

Part 3.

Financial

Section

Message from the Chief Financial Officer



In FY 2005, the Department of the Interior (Department) continued its journey toward management excellence—excellence defined by results. Progress for much of our journey toward management excellence is captured in the Department’s FY 2005 Performance and Accountability Report (PAR). The PAR provides the Department’s most important financial and performance information. It is also our principal publication and report to Congress and the American people on our program leadership and our stewardship and management of the public funds entrusted to us.

I am pleased to report that for the ninth consecutive year we have received an unqualified (“clean”) opinion on the Department’s consolidated financial statements from our auditors. This is the best possible audit result and affirms our commitment to financial reporting excellence. Along with this opinion, the Department had other noteworthy accomplishments in FY 2005. The Department:

- Received the prestigious Association of Government Accountants’ Certificate of Excellence in Accountability Reporting. This marks the fourth year in a row that the Department has been recognized for quality reporting.
- Continued implementation of the unified Strategic Plan for the Department. Nearly 2 years in the making, this plan replaced eight separate bureau plans. The new strategic plan integrates and aligns bureau responsibilities under four major mission goals—resource protection, resource use, recreation, and serving communities—and emphasizes results and performance management.
- Met or exceeded 69% of the 214 performance outcome measures from our new Strategic Plan. This is the second year we have reported on our performance against an almost entirely new set of performance measures. Last year we were able to meet or exceed 63% of the 226 performance outcome measures.
- Continued implementation of new human resource strategies and processes to align our talented workforce to meet new and expanding challenges. Our Human Capital Management Strategic Plan identified Indian trust management, wildland fire management, and law enforcement, including homeland security, as growing challenges.
- Continued implementation of an Activity-Based Costing/Performance Management (ABC/PM) system throughout the Department. The ABC/PM system includes 326 crosscutting work activities that bureaus and Departmental offices either use directly, or use to capture costs associated with bureau/departmental work activities. ABC/PM provides program and financial managers with the information needed to allocate resources and monitor and evaluate performance effectively.
- Continued development and implementation of the Department’s Financial and Business Management System (FBMS). The FBMS replaces Interior’s antiquated accounting and business systems and provides standard business practices supported by a single, integrated finance and business system.

- Continued major efforts to inventory our facilities, assess their condition, and develop asset management systems. The Department manages nearly every type of facility found in America's towns and cities—we have wastewater treatment plants, dams, electric generating facilities, houses, hotels, campgrounds, roads, boat docks, stables, and even landfills. By knowing what we have and managing those assets well, we can better serve the public.
- Made advances in implementing the President's Management Agenda. Specifically, we improved our Executive Scorecard status rating in FY 2005 in the areas of Human Capital (yellow to green), Competitive Sourcing (yellow to green), and Budget and Performance Integration (red to yellow). We are working diligently to improve our red status rating for Financial Performance and E-government.
- Downgraded one of the four Federal Managers' Financial Integrity Act material weaknesses carried over from FY 2004 ahead of schedule. We also corrected or downgraded 9 of the 15 (60%) material weaknesses reported in the FY 2004 financial statement audits which were targeted for correction in FY 2005.
- Established and achieved an aggressive annual performance goal of implementing all GAO and OIG audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation. For FY 2005, the performance goal was set at 85%—an increase of 5% over last fiscal year—and Interior achieved an actual implementation rate of 87%.

Sustaining our efforts toward management excellence requires the ongoing commitment and creativity of Interior's dedicated employees. During FY 2006, mission, metrics, and management will continue to lie at the center of achieving results. We plan to better focus our "mission" by establishing clear goals, enhancing and monitoring performance measures, and aligning our workforce to better achieve those goals.



P. Lynn Scarlett
Chief Financial Officer
November 15, 2005

Principal Financial Statements

The principal financial statements included in Interior's FY 2005 Annual Report on Performance and Accountability have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Circular A-136, "Financial Reporting Requirements." These statements include the following:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Consolidated Statement of Financing
- Consolidated Statement of Custodial Activity

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

Consolidated Balance Sheet
as of September 30, 2005 and 2004
(dollars in thousands)

	FY 2005	FY 2004
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 32,031,132	\$ 30,866,144
Investments, Net (Note 4)	7,463,669	6,187,329
Accounts and Interest Receivable (Note 5)	508,677	348,034
Loans and Interest Receivable, Net (Note 6)	2,458,075	-
Other (Note 10)	1,405	1,211
Total Intragovernmental Assets	42,462,958	37,402,718
Cash (Note 3)	1,270	1,081
Investments, Net (Note 4)	199,125	191,844
Accounts and Interest Receivable, Net (Note 5)	2,660,566	1,347,641
Loans and Interest Receivable, Net (Note 7)	183,855	227,514
Inventory and Related Property, Net (Note 8)	305,695	324,319
General Property, Plant, and Equipment, Net (Note 9)	17,323,778	17,154,211
Other (Note 10)	296,653	296,950
Stewardship Assets		
TOTAL ASSETS (Note 10)	\$ 63,433,900	\$ 56,946,278
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	\$ 79,881	\$ 76,826
Debt (Note 11)	1,220,525	1,304,879
Other		
Resources Payable to Treasury	2,016,834	26,225
Advances and Deferred Revenue	1,626,524	1,757,001
Custodial Liability	996,371	671,478
Other Liabilities	937,328	902,530
Total Intragovernmental Liabilities	6,877,463	4,738,939
Accounts Payable	1,087,718	1,024,845
Loan Guarantee Liability (Note 7)	81,670	60,081
Federal Employee and Veteran Benefits (Note 12)	1,367,705	1,304,355
Environmental and Disposal Liabilities (Note 13)	120,808	101,808
Other		
Contingent Liabilities (Note 13)	631,174	760,482
Advances and Deferred Revenue	489,466	446,369
Payments Due to States	1,009,418	412,880
Other Liabilities	1,031,556	1,121,962
TOTAL LIABILITIES (Note 14)	12,696,978	9,971,721
Commitments and Contingencies (Note 13 and 16)		
Net Position		
Unexpended Appropriations	4,179,242	4,080,359
Cumulative Results of Operations	46,557,680	42,894,198
Total Net Position	50,736,922	46,974,557
TOTAL LIABILITIES AND NET POSITION	\$ 63,433,900	\$ 56,946,278

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

Consolidated Statement of Net Cost
for the years ended September 30, 2005 and 2004
(dollars in thousands)

	FY 2005	FY 2004
Resource Protection		
Costs	\$ 3,727,461	\$ 3,032,636
Less: Earned Revenue	1,428,697	613,511
Net Cost	2,298,764	2,419,125
Resource Use		
Costs	4,120,619	3,242,339
Less: Earned Revenue	1,217,758	1,080,006
Net Cost	2,902,861	2,162,333
Recreation		
Costs	1,847,534	2,125,544
Less: Earned Revenue	340,109	258,952
Net Cost	1,507,425	1,866,592
Serving Communities		
Costs	6,859,829	6,631,788
Less: Earned Revenue	1,026,009	773,872
Net Cost	5,833,820	5,857,916
Reimbursable Activity and Other		
Costs	3,195,202	2,760,727
Less: Earned Revenue	2,325,046	2,007,644
Net Cost	870,156	753,083
Total		
Costs	19,750,645	17,793,034
Less: Earned Revenue	6,337,619	4,733,985
Net Cost of Operations (Note 17)	\$ 13,413,026	\$ 13,059,049

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

Consolidated Statement of Changes in Net Position
for the years ended September 30, 2005 and 2004
(dollars in thousands)

	FY 2005	FY 2004
UNEXPENDED APPROPRIATIONS		
Beginning Balance	\$ 4,080,359	\$ 3,929,302
Budgetary Financing Sources		
Appropriations Received, General Funds	10,197,599	10,061,570
Appropriations Transferred In/Out	93,641	89,861
Appropriations-Used	(10,039,735)	(9,871,434)
Other Adjustments	(152,622)	(128,940)
Net Change	98,883	151,057
Ending Balance - Unexpended Appropriations	\$ 4,179,242	\$ 4,080,359
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	\$ 42,894,198	\$ 40,934,263
Adjustments		
Change in Accounting Principle (Note 24)	157,150	-
Beginning Balance, as adjusted	43,051,348	40,934,263
Budgetary Financing Sources		
Appropriations-Used	10,039,735	9,871,434
Royalties Retained (Note 15)	5,130,136	3,491,208
Non-Exchange Revenue	1,276,801	1,162,209
Transfers In/Out without Reimbursement	(58,601)	(40,424)
Donations and Forfeitures of Cash and Cash Equivalentts	33,159	24,491
Other Budgetary Financing Sources	51,040	2,422
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 18)	451,533	519,171
Transfers In/Out without Reimbursement	(31,041)	(27,222)
Donations and Forfeitures of Property	26,596	15,695
Total Financing Sources	16,919,358	15,018,984
Net Cost of Operations	(13,413,026)	(13,059,049)
Net Change	3,506,332	1,959,935
Ending Balance - Cumulative Results of Operations	\$ 46,557,680	\$ 42,894,198

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

Combined Statement of Budgetary Resources
for the years ended September 30, 2005 and 2004
(dollars in thousands)

	Total Budgetary Accounts		Non-Budgetary Credit Program Financing Accounts	
	FY 2005	FY 2004	FY 2005	FY 2004
Budgetary Resources:				
Budget Authority:				
Appropriations Received	\$ 16,085,947	\$ 14,712,390	\$ -	\$ -
Borrowing Authority	-	-	1,095	8,625
Net Transfers, Current Year Authority	(115,378)	(139,167)	-	-
Unobligated Balance:				
Beginning of Fiscal Year	5,209,456	4,905,271	76,836	67,678
Net Transfers, Unobligated Balance, Actual	665	25,980	-	-
Spending Authority From Offsetting Collections:				
Earned				
Collected	5,194,626	4,722,696	42,284	26,240
Receivable From Federal Sources	75,028	(4,537)	-	-
Change in Unfilled Customer Orders				
Advance Received	51,822	547,677	-	-
Without Advance From Federal Sources	270,854	28,869	-	-
Subtotal: Spending Authority From Offsetting Collections	5,592,330	5,294,705	42,284	26,240
Recoveries of Prior Year Obligations	411,226	393,579	9	26
Temporarily Not Available Pursuant to Public Law	(11,853)	(2,249)	-	-
Permanently Not Available	(347,464)	(177,829)	(18,282)	(6,189)
Total Budgetary Resources (Note 20)	\$ 26,824,929	\$ 25,012,680	\$ 101,942	\$ 96,380
Status of Budgetary Resources:				
Obligations Incurred:				
Direct	\$ 15,934,806	\$ 14,667,176	\$ 18,633	\$ 19,544
Reimbursable	5,179,194	5,136,048	-	-
Total Obligations Incurred (Note 20)	21,114,000	19,803,224	18,633	19,544
Unobligated Balance: (Note 20)				
Apportioned	5,556,737	5,072,733	83,309	76,836
Exempt From Apportionment	44,920	39,444	-	-
Unobligated Balance not Available (Note 20)	109,272	97,279	-	-
Total Status of Budgetary Resources	\$ 26,824,929	\$ 25,012,680	\$ 101,942	\$ 96,380
Relationship of Obligations to Outlays:				
Obligations Incurred	\$ 21,114,000	\$ 19,803,224	\$ 18,633	\$ 19,544
Obligated Balance, Net, Beginning of Fiscal Year	6,769,816	5,740,974	7,775	8,063
Obligated Balance, Net, End of Fiscal Year:				
Accounts Receivable	401,687	326,657	-	-
Unfilled Customer Orders From Federal Sources	823,076	552,221	-	-
Undelivered Orders	(7,067,043)	(6,288,774)	(4,005)	(3,952)
Accounts Payable	(1,490,176)	(1,359,920)	-	(3,823)
Total Obligated Balance, Net, End of Fiscal Year	(7,332,456)	(6,769,816)	(4,005)	(7,775)
Less: Spending Authority Adjustments	(757,106)	(417,910)	(9)	(26)
Outlays:				
Disbursements	19,794,254	18,356,472	22,394	19,806
Collections	(5,246,450)	(5,270,374)	(42,284)	(26,240)
Net Outlays Before Offsetting Receipts	14,547,804	13,086,098	(19,890)	(6,434)
Less: Offsetting Receipts	(5,904,495)	(4,269,067)	-	-
Net Outlays (Receipts)	\$ 8,643,309	\$ 8,817,031	\$ (19,890)	\$ (6,434)

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

Consolidated Statement of Financing
for the years ended September 30, 2005 and 2004
(dollars in thousands)

	FY 2005	FY 2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 21,132,633	\$ 19,822,768
Less: Spending Authority From Offsetting Collections/Recoveries	(6,045,849)	(5,714,550)
Obligations Net of Offsetting Collections and Recoveries	15,086,784	14,108,218
Less: Offsetting Receipts	(5,904,495)	(4,269,067)
Net Obligations	9,182,289	9,839,151
Other Resources:		
Donations and Forfeitures of Property	26,596	15,695
Transfers In/Out Without Reimbursement	(31,041)	(27,222)
Imputed Financing From Costs Absorbed by Others	451,533	519,171
Net Other Resources Used to Finance Activities	447,088	507,644
Total Resources Used to Finance Activities	9,629,377	10,346,795
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(803,973)	(968,242)
Increase in Unfilled Customer Orders	322,677	576,546
Resources That Fund Expenses Recognized in Prior Periods	(218,599)	(137,970)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	41,298	17,193
Offsetting Receipts Not Part of the Net Cost of Operations	3,504,679	2,832,565
Resources That Finance the Acquisition of Assets	(739,531)	(819,203)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(15,017)	37,256
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	2,091,534	1,538,145
Total Resources Used to Finance the Net Cost of Operations	11,720,911	11,884,940
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	9,056	17,922
Increase in Environmental and Disposal Liability	23,467	-
Upward/Downward Re-estimates in Credit Subsidy Expense	21,358	(335)
(Increase) Decrease in Exchange Revenue Receivable From the Public	9,308	(1,166)
Other	748,399	306,782
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	811,588	323,203
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	483,116	460,946
Revaluation of Assets or Liabilities	9,154	44,791
Allocation Transfers Reconciling Items (Note 21)	377,999	358,936
Other	10,258	(13,767)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	880,527	850,906
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	1,692,115	1,174,109
Net Cost of Operations	\$ 13,413,026	\$ 13,059,049

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

Consolidated Statement of Custodial Activity
for the years ended September 30, 2005 and 2004
(dollars in thousands)

	FY 2005	FY 2004
Revenues on Behalf of the Federal Government		
Mineral Lease Revenue		
Rents and Royalties	\$ 8,972,260	\$ 7,114,290
Onshore Lease Sales	1,658,786	383,945
Offshore Lease Sales	560,622	560,225
Strategic Petroleum Reserve (Note 19)	1,194,618	1,191,284
Total Revenue	\$ 12,386,286	\$ 9,249,744
Disposition of Revenue		
Distribution to Department of the Interior		
National Park Service Conservation Funds	1,048,870	1,049,000
Bureau of Reclamation	1,289,055	924,486
Minerals Management Service	1,762,092	1,300,525
Bureau of Land Management	81,408	16,216
Fish and Wildlife Service	1,036	737
Distribution to Other Federal Agencies		
Department of the Treasury	5,502,464	4,375,632
Department of Agriculture	50,860	25,232
Department of Commerce	1	-
Department of Energy (Note 19)	1,194,618	1,191,284
Distribution to Indian Tribes and Agencies	114,025	93,892
Distribution to States and Others	73,706	75,777
Change in Untransferred Revenue	1,268,151	196,963
Total Disposition of Revenue	\$ 12,386,286	\$ 9,249,744

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

U.S. Department of the Interior Notes to Principal Financial Statements For the fiscal years ended September 30, 2005 and 2004

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 22. The financial statements included herein also do not include the effects of centrally administered assets and liabilities related to the Federal Government as a whole, such as public borrowing or certain tax revenue, which may in part be attributable to the Interior.

B. Organization and Structure of Interior

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

- National Park Service (includes the Land and Water Conservation Fund and Historic Preservation Fund)
- Fish and Wildlife Service (includes the 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 2005 and FY 2004 financial statements and notes.

C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, custodial activities, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations of the Interior as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of the Interior in accordance with generally accepted accounting principles (GAAP), OMB Circular A-136, "Financial Reporting Requirements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information. Interior, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control Interior's use of budgetary resources.

OMB financial statement reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. Interior has presented comparative FY 2005 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 Consolidated Statement of Custodial Activity.

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

D. Fund Balance with Treasury and Cash

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

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

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

E. Investments, Net

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

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

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

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

The market value is estimated 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

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

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

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

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

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

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

H. Inventory and Related Property, Net

Interior's inventory and related property is primarily composed of published maps, gas and storage rights, 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.

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

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

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

Construction in Progress also includes projects in abeyance. In past years, the Interior began construction on 10 projects located in California, Colorado, Arizona, Washington, North Dakota, and South Dakota, for which activities were placed in abeyance. These projects were authorized to provide various benefits, among them irrigation, fish and wildlife conservation and enhancement, recreation, municipal water supplies, and flood control. Until congressional disposition of these assets is determined, maintenance costs have been and will continue to be budgeted and expended to minimize the erosive effects of time and weather and to keep the asset ready for completion.

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

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

The majority of public lands, presently under the management of Interior, were acquired by the Federal Government during the first century of the Nation's existence and are considered stewardship land. A portion

of these lands has been reserved as national parks, wildlife refuges, and wilderness areas, while the remainder is managed for multiple uses. Interior is also responsible for maintaining a variety of cultural and natural heritage assets, which include national monuments, historic structures, archeological sites, 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 and Disposal Liabilities. Interior has responsibility to remediate its sites with environmental contamination, and it is party to various administrative proceedings, legal actions, and tort claims which may result in settlements or decisions adverse to the Federal Government. Interior has accrued environmental liabilities where losses are determined to be probable and the amounts can be estimated. In accordance with Federal accounting guidance, the liability for future cleanup of environmental hazards is “probable” when the government is legally responsible for creating the hazard or is otherwise related to it in such a way that it is legally liable to clean up the contamination.

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

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

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

L. Revenues and Financing Sources

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

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

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

Non-exchange revenues result from donations to the government and from the government's sovereign right to demand payment, including taxes, fines for violation of environmental laws and Abandoned Mine Land duties charged per ton of coal mined. These revenues are not considered to reduce the cost of the Interior's operations and are reported on the Consolidated Statement of Changes in Net Position. The portion of Offsetting Receipts that is related to non-exchange revenue is disclosed as a reconciling item on the Statement of Financing as an item not part of the net cost of operations.

With minor exceptions, all receipts of revenues by Federal agencies are processed through the Treasury's central accounting system. Regardless of whether they derive from exchange or non-exchange transactions, all receipts that are not 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,” an other budgetary financing source on the Consolidated Statement of Changes in Net Position rather than on the Consolidated Statement of Net Cost, because MMS incurred minimal costs in earning this revenue.

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

Royalty-in-Kind (RIK). Interior, under the provisions of the Mineral Lands Leasing Act of 1920 and the Outer Continental Shelf Lands Act (OCSLA) of 1953, may take part or all of its oil and gas 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 Consolidated Statement of Custodial Activity.

Interior assists the Administration’s initiative to fill the Strategic Petroleum Reserve. Interior transfers to DOE royalty oil received-in-kind from Federal leases in the Gulf of Mexico. Interior determines the value of the commodity transferred using the fair market value on the date of transfer. Interior reports these transfers as mineral lease revenue and transfers to the DOE on the Consolidated 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.

Imputed Financing Sources. In certain instances, operating costs of Interior are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs, and certain legal judgments against Interior are paid from the Judgment Fund maintained by Treasury. When costs that are identifiable to Interior and directly attributable to Interior’s operations are paid for by other agencies, Interior recognizes these amounts as operating expenses. In addition,

Interior recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Interior operations by other Federal agencies.

Advances and Deferred Revenue. Advances and deferred revenue from the public represents funding received from certain power customers who benefit from current and future power deliveries. The repayments are recognized as revenue incrementally as power benefits are provided.

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

M. Personnel Compensation and Benefits

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

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

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

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

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

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

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

For FERS employees, Interior contributes an amount equal to 1% of the employee’s basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional 4% of pay. During FY 2005, FERS employees could contribute as much as 15% of their gross earnings to the plan. CSRS employees were limited to a contribution of 10% 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, 1985, by the NPS participate in the USPP Pension Plan, which is administered by the District of Columbia. Each in-service member contributes 7% of their gross earnings. The normal retirement benefit is 2.5% for each year of service up to 20 with an additional 3% for each year beyond 20, but no more than an aggregate of 80%. Retirement is permitted after 20 years of service but mandatory by the age of 60. Annual benefits paid from the USPP Pension Plan are funded on a pay-as-you-go basis through a permanent indefinite appropriation from the Treasury’s General Fund.

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

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

N. Federal Government Transactions

Interior’s financial activities interact with and are dependent upon the financial activities of the centralized management functions of the Federal Government. These activities include public debt and cash management activities and employee retirement, life insurance, and health benefit programs. The financial statements of

Interior do not contain the costs of centralized financial decisions and activities performed for the benefit of the entire government. However, expenses have been recognized as expenses incurred by other agencies on behalf of Interior, including settlement of claims and litigation paid by Treasury's Judgment Fund and the partial funding of employee benefits by OPM.

Transactions and balances among the Interior's entities have been eliminated from the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Circular A-136, 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 Circular A-136, 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. 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.

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

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

NPS adopted accounting guidance for concession assets effective October 1, 2004. As a result of adopting this guidance, NPS wrote off the concession assets previously accounted for as general property, plant, and equipment. The effect of this accounting change was not material to the FY 2005 financial statements.

P. 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.

Q. 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.

R. Reclassification

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

NOTE 2. FUND BALANCE WITH TREASURY

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

Fund Balance with Treasury by fund type as of September 30, 2005 and 2004 consists of the following:

(dollars in thousands)	FY 2005	FY 2004
General Funds	\$ 5,070,334	\$ 5,033,062
Special Funds	23,879,261	22,541,062
Revolving Funds	2,676,266	2,686,055
Trust Funds	214,102	199,996
Other Fund Types	191,169	405,969
Total Fund Balance with Treasury by Fund Type	\$ 32,031,132	\$ 30,866,144

Interior's fund types and purpose are described below:

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

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

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

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

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

Status of Fund Balance with Treasury as of September 30, 2005 and 2004 consists of the following:

(dollars in thousands)	FY 2005	FY 2004
Unobligated		
Available	\$ 3,883,467	\$ 3,887,867
Unavailable	207,134	210,974
Obligated Not Yet Disbursed	6,025,979	5,935,003
Subtotal	10,116,580	10,033,844
Fund Balance with Treasury Not Covered by Budgetary Resources		
Unavailable Receipt Accounts	21,735,627	20,435,653
Deposit Funds, Clearing, and Suspense Accounts	178,925	396,647
Subtotal	21,914,552	20,832,300
Total Status of Fund Balance with Treasury	\$ 32,031,132	\$ 30,866,144

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

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

NOTE 3. CASH

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

Cash as of September 30, 2005 and 2004 consists of the following:

(dollars in thousands)	FY 2005	FY 2004
Cash Not Yet Deposited to Treasury	\$ 622	\$ 417
Imprest Fund	648	664
Total Cash	\$ 1,270	\$ 1,081

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.

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

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

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

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

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

The Environmental Improvement and Restoration Fund (EIRF) is available for investment under the Interior and Related Agencies Appropriations Act of 1998. Congress has permanently appropriated 20 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 (NPS). In 1996 Congress approved, and President Clinton signed into law the "United States Commemorative Coin Act of 1996", mandating the minting and sale of several commemorative coins, including a National Law Enforcement Officers Memorial Silver Dollar. During FY 2005 the monies generated from the sale of the National Law Enforcement Officers Memorial Silver Dollars have been invested in a non-marketable, market-based, interest bearing security. During FY 2005, NPS redeemed a \$65 thousand non-marketable, market-based, interest bearing security for the benefit of the Abraham Lincoln Boyhood Home.

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

		FY 2005				
(dollars in thousands)	Investment Type	Cost	Net Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure	
U.S. Treasury Securities						
Bureau of Indian Affairs	Marketable	\$ 66,541	\$ -	\$ 66,541	\$ 66,541	
Bureau of Land Management	Non-Marketable, par value	1,734,975	10,790	1,745,765	1,739,828	
Departmental Offices						
Utah Reclamation Mitigation and Conservation Account	Non-Marketable, market-based	157,931	(2,248)	155,683	155,165	
Natural Resource Damage Assessment and Restoration Fund	Non-Marketable, market-based	179,107	(1,225)	177,882	160,500	
Tribal Trust and Special Funds	Non-Marketable, market-based	26,333	-	26,333	26,336	
	Marketable	55,487	(215)	55,272	55,076	
Minerals Management Service - Restricted	Non-Marketable, market-based	1,032,450	(6,803)	1,025,647	1,014,909	
Minerals Management Service - Custodial	Non-Marketable, market-based	57,214	106	57,320	57,261	
National Park Service	Non-Marketable, market-based	1,370	-	1,370	1,370	
Office of Surface Mining	Non-Marketable, market-based	2,132,891	376	2,133,267	2,122,530	
U.S. Fish and Wildlife Service	Non-Marketable, market-based	450,309	1,337	451,646	446,705	
U.S. Fish and Wildlife Service - Aquatic Resources Trust Fund	Non-Marketable, market-based	1,543,745	983	1,544,728	1,473,847	
Total U.S. Treasury Securities		7,438,353	3,101	7,441,454	7,320,068	
Accrued Interest		22,215	-	22,215	-	
Total Non-Public Investments		7,460,568	3,101	7,463,669	7,320,068	
Public Securities						
Bureau of Indian Affairs	Marketable	1,065	-	1,065	1,066	
Departmental Offices - Tribal Trust and Special Funds	Marketable	196,166	431	196,597	193,790	
Total Public Securities		197,231	431	197,662	194,856	
Accrued Interest		1,463	-	1,463	-	
Total Public Investments		198,694	431	199,125	194,856	
Total Investments		\$ 7,659,262	\$ 3,532	\$ 7,662,794	\$ 7,514,924	

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

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

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

FY 2004						
(dollars in thousands)	Investment Type	Cost	Net 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 Resource 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 - Restricted	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	2,051,753	
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	6,184,657	
Accrued Interest		18,360	-	18,360	-	
Total Non-Public Investments		6,206,682	(19,353)	6,187,329	6,184,657	
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	\$ 6,375,414	

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 ARTE.

B. Investments in Public Securities

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

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

NOTE 5. ACCOUNTS AND INTEREST RECEIVABLE, NET

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

(dollars in thousands)	FY 2005	FY 2004
Accounts and Interest Receivable from the Public		
Current	\$ 131,278	\$ 114,635
1 - 180 Days Past Due	129,914	25,607
181 - 365 Days Past Due	12,306	49,434
1 to 2 Years Past Due	26,885	77,534
Over 2 Years Past Due	98,954	223,444
Total Billed Accounts and Interest Receivable - Public	399,337	490,654
Unbilled Accounts and Interest Receivable	2,454,061	1,172,570
Total Accounts and Interest Receivable - Public	2,853,398	1,663,224
Allowance for Doubtful Accounts - Public	(192,832)	(315,583)
Total Accounts and Interest Receivable - Public Net of Allowance	\$ 2,660,566	\$ 1,347,641
Change in Allowance for Doubtful Accounts - Public		
Allowance for Doubtful Accounts, beginning	315,583	346,710
Additions	37,727	9,728
Deletions	(160,478)	(40,855)
Allowance for Doubtful Accounts, ending	\$ 192,832	\$ 315,583

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 allocation to the construction of reimbursable irrigation and M&I facilities. Also, power-marketing agencies enter into agreements with power users to recover capital investment costs allocated to power, on BOR's behalf. Costs associated with multipurpose plants are allocated to the various purposes through a cost allocation process. Generally, only those costs associated with power, irrigation, and M&I water are reimbursable. The typical repayment contract is up to 40 years, but may extend to 50 years or more if authorized by the Congress.

Unmatured repayment contracts are recognized on the 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, 2005 and 2004, amounts not yet earned under unmaturing repayment contracts were \$2.5 billion and \$2.7 billion respectively.

Due from Federal Agencies, Net. Accounts receivable due from Federal agencies arise from the sale of products

and services to other Federal agencies, including the sale of maps, the performance of environmental and scientific services, and administrative and other services. These reimbursable arrangements generally reduce the duplication of effort within the Federal Government resulting in a lower cost of Federal programs and services. Substantially all receivables from other Federal agencies are considered to be collectible, as there is no credit risk. However, an allowance for doubtful accounts is used occasionally to recognize billing disputes.

