooperation with the Fish and Wildlife Service, University of Maryland (Baltimore), and the Carnegie Institute of Washington, D.C.

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 education activities. The museums serve as major economic, cultural, and educational attractions in their respective regions.

The Office of the Special Trustee for American Indians was created as a result of a transfer from Indian Affairs; however additional items have been acquired since the initial transfer of the 12 items.

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 inform land and resource management decisions across the Nation. 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 are 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 3-6 in the following 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 systemic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met.

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

FIGURE 3-6
Investment in Research and Development
(in millions)

Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	TOTAL
Basic Research	\$ 77	\$ 71	\$ 79	\$ 72	\$ 63	\$ 362
Applied Research	768	842	763	696	728	3,797
Developmental	107	78	76	89	75	425
TOTAL	\$ 952	\$ 991	\$ 918	\$ 857	\$ 866	\$ 4,584

advance scientific knowledge. 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.

The 2001 National Land Cover Database was completed for the lower 48 States in FY 2007. The massive database describes the land surface condition of each 30-meter cell of land in the conterminous United States. Based on satellite imagery taken in 2001, the database was constructed in a 6-year collaborative effort by the 11 Multi-Resolution Land Characteristics Consortium agencies <www.mrlc.gov>. Interagency cooperation in this complex endeavor minimizes duplication of effort and facilitates optimal leveraging of government resources. The range and accuracy of information in the database enables managers of public and private lands, urban planners, agricultural experts, and scientists with many different interests (for instance, climate change or invasive species) to identify critical characteristics of the land for a wide variety of investigations.

The USGS has launched the USGS Land Cover visualization and Analysis Tool, which allows users to analyze, in specific detail, how land cover has changed over time. Designed for both novice and expert users, the Web-based system provides an intuitive interface ability to selectively view and analyze land cover data from any Web browser.

Arsenic Research in Northern New England Contributes to Recommendations for Monitoring of Domestic Well Water. The USGS developed a geologic model for use in an ongoing study of bladder cancer in Northern New England by the National Cancer Institute, Colorado State University, and the Dartmouth School of Medicine. A leading hypothesis for the increased bladder cancer in the region is exposure to inorganic arsenic through

drinking water. Epidemiological researchers are testing this hypothesis owing to the elevated levels of arsenic in much of New England’s ground-water supply. To effectively test this hypothesis, the study design required life-time exposure to arsenic through drinking water. The USGS was asked to develop a geologic model to estimate past exposure because many study participants used multiple private wells throughout their lifetime and it is not feasible to sample every well. The model, which estimates the probability of elevated arsenic in bedrock wells, is based upon geochemical, hydrologic, and geologic factors. This geologic model served as the basis for development of an arsenic-exposure model for the collaborative epidemiology study. The geologic model has served to heighten awareness of the risks posed by elevated levels of arsenic in drinking water. It also has contributed to recommendations for increased monitoring of drinking water derived from domestic wells by Federal, State, and local health officials throughout the region.

Pharmaceuticals Found in Soil Irrigated with Reclaimed Water. Many areas of the Nation are faced with water shortages owing to an appreciable demand for water. As a result, supplies are being augmented with treated wastewater for uses such as irrigation. In a study recently published in the journal *Environmental Toxicology and Chemistry*, a team of USGS scientists reported that pharmaceuticals in wastewater used for irrigation persisted in the soil for several months after the irrigation had stopped for the season. Previous studies have documented that wastewater from sewage-treatment plants contains a variety of pharmaceuticals and other organic-wastewater contaminants. As a result, increased attention is being given to the use of reclaimed water as a potential source for such contaminants in the environment.

Mercury Research in South Florida plays major role in utilities ruling. The USGS has been conducting research over the last decade in South

Florida to determine the relationship of sulfates and the methylation of mercury. Methylmercury, the most harmful and biologically available form of mercury, has impacted fish and wildlife in the ecosystem of the Everglades and forced health warnings against eating many species of fish. Recently, State of Florida regulators were faced with the decision to issue a permit to Florida Power and Light for a new coal-fired electric generating plant in South Florida. Coal-fired generating facilities are a substantial source of both mercury and sulfate emissions. The State's regulators unanimously ruled against the request of FPL stating that it would not provide a cost effective energy source. Among the written testimony provided for the ruling was a letter to the Public Service Commission from Daniel Kimball, superintendent of Everglades National Park, citing the agency's concerns about air quality impacts and sulfate and mercury loading to the Everglades ecosystem. This testimony was an important factor in the State's ruling. Superintendent Kimball attributed credit to USGS research as having "... played a major role in defining a key environmental concern associated with the project."

National Park Service. Through appropriations for natural resource stewardship, 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 Natural Resource Preservation Program answers specific questions with immediate application for natural resource management within the NPS, and at present, primarily involves the conduct and acquisition of research related to physical science investigations. These funds are relied on by parks for the highest priority individual projects. The Cultural Resource Preservation Program provides funding for comparable cultural resource research and resource management projects in the fields of archeology, ethnography, historical 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.

At Santa Monica Mountains National Recreation Area, researchers are evaluating the effects of

urbanization and habitat fragmentation on the park's wildlife using recent advances in genetic techniques. These techniques provide the means to non-invasively and more cost-effectively acquire detailed information about wildlife populations using hair and scat (droppings) samples versus traditional methods. The goal is to delineate population genetic structures for three common lizard species and six bird species, including three sedentary, and likely more sensitive bird species, and three more mobile birds that will permit direct measurement of population fragmentation, which may or may not coincide with habitat fragmentation.

A Cultural Landscape Inventory is being completed for the Spalding site of Nez Perce National Historical Park. The Spalding site is the most widely visited park site. It contains evidence of human occupation and use for more than 10,000 years. The information obtained will enable the NPS to shape and mold vegetation treatment projects from an informed perspective and will benefit the long-term preservation of the cultural and natural resources for this site.

Minerals Management Service. The MMS manages the mineral resources on 1.76 billion acres of the Outer Continental Shelf 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 a fair return to the public for the mineral rights conveyed, and assures protection of the environment. Numerous laws, particularly the National Environmental Policy Act, provide the basis for environmental assessment and study of impacts associated with OCS related activities. The OCS Lands Act mandates the conduct of environmental studies needed for the assessment and management of potential environmental impacts on the human, marine, and coastal environments affected by oil, natural gas, or other mineral development. The Oil Pollution Act of 1990 sets down specific areas of research to improve not only the technologies for preventing oil pollution, but also the response to accidental spills. Inherent in this effort is improvement of our understanding of the fate, transport, and effects of oil when spilled. 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.

The recently completed Characterization of Northern Gulf of Mexico deepwater hard bottom communities with emphasis on *Lophelia* coral is the first comprehensive study of the distribution of *Lophelia pertusa*, its biology, and community ecology in the Gulf of Mexico. This MMS research was accomplished with an international team of scientists which included collaborative research from USGS and NOAA. Another highly successful deepwater biological project, the Northern Gulf of Mexico continental slope habitats and benthic ecology study, characterized the soft bottom habitat of the entire continental slope to the deepest waters of the Gulf, about 12,450 feet. Studying this deepest zone of the Gulf was accomplished through the cooperation of 10 different institutions in 3 countries including joint efforts with Mexico and the participation of Mexican scientists at sea with the MMS study team. These studies provided fundamental biological information to be used for further refinement of Notice to Lessees regarding the protections necessary during oil and gas exploration and development in the deepwater areas of the Gulf of Mexico.

