U.S. Department of the Interior
Notes to Principal Financial Statements
As of September 30, 2004 and 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The accompanying financial statements include all Federal funds under Interior's control or which are a component of the reporting entity, including Conservation Funds (Land and Water Conservation Fund, Historic Preservation Fund, and Environmental Improvement and Restoration Fund), Custodial Funds, and the Aquatic Resources Trust Fund. The financial statements, however, do not include non-federal trust funds, trust related deposit funds, or other related accounts that are administered, accounted for, and maintained by Interior's Office of the Special Trustee for American Indians on behalf of Native American Tribes and individuals. Interior prepares financial statements for these Tribal and Other Trust Funds and Individual Indian Monies under separate cover. A summary of the trust fund balances and changes in trust fund balances managed on behalf of Indian Tribes and individuals is included in Note 25. The financial statements included herein also do not include the effects of centrally administered assets and liabilities related to the Federal government as a whole, such as public borrowing or certain tax revenue, which may in part be attributable to the Interior.

B. Organization and Structure of Interior

Interior is composed of the following nine operating bureaus and Departmental Offices (bureaus):

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

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

The U.S. Bureau of Mines (USBM) was closed in 1996. Although it no longer exists, certain transactions and data related to USBM programs and activities are reflected in the Interior's FY 2004 and FY 2003 financial statements and notes.

C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, custodial activities, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations of the Interior as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of the Interior in accordance with generally accepted accounting principles (GAAP), OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government. These financial statements present proprietary and budgetary information. Interior, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control Interior's use of budgetary resources.

OMB financial statement reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. Interior has presented comparative FY 2004 financial statements for the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, Consolidated Statement of Financing, and the Statement of Custodial Activity. Certain prior year amounts have been reclassified to conform to current year presentation.

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

D. Fund Balance with Treasury and Cash

Interior maintains all cash accounts with the Department of the Treasury (Treasury) except for imprest fund accounts. The account, 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 types of funds are: (1) general funds are funds not earmarked by law for a specific purpose; (2) special funds are funds earmarked for specific purposes; (3) revolving funds are funds that conduct continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations; (4) trust funds are funds that are designated by law as a trust fund where the receipt accounts collect earmarked receipts for specific purposes and the associated trust fund expenditure accounts track spending of the receipts; and (5) other funds include balances in deposit accounts, such as for collections pending litigation, awaiting determination of the proper accounting disposition, or being held by the entity in the capacity of a banker or agent for others.

Treasury processes cash receipts and disbursements and Interior's records are reconciled with those of Treasury on a regular basis.

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

E. Investments, Net

Interior invests funds in Federal government and public securities on behalf of various Interior programs and for amounts held in certain escrow accounts.

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

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

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

The market value is estimated as the sales price of the security multiplied by the bid price at year end.

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

Loans are accounted for as receivables after the funds have been disbursed. For loans obligated after the effective date of the Credit Reform Act, October 1, 1990, the amount of the Federal loan subsidy is computed. The loan subsidy includes estimated delinquencies and defaults net of recoveries, the interest rate differential between the loan rates and Treasury borrowings, offsetting fees, and other estimated cash flows associated with these loans. The value of loans receivable is reduced by the present value of the expected subsidy costs. The allowance for subsidy cost is reestimated annually, on September 30.

For loans obligated prior to October 1, 1990, principal, interest, and penalties receivable are presented net of an allowance for estimated uncollectible amounts. The allowance is based on past experience, present market conditions, an analysis of outstanding balances, and other direct knowledge relating to specific loans.

H. Inventory and Related Property

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

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

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

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 to be consumed or sold in future operations and are valued at historical cost, based on the moving average cost method. The value of this inventory is adjusted based on the results of periodic physical inventories.

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

I. General Property, Plant, and Equipment, Net

General Purpose Property, Plant, and Equipment. General purpose property, plant, and equipment consists of buildings, structures, and facilities used for general operations, power, irrigation, fish protection, wildlife enhancement, and recreation; land and land improvements acquired for general operating purposes; equipment, vehicles, and aircraft; construction in progress; capital leases; leasehold improvements; and internal use software.

All general purpose property, plant, and equipment are capitalized at acquisition cost and depreciated using the straight-line amortization method over the assigned useful lives of the property. Buildings, structures, and facilities are depreciated over a useful life of from 20 to 50 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 5 to 20 years. Capital leases and leasehold improvements are amortized over the life of the lease. For land, buildings, structures, land improvements, leasehold improvements, and facilities purchased prior to October 1, 2003, capitalization thresholds were established by the individual bureaus and generally ranged from $50,000 to $500,000. For these same items purchased subsequent to September 30, 2003, Interior has established a capitalization threshold of $100,000 with the exception of dams and certain related property, which are fully capitalized. For equipment, vehicles and aircraft, and capital leases, Interior has established a capitalization threshold of $15,000. There are no restrictions on the use or convertibility of the Interior's general purpose property, plant, and equipment.

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

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

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

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

The majority of public lands, presently under the management of Interior, were acquired by the Federal government during the first century of the Nation's existence and are considered stewardship land. A portion of these lands has been reserved as national parks, wildlife refuges, and wilderness areas, while the remainder is managed for multiple uses.

Interior is also responsible for maintaining a variety of cultural and natural heritage assets, which include national monuments, historic structures, archeological artifacts, 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. This is in accordance with Federal accounting standards.

The Required Supplementary Stewardship Information (RSSI) 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 Cleanup Costs and Contingent 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.

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.

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.

L. Revenues and Financing Sources

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

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

Exchange and Non-Exchange Revenue. Interior classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including park entrance fees; map sales; reimbursements for services performed for other Federal agencies and the public; reimbursements for the cost of constructing and maintaining irrigation and water facilities; and other sales of goods and services. These revenues are presented on Interior's

Consolidated Statement of Net Cost and serve to reduce the reported cost of operations borne by the taxpayer. Interior does not anticipate any losses to occur. Non-exchange revenues result from donations to the government and from the government's sovereign right to demand payment, including taxes, fines for violation of environmental laws and Abandoned Mine Land duties charged per ton of coal mined. These revenues are not considered to reduce the cost of the Interior's operations and are reported on the Consolidated Statement of Changes in Net Position.

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

Reporting entities that provide goods and services to the public or another government entity should disclose specific information related to their pricing policies. In certain cases, the prices charged by Interior are set by law or regulation, which for program and other reasons may not represent full cost (e.g., grazing fees, park entrance, and other recreation fees). Prices set for products and services offered through working capital funds are intended to recover the full costs (cost plus administrative fees) incurred by these activities.

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

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

Royalty-in-Kind (RIK). Interior, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act (OCSLA) of 1953, may take part or all of its oil and gas royalties in-kind (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 royalty-in-kind 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 the Department of Energy (DOE) royalty oil received-in-kind from Federal leases in the Gulf of Mexico. Interior determines the value of the commodity transferred using the fair market value on the date of transfer. Interior reports these transfers as mineral lease revenue and transfers to the DOE on the Statement of Custodial Activity.

Aquatic Resources Trust Fund. Interior presents the Aquatic Resources Trust Fund (ARTF) in its financial statements in accordance with the requirements of Statement of Federal Financial Concepts No.2, "Entity and Display." The source of funding for the ARTF includes excise taxes levied on the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. These funds are used to make grants available to States for support projects that restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands and projects that provide for public use and benefit from sport fish resources. The ARTF also provides funding for boating safety programs conducted by the U.S. Coast Guard and coastal wetlands initiatives conducted by the U.S. Army Corps of Engineers. The Appropriations Act of 1951 authorized amounts equal to revenues credited during the year to be used in the subsequent fiscal year. This inflow is recorded as permanent appropriations to remain available until expended.

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

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

These transfers, and subsequent recoveries, are recorded in the Reclamation Fund, as transfers in/out without reimbursement on the Consolidated Statement of Changes in Net Position in accordance with SFFAS No. 7 Accounting for Revenue and Other Financing Sources and using current Treasury Standard General Ledger guidance. Transfers to Reclamation and other Federal agencies are recorded at the time appropriations are made. Cost recoveries are recorded in the Reclamation Fund as transfers in upon receipt.

During FY 2004, the Accounting and Auditing Policy Committee (AAPC) published an exposure draft for a new Federal financial accounting and auditing technical release, entitled, "Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1, Accounting for Selected Assets and Liabilities and SFFAS 5, Accounting for Liabilities of the Federal Government." Interior has not completed its analysis of the impact of the technical release on projects other than those funded by the Reclamation Fund as of the date of this report. If the proposed technical release is passed as proposed, the Interior will need to record a receivable when funds are transferred out of the Reclamation Fund and reduce the receivable when funds are transferred back into the Reclamation Fund. Resolution of the exposure draft is not expected to occur until late FY 2005.

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

Deferred Revenue. Unearned revenue is recorded as deferred revenue until earned.

M. Personnel Compensation and Benefits

Annual and Sick Leave Program. Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave since from a budgetary standpoint, this annual leave will be paid from future appropriations when the leave is used by employees rather than from amounts that were appropriated to Interior as of the date of the financial statements. The amount accrued is based upon current pay rates of the employees. Sick leave and other types of leave are expensed when used and no future liability is recognized for these amounts, as employees do not vest in these benefits.

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

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

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

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

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

Retirement Programs. Interior employees participate in one of three retirement programs: (1) the Civil Service Retirement System (CSRS); (2) the Federal Employees Retirement System (FERS), which became effective on January 1, 1987; or (3) the United States Park Police (USPP) Pension Plan. Most Interior employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

For FERS employees, Interior contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 14 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of 9 percent of their gross earnings and receive no matching contribution from Interior.

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, 1983, 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 as of the first day of the year, with a "roll-forward" or projection to the end of the year, in accordance with SFFAS Interpretation No. 3, Measurement Date for Pension and Retirement Health Care Liabilities. The "roll-forward" considers all major factors that affect the measurement that occurred during the reporting year, including any raises, cost of living allowances, and material changes in the number of participants.

N. Federal Government Transactions

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

Transactions and balances among the Interior's entities have been eliminated from the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Bulletin No. 01-09, the Combined Statement of Budgetary Resources is presented on a combined basis, therefore, intra-departmental transactions and balances have not been eliminated from this statement. In accordance with OMB Bulletin No. 01-09, intra-departmental transactions and balances have been eliminated from all the amounts on the Consolidated Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis. Intra-departmental transactions have been eliminated within the Consolidated Statement of Custodial Activity. In order to present all custodial activity, the distributions to the Department's entities have not been eliminated on the Consolidated Statement of Custodial Activity and the Statement of Changes in Net Position. The distributions, however, are reported separately on the Consolidated Statement of Custodial Activity.

O. 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.

P. Estimates

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

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, 2004 and 2003 consists of the following:

(dollars in thousands)	FY 2004	FY 2003
General Funds	$ 5,033,062	$ 4,680,540
Special Funds	22,524,320	21,402,983
Revolving Funds	2,686,055	2,064,659
Trust Funds	199,996	155,973
Other Fund Types	422,711	394,053
Total Fund Balance with Treasury by Fund Type	$ 30,866,144	$ 28,698,208

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. When collected, these receipts are available immediately for expenditure for special programs, such as providing housing for employees on field assignments; Land and Water Conservation and Historic Preservation Fund activities; sales of public lands, timber, mineral leases; cleanup associated with the Exxon Valdez oil spill; and operating science and cooperative programs.

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

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

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

Status of Fund Balance with Treasury as of September 30, 2004 and 2003 consists of the following:

(dollars in thousands)		FY 2004		FY 2003
Unobligated				
Available	$	3,855,516	$	3,975,260
Unavailable		21,151,222		19,958,000
Obligated Not Yet Disbursed		5,859,406		4,764,948
Total Status of Fund Balance with Treasury	$	30,866,144	$	28,698,208

The status of the Fund Balance 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: (1) the budgetary balances include amounts supported by other than fund balance with Treasury, such as investments in Treasury Securities and allocation transfers (transferring agency); and (2) the fund balance with Treasury amounts include items for which budgetary resources are not recorded, such as deposit funds and unavailable collections and allocation transfers (receiving agency). Allocation transfers result in differences for both the transferring and receiving agency because the budgetary amounts are reported by the agency transferring the funds but the proprietary amounts are reported by the receiving agency.

NOTE 3. CASH

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

Cash as of September 30, 2004 and 2003 consists of the following:

(dollars in thousands)		FY 2004		FY 2003
Cash Not Yet Deposited to Treasury	$	417	$	415
Imprest Fund		664		679
Total Cash	$	1,081	$	1,094

NOTE 4. INVESTMENTS, NET

A. Investments in Treasury Securities

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

Investments as of September 30, 2004, consist of the following:

FY 2004

(dollars in thousands)	Investment Type	Cost	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Bureau of Indian Affairs	Marketable	$ 68,565	$ -	$ 68,565	$ 68,565
Bureau of Land Management	Non-Marketable, par value	826,076	2,620	828,696	828,465
Departmental Offices					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	152,427	(8,658)	143,769	143,551
Natural Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	170,592	(1,414)	169,178	168,962
Tribal Trust and Special Funds	Non-Marketable, market-based	27,755	-	27,755	27,753
	Marketable	49,860	(49)	49,811	49,792
Minerals Management Service - Conservation	Non-Marketable, market-based	1,003,203	(6,911)	996,292	1,007,471
Minerals Management Service - Custodial	Non-Marketable, market-based	27,758	8	27,766	27,769
National Park Service	Non-Marketable, market-based	64	1	65	65
Office of Surface Mining	Non-Marketable, market-based	2,042,801	168	2,042,969	2,042,969
U.S. Fish and Wildlife Service	Non-Marketable, market-based	363,832	(1,073)	362,759	363,614
U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund	Non-Marketable, market-based	1,455,389	(4,045)	1,451,344	1,446,897
Total U.S. Treasury Securities		6,188,322	(19,353)	6,168,969	6,175,873
Accrued Interest		18,360	-	18,360	-
Total Non-Public Investments		6,206,682	(19,353)	6,187,329	6,175,873
Public Securities					
Bureau of Indian Affairs	Marketable	1,077	-	1,077	1,078
Departmental Offices - Tribal Trust and Special Funds	Marketable	188,966	476	189,442	189,679
Total Public Securities		190,043	476	190,519	190,757
Accrued Interest		1,325	-	1,325	-
Total Public Investments		191,368	476	191,844	190,757
Total Investments		$ 6,398,050	$ (18,877)	$ 6,379,173	$ 6,366,630

Investments as of September 30, 2003, consist of the following:

FY 2003

(dollars in thousands)	Investment Type	Cost	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
Bureau of Indian Affairs	Marketable	$ 68,334	$ -	$ 68,334	$ 68,334
Bureau of Land Management	Non-Marketable, par value	369,097	1,218	370,315	370,400
Departmental Offices					
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	139,874	(946)	138,928	139,694
Natural Resources Damage Assessment and Restoration Fund	Non-Marketable, market-based	156,025	(713)	155,312	155,552
Tribal Trust and Special Funds	Non-Marketable, market-based	29,966	-	29,966	29,966
	Marketable	45,875	45	45,920	46,150
Minerals Management Service - Conservation	Non-Marketable, market-based	977,236	285	977,521	977,595
Minerals Management Service - Custodial	Non-Marketable, market-based	25,071	3	25,074	25,074
National Park Service	Non-Marketable, market-based	64	1	65	65
Office of Surface Mining	Non-Marketable, market-based	1,926,867	-	1,926,867	1,926,867
U.S. Fish and Wildlife Service	Non-Marketable, market-based	454,807	(1,083)	453,724	454,998
U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund	Non-Marketable, market-based	1,418,172	(2,359)	1,415,813	1,416,278
Total U.S. Treasury Securities		5,611,388	(3,549)	5,607,839	5,610,973
Accrued Interest		2,153	-	2,153	-
Total Non-Public Investments		5,613,541	(3,549)	5,609,992	5,610,973
Public Securities					
Bureau of Indian Affairs	Marketable	1,097	-	1,097	1,099
Departmental Offices - Tribal Trust and Special Funds	Marketable	179,734	323	180,057	184,490
Total Public Securities		180,831	323	181,154	185,589
Accrued Interest		1,483	-	1,483	-
Total Public Investments		182,314	323	182,637	185,589
Total Investments		$ 5,795,855	$ (3,226)	$ 5,792,629	$ 5,796,562

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

Bureau of Land Management. The BLM is authorized to invest in special non-marketable par value Treasury securities. These securities include Treasury bills, notes, bonds, and one-day certificates that may be purchased and sold as necessary to meet operating needs and legislated requirements. The BLM invests in these securities of the Treasury pursuant to authorizing legislation for two accounts: (1) the proceeds of certain land sales as authorized by the Southern Nevada Public Land Management Act enacted in October 1998; and (2) 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.