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

(dollars in thousands)	FY 2005	FY 2004
Accounts and Interest Receivable from Federal Agencies		
Current	\$ 18,562	\$ 40,963
1 - 180 Days Past Due	2,079	519
181 - 365 Days Past Due	93	399
1 to 2 Years Past Due	65	235
Over 2 Years Past Due	260	72
Total Billed Accounts and Interest Receivable - Federal	21,059	42,188
Unbilled Accounts and Interest Receivable	487,618	305,846
Total Accounts and Interest Receivable - Federal	508,677	348,034
Allowance for Doubtful Accounts - Federal	-	-
Total Accounts and Interest Receivable - Federal, Net of Allowance	\$ 508,677	\$ 348,034

NOTE 6. INTRAGOVERNMENT LOANS AND INTEREST RECEIVABLE, NET

Intragovernment Loans and Interest Receivable, as of September 30, 2005 and 2004, are summarized as follows:

(dollars in thousands)	FY 2005	FY 2004
Principal	\$ 7,771,518	\$ -
Interest	1,928,373	-
Cumulative Repayments	(7,220,114)	-
Allowance for Non-Reimbursable Costs	(21,702)	-
Intragovernmental Loans and Interest Receivable, Net	\$ 2,458,075	\$ -

Interest rates vary by project and pertinent legislation, and range from 1.25% to 12.4% for the year ended September 30, 2005. Repayment terms are generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. There is no Intragovernmental Loans and Interest Receivable balance in FY 2004 because Interior changed its accounting method for its receivables with Western and BPA in FY 2005. Refer to Note 24 for more detail.

NOTE 7. LOANS AND INTEREST RECEIVABLE, NET

Direct loans and loan guarantees made prior to FY 1992 were funded by congressional appropriation from the general or special funds. These loans, referred to as liquidating loans, are reported net of an allowance for estimated uncollectible loans.

Direct loans and loan guarantees made after FY 1991 are accounted for in accordance with the requirements of the Credit Reform Act of 1990 and are referred to as credit reform loans. Under credit reform, loans are comprised of two components. The first component is borrowed from Treasury with repayment provisions. The second component is for the subsidized portion of the loan and is funded by congressional appropriation. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with the direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. While this component

is not subject to repayment, the loan program receives appropriations to fund any increases in subsidy due to interest rate fluctuations and changes in default rate estimates. In FY 2005, there were no changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

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

BIA and 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 direct loans or guarantees for loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans or guarantees for loans reported in the current year could result from disbursements of loans from both the current year and prior year cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

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

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

Bureau of Reclamation. 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, the Rural Development and Policy Act of 1980, and the Rehabilitation and Betterment Act. The loan programs are classified into two categories, credit reform loans and other loans made prior to the Credit Reform Act.

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

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

The subsidy expense reported for FY 2005 includes interest and technical reestimates. These reestimates resulted in a net increase to the subsidy cost allowance of \$20.6 million for the period ended September 30,

2005. The technical reestimate adjusted for differences between the projected cash flows that were expected versus actual cash flows. The interest reestimate adjusted the subsidy allowance to provide for the prevailing interest rate at the time the loans were disbursed versus the interest rates assumed in the budget preparation process.

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

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

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

National Park Service. The NPS has a single non-interest bearing loan with the Wolf Trap Foundation for the Performing Arts with an original loan principal totaling \$8.5 million. The loan principal is to be repaid to the NPS within 25 years from June 1, 1991. The loan principal is repaid in equal annual installments of approximately \$360,000, except for the first three annual payments of \$215,000 per year. Repayment of the loan principal may include a credit of up to \$60,000 annually, for public service tickets given to entities exempt from taxation pursuant to section 501(c) (3) of the Internal Revenue Code of 1986. In FY 2005 and 2004, the NPS granted the full \$60,000 credit to Wolf Trap. The monies received for repayment of this loan may be retained until expended by the Secretary of the Interior in consultation with the Wolf Trap Foundation for the maintenance of structures, facilities, and equipment of the park.

Credit Reform balances, as of September 30, 2005 and 2004, are summarized as follows:

(dollars in thousands)

A. Direct Loan and Loan Guarantee Program Names:	FY 2005	FY 2004
Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	\$ 18,378	\$ 22,826
Bureau of Indian Affairs - Direct Loans (Credit Reform)	8,890	9,920
Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	317	558
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	546	254
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	53,598	56,753
Bureau of Reclamation - Direct Loans (Credit Reform)	92,870	110,147
Departmental Offices - Virgin Island (Pre-Credit Reform)	5,658	7,824
Departmental Offices - American Samoa Government (Credit Reform)	-	15,274
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	3,598	3,958
Total Loans and Interest Receivable, Net	\$ 183,855	\$ 227,514

(dollars in thousands)

Direct Loans

B. Direct Loans Obligated Prior to FY 1992:

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

Direct Loan Programs	Loans		Allowance For Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
	Receivable, Gross	Interest Receivable			
Bureau of Indian Affairs - Direct Liquidating Loans (Pre-Credit Reform)	\$ 17,154	\$ 4,812	\$ (3,588)	\$ -	\$ 18,378
Bureau of Reclamation - Direct Loans (Pre-Credit Reform)	60,775	78	(7,255)	-	53,598
Departmental Offices - Virgin Island (Pre- Credit Reform)	5,523	135	-	-	5,658
National Park Service - Wolf Trap Foundation (Pre-Credit Reform)	3,598	-	-	-	3,598
FY 2005 Total	\$ 87,050	\$ 5,025	\$ (10,843)	\$ -	\$ 81,232

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

(dollars in thousands)

C. Direct Loans Obligated After FY 1991:

Direct Loan Programs	Loans		Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
	Receivable, Gross	Interest Receivable			
Bureau of Indian Affairs - Direct Loans (Credit Reform)	\$ 7,773	\$ 461	\$ -	\$ 656	\$ 8,890
Bureau of Reclamation - Direct Loans (Credit Reform)	117,881	-	-	(25,011)	92,870
Departmental Offices - American Samoa Government (Credit Reform)	17,324	626	-	(17,950)	-
FY 2005 Total	\$ 142,978	\$ 1,087	\$ -	\$ (42,305)	\$ 101,760

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

(dollars in thousands)

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

Direct Loan Programs	FY 2005	FY 2004
Bureau of Reclamation - Direct Loans (Credit Reform)	\$ 10	\$ 4,111
Total	\$ 10	\$ 4,111

(dollars in thousands)

E. Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Direct Loans Disbursed:

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

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

Modifications and Reestimates

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bureau of Indian Affairs - Direct Loans (Credit Reform)	\$ -	\$ 51	\$ 3	\$ 54
Bureau of Reclamation - Direct Loans (Credit Reform)	-	3,120	17,224	20,344
Departmental Offices - American Samoa Government (Credit Reform)	15,387	-	-	15,387
FY 2005 Total	\$ 15,387	\$ 3,171	\$ 17,227	\$ 35,785
Bureau of Indian Affairs - Direct Loans (Credit Reform)	\$ -	\$ -	\$ 267	\$ 267
Bureau of Reclamation - Direct Loans (Credit Reform)	-	-	-	-
Departmental Offices - American Samoa Government (Credit Reform)	-	(1,297)	962	(335)
FY 2004 Total	\$ -	\$ (1,297)	\$ 1,229	\$ (68)

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2005	FY 2004
Bureau of Indian Affairs - Direct Loans (Credit Reform)	\$ 54	\$ 267
Bureau of Reclamation - Direct Loans (Credit Reform)	20,344	2
Departmental Offices - American Samoa Government (Credit Reform)	-	(335)
Total	\$ 20,398	\$ (66)

(dollars in thousands)

F. Subsidy Rates for Direct Loans by Program and Component:

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

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Bureau of Reclamation - Direct Loans (Credit Reform)	0.0%	0.0%	0.0%	0.0%	0.0%
Departmental Offices - American Samoa Government (Credit Reform)	0.0%	0.0%	0.0%	0.0%	0.0%
FY 2004 Total	0.0%	0.0%	0.0%	0.0%	0.0%

(dollars in thousands)

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

	FY 2005	FY 2004
Beginning balance of the subsidy cost allowance	\$ 12,333	\$ 32,385
Add: Subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	-	2
Total of the above subsidy expense components	-	2
Adjustments:		
(a) Loans written off	14,540	(15,410)
(b) Subsidy allowance amortization	(4,852)	(4,406)
(c) Other	(113)	(170)
Ending balance of the subsidy cost allowance before reestimates	21,908	12,401
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	3,171	(1,297)
(b) Technical/default reestimate	17,227	1,229
Total of the above reestimate components	20,398	(68)
Ending balance of the subsidy cost allowance	\$ 42,306	\$ 12,333

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

(dollars in thousands)

Defaulted Guaranteed Loans

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

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

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

(dollars in thousands)

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

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans, Receivable, Net
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	\$ 4,930	\$ 1,052	\$ -	\$ (5,436)	\$ 546
FY 2005 Total	\$ 4,930	\$ 1,052	\$ -	\$ (5,436)	\$ 546
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	\$ 2,148	\$ 779	\$ -	\$ (2,673)	\$ 254
FY 2004 Total	\$ 2,148	\$ 779	\$ -	\$ (2,673)	\$ 254

(dollars in thousands)

Loan Guarantees

J. Guaranteed Loans Outstanding as of September 30, 2005:

Loan Guarantee Programs		Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Pre-1992		\$ 5,301	\$ 4,753
FY 1992		705	625
FY 1993		1,417	1,227
FY 1994		10,859	9,761
FY 1995		2,396	1,946
FY 1996		6,594	5,934
FY 1997		6,335	5,587
FY 1998		4,687	4,199
FY 1999		26,936	24,007
FY 2000		41,953	37,724
FY 2001		24,116	21,303
FY 2002		29,665	26,088
FY 2003		46,623	41,793
FY 2004		71,912	64,265
FY 2005		28,697	25,815
Total		\$ 308,196	\$ 275,027

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 2005 for Prior Years	\$ 24,305	\$ 21,874
	Amount Paid in FY 2005 for 2005 Guarantees	28,725	25,852
FY 2005	Total	\$ 53,030	\$ 47,726
	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

(dollars in thousands)

K. Liability for Loan Guarantees:

Loan Guarantee Programs		Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees):				
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	\$ -	\$ 81,670	\$ 81,670
FY 2005	Total	\$ -	\$ 81,670	\$ 81,670
	Bureau of Indian Affairs - Guaranteed Liquidating Loans (Pre-Credit Reform)	\$ -	\$ 60,081	\$ 60,081
FY 2004	Total	\$ -	\$ 60,081	\$ 60,081

(dollars in thousands)

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

Loan Guarantee Programs		Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Subsidy Expense for New Loan Guarantees:						
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	\$ 2,414	\$ 2,011	\$ (954)	\$ -	\$ 3,471
FY 2005	Total	\$ 2,414	\$ 2,011	\$ (954)	\$ -	\$ 3,471
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	\$ 3,976	\$ 3,220	\$ (1,592)	\$ -	\$ 5,604
FY 2004	Total	\$ 3,976	\$ 3,220	\$ (1,592)	\$ -	\$ 5,604

Modifications and Reestimates:

Loan Guarantee Programs		Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	\$ -	\$ 3,760	\$ 14,955	\$ 18,715
FY 2005	Total	\$ -	\$ 3,760	\$ 14,955	\$ 18,715
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	\$ -	\$ -	\$ 451	\$ 451
FY 2004	Total	\$ -	\$ -	\$ 451	\$ 451

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs		FY 2005	FY 2004
	Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	\$ 22,186	\$ 6,055
	Total	\$ 22,186	\$ 6,055

(dollars in thousands)

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)	4.5%	4.1%	-1.8%	0.0%	6.8%
FY 2005 Total	4.5%	4.1%	-1.8%	0.0%	6.8%
Bureau of Indian Affairs - Guaranteed Loans (Credit Reform)	4.7%	3.3%	-1.8%	0.0%	6.2%
FY 2004 Total	4.7%	3.3%	-1.8%	0.0%	6.2%

(dollars in thousands)

N. Schedule for Reconciling Loan Guarantee Liability Balances

	FY 2005	FY 2004
Beginning balance of the loan guarantee liability	\$ 60,081	\$ 52,185
Add: Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	2,415	3,976
(b) Default costs (net of recoveries)	2,011	3,220
(c) Fees and other collections	(954)	(1,592)
Total of the above subsidy expense components	3,472	5,604
Adjustments:		
(a) Fees received	951	1,422
(b) Interest supplements paid	(1,657)	(1,564)
(c) Claim payments to lenders	(2,848)	(1,281)
(d) Interest accumulation on the liability balance	2,956	3,264
Ending balance of the loan guarantee liability before reestimates	62,955	59,630
Add or subtract subsidy reestimates by component:		
(a) Interest rate re-estimate	3,760	-
(b) Technical/default reestimate	14,955	451
Total of the above reestimate components	18,715	451
Ending balance of the loan guarantee liability	\$ 81,670	\$ 60,081

(dollars in thousands)

O. Administrative Expense:

	Direct Loan Programs		Loan Guarantee Programs	
	Bureau of Reclamation - Direct Loans (Credit Reform)	\$ 78	Bureau of Indian Affairs - Guaranteed Loan Programs	\$ 1,151
	Departmental Offices - American Samoa Government (Credit Reform)	-		-
FY 2005	Total	\$ 78		\$ 1,151
	Bureau of Reclamation - Direct Loans (Credit Reform)	\$ 113	Bureau of Indian Affairs - Guranteed Loan Programs	\$ 4,405
	Departmental Offices - American Samoa Government (Credit Reform)	836		-
FY 2004	Total	\$ 949		\$ 4,405

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Inventory and Related Property as of September 30, 2005 and 2004 consists of the following:

(dollars in thousands)	FY 2005	FY 2004
Inventory		
Published Maps Held for Current/Future Sale	\$ 9,675	\$ 10,070
Raw Materials Held for Use	-	1,252
Gas and Storage Rights held for Current / Future Sales	1,055	1,055
Airplane Parts Held for Use	429	19
Aviation Fuel Held for Use	100	548
Operating Materials		
Working Capital Fund: Inventory, Held for Use	306	444
Stockpile Materials		
Recoverable Below-Ground Crude Helium, Held in Reserve	303,018	319,821
Total Inventory and Related Property	314,583	333,209
Allowance for Obsolescence	(8,888)	(8,890)
Net Inventory and Related Property	\$ 305,695	\$ 324,319

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

General Property, Plant, and Equipment, consists of that property which is used in operations and, with some exceptions, consumed over time. Property, Plant, and Equipment categories, with corresponding accumulated depreciation, as of September 30, 2005 and 2004, are shown in the following tables.

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

(dollars in thousands)	Acquisition Cost	Accumulated Depreciation	FY 2004 Net Book Value
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

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 23, 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, 2005 are summarized into the following categories:

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

The Interior's assets as of September 30, 2004, 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	120,358	9,827	217,849	348,034
Other				
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
Net Power Rights	170,371	-	-	170,371
Subtotal	296,950	-	-	296,950
Stewardship Assets				
TOTAL ASSETS	\$ 32,526,048	\$ 21,943,281	\$ 2,476,949	\$ 56,946,278

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, 2005 and 2004, is summarized as follows:

(dollars in thousands)	FY 2004 Beginning Balance	Borrowing / (Repayments), Net	FY 2004 Ending Balance	Borrowing / (Repayments), Net	FY 2005 Ending Balance
Helium Fund	\$ 1,199,204	\$ (60,000)	\$ 1,139,204	\$ (65,000)	\$ 1,074,204
Credit Reform Borrowings	155,643	2,391	158,034	(17,236)	140,798
Federal Financing Bank	9,605	(1,964)	7,641	(2,118)	5,523
Total Debt Due to Treasury	\$ 1,364,452	\$ (59,573)	\$ 1,304,879	\$ (84,354)	\$ 1,220,525

A. Helium Fund - Bureau of Land Management

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

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

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

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

Debt related to the Helium Fund, as of September 30, 2005 and 2004, is summarized as follows:

(dollars in thousands)	FY 2005	FY 2004
Principal	\$ 251,651	\$ 251,651
Interest		
Balance, Beginning of Year	887,553	947,553
Repayments	(65,000)	(60,000)
Balance, End of Year	822,553	887,553
Total Debt Due to Treasury	\$ 1,074,204	\$ 1,139,204

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 2006 to 2028.

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

Federal Employee and Veteran Benefits Payable, as of September 30, 2005 and 2004, consisted of the following:

(dollars in thousands)	FY 2005	FY 2004
Federal Employee and Veteran Benefits Payable		
U.S. Park Police Pension Actuarial Liability	\$ 678,400	\$ 639,500
Federal Employees Compensation Actuarial Liability	689,305	664,855
Total Federal Employee and Veteran Benefits Payable	\$ 1,367,705	\$ 1,304,355

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

In FY 2004, NPS used OPM's assumptions for interest, inflation, and salary increases to calculate the actuarial USPP Pension Plan Liability and associated expense. However, OPM subsequently adjusted their assumptions which caused NPS's assumptions to differ slightly. The impact on the actuarial USPP Pension Plan liability and associated expense, because of the difference, is not significant.

Economic Assumptions Used	FY 2005	FY 2004
Interest Rate	6.25	6.75
Inflationary Rate	3.25	3.75
Projected Salary Increase	4.00	4.25

(dollars in thousands)

UPP Pension Plan Expense	FY 2005	FY 2004
Normal Costs	\$ 1,700	\$ 1,600
Interest	42,300	41,500
Assumption Changes at Beginning of Year	24,549	(25,305)
Total Pension Expenses	\$ 68,549	\$ 17,795

(dollars in thousands)

USPP Pension Plan Liability	FY 2005	FY 2004
Beginning Balance	\$ 639,500	\$ 649,300
Total Pension Expense	68,549	17,795
Less Benefit Payments	(29,649)	(27,595)
Ending Balance	\$ 678,400	\$ 639,500

NOTE 13. CONTINGENT LIABILITIES AND ENVIRONMENTAL AND DISPOSAL 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 Contingent Liabilities and Environmental and Disposal Liabilities as of September 30, 2005 and 2004, are summarized in the categories below:

(dollars in thousands)	FY 2005 Accrued Liabilities	Estimated Range of Loss	
		Lower End of	Upper End of
Contingent Liabilities			
Probable	\$ 631,174	\$ 631,174	\$ 1,627,889
Reasonably Possible		325,728	1,588,978
Environmental and Disposal Liabilities			
Probable	120,808	120,808	171,077
Reasonably Possible		60,427	239,978
Total Contingent Liabilities and Environmental and Disposal Liabilities	\$ 751,982	\$ 1,138,137	\$ 3,627,922

(dollars in thousands)	FY 2004 Accrued Liabilities	Estimated Range of Loss	
		Lower End of	Upper End of
Contingent Liabilities			
Probable	\$ 760,482	\$ 760,482	\$ 1,472,173
Reasonably Possible		393,058	1,744,240
Environmental and Disposal Liabilities			
Probable	101,808	101,808	132,463
Reasonably Possible		71,286	357,131
Total Contingent Liabilities and Environmental and Disposal Liabilities	\$ 862,290	\$ 1,326,634	\$ 3,706,007

Environmental and Disposal Liability. Interior is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operations and closure of facilities at which environmental contamination may be present. The major Federal laws covering environmental response, cleanup and monitoring are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), Oil Pollution Act (OPA), Clean Water Act (CWA), Clean Air Act (CAA), Safe Drinking Water Act (SDWA), and Asbestos Hazard Emergency Response Act (AHERA). Responsible parties, which may include Federal agencies under certain circumstances, are required to remove releases of hazardous substances 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. Estimated environmental and disposal liabilities include expected future cleanup costs, and for those sites where future liability is unknown, the cost of studies necessary to evaluate response requirements.

Certain Departmental facilities may have regulated materials, e.g., asbestos, used in the construction or later renovation of the facility. These materials, while in an undisturbed or encapsulated state (e.g., non-friable asbestos), are not subject to cleanup under applicable law. 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 issues with Indian trust fund accounting and management. Currently, there is litigation pending related to trust management for both Indian tribes and individuals.

Twenty-five 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 19 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.

In addition, a 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. Accounting efforts to date have not revealed evidence of material systemic errors.

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

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

Matters for which the likelihood of an unfavorable outcome is less than probable but more than remote involve a wide variety of allegations and claims, 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 a municipal water conservation district regarding repayment obligation for costs of the Central Arizona Project and issues related to project operation; and (4) claims for wrongful death and injuries in a fatal shooting by BIA officers responding on a reservation to a domestic dispute call. 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.

NOTE 14. LIABILITIES ANALYSIS

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

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

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

(dollars in thousands)	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2005
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	\$ 79,881	\$ -	\$ -	\$ -	79,881
Debt	50,000	1,164,867	717	4,941	1,220,525
Other					
Resources Payable to Treasury	-	-	49,974	1,966,860	2,016,834
Advances and Deferred Revenue	1,624,228	-	1,146	1,150	1,626,524
Custodial Liability	-	-	996,371	-	996,371
Other Liabilities					
Accrued Employee Benefits	38,220	-	18,869	32,890	89,979
Aquatic Resources Due to Others	-	-	-	439,929	439,929
Judgment Fund	-	-	-	180,510	180,510
Unfunded FECA Liability	-	-	34,886	56,458	91,344
Other Miscellaneous Liabilities	2	-	88,555	47,009	135,566
Total Other Liabilities	38,222	-	142,310	756,796	937,328
Total Other Intragovernmental Liabilities	1,662,450	-	1,189,801	2,724,806	5,577,057
Total Intragovernmental Liabilities	1,792,331	1,164,867	1,190,518	2,729,747	6,877,463
Public Liabilities:					
Accounts Payable	1,010,546	77,172	-	-	1,087,718
Loan Guarantee Liability	-	81,670	-	-	81,670
Federal Employee and Veterans' Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	678,400	678,400
FECA Actuarial Liability	-	-	-	689,305	689,305
Total Federal Employee Veterans' Benefits	-	-	-	1,367,705	1,367,705
Environmental and Disposal Liabilities	-	1,540	-	119,268	120,808
Other					
Contingent Liabilities	-	-	3,190	627,984	631,174
Advances and Deferred Revenue	142,379	-	42,411	304,676	489,466
Payments Due to States	-	-	1,009,418	-	1,009,418
Other Liabilities					
Accrued Payroll and Benefits	195,305	-	-	-	195,305
Unfunded Annual Leave	-	-	2,986	345,466	348,452
Deposit Funds	5,286	-	162,213	8,984	176,483
Capital Leases	-	-	51	26,252	26,303
Custodial Liability	-	-	23,303	-	23,303
Secure Rural Schools Act Payable	-	-	106,810	-	106,810
Storm Damage	4,646	-	26,206	64,488	95,340
Other Miscellaneous Liabilities	24,940	-	612	34,008	59,560
Total Other Liabilities	230,177	-	322,181	479,198	1,031,556
Total Other Public Liabilities	372,556	-	1,377,200	1,411,858	3,161,614
Total Public Liabilities	1,383,102	160,382	1,377,200	2,898,831	5,819,515
Total Liabilities	\$ 3,175,433	\$ 1,325,249	\$ 2,567,718	\$ 5,628,578	\$ 12,696,978

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

(dollars in thousands)	Covered by Budgetary Resources		Not Covered by Budgetary Resources		FY 2004
	Current	Non-Current	Current	Non-Current	
Intragovernmental Liabilities:					
Accounts Payable	\$ 76,826	\$ -	\$ -	\$ -	76,826
Debt	51,065	1,245,989	1,501	6,324	1,304,879
Other					
Resources Payable to Treasury	-	-	231	25,994	26,225
Advances and Deferred Revenue	1,754,257	-	1,630	1,114	1,757,001
Custodial Liability	-	-	671,478	-	671,478
Other Liabilities					
Accrued Employee Benefits	32,953	-	27,179	49,547	109,679
Aquatic Resources Due to Others	-	-	-	420,896	420,896
Judgment Fund	-	-	-	178,879	178,879
Unfunded FECA Liability	-	-	23,383	38,030	61,413
Other Miscellaneous Liabilities	-	-	77,410	54,253	131,663
Total Other Liabilities	32,953	-	127,972	741,605	902,530
Total Other Intragovernmental Liabilities	1,787,210	-	801,311	768,713	3,357,234
Total Intragovernmental Liabilities	1,915,101	1,245,989	802,812	775,037	4,738,939
Public Liabilities:					
Accounts Payable	1,024,845	-	-	-	1,024,845
Loan Guarantee Liability	-	60,081	-	-	60,081
Federal Employee and Veterans' Benefits					
U.S. Park Police Pension Actuarial Liability	-	-	-	639,500	639,500
FECA Actuarial Liability	-	-	-	664,855	664,855
Total Federal Employee Veterans' Benefits	-	-	-	1,304,355	1,304,355
Environmental and Disposal Liabilities	-	6,006	-	95,802	101,808
Other					
Contingent Liabilities	-	-	762	759,720	760,482
Advances and Deferred Revenue	268,277	-	25,816	152,276	446,369
Payments Due to States	-	-	412,880	-	412,880
Other Liabilities					
Accrued Payroll and Benefits	158,619	-	-	2,468	161,087
Unfunded Annual Leave	-	-	2,883	336,447	339,330
Deposit Funds	-	-	358,419	11,022	369,441
Capital Leases	-	-	2,072	24,931	27,003
Custodial Liability	-	-	24,681	-	24,681
Secure Rural Schools Act Payable	-	-	102,387	-	102,387
Storm Damage	-	-	21,188	26,812	48,000
Other Miscellaneous Liabilities	-	-	58	49,975	50,033
Total Other Liabilities	158,619	-	511,688	451,655	1,121,962
Total Other Public Liabilities	426,896	-	951,146	1,363,651	2,741,693
Total Public Liabilities	1,451,741	66,087	951,146	2,763,808	5,232,782
Total Liabilities	\$ 3,366,842	\$ 1,312,076	\$ 1,753,958	\$ 3,538,845	\$ 9,971,721

NOTE 15. ROYALTIES RETAINED

Royalties Retained include mineral receipts transferred to the Interior totaling \$5,130 and \$3,491 million for the fiscal years ended September 30, 2005 and 2004, respectively. These amounts include transfers to the Land and Water Conservation Fund, to MMS for distribution to States, and to offset costs incurred by MMS related to royalty collections and the Reclamation Fund. These amounts are presented on the Consolidated Statement of Changes in Net Position in accordance with Federal accounting standards and are considered other sources of budgetary financing.

MMS received \$2,229 million and \$1,347 million of revenues in FY 2005 and 2004 that they subsequently provided to the states.

NOTE 16. LEASES**Capital Leases**

Capital leases as of September 30, 2005 and 2004 consist of the following:

(dollars in thousands)	FY 2005	FY 2004
Real Property	\$ 28,000	\$ 28,000
Personal Property	179	185
Accumulated Amortization	(3,614)	(2,185)

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

(dollars in thousands)	Real Property	Personal Property	Total
Fiscal Year			
2006	\$ 1,997	\$ 27	\$ 2,024
2007	1,997	22	2,019
2008	2,085	19	2,104
2009	2,172	-	2,172
2010	2,172	-	2,172
Thereafter	29,627	-	29,627
Total Future Capital Lease Payments	40,050	68	40,118
Less: Imputed Interest	13,799	16	13,815
Less: Executory Costs	-	-	-
FY 2005 Net Capital Lease Liability	\$ 26,251	\$ 52	\$ 26,303
FY 2004 Net Capital Lease Liability	\$ 26,929	\$ 74	\$ 27,003

Operating Leases

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

(dollars in thousands)	Real Property		Personal Property		Total
Fiscal Year	Federal	Public	Federal	Public	
2006	\$ 264,896	\$ 46,280	\$ 49,852	\$ 4,297	\$ 365,325
2007	252,269	42,953	51,048	3,696	349,966
2008	246,483	40,721	52,269	3,666	343,139
2009	227,333	39,899	53,524	3,490	324,246
2010	221,114	38,081	54,809	3,336	317,340
Thereafter	339,785	320,927	13,878	-	674,590
Total Future Operating Lease Payments	\$ 1,551,880	\$ 528,861	\$ 275,380	\$ 18,485	\$ 2,374,606

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 1.5 percent for FY 2006 and 2.4 percent for years 2007 and beyond. The inflationary factors are applied against the actual 2005 rental expense. For operating leases that have an indefinite period of performance, future lease payments are only calculated for 5 years.

NOTE 17. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

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

Responsibility Segment Presentation. OMB Circular A-136 "Financial Reporting Requirements" requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Interior presented the earned revenue and gross costs in FY 2005 and FY 2004 by the Mission Goals in the FY 2004 Strategic Plan. 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.