The MMS archaeological and biological research of World War II shipwrecks in the Gulf of Mexico received the DOI Cooperative Conservation Award in 2006 and in May 2007 was recognized with the prestigious National Oceanographic Partnership Program's Interagency Excellence in Partnering Award. In addition to the critical archaeological information produced by this study, it also provided important data on the deepwater artificial reef effect of shipwrecks as evidenced by the unexpected large growths of the coral *Lophelia* observed on the steel-hulled, Gulf Penn at a depth of 1,765 feet only 60 years after its sinking. The deep wrecks have significant ramifications on deepwater oil and gas exploration in the Gulf of Mexico and around the world. The results of the biological research have provided information on the viability of deepwater shipwrecks and platforms in the Gulf of Mexico as artificial reefs.

Using state-of-the-art analytical and sampling techniques, including the deep-diving submersible Alvin, MMS has made ground breaking exploration and science discoveries on chemosynthetic communities and coral habitats in the Gulf in water depths ranging from 4,000 to 9,000 feet. The deep Gulf habitats project is an ongoing partnership among MMS, the USGS, and the National Oceanic and Atmospheric Administration's Office of Ocean Exploration. In May 2007, the Secretary of the Interior recognized this 6 million dollar project with the DOI Cooperative Conservation Award for outstanding interagency cooperation.

As part of its mandate to ensure that the best and safest technologies are used in offshore oil and gas operations, MMS operates a 2.6-million gallon test tank for two essential functions related to oil spill response planning: responder training and full-scale equipment and chemical testing. Providing training at Oil and Hazardous Materials Simulated Environmental Test Tank ensures responders can be trained under realistic conditions with releasing oil into the sea. Most of the quantitative performance data on mechanical equipment used by industry, the U.S. Coast Guard, and the U.S. Navy to contain and clean up spilled oil was obtained through OHMSETT testing and evaluation. To increase testing value, MMS is upgrading the OHMSETT facility to provide greater reproducibility for testing and training. Additionally, OHMSETT is able to simulate realistic broken ice conditions. Recent activities include cold water dispersant effectiveness tests with Alaska crude oils, evaluations of oil booms, oil herding surfactants and ocean imaging sensors, basic research on the weathering of oil in ice and snow conditions, and annual Texas A&M University and Coast Guard oil spill response training.

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 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.

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 such appropriations are made immediately available in their entirety to the Central Utah Water Conservancy District. Two examples of Research and Development are a feasibility study by the District to reduce the salinity of Utah Lake; and a feasibility study and development by the Utah Division of Water Resources in coordination with the Jordan Valley Water Conservancy District to allow ground water recharge, management, and the conjunctive use of surface water resources with ground water resources in Salt Lake, Utah, Davis, Wasatch, and Weber Counties in the State of Utah.

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 2007, the Commission's research continued to be 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 that 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 2007, the BLM began new research initiatives and continued past research and developmental efforts in several areas. Two examples of these research projects include studies to support the Northwest Forest Plan, as well as forest resources management in general, by improving forest productivity, protecting riparian habitats, and monitoring and understanding changes in key wildlife species; and inventory and monitoring studies to assist in protecting both animal and plant species on the public lands that are of concern because they are declining or threatened in some way. Species such as the Pacific fisher, peregrine falcon, sage grouse, snowy plover, pygmy rabbit, desert tortoise, bull trout, and many others are of concern to the BLM.

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 3-7.

FIGURE 3-7
Investment in Human Capital
(in millions)

Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	TOTAL
Educational Programs 1/	\$ 560	\$ 570	\$ 549	\$ 542	\$ 565	\$ 2,786
Job Corps Program	60	57	53	52	-	222
Other	12	12	12	11	-	47
TOTAL	\$ 632	\$ 639	\$ 614	\$ 605	\$ 565	\$ 3,055

1/ Educational Programs of Indian Affairs' School Operations, Adult Education Post-Secondary Education, and Other Educational Programs

FIGURE 3-8

IA School Operations

School Ops.	School Year 2006-2007		School Year 2007-2008	
	Schools	Students	Schools	Students
Contract/Grant Schools	123	28,770	125	27,852
Bureau-Operated Schools	61	17,235	59	16,479
Totals	184	46,005	184	44,331

Job Corps programs are no longer reported by the Department of the Interior due to the 2007 revisions contained in OMB Circular A-136, Financial Reporting Requirements, Revised July 2007. Monies received from the Department of Labor for this program are Parent/Child allocation transfers (Interior is the child) and only the parent reports on the funds. The Job Corp funding received for the 477 program (previously reported in the “Other” category) was also a Parent/Child allocation transfer (Interior is the child) and will no longer be reported.

Indian Affairs Education Programs

Within Indian Affairs, the Bureau of Indian Education 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, with consideration given to the mental, physical, emotional, spiritual and cultural aspects of the individual being served.

School Operations

The School Operations Program consists of the Indian School Equalization Program, transportation, Family and Child Education, and administrative cost funds. The ISEP funds are distributed using a formula which considers Weighted Student Units in order to provide basic educational programs for Indian children in 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 statistics for IA school operations are shown in Figure 3-8.

Adult Education Programs

The adult education program provides opportunities for adult Indians and Alaska Natives to obtain the General Equivalency Degree and provides basic skills for transition to community college or job placement. This program specifically provides educational opportunities for American Indians and Alaska Natives to improve employment skills and abilities while enhancing the local economy and economic competitiveness on reservations; it also assists in reducing the economic dependence on welfare programs.

Postsecondary Education Programs

The Post-Secondary Education Programs are an important component in the economic development of tribal communities. The programs support the Department’s goal on “Improving Communities” by promoting growth within Indian communities. Post secondary programs primarily consist of operating grants and supplemental funds for Tribal Colleges and Universities. In addition, the funds support the Undergraduate and Graduate Scholarship Programs, Haskell Indian Nations University and Southwestern Indian Polytechnic Institute.

The Haskell Indian Nations University in Lawrence, Kansas, and the Southwestern Indian Polytechnic Institute in Albuquerque, New Mexico, offer students skill certificates, and associate and bachelor degrees in a variety of studies, sciences, and technology. Two other post-secondary institutions that also provide certificates are Crownpoint Institute of Technology and United Tribes Technical College.

Other Education Programs

The Johnson O’Malley Program provides supplemental financial assistance to meet the unique and specialized education needs of eligible Indian students (beginning at age 3 through completion of grade 12) attending public schools.

JOM is the only IA program that provides for the culturally-related and supplementary academic needs of Indian children attending public schools.

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 Areas, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets. Property may include major additions, alterations, and replacements to fixed assets; the purchase of major equipment; and/or, the purchase or improvement of other physical assets.

Several programs are no longer reported by the Department of the Interior due to 2007 revisions contained in OMB Circular A-136, Form and Content of PAR, Revised July 2007. Monies received from the Department of Education and Department of Transportation for this program are Parent/Child (Interior is the child) and only the parent reports the funds.

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

Indian Affairs. IA's investment in non-Federal physical property includes schools, dormitories, and other infrastructures.

The Office of Facility Management and Construction, in conjunction with the IA, 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 IA'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 IA also provides funding for administrative buildings at a number of tribal locations. Facilities benefitting from this program include dormitories, roads, forestry, detention centers, numerous irrigation facilities, and dams requiring repair to alleviate hazardous conditions. Additionally, program subactivities 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 IA is continually striving to correct building code and standard deficiencies when identified.

Bureau of Reclamation. Reclamation's investments in non-Federal physical property provide assistance through a variety of measures, all related to water and other water structures. 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.

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 or improvements of other physical assets for purposes of enhancing fish and wildlife management in States. The investments may also be used for land restoration, species protection, recreational hunting and boating improvements, and habitat loss prevention.