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

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

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

The Environmental Improvement and Restoration Fund (EIRF) is available for investment under the Interior and Related Agencies Appropriations Act of 1998. Congress has permanently appropriated 20 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 (OCS) bid amounts from the apparent high bidders for all OCS lease sales. Should any of the apparent high bids be later rejected, the 1/5 bid and actual interest earned are returned to the bidder. The investment earned on accepted bids reverts to Treasury when the bids are accepted.

National Park Service. The NPS administers an endowment on behalf of the Lincoln Farm Association. Endowment funds are invested in non-marketable Treasury securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Investment earnings from this endowment are used to provide for maintenance and upkeep of Abraham Lincoln’s birthplace.

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

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

The Treasury collects, invests, and maintains on behalf of the FWS, the Aquatic Resources Trust Fund (ARTF), which includes FWS’s Sport Fish Restoration Account. Although the FWS has advisory authority for ARTF investment decisions, the Treasury has legal responsibility for investing ARTF funds.

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

B. Investments in Public Securities

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

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

NOTE 5. ACCOUNTS AND INTEREST RECEIVABLE, NET

Due From the Public, Net. Accounts receivable due to Interior from the public may arise either from the sale of products and services or from the imposition of regulatory fines and penalties. Products and services sold by Interior are diverse and include mineral leases sold by MMS, from which royalties are then collected, the sale of water and hydroelectric power by BOR, 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 Receivable from the Public consist of the following:

(dollars in thousands)	FY 2004	FY 2003
Accounts Receivable from the Public		
Current	$ 109,110	$ 118,470
1 - 180 Days Past Due	30,403	103,609
181 - 365 Days Past Due	49,476	75,063
Over 1 Year Past Due	301,665	260,291
Total Billed Accounts Receivable - Public	490,654	557,433
Unbilled Accounts Receivable	1,172,570	1,016,261
Total Accounts Receivable - Public	1,663,224	1,573,694
Allowance for Doubtful Accounts - Public	(315,583)	(346,710)
Total Accounts Receivable - Public Net of Allowance	$ 1,347,641	$ 1,226,984

Change in Allowance for Doubtful Accounts - Public		
Allowance for Doubtful Accounts, beginning	$ 346,710	$ 350,582
Additions	9,274	19,555
Deletions	(40,401)	(23,427)
Allowance for Doubtful Accounts - Public	$ 315,583	$ 346,710

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 Receivable from Federal entities consist of the following:

(dollars in thousands)		FY 2004		FY 2003
Accounts Receivable from Federal Agencies				
Current	$	40,963	$	66,035
1 - 180 Days Past Due		519		5,728
181 - 365 Days Past Due		399		197
Over 1 Year Past Due		307		783
Total Billed Accounts Receivable - Federal		42,188		72,743
Unbilled Accounts Receivable		305,846		316,003
Total Accounts Receivable - Federal		348,034		388,746
Allowance for Doubtful Accounts - Federal		-		(1,577)
Total Accounts Receivable - Federal, Net of Allowance	$	348,034	$	387,169

Change in Allowance for Doubtful Accounts - Federal				
Allowance for Doubtful Accounts, beginning	$	1,577	$	5,170
Additions		-		1,577
Deletions		(1,577)		(5,170)
Allowance for Doubtful Accounts - Federal	$	-	$	1,577

Recovery of Reimbursable Capital Costs. The BOR enters into long-term repayment contracts and water service contracts with non-Federal (public) water users that allow the use of irrigation and municipal and industrial (M&I) water facilities in exchange for annual payments to repay a portion of the Federal investment allocated to the construction of reimbursable irrigation and M&I facilities. Also, power-marketing agencies enter into agreements with power users to recover capital investment costs allocated to power, on BOR's behalf. Costs associated with multipurpose plants are allocated to the various purposes (mainly power, irrigation, M&I water, fish and wildlife enhancement, recreation, and flood control) 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 Consolidated 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, 2004 and 2003, amounts not yet earned under unmatured repayment contracts were $2.7 billion and $2.6 billion respectively.

Transfers to Western Area Power Administration. As discussed in Note 1.L., funds are transferred from the Reclamation Fund to the Western Area Power Administration (Western) to fund power project operation and maintenance and capital investment activities. As Western sells power to customers, it transfers funds back into the Reclamation Fund. Interior reports these transactions as transfers in and out without reimbursement on the Consolidated Statement of Changes in Net Position.

The net (unrecovered) transfers betweeen the Reclamation Fund and Western as of September 30, 2004 and 2003 are approximately $2.3 to $3.1 billion and $2.1 to $3.0 billion, respectively.

NOTE 6. 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. BOR's loan programs are authorized under the Small Reclamation Projects Act of 1956, the Distribution System Loans Act, the Rural Policy Development Policy Act of 1980, and the Rehabilitation and Betterment Act.

Direct loans and loan guarantees made after FY 1991 are accounted for in accordance with the requirements of the Credit Reform Act of 1990 and are referred to as credit reform loans. Under credit reform, loans are comprised of two components. The first component is borrowed from Treasury with repayment provisions. The second component is for the subsidized portion of the loan and is funded by congressional appropriation. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. While this component is not subject to repayment, the loan program receives appropriations to fund any increases in subsidy due to interest rate fluctuations and changes in default rate estimates. In FY 2004, there were no changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

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

BIA and BOR 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 the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new 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 re-estimates.

A. Direct Loan and Loan Guarantee Program Names	FY 2004	FY 2003
Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 22,826	$ 25,334
Bureau of Indian Affairs - Direct Loans (Credit Reform)	9,920	11,291
Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	558	658
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	254	760
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	56,753	59,846
Bureau of Reclamation - Direct Loans (Credit Reform)	110,147	106,775
Departmental Offices - Virgin Island (Pre-Credit Reform)	7,824	9,834
Departmental Offices - American Samoa Government (Credit Reform)	15,274	14,841
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	3,958	4,317
Total Loans and Interest Receivable, Net	$ 227,514	$ 233,656

Direct Loans (dollars in thousands)

B. Direct Loans Obligated Prior to FY 1992:

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

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
	Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 21,529	$ 7,281	$ (5,984)	$ -	$ 22,826
	Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	63,929	79	(7,255)	-	56,753
	Departmental Offices - Virgin Island (Pre-Credit Reform)	7,640	184	-	-	7,824
	National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	3,958	-	-	-	3,958
FY 2004	Total	$ 97,056	$ 7,544	$ (13,239)	$ -	$ 91,361
	Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	$ 27,153	$ 8,685	$ (10,504)	$ -	$ 25,334
	Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	67,131	933	(8,218)	-	59,846
	Departmental Offices - Virgin Island (Pre-Credit Reform)	9,605	229	-	-	9,834
	National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	4,317	-	-	-	4,317
FY 2003	Total	$ 108,206	$ 9,847	$ (18,722)	$ -	$ 99,331

C. Direct Loans Obligated After FY 1991:

	Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ 9,528	$ 685	$ -	$ (293)	$ 9,920
	Bureau of Reclamation - Direct Loans (Credit Reform)	119,624	-	-	(9,477)	110,147
	Departmental Offices - American Samoa Government (Credit Reform)	17,142	695	-	(2,563)	15,274
FY 2004	Total	$ 146,294	$ 1,380	$ -	$ (12,333)	$ 135,341
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ 20,781	$ 5,638	$ -	$ (15,128)	$ 11,291
	Bureau of Reclamation - Direct Loans (Credit Reform)	121,134	-	-	(14,359)	106,775
	Departmental Offices - American Samoa Government (Credit Reform)	17,324	415	-	(2,898)	14,841
FY 2003	Total	$ 159,239	$ 6,053	$ -	$ (32,385)	$ 132,907

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

Direct Loan Programs	**FY 2004**	**FY 2003**
Bureau of Reclamation - Direct Loans (Credit Reform)	$ 4,111	$ 800
Departmental Offices - American Samoa Government (Credit Reform)	-	3,100
Total	$ 4,111	$ 3,900

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)	$ 2	$ -	$ -	$ -	$ 2
FY 2004	Total	$ 2	$ -	$ -	$ -	$ 2

	Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
	Bureau of Reclamation - Direct Loans (Credit Reform)	$ 438	$ -	$ -	$ -	$ 438
	Departmental Offices - American Samoa Government (Credit Reform)	(6)	481	-	-	475
FY 2003	Total	$ 432	$ 481	$ -	$ -	$ 913

Modifications and Reestimates

	Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ -	$ -	$ 267	$ 267
	Bureau of Reclamation - Direct Loans (Credit Reform)	-	-	2	2
	Departmental Offices - American Samoa Government (Credit Reform)	-	(1,297)	962	(335)
FY 2004	Total	$ -	$ (1,297)	$ 1,231	$ (66)
	Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ -	$ -	$ 1,608	$ 1,608
	Bureau of Reclamation - Direct Loans (Credit Reform)	-	-	(13,868)	(13,868)
FY 2003	Total	$ -	$ -	$ (12,260)	$ (12,260)

Total Direct Loan Subsidy Expense:

Direct Loan Programs	**FY 2004**	**FY 2003**
Bureau of Indian Affairs - Direct Loans (Credit Reform)	$ 267	$ 1,608
Bureau of Reclamation - Direct Loans (Credit Reform)	2	(13,430)
Departmental Offices - American Samoa Government (Credit Reform)	(335)	475
Total	$ (66)	$ (11,347)

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)	-0.2%	13.8%	0.0%	0.0%	13.6%
FY 2004	Total	-0.2%	13.8%	0.0%	0.0%	13.6%

	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)	-0.2%	15.8%	0.0%	0.0%	15.6%
FY 2003	Total	-0.2%	15.8%	0.0%	0.0%	15.6%

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

	FY 2004	FY 2003
Beginning balance of the subsidy cost allowance	$ 32,385	$ 48,452
Add: Subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	2	432
(b) Default costs (net of recoveries)	-	481
Total of the above subsidy expense components	2	913
Adjustments:		
(a) Loans written off	(15,410)	(25)
(b) Subsidy allowance amortization	(4,406)	(4,695)
(c) Other	(170)	-
Ending balance of the subsidy cost allowance before reestimates	12,401	44,645
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(1,297)	-
(b) Technical/default reestimate	1,229	(12,260)
Total of the above reestimate components	(68)	(12,260)
Ending balance of the subsidy cost allowance	$ 12,333	$ 32,385

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

Defaulted Guaranteed Loans (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
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ 11,087	$ 7,503	$ -	$ (18,032)	$ 558
FY 2004	Total	$ 11,087	$ 7,503	$ -	$ (18,032)	$ 558
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ 16,963	$ 11,725	$ -	$ (28,030)	$ 658
FY 2003	Total	$ 16,963	$ 11,725	$ -	$ (28,030)	$ 658

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

	Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 2,148	$ 779	$ -	$ (2,673)	$ 254
FY 2004	Total	$ 2,148	$ 779	$ -	$ (2,673)	$ 254
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 6,148	$ 3,027	$ -	$ (8,416)	$ 760
FY 2003	Total	$ 6,148	$ 3,027	$ -	$ (8,416)	$ 760

Loan Guarantees (dollars in thousands)

J. Guaranteed Loans Outstanding as of September 30, 2004:

Guaranteed Loans Outstanding

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Pre-1992	$ 9,181	$ 8,226
FY 1992	1,917	1,712
FY 1993	3,412	3,004
FY 1994	16,488	14,810
FY 1995	4,147	3,468
FY 1996	10,790	9,546
FY 1997	9,835	8,696
FY 1998	8,334	7,183
FY 1999	34,840	31,058
FY 2000	49,933	44,730
FY 2001	34,502	25,615
FY 2002	47,750	42,280
FY 2003	48,446	43,384
FY 2004	55,855	49,850
Total	$ 335,430	$ 293,562

New Guaranteed Loans Disbursed (Current reporting year):

	Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
	Amount Paid in FY 2004 for Prior Years	$ 32,315	$ 29,083
	Amount Paid in FY 2004 for 2004 Guarantees	55,855	49,850
FY 2004	Total	$ 88,170	$ 78,933
	Amount Paid in FY 2003 for Prior Years	$ 27,951	$ 25,156
	Amount Paid in FY 2003 for 2003 Guarantees	28,249	25,255
FY 2003	Total	$ 56,200	$ 50,411

K. Liability for Loan Guarantees:

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

	Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
FY 2004	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ -	$ (60,081)	$ (60,081)
	Total	$ -	$ (60,081)	$ (60,081)
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	$ -	$ (52,185)	$ (52,185)
FY 2003	Total	$ -	$ (52,185)	$ (52,185)

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

Subsidy Expense for New Loan Guarantees:

	Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
FY 2004	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 3,976	$ 3,220	$ (1,592)	$ -	$ 5,604
	Total	$ 3,976	$ 3,220	$ (1,592)	$ -	$ 5,604
FY 2003	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 1,841	$ 2,021	$ (821)	$ -	$ 3,041
	Total	$ 1,841	$ 2,021	$ (821)	$ -	$ 3,041

Modifications and Reestimates:

	Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ -	$ -	$ 451	$ 451
FY 2004	Total	$ -	$ -	$ 451	$ 451
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ -	$ -	$ 377	$ 377
FY 2003	Total	$ -	$ -	$ 377	$ 377

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	FY 2004	FY 2003
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	$ 6,055	$ 3,418
Total	$ 6,055	$ 3,418

M. Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

	Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	4.7%	3.3%	-1.8%	0.0%	6.1%
FY 2004	Total	4.7%	3.3%	-1.8%	0.0%	6.1%
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	4.6%	4.1%	-1.8%	0.0%	6.9%
FY 2003	Total	4.6%	4.1%	-1.8%	0.0%	6.9%

N. Schedule for Reconciling Loan Guarantee Liability Balances

	FY 2004	**FY 2003**
Beginning balance of the loan guarantee liability	$ 52,185	$ 49,097
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	3,976	1,841
(b) Default costs (net of recoveries)	3,220	2,021
(c) Fees and other collections	(1,592)	(821)
Total of the above subsidy expense components	5,604	3,041
Adjustments:		
(a) Fees received	1,422	972
(b) Interest supplements paid	(1,564)	(1,788)
(c) Claim payments to lenders	(1,281)	(706)
(d) Interest accumulation on the liability balance	3,264	1,192
Ending balance of the loan guarantee liability before reestimates	59,630	51,808
Add or subtract subsidy reestimates by component:		
(a) Technical/default reestimate	451	377
Total of the above reestimate components	451	377
Ending balance of the loan guarantee liability	$ 60,081	$ 52,185

O. Administrative Expense:

	Direct Loan Programs			Loan Guarantee Programs		
	Bureau of Reclamation - Direct Loans (Credit Reform)	$	113	Bureau of Indian Affairs - Guaranteed Loan Programs	$	4,405
	Departmental Offices - American Samoa Government (Credit Reform)		836			
FY 2004	Total	$	949		$	4,405
	Bureau of Reclamation - Direct Loans (Credit Reform)	$	119	Bureau of Indian Affairs - Guaranteed Loan Programs	$	303
	Departmental Offices - American Samoa Government (Credit Reform)		783			
FY 2003	Total	$	902		$	303

Bureau of Indian Affairs. The BIA provides guaranteed loans to Indian Tribes and organizations, Indian individuals, and Alaska Natives for economic development purposes. The BIA loan program includes the Indian Direct Loan Program (which ceased providing loans in 1995), the Indian Loan Guarantee Program under the Credit Reform Act, and a Liquidating Fund for loans made prior to 1992.

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

Bureau of Reclamation. The BOR 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, and the Rehabilitation and Betterment Act. The loan programs are classified into two categories, credit reform loans and other loans made prior to the Credit Reform Act.

Other loans consist primarily of drought relief and repayment loans. The other loans receivable balances represent amounts due to Reclamation, net of an allowance for estimated uncollectible loan balances. The allowance amount is determined by reviewing a loans receivable aging report to identify loan balances that are considered uncollectible based on various factors, including age, past experience, present market 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 2003 also includes modifications and reestimates. In FY 2003, a technical reestimate of FY 1992-2002 cohorts resulted in a net downward reestimate of the subsidy allowance. The technical reestimate adjusted for differences between the original projections of cash flows that were expected based on actual experience.

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

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

In 2001, a loan was extended to the American Samoa Government. The total has been approved for $18.6 million and made available to the ASG bearing interest at a rate equal to the Treasury cost of borrowing for obligations of similar duration. The proceeds of the loan will be used by the ASG for debt reduction and fiscal reform. As payments become due, they shall be secured and accomplished with funds from the Escrow Account. The Escrow Account was established under the terms and conditions of the Tobacco Master Settlement Agreement and a judgment granted by the High Court of American Samoa on January 5, 1999. The parties entered into the Agreement on November 23, 1998.

National Park Service. The NPS has a single non-interest bearing loan with the Wolf Trap Foundation for the Performing Arts with an original loan principal totaling $8.5 million. The loan principal is to be repaid to the NPS within 25 years from June 1, 1991. The loan principal is repaid in equal annual installments, except for the first three annual payments of $215,000 per year. Repayment of the loan principal may include a credit of up to $60,000 annually, for public service tickets given to entities exempt from taxation pursuant to section 501(c) (3) of the Internal Revenue Code of 1986. In FY 2004 and 2003, 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.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property as of September 30, 2004 and 2003 consists of the following:

(dollars in thousands)	FY 2004	FY 2003
Inventory		
Published Maps Held for Current/Future Sale	$ 11,322	$ 11,915
Gas and Storage Rights, Held for Current/Future Sale	1,055	1,070
Airplane Parts Held for Use	73	477
Aviation Fuel Held for Use	494	46
Operating Materials		
Working Capital Fund: Inventory, Held for Use	444	350
Stockpile Materials		
Recoverable Below-Ground Crude Helium, Held for Sale	319,821	334,376
Total Inventory and Related Property	333,209	348,234
Allowance for Inventory and Related Property	(8,890)	(9,520)
Net Inventory and Related Property	$ 324,319	$ 338,714

NOTE 8. 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.

Construction in Progress is used for the accumulation of 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 complete. Construction in Progress includes investigations and development which represent funds appropriated by the Congress that have been expended for such activities as general engineering studies and surveys that are directly related to project construction. Investigations and development as of September 30, 2004 and 2003 were $75 million and $70 million, respectively.

Construction in Progress also includes projects in abeyance. In past years, the Interior, through the BOR, began the planning of and construction on various features included in 10 projects located in California, Colorado, Arizona, Washington, North Dakota, and South Dakota, for which activities have been 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 weather and time and to keep the asset ready for completion.

Property, Plant, and Equipment categories, with corresponding accumulated depreciation, as of September 30, 2004 and 2003, are shown in the following tables.

(dollars in thousands)	Gross	Accumulated Depreciation	**FY 2004** Net
Land and Land Improvements	$ 2,035,912	$ 58,184	$ 1,977,728
Buildings	2,685,764	1,107,695	1,578,069
Structures and Facilities	19,595,462	8,729,097	10,866,365
Leasehold Improvements	34,104	3,449	30,655
Construction in Progress			
Construction in Progress - General	1,332,970	-	1,332,970
Construction in Progress in Abeyance	557,054	-	557,054
Equipment, Vehicles, and Aircraft	1,780,236	1,095,542	684,694
Assets Under Capital Lease	28,185	2,185	26,000
Internal Use Software:			
In Use	121,564	50,924	70,640
In Development	30,036	-	30,036
Total Property, Plant, and Equipment	$ 28,201,287	$ 11,047,076	$ 17,154,211

(dollars in thousands)	Gross	Accumulated Depreciation	**FY 2003** Net
Land and Land Improvements	$ 2,046,277	$ 53,522	$ 1,992,755
Buildings	2,529,076	1,051,546	1,477,530
Structures and Facilities	19,284,074	8,579,158	10,704,916
Leasehold Improvements	29,733	48	29,685
Construction in Progress			
Construction in Progress - General	1,344,981	-	1,344,981
Construction in Progress in Abeyance	556,879	-	556,879
Equipment, Vehicles, and Aircraft	1,726,156	1,021,360	704,796
Assets Under Capital Lease	31,199	755	30,444
Internal Use Software:			
In Use	90,275	38,317	51,958
In Development	61,971	-	61,971
Total Property, Plant, and Equipment	$ 27,700,621	$ 10,744,706	$ 16,955,915

NOTE 9. OTHER ASSETS, NET

Other Assets were $170.4 million and $201.5 million as of September 30, 2004 and 2003, respectively. Other Assets primarily consists of BOR costs for power rights. Net power rights were $140.6 million and $151.4 million as of September 30, 2004 and 2003, respectively. Power rights were subject to annual amortization amounts of $10.8 million as of September 30, 2004 and 2003.

Included in this category for FY 2003 is Fractional Land Interest Pending Disposition, which contains the cost of fractional interests in Indian land allotments acquired under the Indian Land Consolidation Act of 2000. The Indian Land Consolidation Act of 2000 provides for BIA to purchase fractional shares of Trust property to be held in trust for eventual transfer to tribal entities after revenues produced provide funds to repay Treasury for the purchase. Disposition includes sale at purchase price to tribal members holding interest in tract, transfer to Tribe upon recovery of purchase price from income produced from the interest, or transfer to the Tribe based on a Secretarial finding. Fractional Land Interest Pending Disposition was $23 million on September 30, 2003. In FY 2004, BIA created a reserve for the entire amount of the asset as the recoverability was in question.

NOTE 10. ASSETS ANALYSIS

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

Entity restricted assets consist of the Land and Water Conservation Fund, the Historic Preservation Fund, the portion of the Aquatic Resources Trust Fund not designated for other Federal agencies, the Environmental Improvement and Restoration Fund, the Reclamation Fund, and other unavailable receipt funds. See Note 26, Dedicated Collections, for additional information on some of these funds.

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

The Interior's assets as of September 30, 2004 and 2003, are summarized into the following categories:

(dollars in thousands)	Entity Unrestricted	Entity Restricted	Non Entity Restricted	**FY 2004**
Intragovernmental Assets:				
Fund Balance with Treasury	$ 10,170,437	$ 20,251,642	$ 444,065	$ 30,866,144
Investments, Net	3,937,294	1,642,228	607,807	6,187,329
Accounts and Interest Receivable, Net	120,358	9,827	217,849	348,034
Other Assets				
Advances and Prepayments	1,211	-	-	1,211
Total Intragovernmental Assets	14,229,300	21,903,697	1,269,721	37,402,718
Cash	1,081	-	-	1,081
Investments, Net	191,844	-	-	191,844
Accounts and Interest Receivable, Net	157,582	3,780	1,186,279	1,347,641
Loans and Interest Receivable, Net	170,761	35,804	20,949	227,514
Inventory and Related Property, Net	324,319	-	-	324,319
General Property, Plant, and Equipment, Net	17,154,211	-	-	17,154,211
Other				
Advances and Prepayments	126,579	-	-	126,579
Other Assets, Net	170,371	-	-	170,371
Stewardship Assets				
TOTAL ASSETS	$ 32,526,048	$ 21,943,281	$ 2,476,949	$ 56,946,278

(dollars in thousands)	Entity Unrestricted	Entity Restricted	Non Entity Restricted	**FY 2003**
Intragovernmental Assets:				
Fund Balance with Treasury	$ 9,112,736	$ 19,315,217	$ 270,255	$ 28,698,208
Investments, Net	3,436,549	1,600,043	573,400	5,609,992
Accounts and Interest Receivable, Net	190,369	1,700	195,100	387,169
Other				
Advances and Prepayments	3,624	-	-	3,624
Total Intragovernmental Assets	12,743,278	20,916,960	1,038,755	34,698,993
Cash	1,094	-	-	1,094
Investments, Net	182,637	-	-	182,637
Accounts and Interest Receivable, Net	183,101	2,483	1,041,400	1,226,984
Loans and Interest Receivable, Net	173,810	37,648	22,198	233,656
Inventory and Related Property, Net	338,714	-	-	338,714
General Property, Plant, and Equipment, Net	16,955,915	-	-	16,955,915
Other				
Advances and Prepayments	126,866	-	-	126,866
Other Assets, Net	201,544	-	-	201,544
Stewardship Assets				
TOTAL ASSETS	$ 30,906,959	$ 20,957,091	$ 2,102,353	$ 53,966,403

NOTE 11. 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, 2004 and 2003, is summarized as follows:

(dollars in thousands)	FY 2003 Beginning Balance	Borrowing / (Repayments)	**FY 2003** Ending Balance	Borrowing / (Repayments)	**FY 2004** Ending Balance
Helium Fund	$ 1,309,204	$ (110,000)	$ 1,199,204	$ (60,000)	$ 1,139,204
Credit Reform Borrowings	134,332	21,311	155,643	2,391	158,034
Federal Financing Bank	11,426	(1,821)	9,605	(1,964)	7,641
Total Loans Due to Treasury	$ 1,454,962	$ (90,510)	$ 1,364,452	$ (59,573)	$ 1,304,879

A. Helium Fund - Bureau of Land Management

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

Net Worth Debt 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. Additional borrowing from Treasury represents funds borrowed for the acquisition and construction of helium plants and facilities and other related purposes including the purchase of helium. These amounts were due 25 years from the date the funds were borrowed. However, as funding has not been received to repay the amounts due, the amounts could not be repaid.

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

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 as of September 30, 2004 and 2003, is summarized as follows:

(dollars in thousands)		FY 2004		FY 2003
Principal:				
Net Worth Debt	$	-	$	-
Additional Borrowing from Treasury		251,651		251,650
Total Principal		251,651		251,650
Interest:				
Beginning Balance		947,553		1,029,562
Repayments		(60,000)		(82,009)
Ending Balance		887,553		947,553
Loan Due to Treasury - Helium Fund	$	1,139,204	$	1,199,203

B. Intragovernmental Debt to Treasury under Credit Reform

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

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

Interest is accrued daily on the outstanding principal balance of direct and assigned loans based on a 365-day year for credit reform loans. The interest rate charged on each loan is the Indian Financing Act Rate that was effective at the time the loan was made and ranges from 4.87 percent to 11.12 percent. These loans have various maturity dates from 2004 to 2028.

Bureau of Reclamation. As discussed in Note 6, Reclamation makes loans that are subject to the provisions of Credit Reform. Under the Credit Reform Act, loans consist of two components - the part borrowed from the Treasury and the appropriated part to cover the estimated subsidy. The maturity dates for these loans range from 2012 to 2047. The weighted average interest rate used to calculate interest owed to Treasury ranges from 6.01 percent to 6.88 percent.

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

C. Intragovernmental Debt to Treasury under Federal Financing Bank

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

NOTE 12. ADVANCES AND DEFERRED REVENUE

The majority of the advances and deferred revenue received from the public represents upfront 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.

The majority of the advances and deferred revenue received from Federal agencies represents cash advances to the Interior Franchise Fund (IFF) and the National Business Center (NBC). The IFF and NBC provide shared administrative services and commonly required products to Federal agencies.

Advances and Deferred Revenue as of September 30, 2004 and 2003, are shown below:

(dollars in thousands)		**FY 2004**		**FY 2003**
Received from Federal Agencies	$	1,754,256	$	1,236,739
Received from the Public		125,024		137,497
Total Advances and Deferred Revenue	$	1,879,280	$	1,374,236

NOTE 13. FEDERAL EMPLOYEE COMPENSATION ACT LIABILITY DUE TO THE PUBLIC

The Federal Employees Compensation Act (FECA) authorizes income and medical cost protection to covered federal civilian employees that are injured on the job or that have incurred a work-related occupational disease, and beneficiaries of deceased employees whose death is attributable to a job-related injury or occupational disease. FECA benefit claims for the Interior employees are initially paid by the DOL and subsequently reimbursed by Interior. DOL is responsible for calculating the FECA liability of future compensation benefits for all federal agencies. This liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. The resulting liability is then distributed by DOL to each benefiting agency.