During FY 2005, some Interior components changed their methodology for allocating costs to Interior's Mission Goals in order to more closely match their strategic and performance plans. The Resource Use mission is the only goal that is not affected by this change. This is a prospective change.

Intragovernmental Costs/Revenue. OMB Circular A-136 has changed the disclosure requirements for transactions between Federal entities and with the public. Under the revised guidance, Interior will present costs associated with Federal agencies, as well as costs associated with the public. This presentation is different from how costs were previously reported. Specifically, in prior years, Interior presented the estimated costs associated with earning revenue from Federal or public sources rather than amounts associated with Federal agencies or with the public. Total costs remain unchanged. Due to the change in the presentation of intragovernmental and public costs, Interior's FY 2004 Consolidated Statement of Net Cost has been reclassified to correspond to the new presentation.

NOTE 18. COSTS

By law, the 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 the Interior and are not reflected in the Interior's financial condition and results. However, in certain cases, other Federal agencies incur costs that are directly identifiable to the Interior operations, including payment of claims and litigation by Treasury's Judgment Fund, and the partial funding of retirement benefits by the OPM. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting," the Interior recognizes identified costs paid for the Interior by other agencies as expenses of the 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 the Interior were \$452 million and \$519 million during FY 2005 and FY 2004, respectively. The 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 \$184 million and \$163 million for FY 2005 and FY 2004, respectively.

During FY 2005 and FY 2004, the costs associated with acquiring, constructing, and renovating heritage assets were \$175 million and \$118 million, respectively. The costs associated with acquiring and improving stewardship lands were \$240 million and \$200 million during FY 2005 and FY 2004, respectively.

(dollars in thousands)	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
Resource Protection				
Intragovernmental Costs	\$ -	\$ 86,741	\$ 16,031	\$ 12,989
Public Costs	-	277,431	25,459	14,722
Total Costs	-	364,172	41,490	27,711
Intragovernmental Earned Revenue	-	40,518	7,456	3,613
Public Earned Revenue	-	1,186,084	1,035	-
Total Earned Revenue	-	1,226,602	8,491	3,613
Net Costs	-	(862,430)	32,999	24,098
Resource Use				
Intragovernmental Costs	-	83,043	426,180	1,339
Public Costs	-	263,143	896,358	4,489
Total Costs	-	346,186	1,322,538	5,828
Intragovernmental Earned Revenue	-	2,468	262,414	102
Public Earned Revenue	-	217,766	605,780	-
Total Earned Revenue	-	220,234	868,194	102
Net Costs	-	125,952	454,344	5,726
Recreation				
Intragovernmental Costs	-	30,327	8,548	-
Public Costs	-	157,457	19,173	-
Total Costs	-	187,784	27,721	-
Intragovernmental Earned Revenue	-	5,512	1,118	-
Public Earned Revenue	-	15,181	12,537	-
Total Earned Revenue	-	20,693	13,655	-
Net Costs	-	167,091	14,066	-
Serving Communities				
Intragovernmental Costs	377,576	308,550	-	135,938
Public Costs	2,858,199	1,049,182	-	760,161
Total Costs	3,235,775	1,357,732	-	896,099
Intragovernmental Earned Revenue	332,594	102,535	-	16,905
Public Earned Revenue	118,979	227,815	-	15,004
Total Earned Revenue	451,573	330,350	-	31,909
Net Costs	2,784,202	1,027,382	-	864,190
Reimbursable Activity and Other				
Intragovernmental Costs	-	-	198,893	323,142
Public Costs	-	-	298,076	1,225,624
Total Costs	-	-	496,969	1,548,766
Intragovernmental Earned Revenue	-	-	373,164	1,331,112
Public Earned Revenue	-	-	38,969	24,942
Total Earned Revenue	-	-	412,133	1,356,054
Net Costs	-	-	84,836	192,712
Total				
Intragovernmental Costs	377,576	508,661	649,652	473,408
Public Costs	2,858,199	1,747,213	1,239,066	2,004,996
Total Costs	3,235,775	2,255,874	1,888,718	2,478,404
Intragovernmental Earned Revenue	332,594	151,033	644,152	1,351,732
Public Earned Revenue	118,979	1,646,846	658,321	39,946
Total Earned Revenue	451,573	1,797,879	1,302,473	1,391,678
Net Cost of Operations	\$ 2,784,202	\$ 457,995	\$ 586,245	\$ 1,086,726

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra- Department Activity	FY 2005
\$ -	\$ 357,709	\$ 930	\$ 246,292	\$ 59,798	\$ (137,437)	\$ 643,053
-	1,173,611	59,182	1,317,434	216,569	-	3,084,408
-	1,531,320	60,112	1,563,726	276,367	(137,437)	3,727,461
-	7,248	-	80,446	61,207	(70,414)	130,074
-	27,979	1	74,560	8,964	-	1,298,623
-	35,227	1	155,006	70,171	(70,414)	1,428,697
-	1,496,093	60,111	1,408,720	206,196	(67,023)	2,298,764
71,533	-	17,250	8,225	26,720	(279,917)	354,373
2,460,628	-	50,398	20,517	70,713	-	3,766,246
2,532,161	-	67,648	28,742	97,433	(279,917)	4,120,619
-	-	1,462	169	5,503	(5,512)	266,606
126,657	-	59	72	818	-	951,152
126,657	-	1,521	241	6,321	(5,512)	1,217,758
2,405,504	-	66,127	28,501	91,112	(274,405)	2,902,861
-	223,560	-	60,182	-	(49,485)	273,132
-	896,208	-	501,564	-	-	1,574,402
-	1,119,768	-	561,746	-	(49,485)	1,847,534
-	44,599	-	10,383	-	(17,171)	44,441
-	258,433	-	9,517	-	-	295,668
-	303,032	-	19,900	-	(17,171)	340,109
-	816,736	-	541,846	-	(32,314)	1,507,425
9,822	88,826	7,755	34,391	292,300	(400,952)	854,206
21,341	260,621	110,989	129,139	815,991	-	6,005,623
31,163	349,447	118,744	163,530	1,108,291	(400,952)	6,859,829
-	1,013	86	5,349	194,064	(182,013)	470,533
9,700	1,304	1	7,878	174,795	-	555,476
9,700	2,317	87	13,227	368,859	(182,013)	1,026,009
21,463	347,130	118,657	150,303	739,432	(218,939)	5,833,820
58,857	4	-	(3,621)	-	(478,268)	99,007
1,507,166	-	61,684	3,645	-	-	3,096,195
1,566,023	4	61,684	24	-	(478,268)	3,195,202
1,577,916	-	-	496	-	(1,022,500)	2,260,188
668	-	-	279	-	-	64,858
1,578,584	-	-	775	-	(1,022,500)	2,325,046
(12,561)	4	61,684	(751)	-	544,232	870,156
140,212	670,099	25,935	345,469	378,818	(1,346,059)	2,223,771
3,989,135	2,330,440	282,253	1,972,299	1,103,273	-	17,526,874
4,129,347	3,000,539	308,188	2,317,768	1,482,091	(1,346,059)	19,750,645
1,577,916	52,860	1,548	96,843	260,774	(1,297,610)	3,171,842
137,025	287,716	61	92,306	184,577	-	3,165,777
1,714,941	340,576	1,609	189,149	445,351	(1,297,610)	6,337,619
\$ 2,414,406	\$ 2,659,963	\$ 306,579	\$ 2,128,619	\$ 1,036,740	\$ (48,449)	\$ 13,413,026

(dollars in thousands)	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
Resource Protection				
Intragovernmental Costs	\$ -	\$ 89,549	\$ 7,093	\$ 10,689
Public Costs	-	288,726	20,482	17,867
Total Costs	-	378,275	27,575	28,556
Intragovernmental Earned Revenue	-	13,032	11,122	2,249
Public Earned Revenue	-	402,509	(209)	-
Total Earned Revenue	-	415,541	10,913	2,249
Net Costs	-	(37,266)	16,662	26,307
Resource Use				
Intragovernmental Costs	-	75,138	478,471	1,307
Public Costs	-	243,590	862,793	8,174
Total Costs	-	318,728	1,341,264	9,481
Intragovernmental Earned Revenue	-	1,587	135,055	136
Public Earned Revenue	-	195,271	629,147	78
Total Earned Revenue	-	196,858	764,202	214
Net Costs	-	121,870	577,062	9,267
Recreation				
Intragovernmental Costs	-	34,059	6,158	-
Public Costs	-	97,737	16,383	-
Total Costs	-	131,796	22,541	-
Intragovernmental Earned Revenue	-	1,941	266	-
Public Earned Revenue	-	21,152	24,214	-
Total Earned Revenue	-	23,093	24,480	-
Net Costs	-	108,703	(1,939)	-
Serving Communities				
Intragovernmental Costs	378,927	250,482	-	327,342
Public Costs	2,824,437	1,005,098	-	404,910
Total Costs	3,203,364	1,255,580	-	732,252
Intragovernmental Earned Revenue	221,869	285,828	-	6,896
Public Earned Revenue	118,384	92,918	-	15,622
Total Earned Revenue	340,253	378,746	-	22,518
Net Costs	2,863,111	876,834	-	709,734
Reimbursable Activity and Other				
Intragovernmental Costs	-	(936)	200,336	312,318
Public Costs	-	936	293,547	833,659
Total Costs	-	-	493,883	1,145,977
Intragovernmental Earned Revenue	-	-	373,082	954,056
Public Earned Revenue	-	-	56,128	14,489
Total Earned Revenue	-	-	429,210	968,545
Net Costs	-	-	64,673	177,432
Total				
Intragovernmental Costs	378,927	448,292	692,058	651,656
Public Costs	2,824,437	1,636,087	1,193,205	1,264,610
Total Costs	3,203,364	2,084,379	1,885,263	1,916,266
Intragovernmental Earned Revenue	221,869	302,388	519,525	963,337
Public Earned Revenue	118,384	711,850	709,280	30,189
Total Earned Revenue	340,253	1,014,238	1,228,805	993,526
Net Cost of Operations	\$ 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 Intra- Department Activity	FY 2004
\$ -	\$ 168,925	\$ 754	\$ 228,302	\$ 55,676	\$ (95,780)	\$ 465,208
-	627,269	71,377	1,330,447	211,260	-	2,567,428
-	796,194	72,131	1,558,749	266,936	(95,780)	3,032,636
-	6,956	-	81,226	61,222	(73,430)	102,377
-	54,661	-	45,714	8,459	-	511,134
-	61,617	-	126,940	69,681	(73,430)	613,511
-	734,577	72,131	1,431,809	197,255	(22,350)	2,419,125
65,376	-	14,449	6,084	29,085	(284,287)	385,623
1,559,264	-	92,588	24,471	65,836	-	2,856,716
1,624,640	-	107,037	30,555	94,921	(284,287)	3,242,339
-	-	1,119	107	5,746	(5,069)	138,681
115,669	-	105	414	641	-	941,325
115,669	-	1,224	521	6,387	(5,069)	1,080,006
1,508,971	-	105,813	30,034	88,534	(279,218)	2,162,333
-	280,978	-	54,320	-	(44,015)	331,500
-	1,256,792	-	423,132	-	-	1,794,044
-	1,537,770	-	477,452	-	(44,015)	2,125,544
-	13,304	-	14,208	-	(9,072)	20,647
-	184,919	-	8,020	-	-	238,305
-	198,223	-	22,228	-	(9,072)	258,952
-	1,339,547	-	455,224	-	(34,943)	1,866,592
6,165	121,362	6,650	27,457	289,666	(508,636)	899,415
25,149	389,020	130,745	108,680	844,334	-	5,732,373
31,314	510,382	137,395	136,137	1,134,000	(508,636)	6,631,788
-	4,477	22	3,072	202,603	(358,499)	366,268
9,632	2,760	4	674	167,610	-	407,604
9,632	7,237	26	3,746	370,213	(358,499)	773,872
21,682	503,145	137,369	132,391	763,787	(150,137)	5,857,916
41,113	8,537	-	-	-	(365,549)	195,819
1,324,031	70,039	42,696	-	-	-	2,564,908
1,365,144	78,576	42,696	-	-	(365,549)	2,760,727
1,383,164	40,222	-	-	-	(852,197)	1,898,327
448	38,252	-	-	-	-	109,317
1,383,612	78,474	-	-	-	(852,197)	2,007,644
(18,468)	102	42,696	-	-	486,648	753,083
112,654	579,802	21,853	316,163	374,427	(1,298,267)	2,277,565
2,908,444	2,343,120	337,406	1,886,730	1,121,430	-	15,515,469
3,021,098	2,922,922	359,259	2,202,893	1,495,857	(1,298,267)	17,793,034
1,383,164	64,959	1,141	98,613	269,571	(1,298,267)	2,526,300
125,749	280,592	109	54,822	176,710	-	2,207,685
1,508,913	345,551	1,250	153,435	446,281	(1,298,267)	4,733,985
\$ 1,512,185	\$ 2,577,371	\$ 358,009	\$ 2,049,458	\$ 1,049,576	\$ -	\$ 13,059,049

NOTE 19. STRATEGIC PETROLEUM RESERVE

During FY 2005 and FY 2004, MMS transferred to the Department of Energy (DOE) approximately 25.6 million and 38.4 million barrels of oil, respectively, drawn from Federal leases within the Gulf of Mexico. The Interior transferred this petroleum to the DOE to increase the strategic petroleum reserve. The value of the petroleum transferred in FY 2005 and FY 2004 was \$1,195 and \$1,191 million, respectively.

NOTE 20. 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 \$26,927 million and \$25,109 million as of September 30, 2005 and 2004, respectively, include new budget authority, unobligated balances at the beginning of the year and transferred in/out during the year, spending authority from offsetting collections, recoveries of prior year obligations and any adjustment to these resources. Interior's unobligated balance available at September 30, 2005 and 2004, was \$5,685 million and \$5,189 million, respectively.

Apportionment Categories of Obligations Incurred. Interior's obligations incurred during FY 2005 and FY 2004 by apportionment category are shown in the following table:

(dollars in thousands)	Apportioned		Not Subject to	
FY 2005	Category A	Category B	Apportionment	Total
Obligations Incurred:				
Direct	\$ -	15,878,959	74,480	15,953,439
Reimbursable	-	5,179,194	-	5,179,194
Total Obligations Incurred	\$ -	21,058,153	74,480	21,132,633

(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

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 7, Loans and Interest Receivable, Net for additional information on Credit Reform loans). The repayment terms and provisions of these loans are not more than 40 years from the date when the principal benefits of the projects first became available. Interest on the debt is determined by the Treasury as of the beginning of the fiscal year in which the contract is executed, on the basis of the average market yields on outstanding marketable obligations of the United States. Collections in excess of the interest due to the Treasury is applied to the outstanding principal owed to the Treasury.

BIA receives borrowing authority from Treasury for its loan programs in accordance with the Federal Credit Reform Act of 1990 and related legislation. The guaranteed loan financing fund can borrow funds when the cash balance in a financing fund cohort is insufficient to pay default claims, interest subsidy payments, downward subsidy reestimates, or the interest on prior Treasury borrowings. In FY 2005, BIA exercised its statutory authority and borrowed \$100,000 from Treasury. No new authority was granted or exercised in FY 2004. The balance in this account as of September 30, 2005 and 2004, was \$6.8 million and \$6.7 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, 2005 and 2004, were \$22.9 million.

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

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

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

Legal Arrangements Affecting Use of Unobligated Balances. Interior's unobligated unavailable balances for September 30, 2005 and 2004 are disclosed in the table below:

(dollars in thousands)	FY 2005	FY 2004
Unapportioned amounts unavailable for future apportionments	\$ 6,533	\$ 6,356
Expired Authority	102,739	90,923
Total Budgetary Accounts	109,272	97,279
Non-Budgetary Credit Program Financing Accounts	-	-
Unobligated Balance Unavailable	\$ 109,272	\$ 97,279

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 2004 amounts was released on February 7, 2005, and the President's Budget with the FY 2005 amounts is estimated to be released in February 2006, and both can be located at the OMB Web site (<http://www.whitehouse.gov/omb>). As such, the actual amounts for FY 2005 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, 2004, differ from the amounts presented as 2004 Actuals in the President's FY 2006 Budget. Differences are presented and labeled on the following table:

(dollars in millions)	FY 2004 Amount per President's Budget *	FY 2004 Amount per Statement of Budgetary Resources	Difference	Explanation
Budgetary Resources:				
Budget Authority:				
Appropriations Received	\$ 14,923	\$ 14,712	\$ 211	C,D,E
Contract Authority	30	-	30	E
Net Transfers, Current Year Authority	(114)	(139)	25	D,E
Unobligated Balance:				
Beginning of Fiscal Year	4,763	4,973	(210)	A, B, C, E, F
Net Transfers, Unobligated Balance, Actual	20	26	(6)	A,C,D,E
Spending Authority From Offsetting Collections	5,677	5,321	356	A,C, D, F
Recoveries of Prior Year Obligations	325	394	(69)	A,C, E, F, H
Temporarily Not Available Pursuant to Public Law	(27)	(2)	(25)	A,D, E, H
Permanently Not Available	(191)	(184)	(7)	E, F
Total Budgetary Resources	24,073	25,109	(1,036)	G, H
Status of Budgetary Resources:				
Obligations Incurred	19,952	19,823	129	A, B, C, E, F, H
Unobligated Balance & Unobligated Balance Not Available	5,292	5,286	6	E, F
Total Status of Budgetary Resources	24,074	25,109	(1,035)	G, H
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Fiscal Year	5,742	5,749	(7)	B
Obligated Balance, Net, End of Fiscal Year:	(6,765)	(6,778)	13	B, F
Outlays:				
Disbursements	18,518	18,376	142	A, B, C, E
Collections	(5,404)	(5,297)	(107)	A

A. 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 in the President's Budget due to differences in the treatment of deposit fund liability.

B. Bureau of Land Management. Published timing differences occurred when an adjustment was made to the Wildland Fire Management appropriation that was included in the President's Budget, but did not appear in the Combined SBR because Interior's PAR was published prior to the adjustment being made.

C. 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. The differences impact Appropriation Received, Unobligated Balances at the Beginning of the Fiscal Year, Obligations Incurred, and Disbursement 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 2004 SBR and unavailable in the President's Budget. This difference impacted Appropriations Received and Unobligated Balances at the Beginning of the Fiscal Year. [Budget Accounts 5265, 8030, 0787, and 5174]

D. Fish and Wildlife Service. Differences relate to (1) Appropriations Received and Net Transfers, Current Year Authority due to a \$5 million adjustment made to ARTE, Sport Fish Account beginning balance for the U.S. Coast Guard. This adjustment was reported in FWS's FY 2004 Annual Report, but not included in the President's Budget; (2) Net Transfers, Current Year Authority and Net Transfers, Unobligated Balance due to a \$15 million adjustment for a transfer with NPS, changing the reporting line as prescribed by OMB scoring rules. The adjustment did not appear in the Combined SBR because Interior's PAR was published prior to the adjustment; and (3) OMB change in the scoring rules requiring unavailable receipt accounts to be reported as temporary reductions instead of permanent reductions. The adjustment did not appear in the Combined SBR because Interior's PAR was published prior to the timing of the adjustment. [Budget Accounts 1611 and 1851]

E. National Park Service. (1) The Concession Improvement account is reported in the President's Budget and is not reported on the Combined SBR as these are not assets of NPS and may not be used in NPS operations 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]

F. U. S. Geological Survey. Differences relate to amounts included in the Combined SBR that are not reported in the President's Budget. These amounts include expired amounts, cancelled authority, working capital fund obligation balances, and offsetting collections.

G. Minerals Management Service. The President's Budget did not include a "total budgetary resources available for obligation" line for the following funds: Mineral Leasing; National Forest Fund; Leases of Lands Acquired for Flood Control, Navigation, an Allied Purposes; and Oil Spill Research which was included in the Combined SBR.

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

NOTE 21. ALLOCATION TRANSFERS RECONCILING ITEMS

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

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

(dollars in thousands)

Trading Partner	Nature and Purpose of Transfer	FY 2005	FY 2004
Interior as the Recipient Agency (Child):			
Department of Transportation - Highway Trust	Maintenance of Highways on Interior Land	\$ 295,302	\$ 269,237
Department of Labor - Job Corps	Employee and Training services	64,229	69,414
Health and Human Services	Child Development and Employment	44,442	40,173
U. S. Department of Agriculture	Forest Protection and Utilization	3,889	3,552
Environmental Protection Agency	Hazard Sub Resp Trust Fund	989	929
General Services Administration	Electronic Government	202	533
Department of State	International Commissions	-	58
Other		2,559	9,754
Subtotal		411,612	393,650
Interior as the Providing Agency (Parent):			
Department of Transportation	Highway Construction	792	339
U.S. Corps of Engineers	Land Acquisition and State Assistance	32,721	34,147
Department of Agriculture	To fund Soil Conservation Programs	100	228
Subtotal		33,613	34,714
Net Allocation Transfer Reconciling Items		\$ 377,999	\$ 358,936

NOTE 22. INDIAN TRUST FUNDS

Interior, through the Office of the Special Trustee for American Indians (OST), maintains approximately 1,450 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) with combined monetary assets of approximately \$2,882 million and \$2,975 million as of September 30, 2005 and 2004, 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 277,000 open Individual Indian Monies (IIM) accounts with a fund balance of approximately \$420 million and \$397 million as of September 30, 2005 and 2004, respectively.

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

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

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

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

Audit Results. With Office of Inspector General oversight, independent auditors audited the Tribal and Other Trust Funds and the IIM Trust Funds financial statements as of September 30, 2005 and 2004. The independent auditors indicated that the financial statements were prepared on the cash or modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. In addition, the independent auditors' reports were qualified as a result of the following:

- It was not practicable for the independent auditors to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances reflected in the financial statements due to issues with certain Interior trust-related systems and processes, which provide required trust financial information to OST.
- Regarding the Tribal and Other Trust Funds, certain parties for whom OST holds monetary assets in trust do not agree with the trust fund balances reflected by OST, and certain of these parties have filed lawsuits against the U.S. Government.
- Regarding the IIM Trust Funds, certain parties for whom OST holds monetary assets in trust have filed a class action lawsuit for an accounting of the individuals' trust funds, which may or may not lead to claims against the U.S. Government.

For more information, see Note 13, Contingent Liabilities.

Individual Indian Monies Trust Funds statements of assets and trust fund balances and statements of changes in trust fund balances prepared using a modified cash basis of accounting as of September 30, 2005 and 2004, are as follows:

Individual Indian Monies Trust Funds
Statement of Assets and Trust Fund Balances - Modified Cash Basis
As of September 30, 2005 and 2004

(dollars in thousands)	FY 2005	FY 2004
ASSETS		
Cash and cash equivalents	\$ 28,333	\$ 21,373
Investments	388,586	371,723
Accrued interest receivable	2,950	3,601
TOTAL ASSETS	\$ 419,869	\$ 396,697
TRUST FUND BALANCES, held for Individual Indians	\$ 419,869	\$ 396,697

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances - Modified Cash Basis
For the Years Ended September 30, 2005 and 2004

(dollars in thousands)	FY 2005	FY 2004
Receipts	\$ 275,569	\$ 183,776
Interest earned on invested funds	18,197	20,216
Gain (Loss) on disposition of investments, Net	7,813	590
Disbursements	(278,407)	(220,953)
Increase (decrease) in trust fund balances, net	23,172	(16,371)
Trust Fund Balances - Beginning of Year	396,697	413,068
Trust Fund Balances - End of Year	\$ 419,869	\$ 396,697

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

Tribal and Other Trust Funds statements of assets and trust fund balances and statements of changes in trust fund balances prepared using a cash basis of accounting as of September 30, 2005 and 2004, are as follows:

Tribal and Other Trust Funds
Statement of Assets and Trust Fund Balances - Cash Basis
as of September 30, 2005 and 2004

(dollars in thousands)	FY 2005	FY 2004
ASSETS		
Cash and cash equivalents	\$ 501,596	\$ 490,380
Due from Other Federal Agencies *	-	7,800
Investments	2,380,222	2,477,052
TOTAL ASSETS	\$ 2,881,818	\$ 2,975,232
TRUST FUND BALANCES		
Held for Indian tribes	\$ 2,604,516	\$ 2,708,869
Held by Department of the Interior and considered to be U.S. Government funds	277,302	266,363
TOTAL TRUST FUND BALANCES	\$ 2,881,818	\$ 2,975,232

* 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 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, 2005 and 2004

(dollars in thousands)	FY 2005	FY 2004
Receipts	\$ 352,920	\$ 300,960
Interest Received	146,330	106,348
Gain (Loss) on disposition of investments, Net	18,487	6,359
Disbursements	(611,151)	(318,447)
Increase (Decrease) in trust fund balances, net	(93,414)	95,220
Trust Fund Balances - Beginning of Year	2,975,232	2,880,012
Trust Fund Balances - End of Year	\$ 2,881,818	\$ 2,975,232

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

NOTE 23. DEDICATED COLLECTIONS

Dedicated collections as of September 30, 2005 and 2004 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, \$903 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% 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% is designated as the State or tribal share of the fund. The remaining 50% (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 and Oil Spill Research. 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.

The funding for Oil Spill Research (OSR) is appropriated from the Department of the Treasury managed Oil Spill Liability Trust Fund (OSLTF) each year. The OSLTF is funded from oil taxes, interest on fund principal, cost recovery from responsible parties, and penalties. The Department of the Treasury transferred \$7 million for OSR in FY 2005 and FY 2004 to MMS funding oil spill research, oil spill prevention, response planning activities, and regulation of oil spill financial responsibility. The Oil Spill Response Research program supports research to improve detection and response to an oil spill in the marine environment.

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 2005 and FY 2004). 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% of the costs incurred. The State must provide at least 25% 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.

Natural 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% of the sales in interest-bearing Treasury securities, while 10% of the proceeds go to the Southern Nevada Water Authority and 5% goes to the State of Nevada's Education Fund. The revenues generated from the land sales and investments enable BLM and other government entities to acquire environmentally sensitive lands and build or maintain trails, day-use areas, campgrounds, etc., to benefit public land visitors.

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.

Dedicated collections as of September 30, 2005, are as follows:

(dollars in thousands)	Land and Water Conservation Fund	Historic Preservation Fund	Abandoned Mine Land Fund	Oil Spill and Environmental Improvement and Restoration Fund	Southern Nevada Public Land Management Act
ASSETS					
Fund Balance with Treasury	\$ 14,303,499	\$ 2,531,432	\$ 1,336	\$ 6,872	\$ 1,271
Investments, Net	-	-	2,141,600	1,030,926	1,670,193
Accounts Receivable, Net	-	-	11,401	162	-
General Property, Plant, and Equipment, Net	-	-	-	-	6,571
Other Assets	-	-	20	-	-
TOTAL ASSETS	\$ 14,303,499	\$ 2,531,432	\$ 2,154,357	\$ 1,037,960	\$ 1,678,035
LIABILITIES					
Aquatic Resource Amounts Due to FWS	\$ -	\$ -	\$ -	\$ -	\$ -
Aquatic Resource Amounts Due to Coast Guard	-	-	-	-	-
Aquatic Resource Amounts Due to Corps of Engineers	-	-	-	-	-
Accounts Payable	-	-	4,562	1,652	20,362
Other Liabilities	-	-	902	83	135
TOTAL LIABILITIES	-	-	5,464	1,735	20,497
Total Net Position	14,303,499	2,531,432	2,148,893	1,036,225	1,657,538
TOTAL LIABILITIES AND NET POSITION	\$ 14,303,499	\$ 2,531,432	\$ 2,154,357	\$ 1,037,960	\$ 1,678,035
CHANGE IN NET POSITION					
Net Position, Beginning of Fiscal Year	\$ 13,859,218	\$ 2,453,491	\$ 2,042,550	\$ 1,007,579	\$ 651,470
Change in Net Position:					
Royalties Retained	903,308	150,174	-	-	-
Non-exchange Revenue	-	-	-	-	-
Taxes	-	-	-	-	-
AML Fee Revenue	-	-	293,365	-	-
Investment Interest and Other	-	-	75,346	29,272	-
Other Non-Exchange Revenue	-	-	99	-	415
Transfers In/Out without Reimbursement	(459,027)	(72,233)	-	7,006	(22,719)
Exchange Revenue - Services Provided and Other	-	-	87	494	1,329,695
Program Expenses	-	-	(196,021)	(8,126)	(301,323)
UMWA-CBF Expenses	-	-	(66,533)	-	-
Net Position, End of Fiscal Year	\$ 14,303,499	\$ 2,531,432	\$ 2,148,893	\$ 1,036,225	\$ 1,657,538

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.