National Park Service. Congress may appropriate funds annually 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. More than 90 percent 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

FIGURE 3-9

Investment in Non-Federal Physical Property
(in millions)

Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	TOTAL
Dams & Other Water Structures	\$ 244.7	\$ 213.2	\$ 244.8	\$ 340.2	\$ 225.9	\$ 1,268.8
Land	65.0	120.0	90.4	79.9	145.7	501.0
Roads and Bridges	240.8	217.0	112.5	121.9	18.1	710.3
Schools and Public Buildings	89.1	99.7	93.8	100.1	131.4	514.1
Ranges	-	-	-	-	27.8	27.8
Not Classified	1.0	1.0	15.0	22.4	10.8	50.2
Total	\$ 640.6	\$ 650.9	\$ 556.5	\$ 664.5	\$ 559.7	\$ 3,072.2

are associated with these projects. During FY 2007, \$4.2 million was expended for these pass-through projects. Examples of projects that are supported by these funds include: Utah Land Artifact Preservation Project, Virginia City Restoration Project, and the Mill City Museum Exhibits Project.

The NPS also awards a variety of grants to State and local governments to facilitate public recreation opportunities and to promote the preservation of the nation's cultural, historic, prehistoric, and archeological resources. Several of the major grant programs are the Historic Preservation grants, Historically Black Colleges and Universities Preservation grants, Land and Water Conservation Fund State grants, and the Urban Park and Recreation Recovery grants.

Departmental Offices - The Office of Insular Affairs. The Office of Insular Affairs 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 \$34.2 million in FY 2007. Capital Investment funds provided to the freely associated states (Micronesia, Palau, and Marshall Islands) are not included in this report. The monies were distributed with 31 percent to American Samoa, 5 percent to the Virgin Islands, 14 percent to Guam, and 50 percent to the Commonwealth of the Northern Mariana Islands.

Departmental Offices - Central Utah Project Completion Act. The Central Utah Project Completion Act expressly authorized the Utah Reclamation Mitigation and Conservation Commission to invest in fish and wildlife habitat improvements on non-Federal properties due to the impact of the Federal reclamation projects on fish and wildlife resources beyond the boundaries of the Reclamation projects. FY 2007 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 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 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 \$42.8 million and \$43.9 million (unaudited), as of September 30, 2007 and 2006, respectively.

Consolidating Balance Sheet
as of September 30, 2007
(dollars in thousands)

	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,468,149	\$ 1,454,783	\$ 7,813,695	\$ 1,515,625
Investments, Net	74,456	2,209,168	401,459	537,879
Accounts and Interest Receivable	17,871	21,197	531,324	82,646
Loans and Interest Receivable, Net	-	-	2,827,301	-
Other	2,824	3,225	1,598	2,570
Total Intragovernmental Assets	1,563,300	3,688,373	11,575,377	2,138,720
Cash	236	55	-	-
Investments, Net	30	-	-	163,324
Accounts and Interest Receivable, Net	26,626	24,707	34,077	27,671
Loans and Interest Receivable, Net	20,635	-	102,929	843
Inventory and Related Property, Net	-	253,918	-	1,006
General Property, Plant, and Equipment, Net	1,593,537	479,284	13,012,013	455,524
Other	48,740	5,609	136,866	9,221
TOTAL ASSETS	\$ 3,253,104	\$ 4,451,946	\$ 24,861,262	\$ 2,796,309
Stewardship Assets				
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	\$ 8,767	\$ 79,483	\$ 16,571	\$ 17,376
Debt	8,329	764,204	73,259	12,215
Other				
Resources Payable to Treasury	12,743	-	1,791,694	226,151
Advances and Deferred Revenue	74,574	6,308	7,299	721,122
Custodial Liability	-	32,260	-	-
Other Liabilities	244,096	151,588	69,181	7,146
Total Intragovernmental Liabilities	348,509	1,033,843	1,958,004	984,010
Accounts Payable	59,274	96,609	206,475	254,357
Loan Guarantee Liability	41,434	-	-	-
Federal Employee and Veteran Benefits	110,564	92,378	85,990	15,466
Environmental and Disposal Liabilities	39,621	1,357	51,597	-
Other				
Contingent Liabilities	16,137	1,033	962	-
Advances and Deferred Revenue	18,551	154,813	475,105	10,493
Payments Due to States	-	-	-	-
Other Liabilities	80,571	207,395	51,006	54,562
TOTAL LIABILITIES	714,661	1,587,428	2,829,139	1,318,888
Commitments and Contingencies				
Net Position				
Unexpended Appropriations - Earmarked Funds	-	8,310	236,373	897
Unexpended Appropriations - Other Funds	1,231,396	546,147	65,518	423,703
Cumulative Results of Operations - Earmarked Funds	283,793	1,897,567	21,684,429	480,076
Cumulative Results of Operations - Other Funds	1,023,254	412,494	45,803	572,745
Total Net Position	2,538,443	2,864,518	22,032,123	1,477,421
TOTAL LIABILITIES AND NET POSITION	\$ 3,253,104	\$ 4,451,946	\$ 24,861,262	\$ 2,796,309

Consolidating Balance Sheet
as of September 30, 2007
(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 2007 Total
\$ 422,838	\$ 20,193,214	\$ 47,993	\$ 1,565,645	\$ 294,729	\$ -	\$ 34,776,671
1,146,755	1,456	2,371,561	579,811	-	-	7,322,545
236,202	23,945	569	1,120,411	45,390	(657,676)	1,421,879
-	-	-	-	-	-	2,827,301
12	1,372	-	1,212	2,713	(14,997)	529
1,805,807	20,219,987	2,420,123	3,267,079	342,832	(672,673)	46,348,925
-	431	-	34	-	-	756
-	-	-	-	-	-	163,354
1,741,091	15,139	2,516	10,506	64,684	-	1,947,017
-	2,878	-	-	-	-	127,285
-	-	-	-	489	-	255,413
20,851	1,233,661	4,092	999,796	132,040	-	17,930,798
-	9,249	-	200	87	-	209,972
\$ 3,567,749	\$ 21,481,345	\$ 2,426,731	\$ 4,277,615	\$ 540,132	\$ (672,673)	\$ 66,983,520
\$ 5,524	\$ 24,389	\$ 86	\$ 531,768	\$ 6,472	\$ (99,584)	\$ 590,852
-	-	-	-	-	-	858,007
-	-	-	-	102	-	2,030,690
2	2,226	16	396	2,062	(19,656)	794,349
1,323,574	-	-	-	-	(535,850)	819,984
3,245	69,828	1,487	22,016	31,980	(17,583)	582,984
1,332,345	96,443	1,589	554,180	40,616	(672,673)	5,676,866
18,356	291,452	11,256	79,210	59,959	-	1,076,948
-	-	-	-	-	-	41,434
8,855	947,928	3,319	63,489	35,644	-	1,363,633
-	33,295	-	21,536	108	-	147,514
334,000	2,336	150	60	-	-	354,678
47,704	9,011	1,106	15,388	9,087	-	741,258
639,507	-	-	-	-	-	639,507
66,898	176,938	16,061	177,079	106,566	-	937,076
2,447,665	1,557,403	33,481	910,942	251,980	(672,673)	10,978,914
-	2,511	-	87,454	-	-	335,545
18,052	851,562	43,739	401,361	192,712	-	3,774,190
1,351,124	19,091,584	2,354,608	2,002,411	2,466	-	49,148,058
(249,092)	(21,715)	(5,097)	875,447	92,974	-	2,746,813
1,120,084	19,923,942	2,393,250	3,366,673	288,152	-	56,004,606
\$ 3,567,749	\$ 21,481,345	\$ 2,426,731	\$ 4,277,615	\$ 540,132	\$ (672,673)	\$ 66,983,520