DOL calculates the estimated future benefit payments based on various assumptions. The interest rates used to discount the estimated future benefit payments to present values are 4.88 percent in year one and 5.24 percent in all subsequent years. The wage inflation factors and medical inflation factors used in the calculation are shown in the following table.

	FY 2004		**FY 2003**	
Fiscal Year	Cost of Living Adjustment	Consumer Price Index Medical Adjustment	Cost of Living Adjustment	Consumer Price Index Medical Adjustment
2005	2.03%	4.14%	2.00%	3.54%
2006	2.73%	3.96%	1.83%	3.64%
2007	2.40%	3.98%	1.97%	3.80%
2008	2.40%	3.99%	2.17%	3.92%
2009	2.40%	4.02%	2.17%	3.92%
Thereafter	2.40%	4.02%	2.17%	3.92%

As of September 30, 2004 and 2003, Interior recorded an estimated, unfunded actuarial liability for the expected future cost for death, disability, and medical claims under FECA of approximately $665 million and $712 million, respectively.

NOTE 14. ENVIRONMENTAL CLEANUP COSTS AND CONTINGENT LIABILITIES

Interior has responsibility to remediate 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 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 and the likelihood of unfavorable outcome is more than remote.

The accrued and potential Environmental Cleanup Costs and Contingent Liabilities as of September 30, 2004 and 2003, are summarized in the categories below:

(dollars in thousands)	FY 2004	FY 2003
Environmental Cleanup Cost	$ 101,808	$ 116,086
Contingent Liabilities	781,453	776,546
Total Environmental and Contingent Liabilities - Accrued	$ 883,261	$ 892,632

	Additional Potential Liabilities			
	FY 2004		FY 2003	
(dollars in thousands)	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
Environmental Cleanup Cost	$ 71,286	$ 378,641	$ 44,338	$ 396,529
Contingent Liabilities	393,138	2,452,010	443,199	1,394,297
Total Environmental and Contingent Liabilities - Potential	$ 464,424	$ 2,830,651	$ 487,537	$ 1,790,826

Environmental Cleanup Costs. Interior is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operations and closure of facilities at which environmental contamination may be present. The major Federal laws covering environmental response, cleanup and monitoring are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), Oil Pollution Act (OPA), Clean Water Act (CWA), Clean Air Act (CAA), Safe Drinking Water Act (SDWA), and Asbestos Hazard Emergency Response Act (AHERA). Responsible parties, which may include Federal agencies under certain circumstances, are required to remove releases of hazardous substances at or 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.

Interior has recognized an estimated liability of $102 million and $116 million as of September 30, 2004 and 2003, respectively. This estimate includes the expected future cleanup costs, and for those sites where future liability is unknown, the cost of studies necessary to evaluate response requirements.

Interior's contingent liability for potential environmental remediation of sites that are considered reasonably estimable but do not meet the requirement for accrual, ranges from $71 million to $379 million and $44 million to $396 million as of September 30, 2004 and 2003, respectively. This estimate includes the expected future response costs, and for those sites where future cleanup costs are unknown, the cost of studies necessary to evaluate cleanup requirements.

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

Indian Trust Funds. The Secretary of the Interior is entrusted with the management of the monies and lands held in trust by the Federal government for Indian Tribes and individuals. There have been long-standing, complicated problems with Indian trust fund accounting and management. Currently, there is significant litigation pending related to trust management for both Indian tribes and individuals.

Twenty-six Tribal trust cases currently are pending in various Federal district courts and the U.S. Court of Federal Claims. These cases, which were brought by 20 different Tribes, involve claims for trust fund and asset mismanagement, accounting, and other declaratory relief. A substantial number of the cases are stayed pending settlement negotiations. At least 3 cases are in advanced settlement negotiations, although to date no settlement agreements have been finalized.

In addition, a significant class action lawsuit has been brought on behalf of individual Indian beneficiaries of the Individual Indian Money (IIM) trust accounts. The lawsuit alleges that Interior and Treasury have breached their trust obligations with respect to the management of funds in the IIM accounts. The plaintiffs claim that they are seeking only an "accounting" of the IIM trust funds and no damages.

Notwithstanding the damages or other claims described above, no probable estimate or range of loss can be made at this time regarding any financial liability that may result from judgment or settlement of the tribal trust cases or IIM trust fund litigation.

Other Contingent Liabilities. Numerous lawsuits and claims that have been filed against Interior and its bureaus are awaiting adjudication, and other potential claims may be asserted. For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including certain judgments that have been issued against Interior and which have been appealed, $781 million and $777 million has been accrued in the financial statements as of September 30, 2004 and 2003, respectively. These amounts exclude contingent liabilities reported on prior year financial statements regarding cases won on appeal. The majority of cash settlements are expected to be paid out of the Judgment Fund maintained by Treasury rather than operating resources of Interior. In suits brought through the Contract Disputes Act of 1978, the Interior is required to reimburse the Judgment Fund from future agency appropriations.

The largest of the "probable" cases have estimated liability amounts exceeding $50 million. The plaintiffs in one of these cases claim damages exceeding $1 billion for alleged breach of contract under Federal oil and gas leases. In another case, landowner water-users have asserted that the Federal defendants are required to construct facilities to drain lands that they farm. And in another large "probable" case, the court has awarded the plaintiff damages for a physical taking of their coal interests, and the U.S. may owe a significant amount of compound interest, along with attorney fees and costs.

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. Interior's potential liability for amounts that do not meet the requirements for accrual but are considered reasonably estimable, and where the likelihood of an unfavorable outcome is more than remote, may range from $393 million to $2.5 billion and $443 million to $1.4 billion for FY 2004 and FY 2003, respectively. About $732 million of the $2.5 billion FY

2004 potential liability relates to potential liability beyond accrued amounts in cases with probable likelihood of an unfavorable outcome.

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, including: (1) alleged failure to protect a Tribe's treaty rights; (2) a Tribe's allegation of title to lands as it seeks an injunction to prevent transfer of the lands; (3) claims of differing site conditions and defective specifications in a contract involving directional drilling; (4) claims of a municipal water conservation district regarding repayment obligation for costs of the Central Arizona Project and issues related to project operation; (5) a State's claim for contribution in a suit Tribes brought against the State for wrongfully depriving them of use and possession of Tribal land long ago sold to the State, allegedly without Federal approval; and (6) assertion by farmers of lost crops and reduced yields resulting from a subcontractors' application of allegedly wind-blown herbicide. 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.

Liabilities Related to Capital Leases. Interior has recognized a non-Federal capital lease liability in the amount of $27 million, which is included in Other Liabilities rather than Contingent Liabilities. Of this amount, $26.9 million relates to a NPS 20-year capital lease for space for the Western Archeological and Conservation Center in Tucson, Arizona. NPS assumes an imputed interest rate of 5.07%. Interior's future minimum lease payments and net capital lease liability are shown in the table below.

	FY 2004	
Fiscal Year	Federal	Non-Federal
2005	$ -	$ 2,027
2006	-	2,023
2007	-	2,019
2008	-	2,102
2009	-	2,172
After 5 years	-	31,798
Total Future Lease Payments	-	42,141
Less: Imputed Interest	-	(15,138)
Less: Executory Costs	-	-
FY 2004 Net Capital Lease Liability	$ -	$ 27,003
FY 2003 Net Capital Lease Liability	$ -	$ 27,351

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.

Intragovernmental. Deferred Credits are amounts recorded in deposit and suspense accounts which include permit and civil penalty escrows, bonds, misapplied deposits pending correction, and excess fee payments due to be refunded or remitted to Treasury.

Custodial Liabilities represent amounts owed to royalty recipients, other Federal agencies, and offset custodial assets.

Aquatic Resource Amounts Due to Others are amounts due to the U.S. Coast Guard for boating safety programs and to the U.S. Army Corps of Engineers from coastal wetlands initiatives. The funds are also paid to States to support projects that restore sport fish resources. The amounts as of September 30, 2004 and 2003 are $421 million and $390 million, respectively.
Other Liabilities to Federal Agencies include receipts transferable to Treasury ($26 million and $30.6 million as of September 30, 2004 and 2003, respectively) and other miscellaneous amounts.

Public. Interior anticipates that the liabilities listed below will be funded from future budgetary resources when required. Interior receives budgetary resources for the Federal Employees Compensation Act liability, the Environmental Cleanup Costs liability and Contingent liabilities when they are needed for disbursements. The unfunded Accrued Payroll and Benefits due to the public represents annual leave. Budgetary resources are generally provided for annual leave when it is taken.

Deferred credits represent deposits received from customers, including monies paid to the BOR for construction of facilities, monies paid to Departmental Offices for payroll services, and monies paid to the BLM for the purchase of land. These deposits are classified as a liability until services are rendered or sales are consummated.

Advances and Deferred Revenue involves mostly power customers who benefit from current and future power deliveries.

Other Liabilities to the Public consist of the following:

(dollars in thousands)		**FY 2004**	**FY 2003**
BIA	Settled legal cases	$ 27,851	$ 4,481
BLM	Payable due to the Secure Rural Schools Act	102,387	106,492
BOR	Pre-credit reform loans provided to the Public	115	115
FWS	Grant accrual	-	22
MMS	Payments due to States	412,881	234,416
MMS	Custodial payables to Indian Tribes and Agencies	24,681	35,992
NPS	Miscellaneous receipts fund	-	18
USGS	Contractor holdbacks	1,037	1,181
Capital leases		27,003	27,351
Storm Damage		48,059	-
Total Other Liabilities to the Public		$ 644,014	$ 410,068

The Interior's liabilities covered and not covered by budgetary resources as of September 30, 2004 and 2003, are as follows:

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
(dollars in thousands)	Current	Non-Current	Current	Non-Current	**FY 2004**
Intragovernmental Liabilities:					
Accounts Payable	$ 76,826	$ -	$ -	$ -	$ 76,826
Debt	51,065	1,245,989	1,501	6,324	1,304,879
Other					
Accrued Payroll and Benefits	32,953	-	50,562	87,577	171,092
Advances and Deferred Revenue	1,754,256	-	-	-	1,754,256
Deferred Credits	2	-	1,629	1,114	2,745
Custodial Liability	-	-	671,478	-	671,478
Aquatic Resource Amounts Due to Others	-	-	-	420,896	420,896
Judgment Fund	-	-	-	178,878	178,878
Other Liabilities	-	-	77,642	80,247	157,889
Total Intragovernmental Liabilities	1,915,102	1,245,989	802,812	775,036	4,738,939
Public Liabilities:					
Accounts Payable	1,024,845	-	-	-	1,024,845
Loan Guarantee Liability	-	60,081	-	-	60,081
United States Park Police Pension Liability	-	-	-	604,640	604,640
Federal Employees Compensation Act Liability	-	-	-	664,855	664,855
Environmental Cleanup Costs	-	6,007	-	95,801	101,808
Other					
Accrued Payroll and Benefits	158,619	-	37,743	338,915	535,277
Advances and Deferred Revenue	125,024	-	-	-	125,024
Deferred Credits	143,252	-	384,236	163,297	690,785
Contingent Liabilities	-	-	762	780,691	781,453
Other Liabilities	-	-	563,266	80,748	644,014
Total Public Liabilities	1,451,740	66,088	986,007	2,728,947	5,232,782
Total Liabilities	$ 3,366,842	$ 1,312,077	$ 1,788,819	$ 3,503,983	$ 9,971,721

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
(dollars in thousands)	Current	Non-Current	Current	Non-Current	**FY 2003**
Intragovernmental Liabilities:					
Accounts Payable	$ 67,838	$ -	$ -	$ -	$ 67,838
Debt	102,195	1,252,423	3,059	6,775	1,364,452
Other					
Accrued Payroll and Benefits	51,601	-	48,470	85,366	185,437
Advances and Deferred Revenue	1,236,739	-	-	-	1,236,739
Deferred Credits	17,283	-	1,943	100	19,326
Custodial Liability	-	-	763,387	-	763,387
Aquatic Resource Amounts Due to Others	-	-	-	389,762	389,762
Judgment Fund	-	-	-	179,725	179,725
Other Liabilities	-	-	59,922	84,039	143,961
Total Intragovernmental Liabilities	1,475,656	1,252,423	876,781	745,767	4,350,627
Public Liabilities:					
Accounts Payable	965,509	-	-	-	965,509
Loan Guarantee Liability	-	52,185	-	-	52,185
Federal Employees Compensation Act Liability	-	-	-	712,250	712,250
Environmental Cleanup Costs	-	4,507	-	111,579	116,086
Other					
Accrued Payroll and Benefits	112,881	-	2,720	318,624	434,225
Advances and Deferred Revenue	137,497	-	-	-	137,497
Deferred Credits	48,556	-	296,391	153,598	498,545
Contingent Liabilities	-	-	693	775,853	776,546
Other Liabilities	643	-	376,951	32,474	410,068
Total Public Liabilities	1,265,086	56,692	676,755	2,104,378	4,102,911
Total Liabilities	$ 2,740,742	$ 1,309,115	$ 1,553,536	$ 2,850,145	$ 8,453,538

NOTE 16. OPERATING LEASES

Real Property. Most of Interior's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The terms of Interior's rental agreements with GSA will vary according to whether the underlying assets are owned by GSA (or another Federal agency) or rented by GSA from the private sector. For Federally owned property, Interior either does not execute an agreement with GSA or enters into cancelable agreements, some of which do not have a formal lease expiration date. Interior can vacate these properties after giving 120 to 180 days notice of the intent to vacate, however, Interior normally occupies these properties for an extended period of time with little variation from year to year.

Interior also leases personal property from GSA and other entities. The terms for GSA personal property leases frequently exceed one year, although a definite lease period is not always specified.

For real and personal property, future operating lease payments are calculated based on the terms of the lease or if the lease is silent, an annual inflationary factor of 1% to 3% for years 2005 through 2009. The inflationay factors are applied against the actual 2004 rental expense.

The aggregate of Interior's future payments due under operating leases are presented in the table below:

(dollars in thousands)

	Real Property		Personal Property		
Fiscal Year	Federal	Non-Federal	Federal	Non-Federal	Total
2005	$ 291,553	$ 35,536	$ 45,982	$ 4,423	$ 377,494
2006	280,181	32,597	47,003	4,187	363,968
2007	269,730	30,595	48,052	4,035	352,412
2008	262,417	27,508	49,125	4,074	343,124
2009	241,567	26,652	48,336	4,154	320,709
Thereafter	360,145	221,326	16,263	-	597,734
Total Future Lease Payments	$ 1,705,593	$ 374,214	$ 254,761	$ 20,873	$ 2,355,441

NOTE 17. NET COST BY RESPONSIBILITY SEGMENT

The tables on the following pages present Interior's earned revenues for sales of goods and services to Federal agencies and to the public, gross costs associated with sales of goods and services to Federal agencies, gross costs associated with providing goods and services to the public (with or without reimbursement), and net cost of operations by program and by responsibility segment.