Aquatic Resources Trust Fund	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 2005
\$ 7,978	\$ 6,330	\$ 52,311	\$ (34)	\$ 37,103	\$ 442	\$ 125,670	\$ 17,074,210
1,544,724	-	454,388	280,034	156,773	178,252	-	7,456,890
9,452	955,724	-	-	-	41,554	10	1,018,303
-	-	-	-	4,124	-	51,750	62,445
-	-	51	-	-	-	1,526	1,597
<u>\$ 1,562,154</u>	<u>\$ 962,054</u>	<u>\$ 506,750</u>	<u>\$ 280,000</u>	<u>\$ 198,000</u>	<u>\$ 220,248</u>	<u>\$ 178,956</u>	<u>\$ 25,613,445</u>
\$ 955,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 955,724
-	71,101	-	-	-	-	-	71,101
-	368,829	-	-	-	-	-	368,829
-	9,681	7,389	-	907	29	1,593	46,175
-	1,097	941	-	235	3	49,526	52,922
955,724	450,708	8,330	-	1,142	32	51,119	1,494,751
606,430	511,346	498,420	280,000	196,858	220,216	127,837	24,118,694
<u>\$ 1,562,154</u>	<u>\$ 962,054</u>	<u>\$ 506,750</u>	<u>\$ 280,000</u>	<u>\$ 198,000</u>	<u>\$ 220,248</u>	<u>\$ 178,956</u>	<u>\$ 25,613,445</u>
\$ 563,419	\$ 490,400	\$ 469,811	\$ 268,447	\$ 183,497	\$ 175,890	\$ 119,669	\$ 22,285,441
-	-	-	-	-	-	-	1,053,482
469,584	-	251,124	-	-	-	-	720,708
-	-	-	-	-	-	-	293,365
34,179	-	13,425	8,842	3,935	4,135	-	169,134
-	322	288	3,028	11,490	68,610	24,507	108,759
(460,752)	338,690	(614)	7,889	6,150	(22,258)	16	(677,852)
-	-	49	546	3,613	-	18,100	1,352,584
-	(318,066)	(235,663)	(8,752)	(11,827)	(6,161)	(34,455)	(1,120,394)
-	-	-	-	-	-	-	(66,533)
<u>\$ 606,430</u>	<u>\$ 511,346</u>	<u>\$ 498,420</u>	<u>\$ 280,000</u>	<u>\$ 196,858</u>	<u>\$ 220,216</u>	<u>\$ 127,837</u>	<u>\$ 24,118,694</u>

Dedicated collections as of September 30, 2004, are as follows:

(dollars in thousands)	Land and Water Conservation Fund	Historic Preservation Fund	Abandoned Mine Land Fund	Oil Spill and Environmental Improvement and Restoration Fund	Southern Nevada Public Land Management Act
ASSETS					
Fund Balance with Treasury	\$ 13,859,218	\$ 2,453,491	\$ 583	\$ 6,868	\$ 841
Investments, Net	-	-	2,051,301	1,001,652	793,693
Accounts Receivable, Net	-	-	6,578	24	-
General Property, Plant, and Equipment, Net	-	-	-	-	675
Other Assets	-	-	21	-	-
TOTAL ASSETS	\$ 13,859,218	\$ 2,453,491	\$ 2,058,483	\$ 1,008,544	\$ 795,209
LIABILITIES					
Aquatic Resource Amounts Due to FWS	\$ -	\$ -	\$ -	\$ -	\$ -
Aquatic Resource Amounts Due to Coast Guard	-	-	-	-	-
Aquatic Resource Amounts Due to Corps of Engineers	-	-	-	-	-
Accounts Payable	-	-	15,286	771	7,532
Other Liabilities	-	-	648	194	136,207
TOTAL LIABILITIES	-	-	15,934	965	143,739
Total Net Position	13,859,218	2,453,491	2,042,549	1,007,579	651,470
TOTAL LIABILITIES AND NET POSITION	\$ 13,859,218	\$ 2,453,491	\$ 2,058,483	\$ 1,008,544	\$ 795,209
CHANGE IN NET POSITION					
Net Position, Beginning of Fiscal Year	\$ 13,443,816	\$ 2,377,575	\$ 1,952,634	\$ 982,597	\$ 283,190
Change in Net Position:					
Royalties Retained	903,516	150,164	-	-	-
Non-exchange Revenue					
Taxes	-	-	-	-	-
AML Fee Revenue	-	-	286,160	-	-
Investment Interest and Other	-	-	54,625	24,132	-
Other Non-Exchange Revenue	-	-	26	-	395
Transfers In/Out without Reimbursement	(488,114)	(74,248)	-	7,017	(100)
Exchange Revenue - Services Provided and Other	-	-	26	222	447,507
Program Expenses	-	-	(235,955)	(6,389)	(79,522)
UMWA-CBF Expenses	-	-	(14,967)	-	-
Net Position, End of Fiscal Year	\$ 13,859,218	\$ 2,453,491	\$ 2,042,549	\$ 1,007,579	\$ 651,470

Aquatic Resources Trust Fund	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
\$ 24,941	\$ 14,255	\$ 120,209	\$ (34)	\$ 35,273	\$ 617	\$ 121,883	\$ 16,638,145
1,451,344	-	364,889	268,481	145,066	169,524	65	6,246,015
8,127	921,021	-	-	-	5,754	9	941,513
-	-	-	-	4,147	-	42,919	47,741
-	-	107	-	-	-	1,570	1,698
<u>\$ 1,484,412</u>	<u>\$ 935,276</u>	<u>\$ 485,205</u>	<u>\$ 268,447</u>	<u>\$ 184,486</u>	<u>\$ 175,895</u>	<u>\$ 166,446</u>	<u>\$ 23,875,112</u>
\$ 920,993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 920,993
-	68,351	-	-	-	-	-	68,351
-	352,546	-	-	-	-	-	352,546
-	22,991	14,613	-	774	5	2,586	64,558
-	988	781	-	214	-	44,191	183,223
920,993	444,876	15,394	-	988	5	46,777	1,589,671
563,419	490,400	469,811	268,447	183,498	175,890	119,669	22,285,441
<u>\$ 1,484,412</u>	<u>\$ 935,276</u>	<u>\$ 485,205</u>	<u>\$ 268,447</u>	<u>\$ 184,486</u>	<u>\$ 175,895</u>	<u>\$ 166,446</u>	<u>\$ 23,875,112</u>
\$ 554,415	\$ 463,439	\$ 453,673	\$ 257,479	\$ 174,006	\$ 161,802	\$ 121,603	\$ 21,226,229
-	-	-	-	-	-	-	1,053,680
455,828	-	238,807	-	-	-	-	694,635
-	-	-	-	-	-	-	286,160
16,551	-	10,255	8,230	10,201	2,024	40	126,058
-	177	198	3,051	(755)	34,088	18,133	55,313
(463,375)	345,405	(173)	8,189	6,163	(19,354)	(2,148)	(680,738)
-	-	-	-	2,250	-	20,886	470,891
-	(318,621)	(232,949)	(8,502)	(8,367)	(2,670)	(38,845)	(931,820)
-	-	-	-	-	-	-	(14,967)
<u>\$ 563,419</u>	<u>\$ 490,400</u>	<u>\$ 469,811</u>	<u>\$ 268,447</u>	<u>\$ 183,498</u>	<u>\$ 175,890</u>	<u>\$ 119,669</u>	<u>\$ 22,285,441</u>

NOTE 24. CHANGES IN ACCOUNTING PRINCIPLE

In March 2005, OMB issued guidance that instructed BOR to prospectively record a receivable from Western for appropriations that are returned to BOR through collections from power sales. Prior to FY 2005, these appropriations and subsequent recoveries were recorded as transfers in/out without reimbursement on the Consolidated Statement of Changes in Net Position, in accordance with Federal accounting standards using Treasury guidance. The cumulative effect of this change in accounting principle resulted in an increase of \$1,724 million to Intragovernmental Loans and Interest Receivable on the Balance Sheet and a corresponding increase to the beginning balance of the Cumulative Results of Operations on the Statement of Changes in Net Position.

The Bonneville Power Administration (BPA), a component of DOE, is responsible for the transmission and marketing of hydropower generated at BOR facilities located in the Pacific Northwest Region. BPA has legislatively assumed the repayment of appropriations used to construct BOR hydropower generation facilities. This legislation requires BPA to recover the appropriations related to BOR's hydropower facilities and to deposit these recoveries, along with interest, into the Reclamation Fund. Although OMB's March 2005 guidance was specific to transactions between WAPA and BOR, the underlying theory is applicable to the transactions between BPA and the Reclamation Fund. Prior to FY 2005, Interior did not recognize an amount due from BPA. The cumulative effect of this change in accounting principle resulted in a \$620 million increase to Intragovernmental Loans and Interest Receivable on the Balance Sheet and a corresponding increase to the beginning balance of the Cumulative Results of Operations on the Statement of Changes in Net Position.

BOR and the Office of the Secretary receive appropriations from Treasury's General Fund to construct, operate, and maintain various multipurpose projects. Many of the projects have reimbursable components for which BOR is required to recover the capital investment and O&M costs through user fees, namely the sale of water and power. These recoveries are deposited in Treasury's General Fund. BOR and OS have applied OMB's guidance to the situations where the appropriations from the General Fund are required to be recovered through the sale of water and power. Prior to FY 2005, Interior did not recognize a liability due to Treasury. The cumulative effect of this change is an increase to intragovernmental liabilities on the Balance Sheet in the amount of \$2,187 million and a corresponding decrease to the beginning balance of the Cumulative Results of Operations in the Statement of Changes in Net Position by the same amount. This liability is increased when appropriations are expended on reimbursable components of a project, and decreased when reimbursements are received from customers and such funds are transferred to Treasury's General Fund. Interest is accumulated on this liability pursuant to authorizing project legislation or administrative policy. Interest rates used during FY 2005 ranged from 3.2% to 8.5%. Repayment is generally over a period not to exceed 50 years from the time revenue producing assets are placed in service. Actual repayments to Treasury's General Fund in FY 2005 were \$176 million, resulting in an ending liability of \$1,996 million as of September 30, 2005.

NOTE 25. HURRICANE DAMAGE

During August and September 2005 and 2004, hurricanes caused significant damage to several Interior facilities, parks, and wildlife refuges along the Gulf Coast. The estimated future cost to clean up and repair these sites is approximately \$95 million and \$48 million, respectively. Most of these costs represent removal of debris, repairs to permanent land improvements and other stewardship assets.

Additionally, a large number of capitalized assets were completely destroyed in FY 2005. Interior adjusted the value of net property, plant, and equipment by \$9 million to account for this asset impairment.

Required Supplementary Information (Unaudited, See Auditors' Report)

This section includes the Combining Statement of Budgetary Resources (Budgetary Accounts), deferred maintenance information, intragovernmental transaction disclosures, and supplemental statements for combined working capital and franchise funds.

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

	Interior Franchise Fund	Water and Related Resources	National Park Service Operations	National Park Service Construction	Management of Land and Resources
Budgetary Resources:					
Budget Authority:					
Appropriations Received	\$ -	\$ 864,637	\$ 1,707,336	\$ 356,739	\$ 848,939
Net Transfers, Current Year Authority	-	(83,323)	5,222	(6,961)	7,500
Unobligated Balance:					
Beginning of Fiscal Year	734,962	268,834	87,256	400,611	34,750
Net Transfers, Unobligated Balance, Actual	-	(157)	237	-	-
Spending Authority From Offsetting Collections:					
Earned					
Collected	1,574,667	195,254	21,178	112,564	97,434
Receivable From Federal Sources	(1,693)	(1,945)	(75)	2,078	6,916
Change in Unfilled Customer Orders					
Advance Received	(58,036)	7,578	-	(5,052)	4
Without Advance From Federal Sources	(9,787)	6,279	-	19,891	1,614
Subtotal: Spending Authority From Offsetting Collections	1,505,151	207,166	21,103	129,481	105,968
Recoveries of Prior Year Obligations	-	22,558	8,300	5,570	21,979
Temporarily Not Available Pursuant to Public Law	-	(5,534)	-	-	-
Permanently Not Available	-	(1,342)	(35,474)	(4,250)	(12,113)
Total Budgetary Resources	\$ 2,240,113	\$ 1,272,839	\$ 1,793,980	\$ 881,190	\$ 1,007,023
Status of Budgetary Resources:					
Obligations Incurred:					
Direct	\$ -	\$ 797,128	\$ 1,743,014	\$ 388,637	\$ 903,436
Reimbursable	1,451,503	199,557	20,357	140,781	70,396
Total Obligations Incurred	1,451,503	996,685	1,763,371	529,418	973,832
Unobligated Balance:					
Apportioned	788,610	276,110	17,333	348,669	33,171
Exempt From Apportionment	-	44	-	(76)	-
Unobligated Balance not Available	-	-	13,276	3,179	20
Total Status of Budgetary Resources	\$ 2,240,113	\$ 1,272,839	\$ 1,793,980	\$ 881,190	\$ 1,007,023
Relationship of Obligations to Outlays:					
Obligations Incurred	\$ 1,451,503	\$ 996,685	\$ 1,763,371	\$ 529,418	\$ 973,832
Obligated Balance, Net, Beginning of Fiscal Year	658,670	366,254	338,577	303,549	224,855
Obligated Balance, Net, End of Fiscal Year:					
Accounts Receivable	4,673	17,732	264	30,146	11,591
Unfilled Customer Orders From Federal Sources	167,649	36,138	-	117,495	11,387
Undelivered Orders	(486,228)	(342,203)	(344,898)	(244,244)	(179,517)
Accounts Payable	(230,152)	(99,768)	(72,971)	(196,847)	(57,779)
Total Obligated Balance, Net, End of Fiscal Year	(544,058)	(388,101)	(417,605)	(293,450)	(214,318)
Less: Spending Authority Adjustments	11,480	(26,891)	(8,225)	(27,538)	(30,508)
Outlays:					
Disbursements	1,577,595	947,947	1,676,118	511,979	953,861
Collections	(1,516,631)	(202,832)	(21,178)	(107,512)	(97,438)
Net Outlays Before Offsetting Receipts	60,964	745,115	1,654,940	404,467	856,423
Less: Offsetting Receipts	-	(354)	-	-	-
Net Outlays (Receipts)	\$ 60,964	\$ 744,761	\$ 1,654,940	\$ 404,467	\$ 856,423

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

Wildland Fire Management	Bureau of Land Mangement Operations	Fish and Wildlife Resource Management	Minerals Leasing and Associated Payments	Operation of Indian Programs	Survey, Investigation and Research	Other Budgetary Accounts	FY 2005 Total Budgetary Accounts
\$ 843,099	\$ 1,025,739	\$ 977,205	\$ 1,620,107	\$ 1,958,347	\$ 958,021	\$ 4,925,778	\$ 16,085,947
716	36	11,083	-	3,897	5,436	(58,984)	(115,378)
89,402	565,764	63,428	-	375,187	46,299	2,542,963	5,209,456
(716)	-	-	-	666	-	635	665
42,320	-	152,797	-	327,727	411,119	2,259,566	5,194,626
(3,642)	-	12,579	-	3,072	(7,334)	65,072	75,028
(8,599)	-	1,328	-	(54,286)	3,600	165,285	51,822
(6,727)	-	(19,766)	-	17,898	3,066	258,386	270,854
23,352	-	146,938	-	294,411	410,451	2,748,309	5,592,330
27,984	15,840	16,886	-	44,815	8,158	239,136	411,226
-	-	-	-	-	-	(6,319)	(11,853)
(11,804)	-	(14,312)	-	(31,066)	(20,716)	(216,387)	(347,464)
\$ 972,033	\$ 1,607,379	\$ 1,201,228	\$ 1,620,107	\$ 2,646,257	\$ 1,407,649	\$ 10,175,131	\$ 26,824,929
\$ 831,011	\$ 757,509	\$ 985,550	\$ 1,620,107	\$ 1,947,344	\$ 943,813	\$ 5,017,257	\$ 15,934,806
12,711	-	145,301	-	336,681	410,973	2,390,934	5,179,194
843,722	757,509	1,130,851	1,620,107	2,284,025	1,354,786	7,408,191	21,114,000
128,311	849,870	68,081	-	321,673	22,241	2,702,668	5,556,737
-	-	-	-	-	-	44,952	44,920
-	-	2,296	-	40,559	30,622	19,320	109,272
\$ 972,033	\$ 1,607,379	\$ 1,201,228	\$ 1,620,107	\$ 2,646,257	\$ 1,407,649	\$ 10,175,131	\$ 26,824,929
\$ 843,722	\$ 757,509	\$ 1,130,851	\$ 1,620,107	\$ 2,284,025	\$ 1,354,786	\$ 7,408,191	\$ 21,114,000
272,014	277,759	258,930	-	281,108	90,471	3,697,629	6,769,816
5,705	-	39,832	-	9,208	135,460	147,076	401,687
6,000	-	93,398	-	20,993	45,780	324,236	823,076
(255,869)	(856,500)	(322,820)	-	(199,016)	(177,883)	(3,657,865)	(7,067,043)
(42,344)	(21,385)	(63,748)	-	(63,387)	(100,388)	(541,407)	(1,490,176)
(286,508)	(877,885)	(253,338)	-	(232,202)	(97,031)	(3,727,960)	(7,332,456)
(17,614)	(15,840)	(9,700)	-	(65,785)	(3,890)	(562,595)	(757,106)
811,614	141,543	1,126,743	1,620,107	2,267,146	1,344,336	6,815,265	19,794,254
(33,722)	-	(154,125)	-	(273,442)	(414,719)	(2,424,851)	(5,246,450)
777,892	141,543	972,618	1,620,107	1,993,704	929,617	4,390,414	14,547,804
-	(1,000,343)	-	(1,620,107)	-	-	(3,283,691)	(5,904,495)
\$ 777,892	\$ (858,800)	\$ 972,618	\$ -	\$ 1,993,704	\$ 929,617	\$ 1,106,723	\$ 8,643,309

Combining Statement of Budgetary Resources
for the year ended September 30, 2004
(dollars in thousands)

	Interior Franchise Fund	Water and Related Resources	National Park Service Operations	National Park Service Construction	Management of Land and Resources
Budgetary Resources:					
Budget Authority:					
Appropriations Received	\$ -	\$ 851,803	\$ 1,629,641	\$ 355,820	\$ 865,744
Net Transfers, Current Year Authority	-	(85,601)	10,067	43,456	15
Unobligated Balance:					
Beginning of Fiscal Year	720,543	266,624	69,027	341,172	36,763
Net Transfers, Unobligated Balance, Actual	-	1,346	21	14,006	-
Spending Authority From Offsetting Collections:					
Earned					
Collected	1,396,541	215,667	20,266	108,247	274,026
Receivable From Federal Sources	(17,054)	9,757	(139)	9,829	(1,816)
Change in Unfilled Customer Orders					
Advance Received	264,506	4,934	-	(1,160)	(12)
Without Advance From Federal Sources	(65,871)	1,493	-	32,077	3,332
Subtotal: Spending Authority From Offsetting Collections	1,578,122	231,851	20,127	148,993	275,530
Recoveries of Prior Year Obligations	-	25,901	7,439	7,414	24,533
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-
Permanently Not Available	-	(5,059)	(25,172)	(4,107)	(10,478)
Total Budgetary Resources	\$ 2,298,665	\$ 1,286,865	\$ 1,711,150	\$ 906,754	\$ 1,192,107
Status of Budgetary Resources:					
Obligations Incurred:					
Direct	\$ -	\$ 798,907	\$ 1,603,055	\$ 384,088	\$ 902,363
Reimbursable	1,563,704	219,125	20,839	122,054	254,994
Total Obligations Incurred	1,563,704	1,018,032	1,623,894	506,142	1,157,357
Unobligated Balance:					
Apportioned	734,961	268,833	67,612	400,612	34,730
Exempt From Apportionment	-	-	-	-	-
Unobligated Balance not Available	-	-	19,644	-	20
Total Status of Budgetary Resources	\$ 2,298,665	\$ 1,286,865	\$ 1,711,150	\$ 906,754	\$ 1,192,107
Relationship of Obligations to Outlays:					
Obligations Incurred	\$ 1,563,704	\$ 1,018,032	\$ 1,623,894	\$ 506,142	\$ 1,157,357
Obligated Balance, Net, Beginning of Fiscal Year	442,008	339,185	299,641	330,507	218,149
Obligated Balance, Net, End of Fiscal Year:					
Accounts Receivable	6,366	19,677	339	28,068	4,675
Unfilled Customer Orders From Federal Sources	177,436	29,859	-	97,605	9,773
Undelivered Orders	(605,109)	(308,706)	(269,461)	(279,570)	(188,347)
Accounts Payable	(237,363)	(107,084)	(69,455)	(149,652)	(50,957)
Total Obligated Balance, Net, End of Fiscal Year	(658,670)	(366,254)	(338,577)	(303,549)	(224,856)
Less: Spending Authority Adjustments	82,925	(37,150)	(7,300)	(49,320)	(26,049)
Outlays:					
Disbursements	1,429,967	953,813	1,577,658	483,780	1,124,601
Collections	(1,661,047)	(220,601)	(20,267)	(107,087)	(274,014)
Net Outlays Before Offsetting Receipts	(231,080)	733,212	1,557,391	376,693	850,587
Less: Offsetting Receipts	-	(120)	-	-	-
Net Outlays (Receipts)	\$ (231,080)	\$ 733,092	\$ 1,557,391	\$ 376,693	\$ 850,587

Combining Statement of Budgetary Resources
for the year ended September 30, 2004
(dollars in thousands)

Wildland Fire Management	Bureau of Land Mangement Operations	Fish and Wildlife Resource Management	Minerals Leasing and Associated Payments	Operation of Indian Programs	Survey, Investigation and Research	Other Budgetary Accounts	FY 2004 Total Budgetary Accounts
\$ 892,725 (126,625)	\$ 523,719 -	\$ 963,352 5,200	\$ 1,162,955 -	\$ 1,916,317 -	\$ 949,686 -	\$ 4,600,628 14,321	\$ 14,712,390 (139,167)
101,691 -	288,798 926	30,365 15,296	- -	484,472 6,488	78,629 -	2,487,187 (12,103)	4,905,271 25,980
16,500 6,016	- -	137,397 (3,044)	- -	229,269 (6,868)	438,941 (31,514)	1,885,842 30,296	4,722,696 (4,537)
908 (285)	- -	(344) 71,794	- -	3,074 (16,264)	(1,165) (16,761)	276,936 19,354	547,677 28,869
23,139	-	205,803	-	209,211	389,501	2,212,428	5,294,705
25,758	14,803	16,212	-	63,232	10,744	197,543	393,579
-	-	-	-	-	-	(2,249)	(2,249)
(9,132)	-	(11,932)	-	(23,613)	(17,131)	(71,205)	(177,829)
\$ 907,556	\$ 828,246	\$ 1,224,296	\$ 1,162,955	\$ 2,656,107	\$ 1,411,429	\$ 9,426,550	\$ 25,012,680
\$ 808,505 9,648	\$ 262,482 -	\$ 957,186 203,682	\$ 1,162,955 -	\$ 2,038,657 242,263	\$ 979,877 385,253	\$ 4,769,101 2,114,486	\$ 14,667,176 5,136,048
818,153	262,482	1,160,868	1,162,955	2,280,920	1,365,130	6,883,587	19,803,224
89,403 -	565,764 -	59,831 -	- -	349,285 -	21,101 -	2,480,601 39,444	5,072,733 39,444
-	-	3,597	-	25,902	25,198	22,918	97,279
\$ 907,556	\$ 828,246	\$ 1,224,296	\$ 1,162,955	\$ 2,656,107	\$ 1,411,429	\$ 9,426,550	\$ 25,012,680
\$ 818,153 314,242	\$ 262,482 75,068	\$ 1,160,868 269,263	\$ 1,162,955 -	\$ 2,280,920 218,728	\$ 1,365,130 26,311	\$ 6,883,587 3,207,872	\$ 19,803,224 5,740,974
9,347 12,727	- -	27,253 113,164	- -	6,136 3,094	142,793 42,714	82,003 65,849	326,657 552,221
(264,649)	(269,274)	(340,205)	-	(214,996)	(162,251)	(3,386,206)	(6,288,774)
(29,439)	(8,485)	(59,141)	-	(75,342)	(113,727)	(459,275)	(1,359,920)
(272,014)	(277,759)	(258,929)	-	(281,108)	(90,471)	(3,697,629)	(6,769,816)
(31,490)	(14,803)	(84,962)	-	(40,100)	37,531	(247,192)	(417,910)
828,891 (17,407)	44,988 -	1,086,240 (137,053)	1,162,955 -	2,178,440 (232,343)	1,338,501 (437,777)	6,146,638 (2,162,778)	18,356,472 (5,270,374)
811,484	44,988	949,187	1,162,955	1,946,097	900,724	3,983,860	13,086,098
-	(496,118)	-	(1,162,955)	-	-	(2,609,874)	(4,269,067)
\$ 811,484	\$ (451,130)	\$ 949,187	\$ -	\$ 1,946,097	\$ 900,724	\$ 1,373,986	\$ 8,817,031

Deferred Maintenance

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

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

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

Deferred maintenance information is accumulated when maintenance was not performed when it should have been or when it was scheduled and which, therefore, was put off or delayed for a future period. Deferred maintenance needs may be further categorized in two tiers, critical and non-critical. Delaying correction of non-critical needs may result in their becoming critical facility or equipment deficiencies at a future time. Code compliance (e.g., life safety, ADA, OSHA, environmental, etc.) and other regulatory or Executive Order compliance requirements not met on schedule are considered deferred maintenance.

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

Interior adopted accounting guidance for concession assets and related liabilities effective October 1, 2004. As a result of adopting this guidance, Interior removed deferred maintenance amounts ranging from \$151 million to \$325 million from concession assets.

Critical Deferred Maintenance

Categories of deferred maintenance for analytic purposes include (a) Critical Health and Safety Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to public or employee safety or health; (b) Critical Resource Protection Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to natural or cultural resources; (c) Critical Mission Deferred Maintenance: A facility deferred maintenance need that poses a serious threat to a bureau's ability to carry out its assigned mission; (d) Compliance and Other Deferred Maintenance: A facility deferred maintenance need that will improve public or

employee safety, health, or accessibility; compliance with codes, standards, laws, complete unmet programmatic needs and mandated programs; protection of natural or cultural resources to a bureau's ability to carry out its assigned mission.

Critical Maintenance is the work prioritized for FY 2004-2009 in the Deferred Maintenance and Capital Improvement Plans for the Bureau of Land Management, the U.S. Geological Survey, the Fish and Wildlife Service, the National Park Service, and the Bureau of Indian Affairs. The Department prioritizes deferred maintenance through 5-year plans that identify the most critical needs. The Bureau of Reclamation has no critical maintenance.

Estimated Deferred Maintenance

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

Due to the scope, nature, and variety of the assets entrusted to the Department, as well as the nature of deferred maintenance itself, exact estimates of deferred maintenance are very difficult to determine. Interior has calculated estimates of deferred maintenance based on data from a variety of systems, procedures, and data sources. The accumulation of deferred maintenance cost estimates, however, is not the primary purpose of many of these sources. The Department acknowledges that the reliability of these sources as a basis for deferred maintenance estimates may vary from bureau to bureau. The Department has implemented a cyclic/recurring condition assessment process to monitor, at a minimum of every 5 years, the condition of buildings and other facilities. The 2005 process is similar to the process in place in FY 2004.

Condition Assessment Surveys

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

The Department's assessment of deferred maintenance is dependent upon the bureaus having accurate and complete facilities information. The accumulation of facility data provides the necessary information for compliance with the Federal Accounting Standard that requires annual reporting of deferred maintenance of fixed assets.

Facilities and items of equipment are categorized according to condition using terms such as those shown below:

Good "G" – Facility/equipment condition meets established maintenance standards, operates efficiently, and has a normal life. There is no deferred maintenance on facilities/equipment in good condition.

Fair "F" – Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy.

Poor/Unsatisfactory "P" – Facility/equipment does not meet most operating standards and requires frequent

repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases, this includes condemned or failed facilities.

Based on periodic condition assessment surveys, an indicator of condition is the percent of facilities and items of equipment in each of the good, fair, or poor categories.

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

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

Deferred Maintenance Estimate

Deferred maintenance information from the Feasibility software system represents the full inventory of all the identified deficiencies, but does not represent a backlog of specific repairs to be undertaken. Bureaus are developing performance measures to improve assets to an acceptable condition. Once these measures are in place and costs associated with achieving acceptable condition determined, this will become the deferred backlog amounts. As such, the Department’s current approach for estimating the amount needed to correct deferred maintenance for property, plant, and equipment ranges from approximately \$10.1 billion to \$18 billion as summarized in *Table 3-1*.