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

	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
TOTAL ASSETS	\$ 3,072,270	\$ 4,279,046	\$ 24,049,178	\$ 3,278,568
Stewardship Assets				
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 or 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 Statement of Changes in Net Position
for the year ended September 30, 2007**
(dollars in thousands)

	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
UNEXPENDED APPROPRIATIONS				
Beginning Balance				
Earmarked Funds	\$ 13	\$ 6,268	\$ 249,501	\$ 3,729
All Other Funds	1,334,894	498,309	96,590	415,457
Adjustments				
Changes in Accounting Principles				
Earmarked Funds	(13)	-	-	13
All Other Funds	(33,220)	93,571	(28,946)	36,760
Beginning Balance, as adjusted				
Earmarked Funds	-	6,268	249,501	3,742
All Other Funds	1,301,674	591,880	67,644	452,217
Budgetary Financing Sources				
Appropriations Received				
Earmarked Funds	-	105,682	206,557	-
All Other Funds	2,324,930	1,841,007	41,373	1,121,647
Appropriations Transferred In/(Out)				
Earmarked Funds	-	-	-	945
All Other Funds	(18,831)	29,697	-	(1,731)
Appropriations-Used				
Earmarked Funds	-	(103,640)	(219,685)	(3,776)
All Other Funds	(2,376,377)	(1,916,437)	(43,499)	(1,140,226)
Other Adjustments				
Earmarked Funds	-	-	-	(13)
All Other Funds	-	-	-	(8,206)
Net Change				
Earmarked Funds	-	2,042	(13,128)	(2,844)
All Other Funds	(70,278)	(45,733)	(2,126)	(28,516)
Ending Balance				
Earmarked Funds	-	8,310	236,373	898
All Other Funds	1,231,396	546,147	65,518	423,701
Ending Balance All Funds - Unexpended Appropriations	\$ 1,231,396	\$ 554,457	\$ 301,891	\$ 424,599

**Consolidating Statement of Changes in Net Position
for the year ended September 30, 2007**

(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 2007 Total
\$ -	\$ (3,797)	\$ -	\$ 80,977	\$ -	\$ -	\$ 336,691
24,768	859,471	39,827	428,310	193,231	-	3,890,857
-	2,511	-	-	-	-	2,511
-	(8,026)	-	(33,679)	(572)	-	25,888
-	(1,286)	-	80,977	-	-	339,202
24,768	851,445	39,827	394,631	192,659	-	3,916,745
-	-	-	85,611	-	-	397,850
152,612	2,247,383	109,099	1,091,214	988,050	-	9,917,315
-	-	-	-	-	-	945
-	(4,830)	-	(1,773)	-	-	2,532
-	-	-	(79,134)	-	-	(406,235)
(158,892)	(2,235,017)	(103,133)	(1,082,110)	(981,327)	-	(10,037,018)
-	3,796	-	-	-	-	3,783
(436)	(7,417)	(2,055)	(601)	(6,669)	-	(25,384)
-	3,796	-	6,477	-	-	(3,657)
(6,716)	119	3,911	6,730	54	-	(142,555)
-	2,510	-	87,454	-	-	335,545
18,052	851,564	43,738	401,361	192,713	-	3,774,190
\$ 18,052	\$ 854,074	\$ 43,738	\$ 488,815	\$ 192,713	\$ -	\$ 4,109,735

Consolidating Statement of Changes in Net Position - Continued
for the year ended September 30, 2007
(dollars in thousands)

	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance				
Earmarked Funds	\$ 281,173	\$ 1,848,761	\$ 20,550,110	\$ 453,744
All Other Funds	720,892	345,137	210,810	422,189
Adjustments				
Change in Accounting Principle				
Earmarked Funds	-	44,961	(21)	20,819
All Other Funds	128,274	23,251	(169,738)	12,288
Beginning Balance, as adjusted				
Earmarked Funds	281,173	1,893,722	20,550,089	474,563
All Other Funds	849,166	368,388	41,072	434,477
Budgetary Financing Sources				
Appropriations-Used				
Earmarked Funds	-	103,640	219,685	3,776
All Other Funds	2,376,377	1,916,437	43,499	1,140,226
Royalties Retained				
Earmarked Funds	-	71,187	1,326,070	-
All Other Funds	-	4,367	-	-
Non-Exchange Revenue				
Earmarked Funds	102	10	9,602	68,487
All Other Funds	(134)	83	5	17,690
Transfers In/(Out) without Reimbursement				
Earmarked Funds	-	10,629	54,170	(5,427)
All Other Funds	(10,584)	(100,414)	(1,464)	16,572
Donations and Forfeitures of Cash and Cash Equivalents				
Earmarked Funds	3,450	-	-	103
All Other Funds	-	-	-	-
Other Budgetary Financing Sources				
Earmarked Funds	-	755	(11,489)	(1,873)
All Other Funds	-	-	-	-
Other Adjustments				
Earmarked Funds	-	-	-	(718)
All Other Funds	-	-	-	(51)
Other Financing Sources				
Donations and Forfeitures of Property				
Earmarked Funds	-	-	68	-
All Other Funds	609	-	-	5,045
Transfers In/(Out) without Reimbursement				
Earmarked Funds	(108)	12,762	(1,098)	(316)
All Other Funds	(72,655)	(6,812)	11,733	99
Imputed Financing from Costs Absorbed by Others				
Earmarked Funds	1,316	6,859	114,267	986
All Other Funds	133,775	75,921	18	25,253
Total Financing Sources	2,432,148	2,095,424	1,765,066	1,269,852
Net Cost of Operations				
Earmarked Funds	(2,140)	(201,998)	(576,936)	(59,505)
All Other Funds	(2,253,301)	(1,845,475)	(49,061)	(1,066,567)
Net Change				
Earmarked Funds	2,620	3,844	1,134,339	5,513
All Other Funds	174,087	44,107	4,730	138,267
Ending Balance				
Earmarked Funds	283,793	1,897,566	21,684,428	480,076
All Other Funds	1,023,253	412,495	45,802	572,744
Ending Balance All Funds - Cumulative Results of Operations	\$ 1,307,046	\$ 2,310,061	\$ 21,730,230	\$ 1,052,820