Responsibility Segment Presentation. The Government Performance Results Act (GPRA) requires that Federal agencies formulate Strategic Plans, identify major strategic goals, and report performance and costs related to these goals. Under GPRA, Strategic Plans are to be revised and updated every 3 years. Accordingly, Interior updated the Strategic Plan in FY 2004 and replaced the five Interior GPRA Goals applicable in FYs 2001 through 2003 with four Interior GPRA Mission Goals. The Mission Goals, which are applicable beginning FY 2004, are: Resource Protection, Resource Use, Recreation, and Serving Communities. In addition, costs are reported for "Reimbursable Activity and Other." These Mission Goals are supported by 17 Department-level end outcome goals identified in the FY 2004 Strategic Plan.

OMB Bulletin No. 01-09 "Form and Content of Agency Financial Statements" 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 revenues and gross costs in FY 2004 by the Mission Goals in the FY 2004 Strategic Plan and the earned revenues and gross costs for FY 2003 by the GPRA Goals in the FY 2001 Strategic Plan. As a result, the FY 2004 Consolidated Statement of Net Cost is not comparable to the FY 2003 Consolidated Statement of Net Cost. The most significant change from FY 2003 to FY 2004 is the allocation of revenues and costs related to the FY 2003 "Providing Science for a Changing World" GPRA Goal among the FY 2004 Mission Goals.

Intragovernmental Costs. Cost of services provided to Federal agencies represent the costs incurred to generate the related intragovernmental revenue. Interior estimated intragovernmental costs as intragovernmental revenue plus an allocated portion of the retirement costs paid by OPM on behalf of Interior. Interior does not bill intragovernmental customers for costs paid by OPM.

Asset Impairment. The USGS owns a Landsat 7 Global Survey satellite to monitor changes in the earth's land surface and associated environment. In addition, this satellite was expected to contribute to the development of mapping products sold by USGS. On May 31, 2003, the Landsat 7 suffered a component failure that affected its ability to acquire and distribute data collected. Subsequent tests and a recovery attempt confirmed that only 75% of the satellite functionality can be expected in the future. Based on these results, an analysis of the diminished capacity of the asset and the reduction in the potential marketability of the product sales generated by the asset, Interior estimates that the component failure caused an economic impairment of $81.1 million during FY 2003. This impairment is reported as Costs not Associated with Programs on the FY 2003 Statement of Net Cost.

(dollars in thousands)		Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
Resource Protection					
Cost - Services Provided to the Public	$	-	364,777	16,228	20,190
Revenue Earned from the Public		-	402,509	(209)	-
Net Cost of Services to the Public		-	(37,732)	16,437	20,190
Cost - Services Provided to Federal Agencies		-	13,541	11,347	-
Revenue Earned from Federal Agencies		-	13,032	11,122	-
Net Cost of Services Provided to Federal Agencies		-	509	225	-
Net Program Costs		-	(37,223)	16,662	20,190
Resource Use					
Cost - Services Provided to the Public		-	317,047	1,202,553	15,446
Revenue Earned from the Public		-	195,271	629,147	78
Net Cost of Services to the Public		-	121,776	573,406	15,368
Cost - Services Provided to Federal Agencies		-	1,669	138,711	2,402
Revenue Earned from Federal Agencies		-	1,587	135,055	2,386
Net Cost of Services Provided to Federal Agencies		-	82	3,656	16
Net Program Costs		-	121,858	577,062	15,384
Recreation					
Cost - Services Provided to the Public		-	129,757	22,270	-
Revenue Earned from the Public		-	21,152	24,214	-
Net Cost of Services to the Public		-	108,605	(1,944)	-
Cost - Services Provided to Federal Agencies		-	2,023	270	-
Revenue Earned from Federal Agencies		-	1,941	265	-
Net Cost of Services Provided to Federal Agencies		-	82	5	-
Net Program Costs		-	108,687	(1,939)	-
Serving Communities					
Cost - Services Provided to the Public		2,979,822	962,460	-	725,215
Revenue Earned from the Public		118,384	92,917	-	15,622
Net Cost of Services to the Public		2,861,438	869,543	-	709,593
Cost - Services Provided to Federal Agencies		223,542	293,104	-	7,037
Revenue Earned from Federal Agencies		221,869	285,828	-	6,896
Net Cost of Services Provided to Federal Agencies		1,673	7,276	-	141
Net Program Costs		2,863,111	876,819	-	709,734
Reimbursable Activity and Other					
Cost - Services Provided to the Public		-	-	120,801	179,079
Revenue Earned from the Public		-	-	56,128	14,489
Net Cost of Services to the Public		-	-	64,673	164,590
Cost - Services Provided to Federal Agencies		-	-	373,082	966,898
Revenue Earned from Federal Agencies		-	-	373,082	954,056
Net Cost (Revenue) of Services Provided to Federal Agencies		-	-	-	12,842
Net Program Costs		-	-	64,673	177,432
Total					
Cost - Services Provided to the Public		2,979,822	1,774,041	1,361,852	939,930
Revenue Earned from the Public		118,384	711,849	709,280	30,189
Net Cost of Services to the Public		2,861,438	1,062,192	652,572	909,741
Cost - Services Provided to Federal Agencies		223,542	310,337	523,410	976,337
Revenue Earned from Federal Agencies		221,869	302,388	519,524	963,338
Net Cost (Revenue) of Services Provided to Federal Agencies		1,673	7,949	3,886	12,999
Net Program Costs	$	2,863,111	1,070,141	656,458	922,740

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intradepartment Activity	FY 2004
-	788,966	72,131	1,475,445	203,333	-	$ 2,941,070
-	54,661	-	45,715	8,458	-	511,134
-	734,305	72,131	1,429,730	194,875	-	2,429,936
-	7,228	-	83,305	63,602	(73,430)	105,593
-	6,956	-	81,226	61,222	(73,430)	100,128
-	272	-	2,079	2,380	-	5,465
-	734,577	72,131	1,431,809	197,255	-	2,435,401
1,624,640	-	105,883	30,445	88,897	-	3,384,911
115,669	-	105	414	641	-	941,325
1,508,971	-	105,778	30,031	88,256	-	2,443,586
-	-	1,154	110	6,024	(5,069)	145,001
-	-	1,119	107	5,746	(5,069)	140,931
-	-	35	3	278	-	4,070
1,508,971	-	105,813	30,034	88,534	-	2,447,656
-	1,523,946	-	462,964	-	-	2,138,937
-	184,919	-	8,021	-	-	238,306
-	1,339,027	-	454,943	-	-	1,900,631
-	13,825	-	14,489	-	(9,072)	21,535
-	13,305	-	14,208	-	(9,072)	20,647
-	520	-	281	-	-	888
-	1,339,547	-	455,224	-	-	1,901,519
31,314	505,747	137,373	132,976	923,127	-	6,398,034
9,632	2,760	4	674	167,610	-	407,603
21,682	502,987	137,369	132,302	755,517	-	5,990,431
-	4,635	22	3,161	210,872	(358,499)	383,874
-	4,477	22	3,072	202,602	(358,499)	366,267
-	158	-	89	8,270	-	17,607
21,682	503,145	137,369	132,391	763,787	-	6,008,038
129	38,354	42,696	-	-	-	381,059
448	38,252	-	-	-	-	109,317
(319)	102	42,696	-	-	-	271,742
1,365,015	40,222	-	-	-	(852,197)	1,893,020
1,383,164	40,222	-	-	-	(852,197)	1,898,327
(18,149)	-	-	-	-	-	(5,307)
(18,468)	102	42,696	-	-	-	266,435
1,656,083	2,857,013	358,083	2,101,830	1,215,357	-	15,244,011
125,749	280,592	109	54,824	176,709	-	2,207,685
1,530,334	2,576,421	357,974	2,047,006	1,038,648	-	13,036,326
1,365,015	65,910	1,176	101,065	280,498	(1,298,267)	2,549,023
1,383,164	64,960	1,141	98,613	269,570	(1,298,267)	2,526,300
(18,149)	950	35	2,452	10,928	-	22,723
1,512,185	2,577,371	358,009	2,049,458	1,049,576	-	$ 13,059,049

(dollars in thousands)	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
Protect the Environment and Preserve Our Nation's Natural & Cultural Resources				
Cost - Services Provided to the Public	$ 427,653	596,896	137,318	11,385
Revenue Earned from the Public	427	248,106	47,881	-
Net Cost of Services to the Public	427,226	348,790	89,437	11,385
Cost - Services Provided to Federal Agencies	2,575	12,688	19,768	-
Revenue Earned from Federal Agencies	2,544	12,276	19,566	-
Net Cost of Services Provided to Federal Agencies	31	412	202	-
Net Program Costs	427,257	349,202	89,639	11,385
Provide Recreation for America				
Cost - Services Provided to the Public	-	98,007	33,362	-
Revenue Earned from the Public	-	17,581	2,876	-
Net Cost of Services to the Public	-	80,426	30,486	-
Cost - Services Provided to Federal Agencies	-	1,735	148	-
Revenue Earned from Federal Agencies	-	1,667	144	-
Net Cost of Services Provided to Federal Agencies	-	68	4	-
Net Program Costs	-	80,494	30,490	-
Manage Natural Resources for a Healthy Environment and a Strong Economy				
Cost - Services Provided to the Public	-	1,258,306	1,207,907	26,058
Revenue Earned from the Public	-	202,498	542,036	-
Net Cost of Services to the Public	-	1,055,808	665,871	26,058
Cost - Services Provided to Federal Agencies	-	54,258	134,251	4,197
Revenue Earned from Federal Agencies	-	52,965	132,456	4,183
Net Cost of Services Provided to Federal Agencies	-	1,293	1,795	14
Net Program Costs	-	1,057,101	667,666	26,072
Provide Science for a Changing World				
Cost - Services Provided to the Public	-	89,675	-	-
Revenue Earned from the Public	-	481	-	-
Net Cost of Services to the Public	-	89,194	-	-
Cost - Services Provided to Federal Agencies	-	14,464	-	-
Revenue Earned from Federal Agencies	-	13,894	-	-
Net Cost of Services Provided to Federal Agencies	-	570	-	-
Net Program Costs	-	89,764	-	-
Meet Our Trust Responsibilities to Indian Tribes and Our Commitments to Island Communities				
Cost - Services Provided to the Public	1,904,078	-	-	516,041
Revenue Earned from the Public	105,947	-	-	11,745
Net Cost of Services to the Public	1,798,131	-	-	504,296
Cost - Services Provided to Federal Agencies	205,808	-	-	5,308
Revenue Earned from Federal Agencies	203,312	-	-	5,270
Net Cost of Services Provided to Federal Agencies	2,496	-	-	38
Net Program Costs	1,800,627	-	-	504,334
Reimbursable Activity and Other				
Cost - Services Provided to the Public	-	12	27,528	188,691
Revenue Earned from the Public	-	-	28,132	10,042
Net Cost of Services to the Public	-	12	(604)	178,649
Cost - Services Provided to Federal Agencies	-	-	336,916	632,175
Revenue Earned from Federal Agencies	-	-	327,220	622,237
Net Cost (Revenue) of Services Provided to Federal Agencies	-	-	9,696	9,938
Net Program Costs	-	12	9,092	188,587
Costs Not Associated with Programs				
Asset Impairment	-	-	-	-
Total				
Cost - Services Provided to the Public	2,331,731	2,042,896	1,406,115	742,175
Revenue Earned from the Public	106,374	468,666	620,925	21,787
Net Cost of Services to the Public	2,225,357	1,574,230	785,190	720,388
Cost - Services Provided to Federal Agencies	208,383	83,145	491,083	641,680
Revenue Earned from Federal Agencies	205,856	80,802	479,386	631,690
Net Cost (Revenue) of Services Provided to Federal Agencies	2,527	2,343	11,697	9,990
Costs Not Associated with Programs	-	-	-	-
Net Cost of Operations	$ 2,227,884	1,576,573	796,887	730,378

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intradepartmental Activity	FY 2003
-	902,592	344,731	1,886,343	-	-	$ 4,306,918
-	114,963	204	51,016	-	-	462,597
-	787,629	344,527	1,835,327	-	-	3,844,321
-	34,482	1,077	110,948	-	(62,668)	118,870
-	33,146	1,062	108,920	-	(62,668)	114,846
-	1,336	15	2,028	-	-	4,024
-	788,965	344,542	1,837,355	-	-	3,848,345
-	1,807,779	-	174,339	-	-	2,113,487
-	146,441	-	4,377	-	-	171,275
-	1,661,338	-	169,962	-	-	1,942,212
-	41,882	-	10,350	-	(22,918)	31,197
-	40,862	-	9,968	-	(22,918)	29,723
-	1,020	-	382	-	-	1,474
-	1,662,358	-	170,344	-	-	1,943,686
1,091,720	-	48,249	-	-	-	3,632,240
117,750	-	-	-	-	-	862,284
973,970	-	48,249	-	-	-	2,769,956
-	-	-	-	-	(61,763)	130,943
-	-	-	-	-	(61,763)	127,841
-	-	-	-	-	-	3,102
973,970	-	48,249	-	-	-	2,773,058
-	-	-	-	1,175,013	-	1,264,688
-	-	-	-	166,173	-	166,654
-	-	-	-	1,008,840	-	1,098,034
-	-	-	-	265,378	(93,334)	186,508
-	-	-	-	255,918	(93,334)	176,478
-	-	-	-	9,460	-	10,030
-	-	-	-	1,018,300	-	1,108,064
-	-	-	-	-	-	2,420,119
-	-	-	-	-	-	117,692
-	-	-	-	-	-	2,302,427
-	-	-	-	-	(7,091)	204,025
-	-	-	-	-	(7,091)	201,491
-	-	-	-	-	-	2,534
-	-	-	-	-	-	2,304,961
99	-	-	-	-	-	216,330
99	-	-	-	-	-	38,273
-	-	-	-	-	-	178,057
1,909,023	-	-	-	-	(1,483,164)	1,394,950
1,926,534	-	-	-	-	(1,483,164)	1,392,827
(17,511)	-	-	-	-	-	2,123
(17,511)	-	-	-	-	-	180,180
-	-	-	-	81,100	-	81,100
1,091,819	2,710,371	392,980	2,060,682	1,175,013	-	13,953,782
117,849	261,404	204	55,393	166,173	-	1,818,775
973,970	2,448,967	392,776	2,005,289	1,008,840	-	12,135,007
1,909,023	76,364	1,077	121,298	265,378	(1,730,938)	2,066,493
1,926,534	74,008	1,062	118,888	255,918	(1,730,938)	2,043,206
(17,511)	2,356	15	2,410	9,460	-	23,287
-	-	-	-	81,100	-	81,100
956,459	2,451,323	392,791	2,007,699	1,099,400	-	$ 12,239,394

NOTE 18. GROSS COST AND EARNED REVENUES BY BUDGET SUBFUNCTION CLASSIFICATION

The following tables reflect data provided to Treasury by Budget Subfunction (BSF) Classification for inclusion in the Consolidated Financial Statements of the Federal government, based on the guidance and direction from Treasury. These BSF codes are established by OMB and Treasury for government wide reporting purposes and differ from the classifications used for Interior's segment reporting.