TABLE 3-1

(dollars in thousands) Type of Deferred Maintenance	General PP&E		Stewardship PP&E		Total	
	Low	High	Low	High	Low	High
Roads, Bridges, Trails*	\$ 4,658,045	\$ 9,156,365	\$ 537,357	\$ 741,482	\$ 5,195,402	\$ 9,897,847
Irrigation, Dams and Other Water Structures	1,640,283	2,126,452	65,578	96,699	1,705,861	2,223,151
Buildings *	1,351,411	2,090,445	680,354	1,438,812	2,031,765	3,529,257
Other Structures *	987,923	1,920,399	172,650	369,437	1,160,573	2,289,836
DOI Total	\$ 8,637,662	\$ 15,293,661	\$ 1,455,939	\$ 2,646,430	\$ 10,093,601	\$ 17,940,091

*These totals include deferred maintenance on non-Bureau of Indian Affairs-owned (Tribal) assets for which the Bureau of Indian Affairs is responsible for maintenance (e.g., roads on Tribal lands).

Intragovernmental Transaction Disclosures

Intragovernmental amounts represent transactions between Federal entities included in the Federal Government's annual financial report. These transactions include assets, liabilities, revenues, transfers, and expenses. Interior's FY 2005 intragovernmental transactions are shown in *Tables 3-2, 3-3, and 3-4*.

TABLE 3-2
Intragovernmental Assets

(dollars in thousands)	Fund Balance with Treasury	Investments	Accounts and		
			Interest Receivable	Loans Receivable	Other
Department of the Treasury	\$ 32,031,132	\$ 7,463,669	\$ 354,960	\$ -	\$ -
Department of Agriculture	-	-	9,094	-	-
Department of Commerce	-	-	6,698	-	50
Department of the Navy	-	-	4,261	-	-
Department of the Army	-	-	10,360	-	-
Department of the Air Force	-	-	4,061	-	-
Environmental Protection Agency	-	-	7,879	-	-
Department of Transportation	-	-	6,641	-	1,182
Department of Health and Human Services	-	-	5,037	-	-
National Aeronautics and Space Adm.	-	-	5,008	-	2
Department of Energy	-	-	9,803	2,458,075	-
U.S. Army Corps of Engineers	-	-	14,832	-	-
Defense Agencies	-	-	42,455	-	-
Other Federal Agencies	-	-	27,588	-	171
TOTAL	\$ 32,031,132	\$ 7,463,669	\$ 508,677	\$ 2,458,075	\$ 1,405

TABLE 3-3
Intragovernmental Liabilities

(dollars in thousands)	Accounts		
	Payable	Debt	Other Liabilities
Department of the Treasury	\$ 3,635	\$ 1,220,525	\$ 3,361,084
Executive Office of the President	998	-	29,073
Department of Agriculture	3,871	-	41,998
Department of Justice	678	-	20,945
Department of Labor	2,486	-	132,288
Department of the Navy	1,801	-	174,208
Department of the Army	556	-	586,116
Office of Personnel Management	163	-	25,798
General Services Administration	17,964	-	22,846
Department of Homeland Security	343	-	205,862
Department of Education	414	-	89,801
U.S. Army Corps of Engineers	40,346	-	369,904
Other Federal Agencies	6,626	-	517,134
TOTAL	\$ 79,881	\$ 1,220,525	\$ 5,577,057

TABLE 3-4
Intragovernmental Earned and Non-Exchange Revenue

(dollars in thousands)	Non-Exchange Revenue		Earned Revenue
	Transfers In	Transfers Out	
Department of the Treasury	\$ 359,222	\$ 475,590	\$ 68,382
Executive Office of the President	-	-	95,563
Department of Agriculture	1,791	155,094	83,664
Department of the Navy	-	-	336,324
Department of the Army	-	-	764,065
Office of Personnel Management	5	13	4,650
General Services Administration	21,166	13,938	9,587
Department of the Air Force	-	-	207,173
Department of Transportation	314,307	11	17,577
Department of Health and Human Services	-	-	189,065
Department of Energy	123,677	140,961	276,356
Department of Education	-	-	309,787
U.S. Army Corps of Engineers	17	58,054	77,071
Defense Agencies	-	-	342,370
Other Federal Agencies	15,650	81,816	390,208
TOTAL	\$ 835,835	\$ 925,477	\$ 3,171,842

Working Capital and Franchise Funds

The Department has four working capital funds established by law to finance a continuing cycle of operations, with the receipts from the operations available for use by the funds without further action by Congress. The four working capital funds, which operate as revolving funds, are established in the Bureau of Reclamation, the Bureau of Land Management, the U.S. Geological Survey, and Departmental Offices. The costs of providing services and operating the funds are fully recovered from customers. The major working capital fund customers are Interior bureaus and offices, Department of Defense, and other Federal agencies; however, some services are provided to States and nongovernment entities. Some of the significant services provided to customers consist of central reproduction, telecommunications, aircraft services, supplies, publications, training, computer processing and related activities, engineering and technical services, and certain cross-servicing activities such as payroll, personnel, and financial and accounting services. The services provided by the working capital funds are usually those that may be performed more advantageously on a reimbursable basis.

In addition, the Department manages the Interior Franchise Fund (IFF) that is part of the Franchise Fund Pilot program authorized by the Government Management Reform Act of 1994. The purpose of the IFF is to pilot new approaches for providing shared administrative services to reduce the cost of government to the taxpayer by fostering competition and entrepreneurship among providers of commonly required products and services to Federal agencies. Some of the significant services include procurement support, financial systems and related services, and other administrative support services. The IFF is a separate legal entity that allows Interior to share cost savings with others that result from providing cost-effective and efficient services to Federal agencies. By building on this experience of providing cost-effective and efficient services, Interior can provide even greater cost savings within Interior and in working with other agencies. It also provides a cost-effective way to partner with the private sector through established relationships with vendors that understand and have worked with the Federal Government to provide quality services to Federal organizations. The major customers of the IFF include the Department of Defense and the Executive Office of the President.

The following summarizes information about the assets, liabilities, and net cost of Interior's working capital and franchise funds as of and for the years ended September 30, 2005 and 2004. The financial information presented includes intra-departmental transactions.

Supplemental Balance Sheet
Combined Working Capital and Franchise Funds
as of September 30, 2005
(dollars in thousands)

	Bureau of Land Management	Bureau of Reclamation	Departmental Offices	Interior Franchise Fund	U.S. Geological Survey	FY 2005 TOTAL
ASSETS						
Intragovernmental Assets:						
Fund Balance with Treasury	\$ 57,532	\$ 49,974	\$ 595,988	\$ 1,332,667	\$ 80,386	\$ 2,116,547
Accounts and Interest Receivable, Net	-	9,919	101,078	4,673	-	115,670
Other	-	126	16,792	153	-	17,071
Total Intragovernmental Assets	57,532	60,019	713,858	1,337,493	80,386	2,249,288
Cash	56	-	-	-	-	56
Accounts and Interest Receivable, Net	-	91	2,579	250	2	2,922
Loans and Interest Receivable, Net	-	1,900	-	-	-	1,900
Inventory and Related Property, Net	306	-	528	-	-	834
General Property, Plant, and Equipment, Net	102,172	34,823	66,720	-	9,382	213,097
Other	77	217	8	2	-	304
Stewardship Assets						
TOTAL ASSETS	\$ 160,143	\$ 97,050	\$ 783,693	\$ 1,337,745	\$ 89,770	\$ 2,468,401
LIABILITIES						
Intragovernmental Liabilities:						
Accounts Payable	\$ 3	\$ 4,712	\$ 11,360	\$ 1,348	\$ 870	\$ 18,293
Debt	-	1,900	-	-	-	1,900
Other						
Advances and Deferred Revenue	5,640	1,709	497,219	1,078,948	-	1,583,516
Other Liabilities	1	7,185	2,073	96	114	9,469
Total Intragovernmental Liabilities	5,644	15,506	510,652	1,080,392	984	1,613,178
Accounts Payable	30	5,312	136,489	227,906	3,691	373,428
Federal Employee and Veterans' Benefits	-	-	6,222	-	-	6,222
Environmental and Disposal Liabilities	-	-	1,300	-	-	1,300
Other						
Advances and Deferred Revenue	-	667	4,729	2	-	5,398
Other Liabilities	124	17,707	10,023	803	545	29,202
TOTAL LIABILITIES	5,798	39,192	669,415	1,309,103	5,220	2,028,728
Commitments and Contingencies						
Net Position						
Unexpended Appropriations	-	-	789	-	-	789
Cumulative Results of Operations	154,345	57,858	113,489	28,642	84,550	438,884
Total Net Position	154,345	57,858	114,278	28,642	84,550	439,673
TOTAL LIABILITIES AND NET POSITION	\$ 160,143	\$ 97,050	\$ 783,693	\$ 1,337,745	\$ 89,770	\$ 2,468,401

Supplemental Balance Sheet
Combined Working Capital and Franchise Funds
as of September 30, 2004
(dollars in thousands)

	Bureau of Land Management	Bureau of Reclamation	Departmental Offices	Interior Franchise Fund	U.S. Geological Survey	FY 2004 TOTAL
ASSETS						
Intragovernmental Assets:						
Fund Balance with Treasury	\$ 55,184	\$ 49,459	\$ 596,637	\$ 1,393,632	\$ 85,133	\$ 2,180,045
Accounts and Interest Receivable, Net	-	9,992	39,973	6,370	-	56,335
Other	-	401	10,658	1,283	-	12,342
Total Intragovernmental Assets	55,184	59,852	647,268	1,401,285	85,133	2,248,722
Cash	55	-	-	-	-	55
Accounts and Interest Receivable, Net	4	70	755	292	5	1,126
Loans and Interest Receivable, Net	-	3,100	-	-	-	3,100
Inventory and Related Property, Net	444	-	567	-	-	1,011
General Property, Plant, and Equipment, Net	95,112	36,193	45,087	-	8,234	184,626
Other	131	225	5	2	-	363
Stewardship Assets						
TOTAL ASSETS	\$ 150,930	\$ 99,440	\$ 693,682	\$ 1,401,579	\$ 93,372	\$ 2,439,003
LIABILITIES						
Intragovernmental Liabilities:						
Accounts Payable	\$ 8	\$ 7,962	\$ 3,012	\$ 2,821	\$ 263	\$ 14,066
Debt	-	3,100	-	-	-	3,100
Other						
Advances and Deferred Revenue	3,650	1,736	488,658	1,136,984	-	1,631,028
Other Liabilities	1	6,940	1,450	54	98	8,543
Total Intragovernmental Liabilities	3,659	19,738	493,120	1,139,859	361	1,656,737
Accounts Payable	16	4,184	94,102	234,060	4,225	336,587
Federal Employee and Veterans' Benefits	-	-	6,062	-	-	6,062
Environmental and Disposal Liabilities	-	-	1,300	-	-	1,300
Other						
Advances and Deferred Revenue	-	782	4,731	2	-	5,515
Other Liabilities	150	15,230	9,399	432	454	25,665
TOTAL LIABILITIES	3,825	39,934	608,714	1,374,353	5,040	2,031,866
Commitments and Contingencies						
Net Position						
Unexpended Appropriations	-	-	4,827	-	-	4,827
Cumulative Results of Operations	147,105	59,506	80,141	27,226	88,332	402,310
Total Net Position	147,105	59,506	84,968	27,226	88,332	407,137
TOTAL LIABILITIES AND NET POSITION	\$ 150,930	\$ 99,440	\$ 693,682	\$ 1,401,579	\$ 93,372	\$ 2,439,003

**Supplemental Statement of Net Cost
Combined Working Capital and Franchise Funds
for the year ended September 30, 2005**
(dollars in thousands)

	Full Cost of Goods and Services Provided	Related Exchange Revenues	Excess of Full Cost Over Exchange Revenue
Bureau of Land Management			
Motorized Fleet Program	\$ 25,758	\$ (32,413)	\$ (6,655)
Total Bureau of Land Management	25,758	(32,413)	(6,655)
Bureau of Reclamation			
Engineering and Technical Services	103,179	(103,936)	(757)
Administrative Services	223,945	(223,888)	57
Computer and Related Services	18,232	(16,036)	2,196
Total Bureau of Reclamation	345,356	(343,860)	1,496
Departmental Offices			
Aircraft Services	156,803	(159,790)	(2,987)
Building Management/Rental	36,789	(39,923)	(3,134)
Charge Card Rebate	2,736	(5,951)	(3,215)
Federal Services	1,124,039	(1,113,180)	10,859
Y2K/Other	8	-	8
Financial and Business Management System	99	-	99
Intra-Bureau Eliminations	(212,562)	212,562	-
Total Departmental Offices	1,107,912	(1,106,282)	1,630
Interior Franchise Fund			
Government Works Acquisition Services	1,510,314	(1,522,965)	(12,651)
U.S. Films and Video Productions	4,789	(4,389)	400
Total Interior Franchise Fund	1,515,103	(1,527,354)	(12,251)
U.S. Geological Survey			
Reimbursable Services	38,270	(40,784)	(2,514)
Capital Investments	15,917	-	15,917
Total U.S. Geological Survey	54,187	(40,784)	13,403
Total Working Capital and Franchise Funds	\$ 3,048,316	\$ (3,050,693)	\$ (2,377)

**Supplemental Statement of Net Cost
Combined Working Capital and Franchise Funds
for the year ended September 30, 2004**
(dollars in thousands)

	Full Cost of Goods and Services Provided	Related Exchange Revenues	Excess of Full Cost Over Exchange Revenue
Bureau of Land Management			
Motorized Fleet Program	\$ 24,568	\$ (29,604)	\$ (5,036)
Total Bureau of Land Management	24,568	(29,604)	(5,036)
Bureau of Reclamation			
Engineering and Technical Services	98,213	(101,547)	(3,334)
Administrative Services	220,218	(226,405)	(6,187)
Computer and Related Services	15,974	(13,532)	2,442
Total Bureau of Reclamation	334,405	(341,484)	(7,079)
Departmental Offices			
Aircraft Services	136,740	(137,906)	(1,166)
Building Management/Rental	38,368	(38,996)	(628)
Charge Card Rebate	7,748	(6,307)	1,441
Federal Services	741,154	(744,860)	(3,706)
Y2K/Other	(49)	-	(49)
Financial and Business Management System	-	-	-
Intra-Bureau Eliminations	(138,106)	138,106	-
Total Departmental Offices	785,855	(789,963)	(4,108)
Interior Franchise Fund			
Government Works Acquisition Services	1,330,907	(1,349,056)	(18,149)
U.S. Films and Video Productions	1,700	(1,700)	-
Total Interior Franchise Fund	1,332,607	(1,350,756)	(18,149)
U.S. Geological Survey			
Reimbursable Services	38,316	(38,451)	(135)
Capital Investments	13,854	(107)	13,747
Total U.S. Geological Survey	52,170	(38,558)	13,612
Total Working Capital and Franchise Funds	\$ 2,529,605	\$ (2,550,365)	\$ (20,760)

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Required Supplementary Stewardship Information (Unaudited, See Auditors' Report)

The Department of the Interior is the Federal Government's largest land-management agency, administering over 500 million acres of America's land mass and serves as steward for the natural and cultural resources associated with these lands. Approximately 437 million acres of the 500 million acres are considered stewardship land. The approximately 437 million acres of stewardship land does not include an estimated 56 million acres of tribally and individually-owned land held in trust by the Bureau of Indian Affairs. Interior also supervises mineral leasing and operations on an estimated 700 million acres of mineral estate that underlie both Federal and other surface ownerships. These stewardship assets are valued for environmental resources, recreational and scenic values, cultural and paleontological resources, vast open spaces, and the resource commodities and revenue provided to the Federal Government, States, and counties.

Stewardship Lands

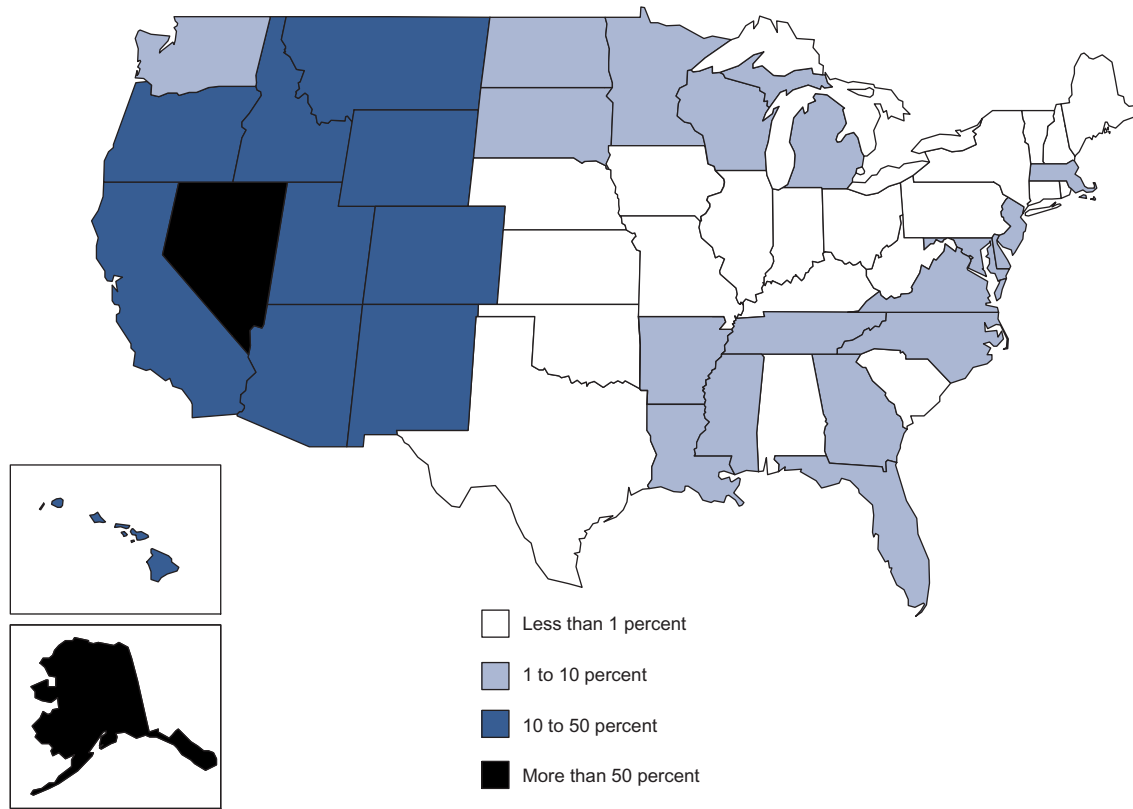
Most of the public lands managed by Interior were once a part of the 1.8 billion acres of public domain lands acquired by the Nation between 1781 and 1867. Each of America's 50 States, the District of Columbia, the Pacific Islands, the Virgin Islands, Guam, and Puerto Rico, contain lands that are managed by the Department of the Interior (*Figure 3-1*).

Interior-administered stewardship lands are vast and encompass a wide range of activities, including recreation, conservation, and functions vital to the health of the economy and to the American people. These include National Parks, Wildlife Refuges, Public Lands, and many other lands of national and historical significance.

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

FIGURE 3-1

State Acreage Managed by Interior
(as of September 30, 2005)



scenic, scientific, and historical values; outdoor recreation; livestock grazing; timber; watersheds; and wildlife and fish habitat.

Table 3-5 shows the major types of lands administered by each Interior bureau with stewardship responsibilities.

Major Categories of Stewardship Lands

Interior’s stewardship lands include a number of assets that are of special value to the Nation. The major categories of stewardship land administered by the Department are:

National Wildlife Refuge System. Lands managed by the U.S. Fish and Wildlife Service (FWS) and includes National Wildlife Refuges, Refuge Coordination Areas, Waterfowl Production Areas, and Fish Hatcheries.

Multiple-Use Public Lands. Lands managed by the Bureau of Land Management (BLM) that represents approximately 42 percent of the lands under Federal ownership.

National Park System. The National Park System is administered by the National Park Service (NPS) and include the Nation’s National Parks.

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

TABLE 3-5

Interior Stewardship Lands
as of September 30, 2005

Category by Type	Federal Acres			2005 Ending Balance	Total Non-Federal Acres	Combined Total Acres	Condition - Acceptable or Needs Intervention 1/	Number of Units
	2005 Beginning Balance	Additions	Withdrawals					
National Park System	79,022,673	35,101	-12,741	79,045,033	5,507,288	84,552,321	Acceptable	388
National Wildlife Refuge System	90,306,600	125,400	-	90,432,000	3,912,000	94,344,000	Acceptable	884
Multiple Use Public Lands 2/	261,848,120	72,272	-157,480	261,762,912	0	261,762,912	Acceptable	12
Other Recreation Land 3/	0	170	-	170	0	170	Acceptable	15
Cultural, Schools, and Housing	46,529	0	-90	46,439	0	46,439	Acceptable	79
Reclamation, Agricultural, and Irrigation Lands 4/	5,875,943	1,799	-247,312	5,630,430	0	5,630,430	Acceptable	221
Other Stewardship Lands 5/	20,778	306	-80	21,004	0	21,004	Acceptable (approximately 20,000 acres) Needs Intervention (approximately 800 acres)	53
Total	437,120,643	235,048	-417,703	436,937,988	9,419,288	446,357,276		1,652

1/ Land is categorized as "acceptable" when it is adequate for operating needs and the Department has not identified any improvements that are necessary to prepare and/or sustain the land for its intended use. Land is categorized as "needs intervention" when the Department has identified improvements that are necessary to prepare and/or sustain the land for its intended use.

2/ The overall decrease resulted from the net effect of acquisitions of privately-owned lands through purchase, donation, or exchange offset by the disposal of lands through exchange and various public land laws (including sales).

3/ Other Recreation Land includes fishing access sites and one campsite on Bureau of Indian Affairs-managed lands.

4/ The total additions and withdrawals reflects activities by the Bureau of Reclamation that are not actual additions/withdrawals, but adjustments to number of acres recorded in Reclamation's land inventory system.

5/ Other Stewardship Land refers to lands that cannot be readily included in any of the other categories such as the lands associated with schools and industrial areas.

Comparative Information							
	Beginning Balance	Acres	Withdrawals	Ending Balance	Total Non-Federal Acres	Combined Total Acres	Number of Units
FY 2005	437,120,643	235,048	-417,703	436,937,988	9,419,288	446,357,276	1,652
FY 2004	437,135,941	328,118	-343,416	437,120,643	9,181,662	446,302,305	1,504

Reclamation, Agricultural, and Irrigation Lands.

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

Other Types of Stewardship Lands

Interior administers other types of stewardship lands including:

National Wilderness Areas. Wilderness Areas are Federal lands that have been designated by Congress and are devoted to the public purposes of recreational, scenic, scientific, educational, conservation, and historical use (Figure 3-2). These areas, which are generally greater than 5,000 acres, appear to have been affected primarily by the forces of nature, with human development substantially unnoticeable. Wilderness areas provide outstanding opportunities for solitude or primitive and unconfined types of recreation.

There are approximately 106.4 million acres in the National Wilderness Preservation System, of which approximately 71.5 million acres (67%) are managed by DOI. In FY 2004, the National Wilderness Preservation System encompassed approximately 105.6 million acres with 71 million acres (67%) managed by DOI.

National Wild and Scenic Rivers System. For a river to be eligible for the National Wild and Scenic Rivers System, it must be in a free-flowing condition and possess one or more of the following values to a remarkable degree: scenic, recreation, fish and wildlife, geologic, historic, cultural, or other similar values. When evaluating rivers for possible designation, the Department also considers whether the river meets suitability factors such as: the amount of public land acreage in the immediate environment of the river; funds required for acquisition, facility development and management; local or State interest in helping to manage the river; support for designation; and competing uses for the river. Studies

FIGURE 3-2

National Wilderness Preservation System
(acres in millions)

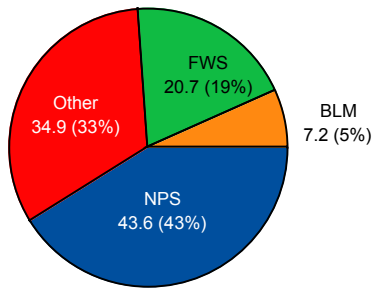
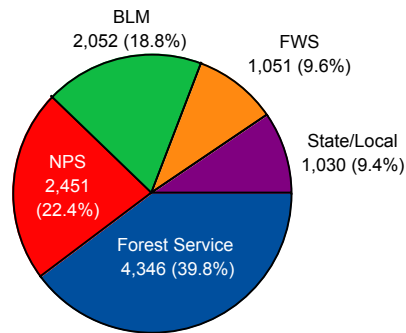


FIGURE 3-3

National Wild and Scenic Rivers System
(in miles)



to determine eligibility may be the responsibility of either the Department of the Interior (the National Park Service, the Fish and Wildlife Service, and the Bureau of Land Management), the Department of Agriculture (the U.S. Forest Service), or the shared responsibility of both agencies. Congress then decides whether to add the river to the National Wild and Scenic Rivers System (Figure 3-3). Only an Act of Congress may remove a river from the System.

The Department manages approximately 55% of the National Wild and Scenic Rivers System, which totals approximately 10,900 miles. There was virtually no change in the size of the system between FY 2004 and FY 2005.

Bureau Stewardship Lands

Bureau of Land Management. The BLM has stewardship responsibility for the multiple-use management of natural resources on approximately 262 million acres of the Nation’s “public lands.” The Federal Land Policy and Management Act of 1976 defines public lands as “. . . any land and interest in land owned by the United States within the several States and administered by the Secretary of the Interior through the Bureau of Land Management, without regard to how the United States acquired ownership, except: (1) lands located on the Outer Continental Shelf, and (2) lands held for the benefit of Indians, Aleuts, and Eskimos.” Lands managed by the BLM represent about one-eighth of the Nation’s land surface, or approximately 42% of the lands under Federal ownership. The BLM is guided by principles of multiple use and sustained yield in

managing the public lands. All of the public lands are managed for multiple use and are used for multiple (more than one) resource values. There is no “predominate” or single use that over-rides or over-shadows this multiple use concept on any of the lands managed by BLM. Historically, multiple-use has meant that the same areas of land can be used simultaneously for two or more purposes, often by two or more different persons or groups. These uses may be complementary or, as if frequently the case, competitive with one another.

The BLM has an overall decrease of approximately 157,000 acres during the fiscal year. This decrease resulted from the net effect of acquisitions of privately-owned lands through purchase, donation, or exchange offset by the disposal of lands through exchange and various public land laws (including sales). Changes in BLM’s acreage data are also attributable to lands that have been withdrawn or reserved by an Executive Order, Secretarial Order, Act of Congress, or Public Land Order for a specific public purpose and transferred to the jurisdiction of another Federal agency. The vast majority of the decrease in BLM-administered acres is a result of lands being withdrawn/reserved in previous years but not administratively deleted from records until this fiscal year.

Fish and Wildlife Service. Stewardship lands managed by the Fish and Wildlife Service (FWS) include the National Wildlife Refuge System, the National Fish Hatcheries Program, Refuge Coordination Areas, and Waterfowl Production Areas.

Lands are acquired through a variety of methods, including withdrawal from the public domain, fee title purchase, transfer of jurisdiction, donation, or gift. The FWS purchases land through two primary sources of funding: the Migratory Bird Conservation Fund and the Land and Water Conservation Fund.

These lands provide permanent protection for valuable wetland, riparian, coastal and upland habitat for fish, wildlife and plant species, including threatened and endangered species. The FWS added one wildlife refuge to the National Wildlife Refuge System, which increased the number of sites in the System from 883 to 884.

The extent of damage to FWS lands along the Gulf Coast caused by hurricanes during August and September 2005, will not be fully known for some time, but is considered quite substantial. Intervention on these lands to return them to an acceptable condition is expected to take a number of years.

National Park Service. National Park Service (NPS) stewardship lands are used and managed in accordance with the statutes authorizing their acquisition or directing their use and management. Stewardship land areas may encompass land owned by entities other than NPS. Changes in NPS boundaries occur only when authorized by Presidential Proclamation or by an Act of Congress. Subsets of lands within the authorized boundaries of the National Park System can have additional stewardship asset designations such as wilderness areas, and wild and scenic rivers. Subject to the availability of funds, privately-owned land will be acquired when opportunities arise, or when an owner uses or threatens to use his/her property in a manner not compatible with park purposes. Through acquisitions, status changes, withdrawals, and error corrections, the NPS added 35,101 acres and withdrew 12,741 acres during FY 2005.