Consolidating Statement of Changes in Net Position - Continued
for the year ended September 30, 2007
(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 2007 Total
\$ 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
-	(4,901)	-	(493,444)	(531)	-	(433,117)
-	(11,617)	190	5,982	-	-	(11,370)
1,067,265	18,431,305	2,270,955	1,829,608	2,547	-	46,801,227
(502,125)	(94,900)	(6,581)	863,582	68,671	-	2,021,750
-	-	-	79,134	-	-	406,235
158,892	2,235,017	103,133	1,082,110	981,327	-	10,037,018
1,981,590	1,055,188	-	1,785	-	-	4,435,820
-	-	-	-	-	-	4,367
35,034	-	411,719	371,686	-	-	896,640
-	(56)	5	1,630	20	-	19,243
6,903	(300,918)	190	669,957	(3)	-	435,501
-	32,680	(190)	19,936	6,382	-	(37,082)
-	27,230	-	2,213	2,709	-	35,705
-	-	-	-	-	-	-
-	(1,864)	-	-	-	-	(14,471)
(416)	292	(26)	-	-	-	(150)
-	-	-	-	-	-	(718)
-	1	-	-	-	-	(50)
-	-	-	-	-	-	68
-	821	-	-	1,408	-	7,883
-	(195)	(2,143)	(62,027)	-	-	(53,125)
22	(509)	1,362	54,168	95	-	(12,497)
-	-	-	4,630	-	-	128,058
27,640	122,460	11,752	53,082	66,346	(94,112)	422,135
2,209,665	3,170,147	525,802	2,278,304	1,058,284	(94,112)	16,710,580
(1,739,668)	(119,161)	(326,113)	(894,573)	(2,788)	-	(3,922,882)
66,895	(2,317,522)	(114,552)	(1,199,060)	(1,031,273)	94,112	(9,715,804)
283,859	660,280	83,653	172,805	(82)	-	2,346,831
253,033	73,184	1,484	11,866	24,305	-	725,063
1,351,124	19,091,585	2,354,608	2,002,413	2,465	-	49,148,058
(249,092)	(21,716)	(5,097)	875,448	92,976	-	2,746,813
\$ 1,102,032	\$ 19,069,869	\$ 2,349,511	\$ 2,877,861	\$ 95,441	\$ -	\$ 51,894,871

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

	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)

	Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance				
Earmarked Funds	\$ 260,924	\$ 1,010,498	\$ 19,350,254	\$ 423,159
All Other Funds	751,113	303,959	224,253	396,669
Beginning Balance, as adjusted				
Earmarked Funds	260,924	1,010,498	19,350,254	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	1,848,760	20,550,111	453,744
All Other Funds	720,892	345,137	210,810	422,189
Ending Balance All Funds - Cumulative Results of Operations	\$ 1,002,065	\$ 2,193,897	\$ 20,760,921	\$ 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 (479,466)	\$ 18,003,371 (147,423)	\$ 2,149,987 (9,187)	\$ 2,183,131 733,411	\$ 3,721 80,348	\$ -	\$ 44,421,271 1,853,677
1,036,226 (479,466)	18,003,371 (147,423)	2,149,987 (9,187)	2,183,131 733,411	3,721 80,348	-	44,421,271 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



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

NOV 13 2007

Memorandum

To: Secretary

From: *for* Earl E. Devaney
Inspector General

Subject: Independent Auditors' Report on the Department of the Interior Financial Statements for Fiscal Years 2007 and 2006 (Report No. X-IN-MOA-0012-2007)

INTRODUCTION

This memorandum transmits the KPMG LLP (KPMG) auditors' report of the Department of the Interior (DOI) financial statements for fiscal years (FYs) 2007 and 2006. The Chief Financial Officers 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 FY2007 and FY2006 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. 07-04, "Audit Requirements for Federal Financial Statements."

RESULTS OF INDEPENDENT AUDIT

In its audit report dated November 13, 2007, KPMG issued an unqualified opinion on the DOI financial statements. However, KPMG identified seven significant deficiencies in internal controls over financial reporting, none of which were considered material weaknesses. In addition, KPMG identified one instance where DOI did not comply with laws and regulations, specifically, the Single Audit Act Amendments of 1996.

KPMG has also audited the financial statements for Indian Affairs, Bureau of Land Management, Bureau of Reclamation, Departmental Offices, National Park Service, U.S. Fish and Wildlife Service, and the U.S. Geological Survey. In addition, KPMG performed certain auditing procedures at the Minerals Management Service and Office of Surface Mining, Reclamation and Enforcement to support the DOI consolidated financial statement audit.

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 13, 2007, and the conclusions expressed in it. We do not express an opinion on DOI financial statements or on KPMG's conclusions regarding 1) effectiveness of internal controls, 2) compliance with laws and regulations, or 3) substantial compliance of DOI financial management systems with the Federal Financial Management Improvement Act of 1996.

REPORT DISTRIBUTION

The legislation, as amended, creating the OIG 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, we will include the information in the attachment in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

We appreciate the cooperation and assistance of DOI personnel 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, Office of Financial Management
 Focus Group Leader, Internal Control and Audit Follow-up, Office of Financial Management
 Audit Liaison Officer, Office of Financial Management



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Secretary 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, 2007 and 2006, and the related statements of net cost, changes in net position, budgetary resources, 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 2007 audit, we also considered Interior's internal controls over financial reporting 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, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, Interior revised its method of allocating certain costs and revenues between programs on the statement of net cost in fiscal year 2007. Also, as discussed in our opinion, in fiscal year 2007, Interior changed its method of accounting for and reporting of the reconciliation of net cost to budget, allocation transfers, and the Sport Fish Restoration and Boating Trust Fund (SFRBTF), to adopt changes in accounting standards and Office of Management and Budget (OMB) requirements.

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

- A. General and Application Controls over Financial Management Systems
- B. Controls over Accruals
- C. Controls over Undelivered Orders
- D. Financial Reporting Controls
- E. Controls over Charge Cards
- F. Controls over Grants
- G. Controls over the Indian Trust Funds

However, none of the significant deficiencies are believed to be material weaknesses.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.



The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instance 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. 07-04, *Audit Requirements for Federal Financial Statements*.

H. *Single Audit Act Amendments of 1996*

The following sections discuss our opinion on Interior's financial statements; our consideration of Interior's internal controls over financial reporting 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, 2007 and 2006, and the related statements of net cost, changes in net position, budgetary resources, 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, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 20 to the financial statements, Interior's fiscal year 2007 statement of net cost is not comparable to its fiscal year 2006 statement of net cost because Interior revised its method of allocating certain costs and revenues between programs in fiscal year 2007. Also discussed in Note 22 to the financial statements, Interior changed its method of reporting the reconciliation of net cost to budget in fiscal year 2007. Further, as discussed in Note 27 to the financial statements, Interior changed its method of accounting for and reporting allocation transfers and the SFRBTF in fiscal year 2007.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship 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.

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 subsection within the Financial Report section is presented for purposes of additional analysis of the consolidated 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 Introduction, Performance Data and Analysis, the Other Accompanying Information sections, and the special account funds in the Other Supplementary Information subsection within the Financial Report 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 the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Interior's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Interior's financial statements that is more than inconsequential will not be prevented or detected by Interior's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Interior's internal control.

In our fiscal year 2007 audit, we consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described below are material weaknesses. Exhibit I presents the status of prior year reportable conditions.

A. General and Application 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 fully document its certification and accreditation procedures for certain systems and applications, and did not perform certain procedures to support its certification and accreditations. Additionally, Interior had not certified and accredited one facility, used an earlier version than authorized for one of its applications, and had not assigned security responsibilities for one system. Finally, Interior did not establish agreements to document the minimum security requirements for the interconnections and interfaces between certain applications.

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. Interior did not formally document and approve policies and procedures regarding access control procedures, segregation of system roles and responsibilities, the monitoring and



revocation of inactive user accounts, monitoring security profile changes, and periodic recertification of user access for certain applications and systems.

In addition, Interior did not consistently complete the appropriate level of investigation for users, obtain and maintain rules of behavior forms, obtain and maintain user access approval forms, obtain and maintain awareness training evidence, review and document reviews of user access to ensure conflicting access rights are not granted, limit users to one account, limit access of administrator accounts, follow its password policies, perform and document periodic re-certifications to ensure that all users are authorized and the level of access rights was appropriate, or identify and review changes to user account and security profiles. Finally, Interior did not consistently monitor or remove inactive user accounts, remove access of separated users in a timely manner, complete the appropriate exit procedures, or maintain exit clearance documentation for certain systems.