Interior's gross cost and earned revenues by Budget Subfunction Classification as of September 30, 2004 and 2003, are presented below:

(dollars in thousands)		Gross Cost		Earned Revenue		**FY 2004**
Natural Resources and Environment	$	13,935,532	$	4,384,917	$	9,550,615
Transportation		263,730		-		263,730
Community and Regional Development		2,711,820		332,261		2,379,559
Education and Training		109,599		12		109,587
General Government		772,353		16,795		755,558
Total	$	17,793,034	$	4,733,985	$	13,059,049

(dollars in thousands)		Gross Cost		Earned Revenue		**FY 2003**
Natural Resources and Environment	$	12,904,395	$	3,536,502	$	9,367,893
Transportation		255,991		-		255,991
Community and Regional Development		2,085,287		309,111		1,776,176
Education and Training		107,834		266		107,568
General Government		747,868		16,102		731,766
Total	$	16,101,375	$	3,861,981	$	12,239,394

The intragovernmental costs and related net costs presented in the schedules below represent transactions with other Federal agencies. These amounts are different than those reported in Note 17, Net Cost by Responsibility Segment and the Statement of Net Cost, which report costs to generate intragovernmental revenues.

(dollars in thousands)		Gross Cost		Earned Revenue		**FY 2004**
Natural Resources and Environment	$	1,992,693	$	2,311,536	$	(318,843)
Transportation		12,173		-		12,173
Community and Regional Development		251,344		214,005		37,339
Education and Training		4,447		-		4,447
General Government		65,220		759		64,461
Total	$	2,325,877	$	2,526,300	$	(200,423)

(dollars in thousands)		Gross Cost		Earned Revenue		**FY 2003**
Natural Resources and Environment	$	1,947,530	$	1,840,211	$	107,319
Transportation		11,201		-		11,201
Community and Regional Development		218,531		202,700		15,831
Education and Training		4,910		-		4,910
General Government		56,074		295		55,779
Total	$	2,238,246	$	2,043,206	$	195,040

NOTE 19. COSTS

By law, Interior, as an agency of the Federal government, is dependent upon other government agencies for centralized services. Some of these services, such as tax collection and management of the public debt, are not directly identifiable to Interior and are not reflected in Interior's financial condition and results. However, in certain cases, other Federal agencies incur costs that are directly identifiable to Interior operations, including payment of claims and litigation by Treasury's Judgment Fund, and the partial funding of retirement benefits by OPM. In accordance with SFFAS No. 4, "Managerial Cost Accounting," Interior recognizes identified costs paid for Interior by other agencies as expenses of Interior. The funding for these costs is reflected as imputed financing sources on the Consolidated Statement of Changes in Net Position. Expenses paid by other agencies on behalf of Interior were $519 million and $571 million for the years ended September 30, 2004 and 2003, respectively. Interior also receives donated heritage assets such as stewardship land, cultural landscapes, and library and museum objects. These donations are received from the public or from non-profit conservation organizations and have an estimated value of $163 million and $2.5 million for FY 2004 and FY 2003, respectively.

The costs associated with acquiring, constructing, and renovating heritage assets were $118 million and $80 million for the fiscal years ended September 30, 2004 and 2003, respectively. The costs associated with acquiring and improving stewardship lands were $200 million and $263 million for the fiscal years ended September 30, 2004 and 2003, respectively. The costs associated with acquiring and improving stewardship lands decreased in part due to the decline in the amounts appropriated for land acquisitions over the past several years.

NOTE 20. CHANGES IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, OMB directed NPS to account for the liability of the USPP Pension Plan. This resulted in a change of accounting principle and the recognition of the USPP Pension Plan liability for future benefits. A liability was not previously recognized because NPS does not administer the pension plan. As a result of the change in accounting principle, an adjustment of $649 million was recorded to establish the liability. This adjusting entry also decreased the beginning balance of the Cumulative Results of Operations of the Net Position.

NOTE 21. ROYALTIES RETAINED

Royalties Retained include minerals receipts transferred to the Interior totaling approximately $3,491 and $2,583 million for the fiscal years ended September 30, 2004 and 2003, respectively. These amounts include transfers to the Land and Water Conservation Fund and to MMS for distribution to States, and to offset costs incurred by MMS related to royalty collections, and to the Reclamation Fund. These amounts are presented on the Consolidated Statement of Changes in Net Position in accordance with Federal accounting standards.

During FY 2004, Interior made payments to States for the amount of $1,168 million, which are included in the "Resource Use" goal of the Consolidated Statement of Net Cost. In FY 2003, payments to States totaled $953 million, which are included in the "Manage Natural Resources for a Healthy Environment and a Strong Economy " goal.

NOTE 22. STRATEGIC PETROLEUM RESERVE

Interior received approximately 38.4 and 38.2 million barrels of petroleum as in-kind mineral lease revenues for the fiscal years ended September 30, 2004 and 2003, respectively. Interior transferred this petroleum to the DOE to increase the strategic petroleum reserve. The value of the petroleum received and transferred was $1,191 million and $1,044 million for the fiscal years ended September 30, 2004 and 2003, respectively.

NOTE 23. STATEMENT OF BUDGETARY RESOURCES

The Combined 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 $25,109 million and $23,561 million for FYs 2004 and 2003, respectively, includes new budget authority, unobligated balances at the beginning of the year and transferred in/out during the year, spending authority from offsetting collections, recoveries of prior year obligations and any adjustment to these resources. Interior's unobligated balance available at September 30, 2004 and 2003, was $5,189 million and $4,846 million, respectively.

Apportionment Categories of Obligations Incurred. Interior's obligations incurred during FY 2004 and FY 2003 by apportionment category are shown in the following table:

(dollars in thousands)

	Apportioned		Not Subject to	
FY 2004	Category A	Category B	Apportionment	Total
Obligations Incurred:				
Direct	$ -	$ 14,614,681	$ 72,039	$ 14,686,720
Reimbursable	-	5,136,048	-	5,136,048
Total Obligations Incurred	$ -	$ 19,750,729	$ 72,039	$ 19,822,768

	Apportioned		Not Subject to	
FY 2003	Category A	Category B	Apportionment	Total
Obligations Incurred:				
Direct	$ -	$ 13,979,361	$ 73,718	$ 14,053,079
Reimbursable	-	4,534,566	-	4,534,566
Total Obligations Incurred	$ -	$ 18,513,927	$ 73,718	$ 18,587,645

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. BOR's borrowing authority is provided under the Credit Reform Act of 1990 (see Note 6, 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 these loans is determined by the Treasury as of the beginning of the fiscal year in which the contract is executed, on the basis of the average market yields on outstanding marketable obligations of the United States. Collections in excess of the interest due to the Treasury is applied to the outstanding principal owed to the Treasury.

BIA receives borrowing authority from Treasury for its loan programs in accordance with the Federal Credit Reform Act of 1990 and related legislation. The guaranteed loan financing fund can borrow funds when the cash balance in a financing fund cohort is insufficient to pay default claims, interest subsidy payments, downward subsidy reestimates, or the interest on prior Treasury borrowings. The balance in this account as of September 30, 2004 and 2003, was $6.7 million and $2.2 million, respectively.

BIA's direct loan program ended in 1995. However, borrowings arising from direct loans made between 1992 and 1995 are still outstanding. These borrowings are being repaid as scheduled and as of September 30, 2004 and 2003, were $22.9 million.

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

Permanent Indefinite Appropriations. Permanent indefinite appropriations refer to the appropriations that come from permanent public laws, which authorize Interior to retain certain receipts, rather than the annual appropriations process and the amount appropriated depends upon the amount of the receipts rather than a specific amount. All Interior bureaus use one or more permanent no-year appropriations to finance operating costs and the purchase of property, plant, and equipment.

Interior has approximately 70 permanent indefinite appropriations, which are primarily for special programs and projects. The more significant appropriations for each bureau are as follows:

- BIA has several permanent indefinite appropriations, which are primarily for special projects and loan programs, such as Claims and Treaty Obligations, Indian Loan Guaranty Financing and Insurance Fund Liquidating Account, Revolving Fund for Loans Liquidating Account, Operation and Maintenance of Quarters, Indian Irrigation Systems, Indian Power Systems, Alaska Resupply Program, and Indian Direct Loan Program Account.

- BLM has 23 permanent indefinite appropriations, which are primarily used for special programs and projects. Some examples include the Southern Nevada Public Land Management Act, Federal Land Transaction Facilitation Act, Recreation Fee Demonstration Program, and Timber Pipeline Restoration Fund.

- BOR has 2 major permanent indefinite appropriations. The Colorado River Dam Fund - Boulder Canyon Project is funded by various operating revenues of the Hoover Dam, mainly from the sale of power generated at the dam. The Reclamation Trust Funds include amounts received from public benefactors that are used to finance restoration and other activities.

- FWS has 12 permanent indefinite appropriations which are primarily utilized to administer endangered species and wildlife and sport fish restoration grants to States and other non-Federal entities, and to fund land acquisition for the National Wildlife Refuge System.

- MMS permanent indefinite appropriations include minerals revenue with the States resulting from the leasing of mineral leases within their borders, Forest Fund Payments to a State based on National Forest acreage within that State, and flood control payments to States to be expended as the State legislature may prescribe for the benefit of the public schools and roads in the county government.

- NPS has 12 permanent indefinite appropriations. The majority of funding is from the Fee Demonstration Program, but funding sources also include the Park Concessions Franchise Fees, the National Park Passport Program, the Operation and Maintenance of Quarters, Transportation System Fund, Glacier Bay National Park Resource Protection, Educational Expenses, Children of Employees, Yellowstone National Park, Delaware Water Gap, National Maritime Heritage Grants, and the USPP Pension.

- OSM appropriates a portion of the Abandoned Mine Land Fund in an amount equal to the annual transfer to the United Mine Workers Combined Benefit Fund. This appropriated transfer can be classified as a permanent indefinite appropriation, i.e., the budget authority is a permanent authorization in the Surface Mining Control and Reclamation Act and is of an indefinite amount determined on an annual basis to comply with the provisions of the law.

- USGS has 3 permanent indefinite appropriations. The majority of funding is from the Surveys, Investigations, and Research appropriation used to conduct operations in topography, geology, hydrology, biology, and mineral and water resources.

These funds do not require annual appropriation action by Congress as they are subject to the authorities of the permanent law.

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

Legal Arrangements Affecting Use of Unobligated Balances. Interior's unobligated unavailable balances for FYs 2004 and 2003 are $97.3 million and $126.5 million, respectively, and consist of:

(dollars in thousands)	FY 2004	FY 2003
Unapportioned amounts available for future apportionments	$ 6,356	$ 5,839
Expired Authority	90,923	119,142
Total Budgetary Accounts	97,279	124,981
Non-Budgetary Credit Program Financing Accounts	-	1,518
Unobligated Balance Unavailable	$ 97,279	$ 126,499

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

The appropriation law, Public Law 108-7, is the major source of funding for the BLM's operating programs and directs that a definite sum of the BLM's wildland firefighting authority be applied to the construction of fire facilities. These authorizations also direct how BLM must treat other assets it may acquire as a result of executing its operating programs. Also, BIA receives contract authority from DOT's Highway Trust Fund for the maintenance and construction of roads and bridges on BIA and Trust property.

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

Explanation of Differences between the Combined Statement of Budgetary Resources (SBR) and the Budget of the United States Government. The Combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government). The President's Budget with the actual FY 2003 amounts was released on February 3, 2004, and the President's Budget with the FY 2004 amounts is estimated to be released in February 2005, and both can be located at the OMB Web site (http://www.whitehouse.gov/omb). As such, the actual amounts for FY 2004 in the President's Budget have not been published at the time these financial statements were prepared.

Budgetary resources and the status of those resources presented in the Combined SBR for the period ended September 30, 2003, differ from the amounts presented as 2003 Actuals in the President's FY 2005 Budget. A portion of the differences are due to expired accounts being included in the Statement of Budgetary Resources, but not in the President's Budget. Additionally, certain specific differences exist as presented on the table following A - E explanations.

A. Departmental Offices' Tribal Trust and Special Funds. Differences exist between the Departmental Office SBR and actual amounts in the President's Budget as a result of the treatment of pass through appropriations and payments to Tribal trust fund accounts. These differences impact Appropriations Received, Obligations Incurred, and Disbursements lines on the SBR. In addition, amounts related to the Utah Reclamation Mitigation and Conservation (CUPCA) Commission fund are treated as available in the FY 2003 SBR and unavailable in the President's Budget. This difference impacted Appropriations Received and Unobligated Balances. [Budget Accounts 5265, 8030, and 5174]

B. National Park Service. (1) The Concession Improvement account is reported in the President's Budget and is not reported on the Combined SBR due to differing interpretations as to the extent of NPS's jurisdiction over these funds, and the related receipts and expenditures. It is the opinion of the Solicitor of the Interior that the funds contained in Concession Improvement accounts are owned by the concessionaire and are not receipts of the United States [Budget Account 9928]; and (2) The Land Acquisition and State Assistance Payments account includes $30 million of Contract Authority and Permanently Not Available. This amount of contract authority is included in the annual Appropriation Act; however, it is always rescinded in the same Act before it is passed. Accordingly, it was not appropriated to NPS or apportioned by NPS. It will, however, show in the President's Budget because it is a part of the appropriation Act itself. [Budget Account 5035]

C. Bureau of Indian Affairs. Advances from the Department of Education of $133.2 million are reported as Unobligated Balances at the Beginning of the Fiscal Year on the Combined SBR. This amount is not included on that line on the President's Budget due to differences in the treatment of deposit fund activity.