The National Park System encompasses 388 sites containing approximately 84 million acres within their boundaries. Of this total, approximately 79 million acres are owned by the United States in fee simple title and approximately 253,000 acres in less-than-fee title (i.e., scenic easements). Non-Federal lands within the NPS system are either privately-owned (approximately 4.2 million acres) or owned by State and local governments (approximately 1.2 million acres).

Bureau of Reclamation. Reclamation Project Lands: The Bureau of Reclamation (BOR) operates largely as a business-type entity whose primary stated mission is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public. The Bureau provides water and power throughout the 17 western States. Reclamation lands are integral to project purposes, such as constructing and operating dams, reservoirs, water conveyance systems, and power facilities. The term “Reclamation Withdrawn Lands” refers to those lands withdrawn from public entry and set aside for authorized Reclamation purposes.

The BOR experienced a net decrease of 243,513 acres of land during FY 2005 due to three major actions rather than an actual withdrawal of acres: (a) the completion of the fifth year of a five-year land reconciliation effort in which changes to withdrawn lands were identified during the research, correction, and reconciliation of BOR’s project acquired lands and land rights with the agency’s project financial records; (b) successful revocation by the BLM of a portion of the Owyhee Project lands identified as no longer needed for project purposes; and (c) a reduction in withdrawn acres due to prior year BLM revocations which were not previously captured in the real property inventory system.

Bureau of Indian Affairs. Bureau of Indian Affairs (BIA) stewardship lands include cultural sites, which consist primarily of fishing sites where only Tribal members are provided access to rivers for fishing; schools and housing, which consists primarily of home sites both Tribal and non-Tribal, and land associated with numerous Indian schools; office and industrial sites which are used primarily for office space, water treatment plants, roads, storage facilities; reclamation and irrigation lands used for numerous irrigation projects; and agricultural lands which are used primarily for farming and grazing. BIA stewardship land does not include approximately 56 million acres of Tribally and individually-owned land held in trust by the bureau.

In the category of “Cultural, Schools, and Housing”, BIA experienced a net decrease of 90 acres of land during FY 2005. Rather than an actual withdrawal of

land, this decrease was due to a recategorization of land to the “Other Recreation Land” category.

Departmental Offices - Utah Reclamation Mitigation and Conservation Commission. The Utah Reclamation Mitigation and Conservation Commission (Commission) was established by Congress in 1994 under the Central Utah Project Completion Act. The Commission’s mission is to replace or offset the loss in Utah of fish and wildlife resources and related recreational opportunities caused by the acquisition, construction, and operation of Reclamation project assets such as dams, power plants, roads, pipelines, aqueducts, operation and maintenance buildings, and visitor centers. Land acquired and investments made in order to mitigate for the loss of fish and wildlife resources caused by Reclamation project construction are not essential or integral parts of the dam, pipeline, etc., and are not “acquired for in connection with the construction” of the project assets, even if the fish and wildlife mitigation is achieved in the immediate vicinity of the project asset. The Commission acquires lands either through purchase, donation, or condemnation. In over 95% of the acquisitions, the lands have been acquired on a “willing seller” basis. In all cases, habitat conditions on the lands have been improved and in many cases, improvements have been substantial. All land withdrawn from Commission ownership would occur as part of a purchase or condemnation.

Condition of Stewardship Lands

The Department is required to report on the condition of stewardship land. The categories the Department uses in relation to the condition of stewardship land are “acceptable” or “needs intervention.” Land is categorized as being in “acceptable” condition when it is adequate for operating needs and the bureau has not identified any improvements to the land that are necessary to prepare and/or sustain the land for its intended use. For example, parklands, wilderness lands, deserts, and lands that are underwater due to dams and reservoirs would normally be in acceptable condition. When a bureau has determined that improvements are necessary for the land itself to meet operating needs, the land is categorized as that which “needs intervention.” This category would generally pertain to land that is used for special purposes, such as grazing.

Heritage Assets

Interior is steward for a large, varied, and scientifically important body of heritage assets, both non-collectible and collectible in nature. Non-collectible heritage assets include archeological and historic sites, paleontological sites, historic and prehistoric structures, cultural landscapes, and other resources. Many are listed on the National Register of Historic Places, acknowledging their importance to American history. Some are National Historic Landmarks that are exceptional in illustrating the heritage of the United States. Cultural landscapes are complex resources that range in size from large rural tracts to small formal gardens. Collectible heritage assets include library and museum collections.

Heritage assets administered by the Department are unique in that many assets are interrelated and often overlap various categories of heritage assets, including stewardship lands. Some stewardship land assets are also considered to be non-collectible cultural and natural heritage assets, such as national parks and fish and wildlife refuges. Also, subsets of lands within the National Park System may have additional stewardship asset designations such as wilderness areas, wild and scenic rivers, trails, national battlefields, and national recreation areas; all of these assets may be listed separately on the National Register of Historic Places. Likewise, a national park may lie within cultural and natural heritage assets such as historic landmarks or monuments, or archeological and paleontological sites may lie within the boundaries of a national park. Congress may designate national monuments to protect historic landmarks, historic and prehistoric structures, or other objects of historic or scientific interest on public lands.

The National Register of Historic Places, which is administered by the National Park Service, includes heritage assets such as national monuments, archeological districts, trails, landscapes, historic districts, campsites, structures, paleontological sites, historic objects, fish hatcheries, petroglyphs, lighthouses, and cemeteries. Illustrative of the overlap and relationship between heritage assets is the fact that all historic areas within the National Park System are listed on the National Register.

TABLE 3-6

Non-Collectible Cultural and Natural Heritage Assets
as of September 30, 2005

Category by Type	Beginning balance (units)	Additions (units)	Withdrawals (units)	2005 Ending balance (units)	Heritage Asset Designation-C or N *	Condition (%) 1/			
						Good	Fair	Poor	Unknown
Archeological and Historic Sites 2/	346,068	4,824	(273,200)	77,692	C	21%	15%	6%	57%
Cultural Landscapes	180	78	-	258	C	37%	54%	9%	0%
Historic and Prehistoric Structures	26,585	474	(1,585)	25,474	C	47%	37%	13%	3%
Natural Heritage Special Management Areas	2,300	16	(1,924)	392	N	100%	0%	0%	0%
National Historic Landmarks	212	2	-	214	C	78%	0%	7%	14%
National Park System	388	1	(1)	388	N	100%	0%	0%	0%
National Register of Historic Places	4,811	359	(1)	5,169	C	0%	0%	0%	100%
Paleontological Sites	3,921	587	(1,101)	3,407	N	37%	3%	1%	59%
National Wildlife Refuge System	544	1	-	545	N	0%	100%	0%	0%
World Heritage Properties	5	-	-	5	N	0%	0%	0%	100%
Total	385,014	6,342	(277,812)	113,544					

* "C" indicates a cultural heritage site and "N" indicates a natural heritage site.

1/ "Good condition means a site shows no clear evidence of negative disturbance or deterioration by natural forces or human activities; "fair" means that a site shows clear evidence of negative disturbances or deterioration by natural forces and/or human activities; "poor" means that a site shows clear evidence of human activities and no corrective actions have been taken to protect and preserve the integrity of the site; "unknown" may mean that, due to the nature of the site, such as sites underwater, the condition cannot be determined or that, due to financial constraints, the condition of a site cannot be determined.

2/ Reflects corrected beginning balance. Also, the Bureau of Land Management no longer reports on the number of archeological and historic sites reflecting the withdrawal of 271,474 acres for FY 2005.

Comparative Information

	Beginning Balance	Additions	Withdrawals	Ending Balance
FY 2005 1/	385,014	6,342	-277,812	113,544
FY 2004	377,176	13,906	-6,093	384,989

Difference between FY 04 ending balance and FY 05 beginning balance is due to a corrected FY 05 beginning balance reflecting end of year adjustments for the Bureau of Land Management.

Non-Collectible Cultural and Natural Heritage Assets
Interior's heritage assets come from public domain or acquired lands, historic properties under Interior's management, and donations. Interior has a responsibility to inventory, preserve, and interpret these resources for the benefit of the American public and does not normally dispose of such property. Withdrawals of non-collectible heritage assets are due primarily to redesignations by Congress, natural destruction or deterioration of the asset, or transfer to another Federal agency.

Interior's non-collectible heritage assets are shown in *Table 3-6*.

Archeological and Historic Sites. Archeological sites are locations that contain material remains or physical evidence of past human activity. Archeological sites include prehistoric structures, middens, and roadways, such as those found on many of the lands managed by the Department in the southwest. Sites also include the ancient earthen mounds in the mid-

western and southern parts of the Nation, many of them managed by Interior bureaus. Other archeological sites come from historic times and are associated with the settlement of the United States by Euro-Americans, African-Americans, and Asian-Americans. The Historic Sites, Buildings and Antiquities Act of 1935 authorized the preservation for public use of historic sites, buildings, and objects of significance for the inspiration and benefit of the American people. The Act gives the Secretary of the Interior the authority to secure, collate, and preserve drawings, plans, photographs, buildings, and objects. The Secretary is also authorized to survey historic and archeological sites, buildings, and objects to determine which sites, buildings, and objects possess exceptional value as commemorative or illustrative of the history of the United States.

Cultural Landscapes. A cultural landscape is a geographic area, including both natural and cultural resources, associated with an historic event, activity, or person.

Historic and Prehistoric Structures. Historic and prehistoric structures are constructed works consciously created to serve some human activity or purpose. These structures include buildings and monuments, dams, canals, stockades and fences, defensive works, temple mounds and kivas, ruins of all structural types, and outdoor sculptures. Structures are historic because they individually meet the criteria of the National Register of Historic Places or are contributing elements of sites or districts that meet National Register criteria. As such, historic structures are significant at the national, State, or local level, and are associated with the important people and history of the Nation. Prehistoric means of, pertaining to, or belonging to the era before recorded history.

Several historic structures managed by the Department were damaged during Hurricane Katrina. Two structures managed by the NPS were destroyed by the Hurricane: the Ship Island 1853 Lighthouse Ruins and the Ship Island 1886 Lighthouse and Keeper's Quarters in the Mississippi District of the Gulf Islands National Seashore. The condition of historic structures in Jean Lafitte National Historical Park and Preserve in Louisiana and the Mississippi District of Gulf Islands National Seashore were also affected by Hurricane Katrina. Of the 17 structures in Jean Lafitte, one structure previously in good condition was downgraded to poor condition and another previously in fair condition was also downgraded to poor condition.

Interior adopted accounting guidance for concession assets and related liabilities effective October 1, 2004. As a result of adopting this guidance, Interior reported FY 2005 withdrawal of 1,585 units from the historic and prehistoric structure category.

National Historic Landmarks. National Historic Landmarks are districts, sites, buildings, structures, or objects possessing exceptional value in commemorating or illustrating the history of the United States. The Historic Sites Act of 1935 authorizes the Secretary of the Interior to designate National Historic Landmarks as the Federal Government's official recognition of the national importance of historic properties. These landmarks possess exceptional value or quality in illustrating or interpreting the heritage of the United States in history, architecture, archeology, technology, and culture, as well as possessing a high degree

of integrity of location, design, setting, materials, workmanship, feeling, and association.

Paleontological Sites. A paleontological site is a spatially defined area from which a fossil (or fossils) is found or has been recovered and whose geologic context and attributes have been documented for the purpose of scientific study, management, and/or interpretation. Since the early 1800s, professional and amateur paleontologists have made discoveries that helped launch the new scientific discipline of paleontology in America, filling our Nation's museums of natural history with the remains of spectacular creatures that have captured the public's imagination. Today, the public lands continue to provide paleontological resources that fuel scientific discovery and evoke public wonder. Interior bureaus manage these fragile and nonrenewable resources as a public trust not only to assure preservation of scientific values, but also to see that educational and recreational values are realized.

Collectible Heritage Assets

The Department is steward of large, unique, and diversified collection of library holdings and museum collections (*Table 3-7*). These assets are held in both Federal and non-Federal facilities.

Library Collections

The Department of the Interior Library contains holdings that cover the broad range of matters related to the Department's mission to protect and provide access to the Nation's heritage. Specific collections include a comprehensive law collection, an extensive periodical collection, and a rare book collection consisting of 19th century monographs on Native Americans, American history, and zoology. The collections are augmented by online access with full-text capabilities. Departmental policy dictates that copies of publications produced for or by its bureaus and offices be deposited in the Departmental Library, thus assuring a continuing, reliable source of information. The Library serves DOI employees in the Washington, D.C. area and field offices throughout the Nation, and enhances its ability to fulfill its responsibilities by providing an informative Web site at <http://library.doi.gov>, online access to the catalog of holdings over the Web site, and training sessions to familiarize Departmental staff with the treasures of the collection.

TABLE 3-7

FY 2005 Collectible Heritage Assets

	Beginning Collections	Additions	Withdrawals	Ending Collections	Condition of Collection (%) 1/			
					Good	Fair	Poor	
Interior Library Collections								
Departmental Library	1	-	-	1	90%	7%	3%	0%
U.S. Geological Survey Library	4	-	-	4	74%	17%	9%	0%
Total	5			5				
1/ "Good" means the collection is in usable condition; "fair" means the collection is in need of minor repair or cleaning; "poor" means the collection is in need of major conservation efforts.					Condition of Facility Housing Collection 2/			
	Beginning Collections	Additions	Withdrawals	Ending Collections	Good (Meet > 70%)	Fair (Meet 50-70%)	Poor (Meet < 50%)	Not Yet Assessed
Interior Museum Collections								
Held at Interior Bureau Facilities	649	5	(4)	650	244	135	101	170
Held at Non-Interior Bureau Facilities	632	9	(10)	631	105	67	9	450
Total	1,281	14	(14)	1,281				

1/ Good condition means the number of collections meeting more than 70% of standards in Departmental Manual Chapter 411, Museum Property; fair means meeting 50-70% of Departmental standards, and poor means meeting less than 50% of Department standards.

U.S. Geological Survey library holdings, collected during more than a century of providing library services, are an invaluable legacy to the Nation. The legislation that founded the USGS decreed that copies of reports published by the USGS should be given to the library in exchange for publications of State and national geological surveys and societies. The USGS Library, built from this notable and cost-effective exchange program, plus purchases and gifts, has become the world's largest collection of earth science information. The library is housed in four libraries in Reston, Virginia; Menlo Park, California; Denver, Colorado; and, Flagstaff, Arizona.

Museum Collections

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

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

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

Facilities housing Department museum collections must meet specific environmental, security, fire protection, housekeeping, physical examination and conservation treatment, storage, and exhibit space standards as described in Departmental Manual Section 411, Chapter 3. The standards achieved by facilities that house collections are a good indicator of the status of collections for which item-level condition data are not available. Facilities that meet at least 70 percent of the Department's standards for managing museum collections are judged to be in "good" condition, those that meet between 50% and 70% of standards are in "fair" condition, and those that meet less than 50% of applicable standards are in "poor" condition.

Bureau Highlights

National Park Service. The NPS museum collections support the NPS mission to foster understanding, appreciation, and enjoyment of natural and cultural heritage. They are tangible and accessible evidence of the resources, significant events, and peoples associ-

ated with NPS lands. The collections include items ranging from historic furnishings in the home of John Adams, to flags that flew over Fort Sumter, to Thomas Edison's handwritten notes on inventions, to the tools and furnishings of a working ranch in Montana, to botanical specimens from Yosemite, and archeological items from Mesa Verde. These museum collections, from 359 NPS units and managed at 317 NPS locations, are important not only individually, but also because of their direct association with the nationally significant sites in the National Park System.

Notable acquisitions in FY 2005 include 200 Ojibwe items and accompanying field records from a Minnesota ethnologist at Grand Portage National Monument; a set of stereocards featuring the exterior and interior of Lincoln Home from 1865 to the early 1900s at Lincoln Home National Historic Site; a Great Lakes lighthouse boat of the type used from the 1920s to 1950s adding to the largest permanent exhibit of historic Great Lakes vessels in the Nation at Sleeping Bear Dunes National Lakeshore; a blanket that accompanied stamper Charles McDuffee to the Klondike Gold Fields in 1897 at Klondike Gold Rush National Historical Park; and artifacts from a boys club and other items associated with the Wright Brothers at Dayton Aviation Heritage National Historical Park.

Hurricanes Katrina and Rita impacted NPS collections in Florida, Louisiana, Mississippi, and Texas. Damage, but no losses, have been reported; however, assessments are not complete. At Dry Tortugas National Park, an historic cannon at Fort Jefferson was damaged and stabilized. The stored object collection at Jean Lafitte National Historical Park was undamaged, but moved to temporary off-site storage. Items on exhibit at Chalmette Battlefield were flooded and salvaged. High-value objects are receiving conservation treatment. At Gulf Islands National Seashore, flooded collections in the Davis Bayou Unit have been salvaged, stabilized, and moved to temporary off-site storage. Some, but not all objects on exhibit at Fort Massachusetts on Ship Island have been assessed; the exhibits were severely damaged.

Bureau of Land Management. Museum collections under BLM's stewardship consist principally of archeological, historical, and paleontological materials that are managed to professional standards

and in compliance with applicable laws, and that are accessible to the public. Most collections originating from BLM-managed land are housed in non-Federal facilities throughout the country. To date, BLM has identified 154 professional facilities in 33 States and Canada where millions of objects originating from the public lands reside. The BLM also curates objects in three BLM facilities: the Anasazi Heritage Center in Dolores, Colorado; the Billings Curation Center in Billings, Montana; and, the National Historic Oregon Trail Interpretive Center on Flagstaff Hill, Oregon.

Bureau of Reclamation. Overall, Reclamation internal units are working with their non-Reclamation partners to update curatorial service agreements. In addition, the units are updating and/or developing new museum property management documents. For example, units have entered into, or are negotiating for, agreements for the following type of activities: (1) evaluating and resolving accession, catalog, and ownership information/issues, (2) performing annual inventories, (3) stabilizing collections, (4) repackaging collections, and (5) labeling. Reclamation once again utilized the National Council for Preservation Education intern program and employed six interns to do museum property related activities.

The total number of museum property items under Reclamation's control increased during this reporting cycle. The increase was the result of new accessions and improved catalog information. The item-level withdrawals were the result of items being determined to be: (1) outside Reclamation's control, (2) previously misidentified as museum property, or (3) better identified under a different discipline heading (i.e., historic objects reclassified as archeology documents).

Bureau of Indian Affairs. BIA museum property collections are collected and preserved to further the mission of the bureau by documenting bureau activities, such as the history of Indian schools and celebrating government-to-government relations between the Federal Government and Tribal governments. Collections are exhibited in Indian schools and displayed in BIA administrative offices, illustrating the history, mission, and activities of the bureau, as well as highlighting traditional and contemporary American Indian material culture. Collections are also managed in museums, universities and other repositories

and made available to Tribes and the public through research, exhibitions, and publications that document and highlight Tribal histories and traditions.

BIA museum collections are housed at 100 BIA facilities and 72 non-BIA facilities. Museum collection additions and withdrawals include one collection of materials being transferred from a BIA facility to a non-DOI tribal museum on long-term loan; a repatriation of human remains from a BIA facility to affiliated Tribal representatives under the Native American Graves Protection and Repatriation Act, and one non-Interior museum closure, where objects were transferred to another non-Interior repository that manages other BIA museum collections.

Fish and Wildlife Service. FWS museum collections are used for educational and interpretive programs; research on changes to habitat and wildlife; and maintaining the history and traditions of FWS programs and employees. The majority of FWS museum collections are maintained on loan to museums and other institutions. The FWS ensures that these collections are safeguarded through compliance with the Secretary of the Interior's curation standards found in 36 CFR 79. Institutions housing FWS museum collections must maintain the appropriate environmental, record-keeping, and security controls in order to qualify to maintain Federal collections.

U.S. Geological Survey. The USGS uses its museum property collection to illustrate important achievements and challenges to the Earth Sciences, to document the history of the USGS, and to enlighten those who use the collection. The USGS museum collections are housed in both Federal and non-Federal institutions in an effort to maximize accessibility to the public. The USGS manages hundreds of historical objects that are loaned to other institutions for exhibits and placed on exhibit in the USGS National Center in Reston, Virginia, and in science centers around the country. These collections are evidence of the resources, events, and people associated with USGS activities and are studied by historians and scientists alike.

Departmental Offices. Components of Departmental Offices museum collections include The Indian Arts and Crafts Board which manages three regional museums, the National Business Center, which manages the Departmental Museum in the Main Interior Building in Washington, D.C., and museum collections managed by the Office of the Special Trustee for American Indians. Department museum activities include collection management, exhibit development, educational outreach, and research. Museum objects are acquired through donation, purchase, exchange, transfer, and field collection and are governed by each DOI bureau's mission and the Interior museum's ability to manage and preserve museum objects in accordance with Departmental standards.

Minerals Management Service. All MMS museum property is photographed, cataloged and have temporary numbers assigned. MMS staff is planning an educational outreach to increase awareness and visibility of the collection. It is hoped that educational efforts will result in identification of more items associated with MMS history that may be suitable for management as museum property. No new items were identified during FY 2005.

Stewardship Investments

Investment in Research and Development

Interior is an important source for the Nation's natural resources research and development initiatives, and is a reliable source for credible, objective, and unbiased information needed by resource managers across the Nation, within and outside of the Department. These research and development activities encompass examinations of geological structures, mineral resources, and products within and outside the national domain. Earth science research and information is used to save lives and property, safeguard human health, enhance the economic vitality of the Nation and its people, assess resources, characterize environments, and predict the impact of contamination. This information aids in solving critical societal problems through research, investigation, and the application of State-of-the-Art geographic and cartographic methods.

TABLE 3-8

Investment in Research and Development
(in millions)

Category	FY 2001	FY 2002	FY 2003	FY 2004 1/	FY 2005	TOTAL
Basic Research	\$64.6	\$87.0	\$77.0	\$70.6	79.0	378.2
Applied Research	659.1	893.3	768.2	842.4	762.7	3,925.7
Developmental	57.3	92.4	106.8	77.6	75.6	409.7
TOTAL	\$781.0	\$1,072.7	\$952.0	\$990.6	\$917.3	\$4,713.6

1/ The amounts for FY 2004 reflect end of year adjustments by the National Park Service and the Bureau of Land Management.

Interior's research and development activities are presented in *Table 3-8* in three major categories:

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

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

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

Highlights of Research and Development at Interior Bureaus

U.S. Geological Survey. The USGS is the earth and natural science research bureau of the Department and the only integrated natural science bureau in the Federal Government. By combining biology, geology, hydrology, and geography in one agency, the USGS is uniquely positioned to provide science information and conduct scientific research that ensures an integrated approach to advance scientific knowledge and utilize the latest technologies to provide timely answers and products, and improve the quality of life for the communities served. USGS research and data products support the Department's resource and land management needs and provide the science information needed by other Federal, State, Tribal, and local government agencies to guide planning, management, and regulatory programs.

USGS efforts in restoring the Everglades is an outstanding example of basic research with science applications that address issues resulting from nearly a century of wetland drainage and impoundment and that provide the information needed to restore the health of this unique ecosystem. The USGS provides the primary science support to the Department for resource management and restoration in South Florida. These and other studies are providing the highest quality scientific research and scientific information so that USGS partners at Interior and State and local agencies can fulfill their resource management and technical responsibilities.

The USGS and the Geological Survey of Canada are conducting research into community planning for multiple natural hazards along the Sea-to-Sky corridor located in British Columbia in anticipation of population increases and the upcoming Winter Olympics. The Sea-to Sky corridor is one of the most spectacular settings in the world offering travelers along Highway 99 North an uninterrupted vista of Howe Sound, year-round glaciers, and breath-taking West Coast mountain scenery. USGS and GSC also jointly produced a paper on developing methods to estimate the economic value of improved geologic maps for mineral exploration in mature and frontier mining districts.

National Park Service. Through appropriations for natural resource stewardship (encompassing natural resource research support and natural resource management, including the Natural Resource Preservation Program [NRPP]), and the Cultural Resource Preservation Program (CRPP), the NPS performs a wide range of mission-oriented research in support of its natural and cultural resource stewardship responsibilities. This work constitutes primarily either basic or applied research focusing

on park-based needs for scientific and scholarly information necessary for park management.

Natural resource research and development funds support a variety of applied research projects including:

- Demographic monitoring, disease surveillance, and identifying an effective oral vaccine delivery mechanism for bison infected with bovine brucellosis in Grand Teton National Park. Bovine brucellosis causes reproductive failure in ungulates and has major economic implications for the regional, national, and international cattle industry. This work follows a recently adopted interagency management plan. The project's results will be used to develop effective strategies for addressing population and disease concerns, while providing for long-term bison conservation.

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

Significant accomplishments during FY 2005 include:

Chemosynthetic Ecosystems. Detailed environmental information on the deep Gulf of Mexico is needed as the energy industry continues its search for producible oil and natural gas reservoirs beyond the Outer Continental Shelf into the deep waters of the continental slope. The geological features that make the Gulf of Mexico an important petroleum province also provide conditions that result in the existence of natural seeps and chemosynthetic communities. To meet management needs for environmental information, the Environmental Studies Program (ESP) conducts interdisciplinary studies in deepwater areas of the Gulf of Mexico to describe the distribution and structure of the unique ecosystems and biogeochemical and physical processes that influence these biologic resources.

The MMS Chemosynthetic Ecosystems research has revealed many intriguing facts about the

chemosynthetic animals and communities.

Chemosynthetic communities are organisms living off gas and oil that seep from the earth's surface. These communities form what are equal to reef communities teeming with life. Chemosynthetic communities in the northern Gulf of Mexico were discovered in 1984 during a study conducted for the MMS. Findings indicate that Gulf seep species studied to date have a very slow growth rate. When Gulf chemosynthetic communities are buried and suffocated by natural events such as turbidity flow, the same community will eventually grow back. Thus, the extraction of oil and gas from subsurface reservoirs is not predicted to deprive the communities of the necessary gasses for survival. MMS has developed regulatory measures designed to protect the unique chemosynthetic communities from the physical effects of OCS mineral activities.

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

Departmental Offices - Central Utah Project Completion Act (CUPCA). In order to provide for the completion of the Central Utah Project, Public Law 102-575 was enacted on October 30, 1992. Funds authorized pursuant to this Act are appropriated annually to the Secretary of the Interior and such appropriations are made immediately available in their entirety to the Central Utah Water Conservancy District (CUWCD). Examples of R&D investments are:

- *Utah Lake Salinity Control.* Feasibility study to reduce the salinity of Utah Lake;

- *Mitigation and Conservation Measures.* To provide mitigation and conservation measures outside the State of Utah by restoring damaged natural ecosystems on public lands and waterways affected by the Federal Reclamation program; and,
- *Water Management Improvement.* Study of wholesale and retail pricing to encourage water conservation and a study of the coordinated operations of independent municipal, industrial, irrigation and water systems.
- Continuing the mapping of infestations and accurately monitoring the spread of invasive species on western rangelands; improving methods for predicting areas most vulnerable to invasions; and assessing the effects of management practices and natural disturbances on invasions; and,
- Continuing research efforts on wild horses that focus on population modeling and fertility control on herd dynamics and working to refine multiple-year contraceptive vaccines

Departmental Offices - Utah Reclamation

Mitigation and Conservation Commission. The Commission invests in either research calculated to determine the means by which mitigation measures or programs could be achieved (applied) or to determine the best method or design for an identified mitigation measure (developmental). For FY 2005, the Commission's research has focused primarily on:

- *Sage Grouse.* A Northern American bird threatened by loss and deterioration of sage-steppe grassland habitat and predation.
- *June Sucker.* A fish occurring naturally only in Utah Lake and the Provo River which is federally listed as endangered.

Bureau of Land Management. The ultimate objective of the BLM's research and development program is to make better use of new data, information, and knowledge to improve the management of the Nation's lands and resources. The BLM's research and development program focuses on working with partners to identify scientific information needs and then communicating these needs to research agencies, universities, and other non-governmental organizations.

In 2005, the BLM began new and continued past research and development efforts, including:

- Continuing studies in the Cooperative Forest Ecosystem Research Program, emphasizing influences of landscape pattern and management on composition of terrestrial and aquatic species, riparian linkage, and analysis of riparian management and conservation strategies, and post-fire rehabilitation and ecology;

Investment in Human Capital

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

The Department's investments in human capital are shown in *Table 3-9*.