3. *System Software Controls*

System software controls protect computer resources from unauthorized modification, disclosure, and loss. Interior had not implemented formal change management procedures for one system, and had not formally approved procedures regarding the system development life-cycle, segregation of duties, administrator access, and audit logging for certain systems. In addition, Interior did not consistently establish controls to limit access to systems, document the approval for system software changes, maintain system change documentation, identify and monitor for inappropriate changes to systems, review system change logs, or monitor activities performed by administrators.

4. *Software Development and Change Controls*

Software development and change controls ensure that only authorized programs and modifications are implemented. Interior needs to improve its change management policies to ensure that it includes detailed testing procedures for normal and emergency changes for certain applications and configuration management. Interior did not use library management software to control changes to one of its applications, fully segregate software development and change duties, and identify and review changes to ensure the changes were approved for certain applications.

5. *Service Continuity*

Service continuity plans protect information resources, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur. Interior did not have a finalized, approved, fully documented, and/or tested contingency plan to be used in the event of service disruption for certain systems and applications. Interior did not have a comprehensive plan to train certain essential employees on emergency responsibilities outlined within the critical system and application contingency plans. Interior also did not demonstrate that certain contingency plan test results and corrective actions were reviewed by the appropriate officials. Furthermore, Interior did not track and report service interruptions for one application or fully establish environmental controls for one of its server rooms. In addition, Interior personnel involved with media sanitization were not always aware of policies and procedures. Finally, Interior did not consistently sanitize tapes, maintain evidence that backup tapes were completed, use a tape library log, store backup tapes at off-site locations, or test backup tapes.



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. Finally, Interior did not fully segregate responsibilities for certain applications and systems.

Recommendations

We recommend that Interior continue to improve the security and general controls over its financial information systems to ensure adequate security and protection of the information systems as follows:

1. Certify and accredit its facilities and systems, perform all certification and accreditation procedures, fully document its certifications and accreditations, assign security responsibilities, and establish agreements for interconnections and interfaces between applications.
2. Establish controls to prevent and detect unauthorized access, develop and finalize access control policies, complete investigations, obtain and maintain user access documentation, review and approve user access, restrict access, follow password policies, periodically re-certify user access, monitor user account and security profile changes, monitor inactive accounts, remove access of separated users timely, complete the appropriate exit procedures, and maintain exit documentation.
3. Implement and approve change management procedures, establish controls to limit access to systems, document the approval for system software changes, maintain system change documentation, identify and monitor for inappropriate changes to systems, review system change logs, and monitor activities performed by administrators.
4. Improve its change management policies, use library management software to control software changes, fully segregate software development and change duties, and identify and review changes.
5. Finalize, approve, and test contingency plans and related training plans, review test results and corrective actions, track and report service interruptions, establish environmental controls, communicate and follow media sanitation policies, and control and test back up tapes.
6. Formally document application-specific roles or access privileges that should be segregated, periodically review segregation of duties, and fully segregate responsibilities.

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. We did not audit Interior's response and, accordingly, we express no opinion on it.

B. Controls over Accruals

In accordance with Federal accounting standards, Interior is required to record liabilities based on the probable future outflow or other sacrifice of resources as a result of past transactions or events. Interior did not properly develop its accounts payable accrual methodology at two Interior components to consider changes in operations, and did not properly test the assumptions used to calculate its accounts payable accrual at two Interior components. In addition, Interior did not ensure that its accounts payable accruals consistently agreed to the supporting documentation



or consistently documented its approval of the accounts payable accruals. Furthermore, Interior did not fully consider the results of its grants accrual analysis and adjust its grant accrual methodology appropriately for one of its grant programs.

As a result of our observations, Interior adjusted its accrual methodologies, tested its assumptions, and increased its accruals by \$154 million. However, Interior did not effectively review the accrual adjustments because Interior did not properly de-obligate \$58 million of undelivered orders when Interior recorded the accrual adjustments. As a result of our observations, Interior recorded the de-obligation.

Recommendations

We recommend that Interior implement the following recommendations to improve controls over its accruals:

1. Evaluate and revise accounts payable accrual methodologies for changes in operations.
2. Test the assumptions used in the accounts payable accrual, including the subsequent activity report, to ensure that the subsequent activity report is accurate and complete.
3. Analyze the grants accrual analysis to ensure that the results support the grant accrual methodology.
4. Require supervisors to compare the accounts payable accrual adjustments from the accounting system to the calculations and the supporting documentation to ensure that the amounts are properly recorded and to document approval evidencing completion of comparison.

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. We did not audit Interior's response and, accordingly, we express no opinion on it.

C. Controls over Undelivered Orders

Undelivered orders should be promptly recorded, properly classified, and accounted for, in order to prepare timely and reliable reports. Interior policies requires its components to review and certify undelivered orders quarterly, including undelivered orders with no activity during the past 12 months, and to de-obligate invalid obligations; however, four of the nine Interior components did not effectively follow these policies. Two of the Interior components did not review and certify undelivered orders because the components were unable to obtain certain undelivered order reports from the accounting system. Two other components certified the undelivered order balances; however, the components did not effectively certify the undelivered order balances because they incorrectly certified 16 of the 166 undelivered orders tested. In addition, Interior did not consistently maintain documentation or modify orders that had expired in a timely manner to support its undelivered orders. As a result of our observations, Interior analyzed and decreased its undelivered orders by \$80 million. Subsequent to management's analysis and adjustment, we identified 6 additional exceptions in the 281 undelivered orders tested at one Interior component.

Recommendations

We recommend that Interior implement the following recommendations to improve controls over its undelivered order balances:

1. Provide training to program and finance personnel on certifying and closing out undelivered orders.
2. Configure its accounting system to provide undelivered order reports.



3. Review and certify all undelivered order balances, on at least a quarterly basis.
4. Monitor and close out as appropriate undelivered orders with minimal to no activity during the past three months, on at least a quarterly basis.
5. Modify expired orders in a timely manner.
6. Improve and maintain documentation to support its undelivered order balances.

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. We did not audit Interior's response and, accordingly, we express no opinion on it.

D. Financial Reporting Controls

Interior needs to improve financial reporting controls to ensure transactions are properly recorded for reliable financial reports. Interior did not properly classify certain financial transactions resulting in over \$181 million of activity being reported in the other fund column, rather than the earmarked fund column on the statement of changes in net position and resulting in misclassifications of \$188 million in the reconciliation of net cost to budget disclosure and other note misclassifications. In addition, Interior did not effectively segregate responsibilities because certain individuals have the authority to both enter and approve journal entries in the accounting system without a secondary review at four of the nine Interior components.

Recommendations

We recommend that Interior implement the following to improve the recording and reporting of financial transactions:

1. Require a second person to analyze the financial statements and disclosures to ensure financial transactions are properly classified and presented and document such review.
2. Configure the accounting system to prevent the same individual from entering and approving journal entries in the accounting system or require an individual who does not have access to enter or approve journal entries to compare the journal entries recorded in the financial systems to the approved journal entries to ensure that all journal entries have been approved and were properly entered into the financial system, and document evidence of completion of the comparison.

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 its comments were responsive to our recommendations. Management believes that there are adequate and mitigating controls. We did not audit Interior's response and, accordingly, we express no opinion on it.

Auditors' Response to Management's Response

As summarized above, Interior did not effectively segregate responsibilities because we identified certain individuals have the authority to both enter and approve journal entries in the accounting system without a secondary review. In addition, Interior implemented the mitigating controls after we identified the control deficiency and the mitigating controls did not operate effectively because the same people who performed the mitigating controls had the ability to enter and approve journal entries and therefore Interior did not segregate the responsibilities over journal entries. Therefore, we continue to believe that the control deficiencies identified constitute a significant deficiency.