D. Fish and Wildlife Service. The budget accounts for Private Stewardship Grants and the Landowner Incentive Program include a total of $50 million as temporarily not available. These amounts are presented by FWS as permanently not available. [Budget Accounts 5495 and 5496]

Differences are presented and labeled on the following table:

(dollars in millions)	Amount per Statement of Budgetary Resources	Amount per President's Budget	Difference	
Budgetary Resources:				
Budget Authority:				
Appropriations Received	$ 14,004	$ 14,241	$ (237)	A, B
Contract Authority	-	30	(30)	B
Net Transfers, Current Year Authority	(70)	(106)	36	
Unobligated Balance:				
Beginning of Fiscal Year	4,534	4,438	96	A, C
Net Transfers, Unobligated Balance, Actual	(30)	(1)	(29)	
Spending Authority From Offsetting Collections:	5,004	5,039	(35)	
Recoveries of Prior Year Obligations	305	262	43	
Temporarily Not Available Pursuant to Public Law	-	(105)	105	B, D
Permanently Not Available	(205)	(150)	(55)	D
Status of Budgetary Resources:				
Obligations Incurred:	18,588	18,829	(241)	A
Unobligated Balance:	4,846	4,907	(61)	B
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Fiscal Year	4,965	4,905	60	
Obligated Balance, Net, End of Fiscal Year:	(5,749)	5,616	(133)	C
Less: Spending Authority Adjustments	2	-	2	
Outlays:				
Disbursements	17,805	17,973	(168)	A, B, C
Collections	(5,311)	(5,201)	(110)	C

NOTE 24. CONSOLIDATED STATEMENT OF FINANCING ALLOCATION TRANSFERS

Interior provides budget resources to and receives budget resources from other Federal entities in the form of "allocation transfer accounts." The activity in these allocation transfer accounts is reported in the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Changes in Net Position of the recipient agency. However, the budgetary activity for these allocation transfer accounts is reported by the providing agency on its Combined Statement of Budgetary Resources. This treatment creates a reconciling item between the proprietary statements (the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Changes in Net Position) and the Combined Statement of Budgetary Resources. The adjustment shown in the Consolidated Statement of Financing for this line represents this reconciliation amount.

The major Interior allocation transfers made internally include those from the Wildland Fire Management Account, the Central Hazardous Material Fund, the Office of Special Trust Funds, the Natural Resources Damage Assessment and Restoration Fund, and BIA's Construction Fund.

The major Interior allocation transfers made outside Interior include those from the Department of Transportation, U.S. Corps of Engineers, Department of Labor, and Department of Health and Human Services.

The transfers made outside the Interior result in reconciling differences for the Consolidated Statement of Financing. The following table summarizes the allocation transfers and the related amounts that are reported as reconciling differences in the Consolidated Statement of Financing:

Trading Partner	Nature and Purpose of Transfer	FY 2004	FY 2003
Transfer of Appropriations where Interior is the recipient (i.e., Child) and therefore reports the proprietary activity, but not the budgetary activity:		Reconciling Differences (dollars in thousands)	
Department of Transporation - Highway Trust Fund	Maintenance of Highways on Interior Land	$ 269,237	$ 268,292
Department of Labor - Job Corps	Employee and Training services	69,414	70,002
Health and Human Services	Child Development and Employment Programs	40,173	37,578
Other		14,827	7,387
Total resources transferred in		393,650	383,259
Transfer of Appropriations where Interior is the transferor (i.e., Parent) and therefore reports the budgetary activity, but not the proprietary activity:			
Department of Transportation	Highway Construction	339	1,265
U.S. Corps of Engineers	Land Acquisition and State Assistance	34,147	6,409
Department of Agriculture	To fund Soil Conservation Programs	228	254
Other		-	7,394
Total resources transferred out		34,714	15,321
Net Reconciling Difference of appropriations transferred to or from other Federal agencies		$ 358,936	$ 367,938

Change in Unfunded Liabilities. The Consolidated Statement of Financing includes a section depicting the change in certain unfunded liabilities. The amounts in this section do not necessarily correlate to the change in liabilities not covered by budgetary resources as shown in Note 15, Liabilities Analysis. Differences are primarily the result of certain Treasury requirements related to changes in various liabilities which are reported on the Consolidated Statement of Financing. These requirements are dependent upon whether the change results in an increase or decrease to the liability account. Additionally, some liability accounts not covered by budgetary resources are not included in the Consolidated Statement of Financing.

NOTE 25. INDIAN TRUST FUNDS

Interior, through the Office of the Special Trustee for American Indians (OST), maintains approximately 1,400 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately $2,975 million and $2,880 million as of September 30, 2004 and 2003, respectively.

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

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

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

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

OST also maintains about 266,000 and 260,000 open Individual Indian Monies (IIM) accounts with a fund balance of approximately $397 million and $413 million as of September 30, 2004 and 2003, respectively.

The IIM Fund is primarily a deposit fund for individuals who have a beneficial interest in the trust funds. IIM account holders realize receipts primarily from land-use agreements; royalties on natural resource depletion; other proceeds derived directly from trust resources, 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, 2004 and 2003. 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 and changes in trust fund balances reflected in the financial statements due to inadequacies in certain Interior trust-related systems and processes, which provide required trust financial management information to OST.

- Regarding the Tribal and Other Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the trust fund balances reflected by OST, and certain of these parties have filed, or are expected to file, claims against the U.S. government.

- Regarding the IIM Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the trust fund balances reflected by OST, and certain of these parties 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 on contingencies, see Note 14.

Tribal and Other Trust Funds
Statement of Assets and Trust Fund Balances - Cash Basis
as of September 30, 2004 and 2003
(dollars in thousands)

		FY 2004		FY 2003
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	490,380	$	507,578
Due from Other Federal Agencies*		7,800		-
Investments		2,477,052		2,372,434
TOTAL ASSETS	$	2,975,232	$	2,880,012
TRUST FUND BALANCES				
Held for Indian Tribes	$	2,708,869	$	2,624,471
Held by Department of the Interior and considered to be U.S. Government funds		266,363		255,541
TOTAL TRUST FUND BALANCES	$	2,975,232	$	2,880,012

* This represents an amount that BIA erroneously transferred from the Trust Funds' account at the U.S. Treasury into the BIA's account at the U.S. Treasury. This amount was transferred on September 30, 2004, and was returned to the proper U.S. Treasury account in October of 2004. The erroneous transfer, which was identified through OST's reconciliation and internal control process, did not impact the interest earnings to the Trust Funds.

Tribal and Other Trust Funds
Statement of Changes in Trust Fund Balances - Cash Basis
For the Years Ended September 30, 2004 and 2003
(dollars in thousands)

		FY 2004		FY 2003
Receipts	$	300,960	$	256,168
Interest Received		106,348		118,010
Gain (Loss) on Disposition of Investments, Net		6,359		4,291
Disbursements to and on Behalf of Indian Tribes and Other Trust Funds and Withddrawals of Trust Funds by Indian Tribes		(318,447)		(354,746)
Increase in Trust Fund Balances, Net		95,220		23,723
Trust Fund Balances - Beginning of Year		2,880,012		2,856,289
Trust Fund Balances - End of Year	$	2,975,232	$	2,880,012

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

Individual Indian Monies Trust Funds
Statement of Assets and Trust Fund Balances - Modified Cash Basis
As of September 30, 2004 and 2003
(dollars in thousands)

	FY 2004	FY 2003
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 21,373	$ 26,488
Investments	371,723	382,325
Accrued Interest Receivable	3,601	4,255
TOTAL ASSETS	$ 396,697	$ 413,068
TRUST FUND BALANCES, held for Individual Indians	$ 396,697	$ 413,068

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances - Modified Cash Basis
For the Years Ended September 30, 2004 and 2003
(dollars in thousands)

	FY 2004	FY 2003
Receipts	$ 183,776	$ 170,996
Interest Earned on Investment Funds	20,216	22,817
Gain on Disposition of Investments, Net	590	436
Disbursements To and On Behalf of Account Holders	(220,953)	(192,526)
Increase (Decrease) in Trust Fund Balances, Net	(16,371)	1,723
Trust Fund Balances - Beginning of Year	413,068	411,345
Trust Fund Balances - End of Year	$ 396,697	$ 413,068

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

NOTE 26. DEDICATED COLLECTIONS

Dedicated collections as of September 30, 2004 and 2003 consist of the following:

Conservation Funds. Conservation Funds consist of the Land and Water Conservation Fund and the Historic Preservation Fund.

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

Annually, $904 million for the LWCF and $150 million for the Historic Preservation Fund (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 LWCF and the HPF are warranted to some of the bureaus within Interior and the rest to the Department of Agriculture's Forest Service.

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.

Abandoned Mine Land Fund. Public Law 95-87 established the OSM, a component of Interior, and authorized the collection of a fee from Coal Mine Operators. Fees of 35 cents per ton of surface mined coal, 15 cents per ton of coal mined underground, and 10 cents per ton of lignite are collected from active mining operations. The fees are deposited in the Abandoned Mine Land (AML) Reclamation Fund, which is used to fund abandoned mine land reclamation projects. The Surface Mining Law specifies that 50 percent of the reclamation fees collected in each State with an approved reclamation program, or within Indian lands where the Tribe has an approved reclamation program, are to be allocated to that State or Tribe. This 50 percent is designated as the State or tribal share of the fund. The remaining 50 percent (the Federal share) is used by Interior to complete high priority and emergency projects, to fund the Small Operator Assistance Program, to fund additional projects directly through State reclamation programs, and to pay collection, audit, and administration costs.

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

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

Payments to the UMWA CBF are made in advance based on the number of beneficiaries and an estimate of their benefit costs. Under current practice, the estimate is then adjusted to actual costs as health benefits are paid in subsequent years.

AML program expenses approximate the net cost for the Environmental Restoration GPRA program activity with the addition (+/-) of a pro rata share of allocated costs. The Environmental Restoration GPRA is included in Strategic Goal 1: Resource Protection -- Protect the Nation's Natural, Cultural, and Heritage Resources.

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

Aquatic Resources Trust Fund and Sport Fish Restoration. The Aquatic Resources Trust Fund (ARTF) receives excise tax revenues from the sale of fishing tackle and equipment, certain motorboat and small engine gasoline, and interest earned on invested trust funds. These funds are subsequently distributed to the FWS Sport Fish Restoration Account (SFRA), the U.S. Coast Guard Boat Safety Program, and the Army Corps of Engineers Coastal Wetlands Program. Although the ARTF is managed and maintained by Treasury (per Title 26 of the U.S. Code, Section 9602), Interior reports the ARTF as they have the preponderance of the fund activity (the SFRA received approximately 79% of the ARTF transfers for both FY 2004 and FY 2003). The SFRA makes grants available to States to restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands, and also to enhance public use and benefits from sport fish resources.

Wildlife Restoration. The Federal Aid in Wildlife Restoration Program is a key component of the Nation's cooperative conservation work for wildlife and their habitats. It implements the Interior's Resource Protection Goal of sustaining biological communities on Interior managed and influenced lands and waters by providing financial and technical assistance to States to restore, conserve, manage, and enhance wild bird and mammal populations; acquiring and managing their habitats; providing public use and benefit from wildlife resources; educating hunters; and developing shooting ranges.

The Federal Aid in Wildlife Restoration Act of 1937, also called the Pittman-Robertson Wildlife Restoration Act, as amended (16 U.S.C.669-669k) authorizes the Secretary of the Interior to implement a multi-State conservation grant program and a firearm and bow hunter education and safety program that provides grants to States.

The Wildlife Restoration program is funded by an 11% excise tax on sporting firearms and ammunition, a 12.4% tax on archery equipment, and a 10% tax on handguns. These tax receipts are appropriated to FWS through a permanent-indefinite appropriation for use in the fiscal year following collection. The total of receipts apportioned directly contributes to the Interior's Resource Protection Goal of sustaining biological communities on Interior Managed and Influenced Lands and Waters.

The Wildlife Restoration program operates on a cost reimbursement basis. Each State pays the costs of approved projects up front and applies intermittently for reimbursement of up to 75 percent of the costs incurred. The State must provide at least 25 percent of the project costs from a non-Federal source. However, Puerto Rico, the U.S. Virgin Islands, Guam, the Northern Mariana Islands, and American Samoa are not required to provide matching shares. The source of funds for the Federal Aid in Wildlife Restoration program is public, and the source of funds for the Wildlife and Sport Fish Restoration program is government.

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

Central Utah Project Completion Act. The primary purpose of the Central Utah Project Completion Act (CUPCA) is to provide for the orderly completion of the Central Utah Project by authorizing water conservation and wildlife mitigation projects, and by providing funding for conservation activities. The CUPCA office within Interior is mandated by the Act to, among other responsibilities, transfer funds to the Commission, which has exclusive responsibility for completing the fish, wildlife, and recreation projects in the State of Utah required as part of the Central Utah Project. The Commission also receives transfers of annual appropriations from the Western Area Power Administration of the DOE. The Commission has discretion to either expend such funds, or portions thereof, for mitigation activities or to invest such funds, or portions thereof, in a trust fund established by CUPCA, the interest from which is for the future use of the Commission. Interior accounts for and reports on this fund through the Utah Reclamation Mitigation and Conservation Commission Fund.

National Resource Damage Assessment and Restoration Fund. Section 301c of the Comprehensive Environmental Response, Compensation, and Liability Act requires promulgation of regulations for the assessment of damages for injury to, destruction of, or loss of natural resources resulting from a discharge of oil or release of a hazardous substance. The responsibility for this rulemaking was delegated to Interior by the President in Executive Order 12580 (January 23, 1987). Interior accounts for and reports on this fund through the Natural Resource Damage Assessment and Restoration Fund (NRDAR). The primary aim of NRDAR is to restore natural resources injured as the result of oil spills or hazardous substance releases. The program assesses the damages and injuries to natural resources entrusted to Interior and negotiates legal settlements or takes other legal actions against the responsible parties for the spill or release. Funds from these settlements are then used to restore the injured resources at no expense to the taxpayer. Settlements often include the recovery of the costs incurred in assessing the damages. These funds are then used to fund further damage assessments.

Southern Nevada Public Land Management Act. The Southern Nevada Public Land Management Act (SNPLMA), enacted in October 1998, authorizes BLM to sell public land tracts that are interspersed with or adjacent to private land in the Las Vegas Valley. BLM is authorized to invest 85 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.

Other Dedicated Collections. Other dedicated collections consist of the following:

Donations. The purpose of this fund is to record cash donations provided to the NPS. The fund is accounted for and reported as donated revenue financing source. The source of revenue for this fund is from public donations and is considered an inflow of resources to the government. Under 16 U.S.C. 6, NPS has the authority to use funds as collected.

Priority Land Acquisition. Funds under the Priority Land Acquisitions, Land Exchanges and Maintenance account are from the Land and Water Conservation Fund for priority land acquisitions and exchanges. Interior accounts for and reports on these funds through the Title V Priority Land Acquisitions, Land Exchanges, and Maintenance Fund and the Title VI Priority Land Acquisitions and Land Exchanges Fund. These funds are available for the high priority land acquisitions and exchanges and for reducing maintenance backlogs.

Reclamation Trust Funds. The Reclamation Trust Funds receive monies from the State of California per Public Law 102-575, Title XXXIV, Central Valley Project Improvement Act, to accomplish the following purposes: (a) to protect, restore, and enhance fish, wildlife, and associated habitats in the Central Valley and Trinity River basins of California; (b) to address impacts of the Central Valley Project on fish, wildlife, and associated habitats; (c) to improve the operational flexibility of the Central Valley Project; (d) to increase water-related benefits provided by the Central Valley Project to the State of California through expanded use of voluntary water transfers and improved water conservation; (e) to contribute to the State of California's interim and long-term efforts to protect the San Francisco Bay/Sacramento-San Joaquin Delta Estuary; and (f) to achieve a reasonable balance among competing demands for use of the Central Valley Project water, including the requirements of fish and wildlife, agricultural, municipal and industrial, and power contractors.