Bureau of Indian Affairs Education Programs

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

Adult Education

The adult education program provides opportunities for adult Indians and Alaska Natives to complete the General Equivalency Degree (GED). Completion of the GED increases adult Indians and Alaska Natives' economic competitiveness and reduces their economic dependence on Federal welfare programs. It also provides basis skills for transition to community college or job placement. In addition, this program specifically improves the Native Americans' educational opportunities, employment skills and

TABLE 3-9

Investment in Human Capital
(in millions)

Category	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	TOTAL
Educational Programs ^{1/}	526.7	\$606.8	\$559.6	\$570.2	\$549.0	\$2,812.3
Job Corps Program	51.4	55.6	59.4	57.4	52.6	276.4
Other Educational Programs ^{2/}	0.0	15.0	11.8	11.9	12.1	50.8
TOTAL	\$578.1	\$677.4	\$630.8	\$639.5	\$613.7	\$3,139.5

^{1/} Educational Programs include the Bureau of Indian Affairs' School Operations, Adult Education Post-Secondary Education, Scholarships, and Other Educational Programs.

^{2/} Indian Employment, Training, and Related Services Act (477 Program)

abilities while enhancing the local economy and their economic competitiveness on reservations.

Significant Output/Accomplishment

During School Year 2003-2004 (last full year data available), the Sinte Gleska University's Adult Basic Education Program reported that all goals were met or surpassed. Forty-nine students attained their GED, which is the largest number to date. The program, which is currently the fourth largest Adult Education Program in South Dakota, expects to continue growing to meet "No Child Left Behind" standards.

Other Education Programs

The Johnson O'Malley (JOM) Program provides supplemental financial assistance to meet the unique and specialized education needs of eligible Indian (age 3 through grade 12) students attending public schools. JOM is the only BIA program that provides for the culturally-related and supplementary academic needs of Indian children attending public schools.

These programs support the Bureau's Annual Performance Plan goal that seeks to improve the succession of students to each educational level.

The Tribal Design Programs allow Tribes to design programs that meet the needs of their local communities and support the goals written in the bureau's performance plan.

Significant Output/Accomplishment

During School Year 2004-2005, the Navajo Nation's JOM Program (through 37 schools, school districts and tribal subcontracts) provided assistance to more

than 51,000 students in Arizona, New Mexico, and Utah.

Post-Secondary Education Programs

The Post-Secondary Education Programs are an important component in the economic development of Tribal communities. It also supports the Department's goal on "Improving Communities" by promoting growth within Indian communities. These programs primarily consist of operating grants and supplemental funds for Tribal Colleges and Universities (TCU). They also include the Undergraduate and Graduate Scholarship Programs, Haskell Indian Nations University, and Southwestern Indian Polytechnic Institute.

The operating funds for TCUs are provided through the TCU Program, which provides grants to defray expenditures for academic, educational, and administrative purposes, and for the operation and maintenance of 25 TCUs. Six Tribes supplement the operation of their TCUs by providing additional TPA funds for policy development, curriculum additions, and general program operations.

The Undergraduate and Graduate Scholarship Programs are administered by the BIA and by Tribes under self-determination contracts, grants, or self-governance compacts. The Undergraduate Scholarship Program provides financial assistance for eligible American Indian and Alaska Native students attending accredited post-secondary institutions. Each scholarship award is based on the student's certified financial aid requirements for Title IV Federal Assistance, such as the Pell Grant.

Significant Output/Accomplishment

The most significant accomplishment during School Year 2003-2004 was that the number of graduates increased at Haskell and Southwestern Indian Polytechnic Institute. This clearly demonstrates the continued success of these two Indian schools.

School Operations

The Indian School Equalization Program (ISEP) provides formula-based funding for BIA-operated grant, contract elementary, and secondary schools. Funds are distributed using the ISEP formula which considers Weighted Student Units (WSU). This funding is for the operation of Bureau-funded schools, i.e., funding for school staff, school programs, textbooks and general supplies that are used by the school to educate Indian children. The School Operations Program consists of ISEP, transportation, Family and Child Education (FACE) and administrative cost funds.

Significant Output/Accomplishment

The most significant accomplishment in school operations was illustrated within the recent Family and Child Education (FACE) impact study. This study conducted by an independent research firm determined that in School Year 2004-2005:

- The FACE Program was successful in encouraging parents to enroll their child in preschool programs.
- The FACE Program was successful in preparing children for school.

School Operations	School Year 2004-2005		School Year 2003-2004	
	Schools	Students	Schools	Students
Contract/Grant Schools	122	29,370	120	28,976
Bureau-Operated Schools	62	18,218	64	18,695
Totals	184	47,588	184	47,671

The Indian Employment, Training, and Related Services Act (477 Program)

The Indian Employment, Training, and Related Services Act (P.L. 102-477) allows federally recognized Tribes to apply funding by the Departments of Labor, Health and Human Services, and DOI to employ, train, and provide child care, welfare reform, and related services. The Tribal governments are allowed to integrate the employment, training, and related

services in order to effect improved services. In essence, the services reduce joblessness in Indian communities and foster economic development on Indian lands, while serving Tribally determined goals that are consistent with policies of self-determination and self-governance.

Significant Output/Accomplishment

The Tribes now spend fewer funds on administration, while simultaneously improving increased client services through the reduction of administrative burdens. For instance, annual Tribal reporting on various forms and instructions was reduced from several hundred pages to only a few pages per year. As a result, the program now requires only one set of client files and applications, instead of several different application forms, eligibility documentation, and other related administrative burdens.

In addition, 48 Tribal grantees under the 477 Program, and amendments to the 477 Program (P.L. 106-568) strengthened the 477 initiative by providing Tribes with the flexibility to use a certain percent of their existing funds for job creation. Several Tribes have taken a leadership role in this particular initiative. As a result, they are implementing economic development projects that now assist other Tribes in creating jobs. For instance, the Citizen

Potawatomi Nation redesigned their 477 plan to create jobs and assist clients, as well as employers.

Job Corps Program

Through the Job Corps Program, the Interior provides residential education and job training to disadvantaged youth through program participation from Interior bureaus. The Job Corps, established in 1964, is the Nation's largest national job training and education program and offers job training, basic education, social skills training, and support services to young people ages 16-24 that face multiple barriers to employment. Job Corps Civilian Conservation Centers are operated by the Departments of the Interior and Agriculture and are located on National Wildlife Refuges, in National Parks, and in National Forests. Job Corps students perform valuable work to improve these public lands. In FY 2005, a total of approximately \$52.6 million was expended by the Department for the Job Corps Program.

Bureau Job Corps Program Highlights

Bureau of Reclamation. Reclamation operates five Job Corps Centers to educate and train disadvantaged youth. In FY 2005, Reclamation expended approximately \$30 million in residential education and job training, including courses in computer technology, painting, woodworking, welding, culinary arts, and social and leadership development.

The following chart shows the numbers of Reclamation Center graduates as a percentage of the total Center enrollment and the number of graduates placed into jobs within one year of graduation as a percentage of the graduates in the placement pool.

The Ft. Simcoe center has an enrollment capacity of 224 students. Job Corps is a self-paced, open entry/exit program. This means it takes some students longer than others to graduate. Depending on incoming educational levels, it can take a student between eight months and two years to complete the program and graduate. Therefore the number of graduates does not always equal the number of enrollees. In fact, the number of graduates can exceed the number of enrollees if the average length of stay is less than one year.

Reclamation Center Graduates						
Center	Graduates	Enrollment	%	Graduates Placed	Graduate Placement Pool	%
Centennial	272	300	90.7	276	299	92.3
Columbia Basin	215	250	86.0	186	200	93.0
Ft. Simcoe	230	224	102.7	227	250	90.8
Weber Basin	173	224	77.2	165	181	91.2
Collbran	171	200	85.5	177	187	94.7

National Park Service. The NPS operates three Job Corps Civilian Conservation Centers: the Oconaluftee Center in North Carolina, the Great Onyx Center in Mammoth Cave, Kentucky, and the Harpers Ferry Center in Harpers Ferry, West Virginia. Student capacity is approximately 200 for each of the Centers. These Centers offer residential, educational, training, and employment programs. Job Corps centers are rated on the attainment of goals for graduates and student placements in jobs once students leave the program. Students graduate from the program with a high school diploma or General Education diploma. Graduates obtain jobs in various industries including

business technology, transportation (trucking), plumbing, and building and construction. FY 2005 graduates and placements for the three NPS centers are:

General Education Diploma/High School Diploma					
Center	GED/HSD Graduates	Total Students	% of Students	Targeted Goal	% of Goal Met
Great Onyx	131	303	43%	47.5%	91%
Harpers Ferry	131	259	51%	45.1%	>100%
Oconaluftee	82	206	40%	47.8%	83%

Vocational Graduates					
Center	Graduates	Total Students	% of Students	Targeted Goal	% of Goal Met
Great Onyx	161	414	39%	65%	60%
Harpers Ferry	244	347	70%	65%	>100%
Oconaluftee	132	264	50%	65%	77%

Placements					
Center	Graduates	Total Students	% of Students	Targeted Goal	% of Goal Met
Great Onyx	197	399	49%	95%	52%
Harpers Ferry	248	269	92%	95%	97%
Oconaluftee	134	153	88%	95%	92%

U.S. Fish and Wildlife Service. The FWS operates two Job Corps Civilian Conservation Centers: Mingo, located at the Mingo Wildlife Refuge in Puxico, Missouri, and Treasure Lake, located at the Wichita Mountains Wildlife Refuge in Diahoma, Oklahoma. Effective January 2005, operation of the Mingo Job Corps Center was transferred to the U.S. Forest Service. Job Corps Centers are rated on the attainment of goals for graduation and student placement in jobs once students leave the program. The FWS's ratings are as follows for the number of students served, graduates, and placements:

FWS Ratings					
Center	Students Served	Graduates	%	Placements	% of Graduate Placements
Treasure Lake	429	156	36%	172	40%

TABLE 3-10

FY 2005 Investment in Non-Federal Physical Property
(in millions)

Category	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	TOTAL
Dams and Other Water Structures	\$132.1	\$161.6	\$244.7	\$213.2	\$244.8	\$996.4
Land	6.0	8.7	65.0	120.0	90.4	290.1
Roads and Bridges	253.9	259.2	240.8	217.0	112.5	1,083.4
Schools and Public Buildings	94.8	149.6	89.1	99.7	93.8	527.0
Not Classified	179.0	169.0	1.0	1.0	15.0	365.0
Total 1/	\$665.8	\$748.1	\$640.6	\$650.9	\$556.5	\$3,261.9

1/ Changes in prior year numbers reflect year-end adjustments and corrections by several Interior bureaus.

Investment in Non-Federal Physical Property

The Department of the Interior provides a long-term benefit to the public by maintaining its commitment to investing in non-Federal physical property.

Non-Federal physical property refers to expenses incurred by the Federal Government for the purchase, construction, or major renovation of physical property owned by State and local governments and Insular Areas, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets.

Interior's investment in non-Federal physical property is shown in *Table 3-10*.

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

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

Education facilities serve a number of schools that provide educational opportunities for approximately 48,000 students. The BIA also provides funding for administrative buildings at a number of tribal

locations. Other facilities include dormitories, road forestry and detention centers, numerous irrigation facilities, and significantly hazardous dams. Additionally, program sub-activities have elements that include minor improvements, repair and replacement, portable classrooms, emergency repairs, demolition and reduction of excess space, environmental projects, telecommunication improvements and repair, seismic safety, and emergency management systems. Finally, the BIA is continually striving to correct code and standard deficiencies.

Indian Reservation Roads and Bridges Program.

The BIA Division of Transportation jointly administers the Indian Reservation Roads (IRR) Program and the Indian Reservation Roads Bridge Program (IRRB) with the Federal Highway Administration. The purpose of the IRR Program is to provide safe and adequate transportation and public road access to and within Indian reservations, Indian lands, and communities for Indians and Alaska Natives, visitors, recreational users, resource users, and others, while contributing to economic development, self-determination, and employment of Indians and Alaska Natives. As of October 2004, the IRR system consisted of approximately 27,749 miles of BIA and tribally-owned public roads and 31,345 miles of State, county, and local government public roads, as well as an inventory of over 1,020 BIA-owned bridges.

Bureau of Reclamation. Reclamation's investments in non-Federal physical property provide assistance through a variety of measures, all related to water and related resources management. Reclamation incurs expenses for specific programs to provide for the construction or improvement of structures and

facilities used in State and local irrigation projects and water quality improvement projects. Reclamation-wide programs that improve State and local fish and wildlife habitats through activities such as the construction or betterment of structures or facilities are also included.

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

National Park Service. Congress may annually appropriate funds to the NPS for work on non-NPS facilities that is done by individuals who are not NPS employees. These funds are referred to as "Pass Through" appropriations because the role of the NPS is limited primarily to preparing an agreement that allows the funds to be obligated and certifying and processing subsequent payments for the work. Typically, more than 90% of the funds are obligated within the year they are appropriated. Once obligated, fund expenditure is entirely dependent on the party receiving the funds. Only cash assets are associated with these projects. During FY 2005, \$21.2 million has been expended for these pass through projects.

Of this \$21.2 million, approximately \$9.2 million was used to support the construction of an Abraham Lincoln Interpretive Center in downtown Springfield, Illinois. The planned two-part Abraham Lincoln Presidential Library and Interpretive Center will consist of a museum portion, a library, and archives. Another \$2.3 million was expended for the Southwest Pennsylvania Heritage Commission. These costs reflect FY 2005 expenditures of a portion of 12 years of appropriated funding totaling approximately \$36.8 million to continue support efforts to develop a regional network of sites along the Path of Progress National Heritage Tour Route in the Southwest Region of Pennsylvania.

Departmental Offices - The Office of Insular Affairs. The Office of Insular Affairs (OIA) carries out the Secretary of the Interior's responsibilities for U.S.

affiliated insular areas. These include the territories of American Samoa, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as the three freely associated States of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The OIA achieves its mission by improving the financial management practices of insular governments, increasing economic development, and increasing Federal responsiveness to the unique needs of island communities. The OIA hopes to increase the resources available to the insular area governments while promoting economic self-sufficiency. The OIA provides capital improvement grants to the insular areas. These grants involve hospitals, public buildings, roads, schools, sewage facilities, and solid waste facilities.

Departmental Offices - Central Utah Project Completion Act. The Central Utah Project Completion Act (CUPCA) expressly authorized the Utah Reclamation Mitigation and Conservation Commission to invest in fish and wildlife habitat improvements on non-Federal properties because the Federal reclamation projects in Utah affected fish and wildlife resources beyond the boundaries of the Reclamation projects and opportunities to mitigate on Federal lands are often limited. FY 2005 activities include:

- *Duchesne Strawberry Diversion Structures.* The Commission, in conjunction with the Duchesne County Water Conservancy District in Utah, is reconstructing the rehabilitating diversion structures on the Duchesne and Strawberry Rivers.
- *Wetlands Around Great Salt Lake.* The Great Salt Lake ecosystem provides the vast majority of the remaining valuable wetlands in Utah and is a critical site for achieving wetland mitigation. The Commission has made investments on wetland properties in conjunction with major wetland conservation programs conducted by the State of Utah Division of Wildlife Resources, Utah State University, the Nature Conservancy, and the National Audubon Society. Commission investments have included a variety of habitat improvement.

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Other Supplementary Information (See Auditors' Report)

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

Special Account Funds. NPS has concession agreements which contain provisions that provided for the establishment of escrow type accounts to be used to develop, improve, and maintain visitor facilities. The concessioner periodically deposits a percentage of gross revenue in the account as provided in the concessioner agreement. These “special account” funds are maintained in separate interest-bearing bank accounts for the concessioners, and are not assets of the NPS and may not be used in NPS operations. Therefore, the balances, inflows, and outflows of these concessioner special accounts are not recognized in the consolidated financial statements of the NPS. The concessioners reported that these special accounts balances totaled approximately \$40.5 million and \$44.3 million (unaudited), as of September 30, 2005 and 2004, respectively.

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

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,508,092	\$ 1,064,535	\$ 6,090,731	\$ 1,023,951
Investments, Net	66,541	1,749,802	-	416,998
Accounts and Interest Receivable	7,231	15,388	825,974	102,429
Loans and Interest Receivable, Net	-	-	2,458,075	-
Other	2,556	1,278	1,423	30,879
Total Intragovernmental Assets	1,584,420	2,831,003	9,376,203	1,574,257
Cash	638	56	100	-
Investments, Net	1,065	-	-	198,060
Accounts and Interest Receivable, Net	26,330	10,367	31,459	47,767
Loans and Interest Receivable, Net	28,131	-	146,468	5,658
Inventory and Related Property, Net	-	304,378	-	528
General Property, Plant, and Equipment, Net	1,372,343	388,934	13,015,525	337,671
Other	82,632	77	198,315	3,613
Stewardship Assets				
TOTAL ASSETS	\$ 3,095,559	\$ 3,534,815	\$ 22,768,070	\$ 2,167,554
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	\$ 55,408	\$ 38,981	\$ 24,651	\$ 7,366
Debt	29,715	1,074,204	96,811	19,795
Other				
Resources Payable to Treasury	21,041	-	1,780,970	214,742
Advances and Deferred Revenue	94,756	9,950	8,780	475,850
Custodial Liability	-	57,518	-	-
Other Liabilities	158,477	131,392	88,996	5,342
Total Intragovernmental Liabilities	359,397	1,312,045	2,000,208	723,095
Accounts Payable	90,099	37,366	204,868	161,112
Loan Guarantee Liability	81,670	-	-	-
Federal Employee and Veteran Benefits	121,283	94,971	88,702	17,437
Environmental and Disposal Liabilities	51,576	3,491	35,360	1,300
Other				
Contingent Liabilities	62,487	1,465	9,515	-
Advances and Deferred Revenue	7,400	-	452,633	6,762
Payments Due to States	-	-	-	-
Other Liabilities	64,046	296,696	51,757	64,121
TOTAL LIABILITIES	837,958	1,746,034	2,843,043	973,827
Commitments and Contingencies				
Net Position				
Unexpended Appropriations	1,242,504	471,557	350,519	402,540
Cumulative Results of Operations	1,015,097	1,317,224	19,574,508	791,187
Total Net Position	2,257,601	1,788,781	19,925,027	1,193,727
TOTAL LIABILITIES AND NET POSITION	\$ 3,095,559	\$ 3,534,815	\$ 22,768,070	\$ 2,167,554

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

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra Department Activity	FY 2005 Total
\$ 1,444,637	\$ 19,152,506	\$ 49,332	\$ 1,457,266	\$ 240,082	\$ -	\$ 32,031,132
1,088,246	1,370	2,141,599	1,999,113	-	-	7,463,669
404,789	23,253	34	28,913	58,048	(957,382)	508,677
-	-	-	-	-	-	2,458,075
194	6,910	43	1,368	2,519	(45,765)	1,405
2,937,866	19,184,039	2,191,008	3,486,660	300,649	(1,003,147)	42,462,958
-	425	-	50	1	-	1,270
-	-	-	-	-	-	199,125
2,426,301	8,971	11,439	22,004	75,928	-	2,660,566
-	3,598	-	-	-	-	183,855
-	-	-	-	789	-	305,695
28,543	1,098,686	2,417	917,489	162,170	-	17,323,778
2	11,746	-	210	58	-	296,653
\$ 5,392,712	\$ 20,307,465	\$ 2,204,864	\$ 4,426,413	\$ 539,595	\$ (1,003,147)	\$ 63,433,900
\$ 3,463	\$ 18,013	\$ 52	\$ 6,993	\$ 8,670	\$ (83,716)	\$ 79,881
-	-	-	-	-	-	1,220,525
-	-	-	-	81	-	2,016,834
1,079,418	2,575	208	976	2,229	(48,218)	1,626,524
1,799,017	-	-	-	-	(860,164)	996,371
3,781	61,238	1,576	462,964	34,611	(11,049)	937,328
2,885,679	81,826	1,836	470,933	45,591	(1,003,147)	6,877,463
249,352	212,711	7,098	59,301	65,811	-	1,087,718
-	-	-	-	-	-	81,670
9,837	928,328	3,867	62,270	41,010	-	1,367,705
-	14,966	-	14,033	82	-	120,808
550,690	2,139	2,570	100	2,208	-	631,174
829	9,888	-	7,485	4,469	-	489,466
1,009,418	-	-	-	-	-	1,009,418
92,931	188,090	7,150	152,316	114,449	-	1,031,556
4,798,736	1,437,948	22,521	766,438	273,620	(1,003,147)	12,696,978
8,574	944,005	41,544	536,093	181,906	-	4,179,242
585,402	17,925,512	2,140,799	3,123,882	84,069	-	46,557,680
593,976	18,869,517	2,182,343	3,659,975	265,975	-	50,736,922
\$ 5,392,712	\$ 20,307,465	\$ 2,204,864	\$ 4,426,413	\$ 539,595	\$ (1,003,147)	\$ 63,433,900

Consolidating Balance Sheet
as of September 30, 2004
(dollars in thousands)

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 1,468,919	\$ 1,252,381	\$ 5,233,607	\$ 1,047,353
Investments, Net	68,565	829,445	-	392,303
Accounts and Interest Receivable	28,199	12,493	351,764	47,832
Loans and Interest Receivable, Net	-	-	-	-
Other	1,732	1,090	1,236	22,718
Total Intragovernmental Assets	1,567,415	2,095,409	5,586,607	1,510,206
Cash	432	55	91	-
Investments, Net	1,077	-	-	190,767
Accounts and Interest Receivable, Net	26,388	20,691	32,179	8,231
Loans and Interest Receivable, Net	33,558	-	166,900	23,098
Inventory and Related Property, Net	-	321,319	-	567
General Property, Plant, and Equipment, Net	1,328,541	355,621	13,065,549	298,728
Other	91,412	131	191,983	656
Stewardship Assets				
TOTAL ASSETS	\$ 3,048,823	\$ 2,793,226	\$ 19,043,309	\$ 2,032,253
LIABILITIES				
Intragovernmental Liabilities:				
Accounts Payable	\$ 43,240	\$ 24,895	\$ 25,711	\$ 5,608
Debt	29,615	1,139,204	114,098	21,962
Other				
Resources Payable to Treasury	25,994	-	-	-
Advances and Deferred Revenue	147,996	16,221	10,381	475,696
Custodial Liability	-	73,376	-	-
Other Liabilities	163,154	122,004	89,086	4,517
Total Intragovernmental Liabilities	409,999	1,375,700	239,276	507,783
Accounts Payable	94,146	31,436	196,000	113,603
Loan Guarantee Liability	60,081	-	-	-
Federal Employee and Veterans' Benefits	118,325	90,507	85,815	17,809
Environmental and Disposal Liabilities	67,065	6,330	5,629	1,300
Other				
Contingent Liabilities	58,070	3,650	62,624	712
Advances and Deferred Revenue	7,550	136,389	269,096	4,727
Payments Due to States	-	-	-	-
Other Liabilities	79,976	498,380	47,138	38,872
TOTAL LIABILITIES	895,212	2,142,392	905,578	684,806
Commitments and Contingencies				
Net Position				
Unexpended Appropriations	1,177,903	461,140	325,934	403,846
Cumulative Results of Operations	975,708	189,694	17,811,797	943,601
Total Net Position	2,153,611	650,834	18,137,731	1,347,447
TOTAL LIABILITIES AND NET POSITION	\$ 3,048,823	\$ 2,793,226	\$ 19,043,309	\$ 2,032,253

Consolidating Balance Sheet
as of September 30, 2004
(dollars in thousands)

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra Department Activity	FY 2004 Total
\$ 1,501,565	\$ 18,603,252	\$ 44,792	\$ 1,479,492	\$ 234,783	\$ -	\$ 30,866,144
1,029,419	65	2,051,300	1,816,232	-	-	6,187,329
294,990	17,490	45	26,410	60,776	(491,965)	348,034
-	-	-	-	-	-	-
1,283	5,487	50	1,302	3,883	(37,570)	1,211
2,827,257	18,626,294	2,096,187	3,323,436	299,442	(529,535)	37,402,718
-	395	-	107	1	-	1,081
-	-	-	-	-	-	191,844
1,148,036	13,702	6,631	10,700	81,083	-	1,347,641
-	3,958	-	-	-	-	227,514
-	-	-	-	2,433	-	324,319
32,058	980,223	2,561	900,160	190,770	-	17,154,211
3	12,434	-	286	45	-	296,950
\$ 4,007,354	\$ 19,637,006	\$ 2,105,379	\$ 4,234,689	\$ 573,774	\$ (529,535)	\$ 56,946,278
\$ 4,865	\$ 26,197	\$ 45	\$ 5,810	\$ 9,885	\$ (69,430)	\$ 76,826
-	-	-	-	-	-	1,304,879
-	-	-	-	231	-	26,225
1,137,545	4,155	6	689	4,742	(40,430)	1,757,001
999,250	-	-	-	-	(401,148)	671,478
2,866	63,619	1,500	440,742	33,569	(18,527)	902,530
2,144,526	93,971	1,551	447,241	48,427	(529,535)	4,738,939
245,192	163,742	17,947	80,068	82,711	-	1,024,845
-	-	-	-	-	-	60,081
8,711	879,969	3,830	58,820	40,569	-	1,304,355
-	7,513	-	12,874	1,097	-	101,808
550,000	16,814	68,600	12	-	-	760,482
7,594	13,351	-	5,949	1,713	-	446,369
412,880	-	-	-	-	-	412,880
68,848	183,219	7,083	88,241	110,205	-	1,121,962
3,437,751	1,358,579	99,011	693,205	284,722	(529,535)	9,971,721
7,450	1,000,273	38,489	501,981	163,343	-	4,080,359
562,153	17,278,154	1,967,879	3,039,503	125,709	-	42,894,198
569,603	18,278,427	2,006,368	3,541,484	289,052	-	46,974,557
\$ 4,007,354	\$ 19,637,006	\$ 2,105,379	\$ 4,234,689	\$ 573,774	\$ (529,535)	\$ 56,946,278

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

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
UNEXPENDED APPROPRIATIONS				
Beginning Balance	\$ 1,177,903	\$ 461,140	\$ 325,934	\$ 403,846
Budgetary Financing Sources				
Appropriations Received, General Funds	2,338,479	1,931,631	190,227	1,085,382
Appropriations Transferred In/Out	248,839	(354,432)	41,639	(40,010)
Appropriations-Used	(2,491,411)	(1,541,145)	(205,939)	(1,036,231)
Other Adjustments	(31,305)	(25,638)	(1,342)	(10,447)
Net Change	64,602	10,416	24,585	(1,306)
Ending Balance - Unexpended Appropriations	\$ 1,242,505	\$ 471,556	\$ 350,519	\$ 402,540
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	\$ 975,708	\$ 189,694	\$ 17,811,797	\$ 943,601
Adjustments				
Change in Accounting Principle	-	-	405,417	(248,267)
Beginning Balance, as adjusted	975,708	189,694	18,217,214	695,334
Budgetary Financing Sources				
Appropriations-Used	2,491,411	1,541,145	205,939	1,036,231
Royalties Retained	-	81,408	1,763,969	-
Non-Exchange Revenue	153	(166)	15	84,908
Transfers In/Out without Reimbursement	240,178	(115,127)	(78,763)	16,015
Donations and Forfeitures of Cash and Cash Equivalents	-	-	-	22
Other Budgetary Financing Sources	(4,968)	14	33,958	14,020
Other Financing Sources				
Imputed Financing from Costs Absorbed by Others	68,435	79,870	67,863	22,566
Transfers In/Out without Reimbursement	12,218	(1,621)	(51,621)	3,271
Donations and Forfeitures of Property	16,165	-	2,177	5,547
Total Financing Sources	2,823,592	1,585,523	1,943,537	1,182,580
Net Cost of Operations	(2,784,203)	(457,994)	(586,244)	(1,086,726)
Net Change	39,389	1,127,529	1,357,293	95,854
Ending Balance - Cumulative Results of Operations	\$ 1,015,097	\$ 1,317,223	\$ 19,574,507	\$ 791,188

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

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra Department Activity	FY 2005 Total
\$ 7,450	\$ 1,000,273	\$ 38,490	\$ 501,980	\$ 163,343	\$ -	\$ 4,080,359
169,175	2,238,294	109,805	1,176,585	958,021	-	10,197,599
3,343	102,345	-	86,270	5,647	-	93,641
(168,927)	(2,354,429)	(104,439)	(1,212,825)	(924,389)	-	(10,039,735)
(2,467)	(42,478)	(2,311)	(15,918)	(20,716)	-	(152,622)
1,124	(56,268)	3,055	34,112	18,563	-	98,883
\$ 8,574	\$ 944,005	\$ 41,545	\$ 536,092	\$ 181,906	\$ -	\$ 4,179,242
\$ 562,153	\$ 17,278,154	\$ 1,967,879	\$ 3,039,504	\$ 125,708	\$ -	\$ 42,894,198
-	-	-	-	-	-	157,150
562,153	17,278,154	1,967,879	3,039,504	125,708	-	43,051,348
168,927	2,354,429	104,439	1,212,825	924,389	-	10,039,735
2,229,170	1,054,553	-	1,036	-	-	5,130,136
29,273	33	368,898	793,791	(104)	-	1,276,801
(3,994)	(245,745)	-	127,309	1,526	-	(58,601)
-	27,578	-	3,287	2,272	-	33,159
-	(388)	-	8,404	-	-	51,040
15,117	114,472	6,828	62,061	62,772	(48,451)	451,533
(838)	1,776	(666)	4,289	2,151	-	(31,041)
-	612	-	-	2,095	-	26,596
2,437,655	3,307,320	479,499	2,213,002	995,101	(48,451)	16,919,358
(2,414,407)	(2,659,962)	(306,580)	(2,128,621)	(1,036,740)	48,451	(13,413,026)
23,248	647,358	172,919	84,381	(41,639)	-	3,506,332
\$ 585,401	\$ 17,925,512	\$ 2,140,798	\$ 3,123,885	\$ 84,069	\$ -	\$ 46,557,680