E. 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 69 exceptions in the 361 statements that we tested at 3 of the 7 Interior components that we tested. For example, cardholders and supervisors did not always sign and date the charge card statements, did not consistently sign and date the charge card statements in a timely manner, and did not consistently maintain charge card receipts to support the charges.

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. Periodically test a sample of charge cards for compliance with Interior's charge card policies.

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. We did not audit Interior's response and, accordingly, we express no opinion on it.

F. Controls over Grants

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* (OMB Circular No. A-133). Interior needs to improve controls over grant monitoring at four Interior components. Interior did not maintain documentation that Interior formally communicated the grant award name, grant number, catalog of federal domestic award number, and/or the list of applicable laws and regulations to the grantees for 32 of the 45 grant awards tested at one component. Interior also did not have a complete listing of grantees to ensure that it obtained Single Audit reports and issued management decisions on audit findings for one Interior component. In addition, two Interior components did not obtain Single Audit reports within nine months of the grantee's fiscal year-end for 13 of 44 grantees tested and did not issue management decisions on audit findings within six months after receipt of Single Audit reports or ensure that the grantees completed appropriate and timely corrective action on such findings for 8 of the 66 grantees tested. Further, two Interior components, did not obtain or follow up on past due Financial Status Reports for 15 of the 77 grantees tested. Additionally, one Interior component did not obtain Grant Performance Reports for 8 of 32 grantees tested or obtain Annual Reports for 3 of the 32 grantees tested. Finally, Interior did not review the reconciliation from the grant system to the accounting system at one Interior component.



Recommendations

We recommend that Interior perform the following to improve its grant monitoring process:

1. Review the grant award to ensure that the grant awards include the award name and number, the catalog of federal domestic number and title, award year, if the award is for research and development, and list of laws and regulations and document approval on the grant award.
2. Maintain a complete and accurate listing of grantees to enable monitoring of receipt of Single Audit Reports and issuance of management decisions on findings.
3. Follow up on Single Audit, Financial Status, Grant Performance, and Annual Reports not received and consider the need to limit future grant awards until these reports are received.
4. Issue management decisions on audit findings within six months after receipt of Single Audit reports and verify that grantees take appropriate and timely corrective action.
5. Require a supervisor to review the reconciliation from the grant system to the accounting system and to document evidence of such review.

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 recommendation. We did not audit Interior's response and, accordingly, we express no opinion on it.

G. 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 financial and non-financial 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), Indian Affairs (IA), other Interior bureaus, and agreements with American Indian Tribes.

The Indian Trust Funds' balances include two categories: (1) Trust Funds that are held by Interior because the corpus of specific accounts is non-expendable or the funds that are held for future transfer to Indian Tribes upon satisfaction of certain conditions and thus are reflected in Interior's financial statements; (2) Trust Funds for Indian Tribes and individual Indians that are considered non-Federal accounts and thus are not reflected in Interior's financial statements but are disclosed in a footnote to Interior's financial statements, in accordance with the accounting standards.

Interior has invested a significant amount of resources to improve controls over Indian Trust Funds; however, we noted that Interior needs to continue its efforts to resolve historical differences for items 1 through 4 below, and to improve procedures and internal controls for entering and maintaining Trust Fund information, including recording receivables, 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 Fund transactions 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 Fund beneficiaries do not agree with the trust fund balances and/or have requested an accounting of the Indian Trust Funds. However, Interior has invested a significant amount of resources identifying historical records, isolating and working to



resolve historical differences, and preparing an accounting of the Indian Trust Fund 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, house accounts, and suspense accounts 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. The amount invested for IIM is based on the IIM control account balance. Consequently, the balance of funds invested for IIM account holders may not be correct, which in turn would affect interest earnings. As of September 30, 2007, the aggregate sum of all balances included in the subsidiary ledger exceeded the control account by approximately \$6 million.

As of September 30, 2006, the subsidiary ledger contained negative account balances totaling approximately \$44 million (of which approximately \$164,000 was attributed to individual Indian accounts as of September 30, 2006). During fiscal year 2007, management adjusted the subsidiary ledger eliminating the negative account balances totaling approximately \$44 million (of which approximately \$113,000 was attributed to individual Indian accounts as of September 30, 2007); however, we were unable to conclude on the propriety of such adjustment.

3. Special Deposit Accounts

As of September 30, 2007 and 2006, there were approximately 13,000 and 22,000 special deposit accounts reflected in the subsidiary ledger with balances totaling approximately \$33 million and \$36 million, respectively. In accordance with Title 25 of the Code of Federal Regulations and as directed by IA, historically OST recorded receipts into special deposit accounts within the subsidiary ledger when the recipient trust fund account was unknown at the time of receipt. When IA 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 IA 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 2007 and 2006. As of September 30, 2007, a significant number of special deposit accounts represent historical balances and continue to require resolution.

4. Undistributed Interest and Unusual Balances

OST and/or IA had not been able to determine the proper recipients of undistributed interest related to Tribal Trust Funds of approximately \$2.0 million as of September 30, 2006. However, in prior years OST commissioned a report to assist in determining the recipients of these funds, and based on that report distributed the balance of these funds during fiscal year 2007. Additionally, OST and/or IA have not been able to determine the proper recipients of undistributed interest related to IIM of approximately \$3.8 million and \$3.6 million as of September 30, 2007 and 2006, respectively. Furthermore, there were Tribal Trust Funds accounts with negative cash balances totaling approximately \$721,000 as of September 30, 2007 and 2006, which continue to require resolution.



5. *Entering and Maintaining Trust Fund Information*

The regional and agency offices of IA 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 Records*

IA did not consistently maintain ownership records for rights of way lease agreements on lands held in trust for the Indian Trust Funds because IA was unable to provide evidence of ownership for 38 of the 45 lease agreements tested. Additionally, IA did not consistently obtain appraisals from the Bureau of Land Management prior to entering into the lease agreements related to lands held in trust for the Indian Trust Funds. Finally, IA did not consistently follow its policies contained in Part 53 of the Indian Affairs Manual because IA did not obtain and approve Forest Management Plans for 2 of 30 locations tested.

b. *Distribution of Funds to OST*

IA did not consistently sign the Trust Funds Receivable Worksheet prior to submitting funds to OST for 9 of the 115 items tested. In addition, IA did not consistently transfer funds to OST within 24 hours of the lease agreement approval for 15 of 115 items tested and within 24 hours of receipt for 3 of the 115 items tested in accordance with its policies. Finally, IA did not use the fastest means possible in forwarding funds to the lockbox in accordance with its policies for 5 of 115 items tested.

c. *Accounts Receivable*

IA had not fully developed and communicated standardized policies and procedures for establishing, tracking, and pursuing historical 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.

d. *Probate Backlog*

IA did not consistently enter probate orders for land title into the trust management systems timely. Although IA made progress in reducing the backlog, IA indicated that it had probate orders that had not been prepared, adjudicated, recorded, and/or encoded. IA expects to have the backlog resolved in September 2009. This increases the potential for untimely distributions of income to the account holders of the Indian Trust Funds.

e. *Supervised and Restricted Accounts*

IA did not consistently perform reviews over active supervised accounts. 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. IA has identified reports from the Trust Fund Accounting System (TFAS) and Strata Vision, which list all active supervised accounts and needs to work with OST to 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 findings because management believes that its efforts to address internal control deficiencies in the Indian Trust Funds are substantially complete and that the auditors' report did not contain findings suggesting current operational control deficiencies. We did not audit Interior's response and, accordingly, we express no opinion on it.