Reclamation has established unique cost centers within the accounting system for each of the specified activities under the Act. Once the activity is completed, a report is prepared for the State of California showing the monies collected and the costs incurred.

Everglades. Interior also administers a small portion of the funds available for the Everglades restoration effort. Section 390 of the Federal Agriculture Improvement and Reform Act (Farm Bill) of 1996 (Public Law 104-217), authorized the establishment of an "Everglades Restoration Account" consisting of funds deposited to a special Treasury account derived from the sale of surplus Federal property located in the State of Florida. Although the authority to receive these funds was abolished by the Water Resources Development Act (Public Law 106-541) passed on December 11, 2000, funds deposited to the account prior to that date remain available to support the restoration effort. Interior accounts for and reports on this fund through the Everglades Restoration Account Fund. These funds are to be utilized for "the acquisition of real property … within the Everglades ecosystem; and … the funding of resource protection and resource maintenance activities in the Everglades ecosystem." This legislation also provided $200 million in appropriated funds that have been used primarily for land acquisitions and exchanges necessary to further the restoration effort. These funds have been fully obligated.

Construction Trust Fund. The purpose of this fund is to record NPS trust fund construction. The fund is accounted for and reported as contract authority-allocation transfer account where NPS is the "child". The source of financing for this fund is from the Department of Transportation – Federal Highways as a result of intragovernmental flows. Under Public Law 106-113, NPS has the authority to obligate funds in advance of funds transfer.

National Indian Gaming Commission. The National Indian Gaming Commission (NIGC) was created in 1988 when Congress enacted the Indian Gaming Regulatory Act. Interior accounts for and reports on this fund through the National Indian Gaming Commission fund. The primary mission of the NIGC is to regulate gaming activities on Indian lands for the purposes of shielding Indian tribes from organized crime and other corrupting influences; ensuring that Indian tribes are the primary beneficiaries of gaming revenues; and assuring that gaming is conducted fairly and honestly by both operators and players. To effect these goals, NIGC is authorized to conduct investigations; undertake enforcement actions, including the assessment of fines and the issuance of closure orders; conduct background investigations; conduct audits; review and approve tribal gaming ordinances and management contracts; and issue such regulations as necessary to meet its responsibilities. The NIGC is funded by an assessment of less than one-tenth of one percent of the gross revenues of Indian gaming operations.

Birthplace of Abraham Lincoln. The purpose of this fund is to maintain the boyhood home of Abraham Lincoln. The fund is accounted for and reported as interest income. The source of revenue for this fund is from interest income on a U.S. Treasury Security and is a result of intragovernmental flows. Under 16 U.S.C. 212, NPS has the authority to use funds as earned and collected.

FY 2004 dedicated collections are shown in the following table:

(dollars in thousands)	Land and Water Conservation Fund	Historic Preservation Fund	Abandoned Mine Land Fund	Environmental Improvement and Restoration Fund	Southern Nevada Public Land Management Act	Aquatic Resources Trust Fund
ASSETS						
Fund Balance with Treasury	$ 13,859,218	$ 2,453,491	$ 583	$ 2	$ 841	$ 24,941
Investments, Net	-	-	2,051,301	1,001,652	793,693	1,451,344
Accounts Receivable, Net	-	-	6,578	-	-	8,127
General Property, Plant, and Equipment, Net	-	-	-	-	675	-
Other Assets	-	-	21	-	-	-
TOTAL ASSETS	$ 13,859,218	$ 2,453,491	$ 2,058,483	$ 1,001,654	$ 795,209	$ 1,484,412
LIABILITIES						
Aquatic Resource Amounts Due to FWS	$ -	$ -	$ -	$ -	$ -	$ 920,993
Aquatic Resource Amounts Due to Coast Guard	-	-	-	-	-	-
Aquatic Resource Amounts Due to Corps of Engineers	-	-	-	-	-	-
Accounts Payable	-	-	15,286	-	7,532	-
Other Liabilities	-	-	648	-	136,207	-
TOTAL LIABILITIES	-	-	15,934	-	143,739	920,993
Total Net Position	13,859,218	2,453,491	2,042,549	1,001,654	651,470	563,419
TOTAL LIABILITIES AND NET POSITION	$ 13,859,218	$ 2,453,491	$ 2,058,483	$ 1,001,654	$ 795,209	$ 1,484,412
CHANGE IN NET POSITION						
Net Position, Beginning of Fiscal Year	$ 13,443,816	$ 2,377,575	$ 1,952,634	$ 977,522	$ 283,190	$ 554,415
Change in Net Position:						
Non-exchange Revenue						
Taxes	-	-	-	-	-	455,828
AML Fee Revenue	-	-	286,160	-	-	-
Investment Interest	-	-	54,625	24,132	-	16,551
Royalties Retained	903,516	150,164	-	-	-	-
Other Non-Exchange Revenue	-	-	26	-	395	-
Transfers In/Out without Reimbursement	(488,114)	(74,248)	-	-	(100)	(463,375)
Exchange Revenue - Services Provided and Other	-	-	26	-	447,507	-
Program Expenses	-	-	(235,955)	-	(79,522)	-
UMWA-CBF Expenses	-	-	(14,967)	-	-	-
Net Position, End of Fiscal Year	$ 13,859,218	$ 2,453,491	$ 2,042,549	$ 1,001,654	$ 651,470	$ 563,419

Sportfish Restoration	Wildlife Restoration	Office of the Special Trustee for American Indians	Central Utah Project Completion Act	Natural Resource Damage Assessment and Restoration Fund	Other Dedicated Collections	**FY 2004**
$ 14,255	$ 120,209	$ (34)	$ 35,273	$ 617	$ 121,883	$ 16,631,279
-	364,889	268,481	145,066	169,524	65	6,246,015
921,021	-	-	-	5,754	9	941,489
-	-	-	4,147	-	42,919	47,741
-	107	-	-	-	1,570	1,698
$ 935,276	$ 485,205	$ 268,447	$ 184,486	$ 175,895	$ 166,446	$ 23,868,222
$ -	$ -	$ -	$ -	$ -	$ -	$ 920,993
68,351	-	-	-	-	-	68,351
352,546	-	-	-	-	-	352,546
22,991	14,613	-	774	5	2,586	63,787
988	781	-	214	-	44,191	183,029
444,876	15,394	-	988	5	46,777	1,588,706
490,400	469,811	268,447	183,498	175,890	119,669	22,279,516
$ 935,276	$ 485,205	$ 268,447	$ 184,486	$ 175,895	$ 166,446	$ 23,868,222
$ 463,439	$ 453,673	$ 257,479	$ 174,006	$ 161,802	$ 121,603	$ 21,221,154
-	238,807	-	-	-	-	694,635
-	-	-	-	-	-	286,160
-	10,255	8,230	10,201	2,024	40	126,058
-	-	-	-	-	-	1,053,680
177	198	3,051	(755)	34,088	18,133	55,313
345,405	(173)	8,189	6,163	(19,354)	(2,148)	(687,755)
-	-	-	2,250	-	20,886	470,669
(318,621)	(232,949)	(8,502)	(8,367)	(2,670)	(38,845)	(925,431)
-	-	-	-	-	-	(14,967)
$ 490,400	$ 469,811	$ 268,447	$ 183,498	$ 175,890	$ 119,669	$ 22,279,516

FY 2003 dedicated collections are shown in the following table:

(dollars in thousands)	Land and Water Conservation Fund	Historic Preservation Fund	Abandoned Mine Land Fund	Environmental Improvement and Restoration Fund	Southern Nevada Public Land Management Act	Aquatic Resources Trust Fund
ASSETS						
Fund Balance with Treasury	$ 13,443,816	$ 2,377,575	$ 543	$ 1	$ 465	$ 22,074
Investments	-	-	1,926,867	977,521	335,508	1,415,812
Accounts Receivable	-	-	34,965	-	-	273
General Property, Plant, and Equipment	-	-	-	-	18	-
Other Assets	-	-	40	-	176	-
TOTAL ASSETS	$ 13,443,816	$ 2,377,575	$ 1,962,415	$ 977,522	$ 336,167	$ 1,438,159
LIABILITIES						
Aquatic Resource Amounts Due to FWS	$ -	$ -	$ -	$ -	$ -	$ 883,661
Aquatic Resource Amounts Due to Coast Guard	-	-	-	-	-	-
Aquatic Resource Amounts Due to Corps of Engineers	-	-	-	-	-	-
Aquatic Resource Amounts Due to Others	-	-	-	-	-	83
Accounts Payable	-	-	9,304	-	6,527	-
Other Liabilities	-	-	477	-	46,450	-
TOTAL LIABILITIES	-	-	9,781	-	52,977	883,744
Total Net Position	13,443,816	2,377,575	1,952,634	977,522	283,190	554,415
TOTAL LIABILITIES AND NET POSITION	$ 13,443,816	$ 2,377,575	$ 1,962,415	$ 977,522	$ 336,167	$ 1,438,159
CHANGE IN NET POSITION						
Net Position, Beginning of Fiscal Year	$ 13,073,662	$ 2,298,127	$ 1,886,154	$ 967,274	$ 123,262	$ 538,979
Change in Net Position:						
Non-exchange Revenue						
Taxes	-	-	-	-	-	426,376
AML Fee Revenue	-	-	282,411	-	-	-
Investment Interest	-	-	23,610	10,248	1,651	40,949
Royalties Retained	899,020	150,000	-	-	-	-
Other Non-Exchange Revenue	-	-	110	-	(1,367)	-
Transfers In/Out without Reimbursement	(528,866)	(70,552)	-	-	(20,201)	(451,889)
Exchange Revenue - Services Provided and Other	-	-	103	-	241,831	-
Program Expenses	-	-	(191,505)	-	(61,986)	-
UMWA-CBF Expenses	-	-	(48,249)	-	-	-
Net Position, End of Fiscal Year	$ 13,443,816	$ 2,377,575	$ 1,952,634	$ 977,522	$ 283,190	$ 554,415

Sportfish Restoration	Wildlife Restoration	Office of the Special Trustee for American Indians	Central Utah Project Completion Act	Natural Resource Damage Assessment and Restoration Fund	Other Dedicated Collections	**FY 2003**
$ (6,938)	$ 18,098	$ (34)	$ 30,379	$ 404	$ 132,820	$ 16,019,203
-	453,148	257,513	140,134	155,695	65	5,662,263
883,688	1	-	-	5,706	139	924,772
-	7	-	4,170	-	38,174	42,369
-	116	-	-	-	2,764	3,096
$ 876,750	$ 471,370	$ 257,479	$ 174,683	$ 161,805	$ 173,962	$ 22,651,703
$ -	$ -	$ -	$ -	$ -	$ -	$ 883,661
62,515	-	-	-	-	-	62,515
327,164	-	-	-	-	-	327,164
-	-	-	-	-	-	83
22,284	17,073	-	446	3	3,637	59,274
1,348	624	-	231	-	48,722	97,852
413,311	17,697	-	677	3	52,359	1,430,549
463,439	453,673	257,479	174,006	161,802	121,603	21,221,154
$ 876,750	$ 471,370	$ 257,479	$ 174,683	$ 161,805	$ 173,962	$ 22,651,703
$ 462,309	$ 490,489	$ 224,898	$ 161,442	$ 151,620	$ 121,518	$ 20,499,734
-	214,337	-	-	-	-	640,713
-	-	-	-	-	-	282,411
-	8,501	8,839	2,593	2,116	(162)	98,345
-	-	-	-	-	-	1,049,020
358	245	3,373	8,668	32,359	17,084	60,830
329,816	(243)	28,877	6,061	(22,184)	(276)	(729,457)
-	-	-	4,027	-	17,089	263,050
(329,044)	(259,656)	(8,508)	(8,785)	(2,109)	(33,650)	(895,243)
-	-	-	-	-	-	(48,249)
$ 463,439	$ 453,673	$ 257,479	$ 174,006	$ 161,802	$ 121,603	$ 21,221,154

NOTE 27. U.S. PARK POLICE PENSION ACTUARIAL LIABILITY

During FY 2004, Interior began recording a liability for the USPP Pension Plan. Previously, no liability had been recorded because Interior was not considered the administrator of the pension plan. As a result of a policy change, Interior's FY 2004 net position beginning balance was adjusted downward by approximately $649 million.

Interior adopted OMB's guidance for recording the liability at the actuarial present value of the future benefits of the pension plan. Economic assumptions are applied to historical cost information to estimate the cost of pension benefits. 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 corresponding expense:

Economic Assumptions Used	**FY 2004**
Interest Rate	6.75%
Inflationary Rate	3.75%
Projected Salary Increase	4.25%

The following table presents the components of the USPP Pension Plan expense:

USPP Pension Plan Expense		**FY 2004**
Normal Costs	$	1,600
Interest		41,500
Assumption Changes at Beginning of Year		(25,305)
Total Pension Expenses	$	17,795

The following table presents the change in the USPP Pension Plan liability:

USPP Pension Plan Liability		**FY 2004**
Beginning Balance	$	649,300
Total Pension Expense		17,795
Less Benefit Payments		(27,595)
Ending Balance	$	639,500

The long term portion of the pension liability totaling $604,640 million is presented separately on the balance sheet and the short term portion totaling $34,860 million is presented as part of the accrued payroll and benefits to the public.

NOTE 28. POSSESSORY INTEREST AND LEASEHOLD SURRENDER INTEREST

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

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

For concession contracts entered into prior to 1998, the value of the concessionaire's possessory interest is equal to the sound value of such structure, fixture, or improvement at the time of taking by the United States determined upon the basis of reconstruction cost less depreciation evidenced by its condition and prospective serviceability in comparison with a new unit of like kind, but not to exceed fair market value.

For concession contacts entered into during 1998 and thereafter, the value of the concessionaire's leasehold surrender interest is equal to the initial value (construction cost of the capital improvement), increased (or decreased) in the same percentage increase (or decrease) as the percentage increase (or decrease) in the Consumer Price Index, from the date of making the investment in the capital improvement by the concessionaire to the date of payment of the value of the leasehold surrender interest, less depreciation of the capital improvement as evidenced by the condition and prospective serviceability in comparison with a new unit of like kind.

Interior does not report the real property construction or improvements made by the concessionaire or the related PI/LSI on its financial statements. In October 2004, the Federal Accounting Standards Advisory Board (FASAB) agreed to review the accounting and reporting of these transactions and issue future guidance. That guidance may result in a future change to Interior's accounting and reporting for these transactions.

As of September 30, 2004 Interior has approximately 600 concession contracts, and approximately 195 of these Contracts have PI/LSI provisions. Of these concession contracts with PI/LSI provisions, Interior has 40 contracts that include PI/LSI amounts totaling approximately $350 million. The remaining 155 contracts do not include PI/LSI amounts as these amounts have not been negotiated or arbitrated.