Auditors' Response to Management's Response

As summarized above, we identified control deficiencies in the current year that adversely affect Interior's ability to initiate, authorize, record, process, and report Indian Trust Fund data reliably. Therefore, we continue to believe that the control deficiencies identified constitute a significant deficiency.

* * * * *

We noted certain additional matters that we have reported to management of Interior in a separate letter dated November 13, 2007.

INTERNAL CONTROL OVER PERFORMANCE MEASURES

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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 one instance of noncompliance or other matters that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is described below.

H. *Single Audit Act Amendments of 1996*

As discussed in the Internal Control over Financial Reporting section of this report, Interior did not perform adequate monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996* and the related OMB Circular No. A-133. Interior needs to ensure that it communicates grant award information, obtains Single Audit, Financial Status, Grant Performance, and Annual Reports, and issues management decisions on audit findings in a timely manner.

Recommendation

We recommend that in fiscal year 2008, Interior obtain Single Audit, Financial Status, Grant Performance, and Annual 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.

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



recommendation. We did not audit Interior's response and, accordingly, we express no opinion on it.

* * * * *

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which Interior's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

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 control; 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 2007 and 2006 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. 07-04. Those standards and OMB Bulletin No. 07-04 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 2007 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 as a basis for designing 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. 07-04. 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 express an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interior's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 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 and Performance sections, 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 report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin No. 07-04. 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 2007 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. 07-04, 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. 07-04 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.



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 13, 2007

Exhibit I

U.S. DEPARTMENT OF THE INTERIOR

Status of Prior Year Findings

September 30, 2007

Ref	Condition	Status
A	Controls over the Indian Trust Funds	This condition has not been corrected and is repeated in fiscal year 2007. See finding G.
B	Application and general controls over financial management systems	This condition has not been corrected and is repeated in fiscal year 2007. See finding A.
C	Controls over property, plant, and equipment	This condition has been corrected.
D	Reporting the Sport Fish Restoration and Boating Trust Fund	This condition has been corrected.
E	Controls over the U.S. Park Police Pension Plan	This condition has been corrected.
F	Controls over charge cards	This condition has not been corrected and is repeated in fiscal year 2007. See finding E.
G	Control assessment and assurance statement process	This condition has been corrected.
H	Controls over spending authority	This condition has been corrected.
I	Museum collections	This condition has been corrected.
J	<i>Single Audit Act Amendments of 1996</i>	This condition has not been corrected and is repeated in fiscal year 2007. See finding H.
K	Potential non-compliance with the <i>Anti-Deficiency Act</i> , acquisition regulations, and leasing laws and regulations	This condition has been corrected.
L	<i>Federal Financial Management Improvement Act of 1996</i>	This condition has been corrected.



THE ASSOCIATE DEPUTY SECRETARY OF THE INTERIOR
WASHINGTON

NOV 13 2007

Memorandum

To: Earl E. Devaney
Inspector General

KPMG LLP
2001 M Street, NW
Washington, DC 20036

From: James E. Cason *James E. Cason*
Associate Deputy Secretary and Chief Financial Officer

Subject: Management's Response to the Independent Auditors' Report on the Department of the Interior Financial Statements for Fiscal Year 2007 and 2006 (Assignment No. X-IN-MOA-0012-2007)

The Department has reviewed the draft report prepared by KPMG LLP and provides the following in response to the findings and recommendations. Interior is pleased that the result of the audit is an unqualified opinion on the Department Consolidated Financial Statements and that no Material Weaknesses were identified. The Department appreciates the recognition noted in several findings and recommendations regarding the improvement and progress achieved during Fiscal Year 2007. We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management at the Department of the Interior.

INTERNAL CONTROL OVER FINANCIAL REPORTING

I. Reportable Conditions that are considered to be Material Weaknesses

A. None Reported

II. Reportable Conditions that are considered to be Significant Deficiencies

A. General and Application Controls over Financial Management Systems

Management concurs. During FY 2007 Interior continued to improve its policies and guidance, and will continue to enhance application and general controls over financial management systems during FY 2008. Although compliance with policies and guidance needs improvement, actual physical testing of our financial systems has demonstrated positive results. We are

constantly striving to implement improvements and strengthen the related programmatic aspects of the IT security program (including awareness training), and will continue to review all aspects of the IT program for refinement as appropriate.

B. Controls over Accruals

Management concurs. Interior management recognizes the need to continuously evaluate and revise accrual methodologies in a dynamic and multi-faceted operational environment. Interior components make every effort to properly develop and analyze reasonableness of the accrual methodologies. The differences identified primarily relate to the underlying assumptions utilized and differing views as to what should be included. Management will work with all components to improve processes to ensure that evaluation are conducted and will review the integral pieces of the methodology documentation for consistency.

C. Controls over Undelivered Orders

Management concurs. Interior agrees that two components did not perform a quarterly review and certification of the undelivered orders (UDO) balances due to the components' inability to generate an aged UDO report from the accounting system. Both Interior and these components will work to obtain the necessary aged UDO report required for the review and certification requirements on a quarterly basis.

Interior agrees that documentation including or modifying orders that had expired can be improved and completed in a timely manner. This is a complex process that impacts many areas and functional disciplines across Interior. Management is committed to bring all components together to address these concerns from an integrated and consistent basis.

D. Financial Reporting Controls

Management partially concurs. Interior does not agree with the finding. Interior believes that there are adequate and mitigating controls currently in place to ensure proper control of journal entry adjustments to financial statement amounts. Nonetheless, Interior concurs that additional actions can be taken to improve the documentation of these controls.

E. Controls over Charge Cards

Management concurs. Although compliance issues were identified, Interior continues to believe it has a charge card program that has effective internal controls, Management intends to review the existing controls and to consider development of new or additional control tests. Beginning in September 2007,

new Approving Official and cardholder training were launched. This training will soon be rolled out across the Department for completion by December 31, 2007.

F. Controls over Grants

Management concurs. Interior will work with the components to ensure that all necessary reports are obtained and that management decisions on audit findings are issued in a timely and compliant manner. In addition, Interior will review and revise, if necessary, any required reconciliations between the grant system and the accounting system. Management will review the procedures in place to determine if any modifications would yield a more timely and effective treatment.

G. Controls over the Indian Trust Funds

Management does not concur. Upon careful consideration of the significant corrective action progress and procedures and internal controls that have been implemented, Interior continues to believe that efforts to address the deficiencies in controls related to Indian Trust Funds are substantially complete and provide for reliable information. This position is based on the results of extensive internal controls testing and that controls are in place and operating effectively; therefore, there is no adverse impact on the current financial internal control environment. We believe that there is a high degree of accuracy in the Trust Fund account balances, accounting and asset management resource systems are reliable, and monies are being properly and timely accounted for.

The concerns regarding historical differences do not imply that a current control deficiency exists. Current system design and operations allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Therefore, these four historical differences do not fit the description of a current control deficiency and should not continue as a barrier to recognition of the improved control environment. The auditors' report did not contain findings suggesting current operational control deficiencies. Indian Affairs and the Office of the Special Trustee continue to seek resolution for the four inconsequential historic differences.

H. Single Audit Act Amendments of 1996

Management concurs. During FY 2008 Interior will ensure that it obtains Single Audit, Financial Status, Grant Performance, and Annual Reports and that it issues management decisions on audit findings in a timely manner. Enhancements will be made to the business process for complying with the Single Audit Act.

In closing, aggressive correction action plans will be established for each of these findings and they will be tracked through completion/correction. The Department is committed to improving these and all other elements of financial management.