Consolidating Statement of Changes in Net Position
for the fiscal year ended September 30, 2004
(dollars in thousands)

	Bureau of Indian Affairs	Bureau of Land Management	Bureau of Reclamation	Departmental Offices and Other
UNEXPENDED APPROPRIATIONS				
Beginning Balance	\$ 1,149,927	\$ 412,460	\$ 314,643	\$ 340,299
Budgetary Financing Sources				
Appropriations Received, General Funds	2,332,793	2,002,596	168,998	1,059,789
Appropriations Transferred In/Out	289,264	(426,887)	38,141	(58,117)
Appropriations-Used	(2,564,378)	(1,505,149)	(195,353)	(928,421)
Other Adjustments	(29,705)	(21,879)	(495)	(9,702)
Net Change	27,974	48,681	11,291	63,549
Ending Balance - Unexpended Appropriations	\$ 1,177,901	\$ 461,141	\$ 325,934	\$ 403,848
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	\$ 1,004,583	\$ (262,935)	\$ 17,098,978	\$ 863,025
Adjustments				
Change in Accounting Principle	-	-	-	-
Beginning Balance, as adjusted	1,004,583	(262,935)	17,098,978	863,025
Budgetary Financing Sources				
Appropriations-Used	2,564,378	1,505,149	195,353	928,421
Royalties Retained	-	16,216	1,066,780	-
Non-Exchange Revenue	187	176	149	50,548
Transfers In/Out without Reimbursement	218,845	(71,693)	(5,449)	(13,009)
Donations and Forfeitures of Cash and Cash Equivalents	-	-	-	-
Other Budgetary Financing Sources	2,641	15	-	(1,791)
Other Financing Sources				
Imputed Financing from Costs Absorbed by Others	52,189	75,389	137,554	26,203
Transfers In/Out without Reimbursement	(4,005)	(2,479)	(25,181)	(595)
Donations and Forfeitures of Property	-	-	73	13,536
Total Financing Sources	2,834,235	1,522,773	1,369,279	1,003,313
Net Cost of Operations	(2,863,111)	(1,070,143)	(656,460)	(922,738)
Net Change	(28,876)	452,630	712,819	80,575
Ending Balance - Cumulative Results of Operations	\$ 975,707	\$ 189,695	\$ 17,811,797	\$ 943,600

Consolidating Statement of Changes in Net Position
for the fiscal year ended September 30, 2004
(dollars in thousands)

Minerals Management Service	National Park Service	Office of Surface Mining	U.S. Fish and Wildlife Service	U.S. Geological Survey	Elimination of Intra Department Activity	FY 2004 Total
\$ 6,969	\$ 983,029	\$ 36,299	\$ 498,236	\$ 187,440	\$ -	\$ 3,929,302
165,316	2,154,954	106,424	1,121,014	949,686	-	10,061,570
-	152,656	-	94,718	86	-	89,861
(162,538)	(2,258,373)	(101,939)	(1,198,544)	(956,739)	-	(9,871,434)
(2,297)	(31,994)	(2,294)	(13,443)	(17,131)	-	(128,940)
481	17,243	2,191	3,745	(24,098)	-	151,057
\$ 7,450	\$ 1,000,272	\$ 38,490	\$ 501,981	\$ 163,342	\$ -	\$ 4,080,359
\$ 532,485	\$ 16,753,497	\$ 1,878,297	\$ 2,913,926	\$ 152,407	\$ -	\$ 40,934,263
-	-	-	-	-	-	-
532,485	16,753,497	1,878,297	2,913,926	152,407	-	40,934,263
162,538	2,258,373	101,939	1,198,544	956,739	-	9,871,434
1,346,760	1,054,996	-	6,456	-	-	3,491,208
24,132	25	340,929	745,963	100	-	1,162,209
(3,983)	(332,008)	-	165,382	1,491	-	(40,424)
-	19,418	-	3,444	1,629	-	24,491
-	1,387	-	170	-	-	2,422
12,975	98,007	5,124	50,488	61,242	-	519,171
(569)	1,770	(401)	4,588	(350)	-	(27,222)
-	61	-	-	2,025	-	15,695
1,541,853	3,102,029	447,591	2,175,035	1,022,876	-	15,018,984
(1,512,185)	(2,577,370)	(358,009)	(2,049,457)	(1,049,576)	-	(13,059,049)
29,668	524,659	89,582	125,578	(26,700)	-	1,959,935
\$ 562,153	\$ 17,278,156	\$ 1,967,879	\$ 3,039,504	\$ 125,707	\$ -	\$ 42,894,198

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United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

November 15, 2005

Memorandum

To: Secretary

From: *for* Earl E. Devaney
Inspector General

Subject: Independent Auditors' Report on the Department of the Interior's Annual Report on Performance and Accountability for Fiscal Year 2005 (Report No. X-IN-MOA-0011-2005)

INTRODUCTION

The Department of the Interior (DOI) contracted with KPMG LLP, an independent certified public accounting firm, to audit the financial statements of DOI for fiscal years 2005 and 2004. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget's Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*.

FINDINGS

In its audit report dated November 15, 2005, KPMG issued an unqualified opinion on the DOI financial statements. However, KPMG identified 14 reportable conditions in DOI's internal controls over financial reporting, of which two were considered to be material weaknesses. KPMG also found three significant deficiencies in DOI's internal controls over Required Supplementary Information and Required Supplementary Stewardship Information. In addition, KPMG identified five instances where DOI did not comply with laws and regulations, including two instances of noncompliance with the Federal Financial Management Improvement Act (FFMIA).

KPMG is responsible for the attached auditors' report and for the conclusions expressed in the report. We do not express an opinion on DOI's financial statements, conclusions on the effectiveness of internal controls, conclusions on whether DOI's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

DOI CORRECTIVE ACTIONS

DOI agreed with 12 of the 14 reportable conditions over financial reporting, one of the three significant deficiencies in internal controls over Required Supplementary Information and Required Supplementary Stewardship Information, and three of the five instances of noncompliance with laws and regulations.

DOI partially concurred with KPMG's finding on controls over the Indian trust funds, which was considered a material weakness. Management will continue to develop and implement additional procedures and internal controls to address the issues noted in the audit. However, DOI stated that it is in a position to draw conclusions that the differences between supporting records and recorded transactions are few in number, small in size, and not widespread or systematic. KPMG reiterated that management had not resolved differences relating to the trust fund balances and did not have adequate controls to ensure that trust fund activity and balances were recorded properly and timely.

DOI also partially concurred with the reportable condition on application and general controls over financial management systems. DOI pointed out that it made substantial progress in improving controls over its systems in fiscal year 2005 and believed that there were no apparent systemic weaknesses at the Department level. KPMG acknowledged that DOI made improvements in security and controls but stated that it had identified a number of conditions that could have affected DOI's ability to detect unauthorized changes to financial information, to control electronic access to sensitive information, and to protect its information.

With regard to the finding on deferred maintenance estimates, which was considered a significant deficiency in internal control over the required supplementary information, DOI partially concurred. However, DOI stated that stewardship land managed by the Department does not have deferred maintenance as defined by the authoritative guidance. KPMG responded that as of September 30, 2005, DOI did not have documented evidence that it had completed condition assessments for all stewardship land, and that DOI was unable to demonstrate that maintenance had not been deferred for its stewardship land. KPMG also stated that DOI reported known instances of land that is in need of intervention and had requested future outlays to correct these conditions in various reports and budget requests.

The finding on stewardship reporting, which was considered a significant deficiency in the reporting of required supplementary stewardship information, was also partially concurred with by DOI. DOI admitted that processes can be improved related to stewardship reporting. DOI did not agree that condition assessments are required for stewardship land. DOI also believed that it is following standard practices. KPMG stated that DOI is required to disclose the condition of stewardship land in accordance with the accounting standards.

DOI partially concurred with the finding on noncompliance with the Single Audit Act Amendments of 1996, stating that while the noncompliance was at some bureaus, the instances did not rise to the level that justified reporting the noncompliance at the Departmental level. KPMG responded that DOI did not ensure that grantees submitted progress reports, completed single audits, and submitted single audit reports timely. KPMG also stated that DOI did not have

single audit reports for 395 different grants and did not issue corrective action plans for 59 findings. Additionally, KPMG noted that one component did not obtain progress reports for 15 of a sample of 32 grants that it selected for testing. It reiterated its conclusion that DOI did not comply with the requirements of the Single Audit Act and the related OMB circular.

With regard to the finding on noncompliance with the Debt Collection Improvement Act of 1996, DOI disagreed, stating that it has appeals processes in place that, although they may vary from bureau to bureau, are defined by law and impact when payments become due for collection and subsequently eligible for debt referral. DOI also stated that, as Treasury guidance stipulates, amounts that are the subject of an administrative appeal do not become eligible for referral until the appeal is concluded and the amount of the debt is fixed. During fiscal year 2005, DOI claimed that it continued to improve its process to ensure eligible receivables were referred to Treasury in a timely manner. KPMG acknowledged that DOI is improving its debt referral processes but noted that, although Minerals Management Service (MMS) receivables represented DOI's largest receivables with the public, 9 of 32 receivables sampled that were over 180 days delinquent had not been referred to Treasury. KPMG also cited the Bureau of Indian Affairs (BIA) receivables as another example of receivables not referred in a timely manner. KPMG added that for BIA, the incorrect interest rate was applied.

The DOI response follows KPMG's audit report as an attachment to this memorandum.

REPORT DISTRIBUTION

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

We appreciate the cooperation and assistance of DOI personnel during the audit. If you have any questions regarding the report, please contact me at (202) 208-5745.

Attachment

cc: Chief Financial Officer
 Deputy Chief Financial Officer
 Director, Office of Financial Management
 Audit Liaison Officer
 Focus Leader for Management Control and Audit Follow-up,
 Office of Financial Management



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Secretary and Inspector General
U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Interior (Interior) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, and custodial activity, and the related combined statements of budgetary resources (hereinafter referred to as the "financial statements"), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered Interior's internal control over financial reporting and tested Interior's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that Interior's financial statements as of and for the years ended September 30, 2005 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 24 to the financial statements, Interior changed its method of accounting for appropriated debt transactions in accordance with the provisions of Office of Management and Budget (OMB) guidance that became effective October 1, 2004. Also, as discussed in note 17 to the financial statements, Interior's fiscal year 2005 consolidated statement of net cost is not comparable to its fiscal year 2004 consolidated statement of net cost because Interior revised its method of allocating certain costs and revenues between programs in fiscal year 2005.

Our fiscal year 2005 consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

Reportable Conditions Considered to be Material Weaknesses

- A. Controls over implementing new accounting policies and procedures
- B. Controls over the Indian Trust funds

Other Reportable Conditions

- C. Reconciliation of intragovernmental transactions and balances
- D. Application and general controls over financial management systems
- E. Controls over property, plant, and equipment
- F. Controls over accruals
- G. Controls over environmental contingencies



- H. Financial management at the Bureau of Indian Affairs
- I. Controls over revenue
- J. Controls over grants
- K. Segregation of responsibilities over purchases and entries
- L. Controls over charge cards
- M. Controls over obligations
- N. Controls over the U.S. Park Police Pension Plan

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

- O. Performance measure reporting
- P. Deferred maintenance estimates
- Q. Stewardship reporting

The results of our tests of fiscal year 2005 compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- R. Single Audit Act Amendments of 1996
- S. Debt Collection Improvement Act of 1996
- T. OMB Circular No. A-25, *User Charges*
- U. Federal Financial Management Improvement Act (FFMIA) of 1996

The following sections discuss our opinion on Interior's financial statements, our consideration of Interior's internal control over financial reporting, our tests of Interior's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Interior as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, and custodial activity, and the combined statements of budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interior as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 24 to the financial statements, Interior changed its method of accounting for appropriated debt transactions in accordance with the provisions of OMB guidance that became effective October 1, 2004. Also, as discussed in note 17 to the financial statements, Interior's fiscal year 2005 consolidated statement of net cost is not comparable to its fiscal year 2004 consolidated statement of net cost because Interior revised its method of allocating certain costs and revenues between programs in fiscal year 2005.



The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the Required Supplementary Information and the Required Supplementary Stewardship Information are not presented in conformity with accounting principles generally accepted in the United States of America. The Required Supplementary Information disclosures for deferred maintenance are not complete or current because Interior had not estimated deferred maintenance for all assets and did not consistently update deferred maintenance estimates. Additionally, performance measure results may not be accurate, as Interior did not properly design controls to collect, process, record, summarize, and report performance measure information. We also noted that Interior did not disclose the costs incurred to generate intragovernmental revenues by budget functional classification, as required, and did not fully reconcile intragovernmental transactions and balances with its trading partners. Finally, the Required Supplementary Stewardship Information disclosures for stewardship assets and investments are not current, complete, or consistently supported, because Interior did not consistently follow its established procedures and controls to accumulate and report the disclosure information and did not disclose all required information.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Performance Data and Analysis section, the Appendices, and the special account funds in the Other Supplementary Information section are an integral part of Interior's *Fiscal Year 2005 Annual Report on Performance and Accountability*. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. The information in the Performance Data and Analysis section, the Appendices, and the special account funds in the Other Supplementary Information section has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in the Other Supplementary Information section is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net position of Interior's components individually. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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



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

In our fiscal year 2005 audit, we noted certain matters, described below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that reportable conditions A and B are material weaknesses.

A. Controls over Implementing New Accounting Policies and Procedures

In March 2005, the OMB issued guidance in response to the Federal Accounting Standards Advisory Board's Accounting and Auditing Policy Committee's Technical Exposure Draft 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*. OMB's guidance instructed Interior to record a receivable rather than transfers in/out for transactions with the Western Area Power Administration (Western). In addition, Interior applied OMB's guidance to similar transactions with the Bonneville Power Administration (BPA) and the U.S. Department of the Treasury (Treasury) General Fund.

Interior applied significant resources and effort, including coordinating with Western, BPA, the U.S. Department of Energy (Energy), the U.S. Treasury, and OMB to implement OMB's guidance in a relatively short time period. However, Interior did not consistently record certain transactions as Interior:

1. Recorded \$261 million of repayments as part of the adjustment to beginning balances that should have been recorded as current year repayments.
2. Recorded \$240 million of costs, of which \$127 million should have been recorded as part of the beginning balance and \$113 million should not have been recorded.
3. Recorded \$206 million of repayments received in prior years as current year repayments that should have been recorded as part of the adjustment to beginning balances.
4. Did not properly allocate transactions among project sponsors, including \$112 million of repayments.
5. Did not record \$27 million in liabilities to Treasury.
6. Did not fully reconcile balances with Western by approximately \$21 million.

These differences primarily resulted because Interior had not fully developed accounting policies and procedures to change its processes for recording these transactions and had not fully developed posting models by September 30, 2005. As a result of our observations, Interior analyzed and adjusted the financial statements as of and for the year ended September 30, 2005.



Recommendations

We recommend that Interior improve its policies and procedures related to recording transactions with Western, BPA, and Treasury, in accordance with OMB guidance, as follows:

1. Improve policies and procedures related to recording additions to and repayments against the receivables and liabilities, including coordinating with the U.S. Department of the Treasury to determine the appropriate posting models.
2. Develop and implement procedures and controls for recording and reporting transactions with Western, BPA, and Treasury, including sufficient management oversight.
3. Require a second individual to compare the transactions recorded in the general ledger to supporting documentation and document his/her approval on the supporting documentation.
4. Continue to resolve the difference between Interior's receivable and Western's liability.

Management Response

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

B. Controls over the Indian Trust Funds

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

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

We noted that Interior's procedures and internal controls were not adequate to ensure that the Indian Trust Funds' activity and balances were recorded properly or timely. Specifically, we noted the following:

1. Trust Fund Balances

As disclosed in the footnotes to the financial statements, several financial reporting differences from prior periods relating to the fairness of the Indian Trust Funds balances have not been resolved. Certain parties, for whom Interior holds assets in trust, have filed a class action lawsuit for an accounting of Individual Indian Monies that may or may not lead to claims against the United States Federal Government. Additionally, other parties do not agree with the Indian Trust Funds balances reported by Interior and have filed claims against the United States Federal Government.



2. Individual Indian Monies Subsidiary Ledger

The balance of the control account for Individual Indian Monies account holders did not agree to the sum of the balances from the subsidiary ledger, and it cannot be determined which balance, if either, is correct. As of September 30, 2005, the aggregate sum of all positive balances included in the subsidiary ledger exceeded the control account by approximately \$6 million. Interior has requested funding from Congress to resolve this difference. In addition, as of September 30, 2005, the subsidiary ledger contained negative account balances totaling approximately \$44 million (of which approximately \$192,000 was attributed to individual Indian accounts as of September 30, 2005).

3. Special Deposit Accounts

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

4. Undistributed and Unusual Balances

OST has not been able to determine the proper recipients of undistributed interest of approximately \$1.8 million as of September 30, 2005. In addition, OST and BIA have not been able to determine the allocation of approximately \$2.1 million of undistributed interest. Furthermore, there were 12 Tribal Trust Funds accounts with negative cash balances totaling approximately \$724,000 as of September 30, 2005.

5. Entering and Maintaining Trust Fund Information

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

a. Trust Fund Systems

BIA had not consistently implemented automated systems for tracking and processing activities of the Indian trust assets. Agency offices use "off-the-shelf" software, internally developed software, in-house databases, and manual processes to manage ownership records, track lease activity, account for receivables/revenue, and determine distribution amounts. BIA had developed an automated system for certain activities; however, BIA had not yet fully implemented this new system in all agency offices. This situation increases the risk that transactions are recorded inaccurately and untimely.



b. *Segregation of Duties*

The responsibilities for Indian trust processing are not properly segregated to prevent or detect errors. Although BIA improved segregation of responsibilities during the year, BIA did not segregate realty and land management activities (i.e., lease compliance) from accounting activities (i.e., collecting, depositing, and sending instructions to OST to create, record, and distribute receipts). Also, in limited cases, the same employee was responsible for all activities associated with trust transactions, including initiating lease agreements, generating billings, collecting funds, making deposits, and sending instructions to OST to create accounts and distribute funds.

c. *Accounts Receivable*

BIA had not fully developed and communicated standardized policies and procedures for establishing, tracking, and pursuing accounts receivable for the Indian Trust Funds. This results in inconsistent processes and increases the risk that amounts due to Indian Trust Funds are not identified and ultimately collected. Several agency offices prepared bills after receiving payments rather than sending bills in advance of the payment due date. In addition, certain agency offices did not identify or pursue past due receivables and instead relied on landowners/lessors to inquire of overdue payments before pursuing the receivable. Furthermore, several agency offices did not maintain a listing of leases and permits against which receivables could be established.

d. *Probate Backlog*

BIA did not consistently enter probate orders for land title into the trust management systems timely. Although BIA made progress in reducing the backlog, as of September 30, 2005, BIA indicated that it had probate orders that had not been recorded. This increases the potential for untimely distributions of income to the account holders of the Indian Trust Funds.

e. *Untimely Deposits*

Several BIA agency offices did not consistently forward trust receipts in a timely manner to OST to be deposited. As a result, in certain instances, deposits of trust receipts were delayed for up to 5 business days and in others, delays were up to 12 days. In one instance, we noted a delay of 38 days.

f. *Supervised and Restricted Accounts*

BIA did not consistently maintain documentation for supervised accounts, including social service assessment and evaluation forms, disbursement documentation, annual review documentation, court orders, and notification of restriction letters. Furthermore, BIA did not consistently perform annual reviews of active accounts.

g. *Appraisal Review*

One of the key elements in performing realty trust transactions is the requirement to obtain appraisals for realty transactions. Current laws allow the appraisal function to be carried out by tribes, who are often the named parties involved in realty transactions. BIA is responsible for assisting trust beneficiaries in the negotiation and execution of



realty transactions. Office of Appraisal Services (OAS) is responsible for conducting reviews of appraisals that are compacted by tribes for the benefit of trust beneficiaries. BIA controls were not in place to ensure that all appraisals, conducted under compacts or contracts, completed by tribes for the benefit of trust beneficiaries had been approved by OAS.

Recommendation

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

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our recommendations. Management indicated that Interior is in a position to draw conclusions that differences between supporting records and recorded transactions are not significant.

Auditors' Response to Management's Response

As summarized in our finding above, management had not resolved differences relating to the Trust Fund balances and did not have adequate controls to ensure that Trust Fund activity and balances were recorded properly and timely. Therefore, we continue to believe that the control weaknesses identified constitute a material weakness.

C. Reconciliation of Intragovernmental Transactions and Balances

Interior is required to reconcile transactions and balances with other Federal entities in accordance with the Treasury's *Federal Intragovernmental Transactions Accounting and Policies Guide*. Although Interior made substantial improvements to reconcile with other Federal entities, Interior had not fully reconciled its intragovernmental transactions and balances with other Federal entities because Interior did not consistently reconcile transactions and balances during the year and because the trading partners did not consistently provide information by Interior component or Treasury fund symbol. As a result, Interior's transactions and balances with other Federal entities may not eliminate on the Government-wide financial statements.

Recommendation

We recommend that Interior continue to improve its process to reconcile transactions and balances with other Federal entities. These procedures should include confirming amounts, at the Interior component level, with trading partners and meeting with trading partners to resolve any differences identified.

Management Response

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



D. Application and General Controls over Financial Management Systems

Interior continues to improve the security and controls over its information systems; however, we determined that Interior needed to improve controls in the areas described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. These conditions could have affected Interior's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information. Although Interior's financial management systems are consistent with the financial management systems requirements, we identified the following conditions during fiscal year 2005:

1. Entity-wide Security Program

An entity-wide security program, including security policies and a related implementation plan, is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. Interior did not have procedures in place to appropriately track the implementation status of certain Service Level Agreements (SLA) and Security Service Agreements (SSA). In addition, the Interior did not have current SLA and SSA agreements with certain customers to designate security responsibilities. Interior had procedures for conducting background investigations; however, Interior did not perform background investigations for all new and current employees and contractors, consistently perform re-investigations in a timely manner, or consistently maintain investigation documentation. Interior did not have a process to monitor the periodic completion of technical training by certain information technology employees and certain contractors. Interior had performed risk assessments for its major applications and general support systems during the past fiscal year; however, Interior did not consistently classify certain computer information resources based on risk assessments.

2. Access Controls

Access controls should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, and loss. Interior did not fully establish controls to prevent and detect unauthorized access. In addition, Interior did not consistently monitor account creation, modification, and termination; effectively assign access privileges based upon job duties; periodically monitor security violations and inactive accounts; periodically review and recertify user accounts; periodically review transaction audit reports; remove access of terminated employees timely; or monitor system access to financial applications. Although Interior reviews the network system audit trail logs, Interior had not formally documented policies and procedures indicating the required frequency of the reviews or the responsibilities of the reviewers at certain components.

3. System Software Controls

Controls over the modification of system software change controls should provide reasonable assurance that operating system controls are not compromised. Without proper system software controls, unauthorized individuals using the system software could circumvent controls to read, modify, or delete critical or sensitive information or programs. Interior did not consistently document policies and procedures for restricting and monitoring access to system software, identifying and resolving system software issues, processing changes to system software, and reviewing event logs. Interior also did not consistently monitor the use of operating system software; formally document and approve the change management process for certain applications;



test all system software patches in a test environment before installing the patches in the production environment; perform post-implementation reviews after installing emergency patches; prepare change request forms and plans; or maintain documentation for upgrades. Although Interior reviewed event logs, Interior did not maintain evidence that the reviews were completed.

4. *Software Development and Change Controls*

Establishing controls over the modification of application software programs helps ensure that only authorized programs and modifications are implemented. Without proper change controls, there is an increased risk that either intentional or unintentional changes could be made to the system's processing functionality, the wrong version of a program could be implemented, a virus could be inserted, or built-in security features could be disabled. Interior had not formally developed, documented, or implemented data processing procedures to control and standardize the maintenance of two financial applications. In addition, Interior did not use library management software to control changes to one of the accounting applications. Additionally, Interior shared manager and account level passwords among several users at one component. Finally, Interior's system configurations did not adequately segregate duties at one component as the configurations provided individuals, who are involved with programming, testing and migrating changes to production, access to the source code, test, and production libraries.

5. *Service Continuity*

Losing the capability to process, retrieve, and protect information maintained electronically could significantly affect Interior's ability to accomplish its mission. Consequently, procedures should be in place to protect information resources, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur. Interior had not fully developed and documented a comprehensive contingency and disaster recovery plan for one of its applications. Interior also had not fully documented its service continuity procedures or fully trained team members for emergency response. In addition, Interior did not test certain contingency and disaster recovery or continuity of operations plans, did not consistently prepare daily and monthly backup files, and did not test the backup files for certain financial applications. We also noted that Interior did not have current maintenance agreements for all of its computer and related equipment. Finally, Interior should consider improving the location of plumbing lines and adding secondary air conditioning at one of its computer centers.

6. *Segregation of Responsibilities*

Proper segregation of duties should be ensured through the establishment of policies, procedures, and organizational structure so that one individual cannot control key aspects of financial transactions, and thereby conduct unauthorized actions or gain unauthorized access to assets or records. Interior's policies identified the primary and secondary roles and responsibilities duties of information technology team members and indicate that roles may overlap; however, Interior's policies did not consistently indicate the responsibilities that must be segregated, or the compensating controls for those responsibilities not segregated.

Recommendation

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



Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings. Management indicated that Interior has made substantial progress improving internal controls and believes that our findings did not rise to the level of a reportable condition.

Auditors' Response to Management's Response

We acknowledge that Interior has made improvements in the security and controls over information systems. However, we identified a number of conditions that could have affected Interior's ability to detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information, as summarized in our finding above. Therefore, we continue to believe that the control weaknesses identified constitute a reportable condition.

E. Controls Over Property, Plant, and Equipment

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

1. Recording Transactions

Interior needs to improve controls over property, plant, and equipment to ensure transactions are properly classified and recorded. We identified 67 exceptions in the 1,095 property and cost transactions tested at certain components. Specifically, we noted that Interior capitalized costs that should have been expensed, expensed costs that should have been capitalized, recorded transactions in the current year that occurred in prior years, recorded dates or costs that did not agree with the supporting documentation, or did not record an asset. In addition, Interior did not consistently classify 11 of 546 expenses as operating, heritage, or stewardship costs, resulting in misclassifications of \$31 million. Furthermore, Interior did not properly record donated property of approximately \$16 million and did not properly remove \$18 million of concession assets that are not owned by Interior.

2. Construction-in-Progress

Interior did not consistently analyze and review its construction-in-progress account throughout the fiscal year. Interior also did not transfer construction projects from the construction-in-progress account to the appropriate completed property accounts at the time of completion or properly approve the transfer from the construction-in-progress account for projects totaling \$65 million. In addition, Interior misclassified approximately \$13 million of advances to others and expenses as construction-in-progress.

3. Reconciliation and Review

Interior did not properly reconcile one of its property subsidiary ledgers to the general ledger, because we identified a difference of \$15 million. Interior also did not consistently establish controls to review and approve certain land inventory records, monitor internal use software, and account for changes to asset useful lives.



4. Capital versus Operating Lease Assessments

In accordance with the accounting standards, Interior is required to capitalize leases that meet certain criteria. Interior did not consistently review leases to determine if they were capital or operating leases, because Interior incorrectly capitalized one lease, did not properly capitalize four leases, and was unable to provide 30 of the 35 lease determination schedules selected for testing at certain components. In addition, Interior did not consistently ensure that the lease determination schedules agreed to the related supporting documentation and the general ledger for 11 of the 14 lease determination schedules that we received at certain components. Interior also did not require a supervisor to review and approve the lease determination schedules.

5. Future Minimum Lease Payments

In accordance with the accounting standards, Interior is required to disclose future minimum lease payments. Interior did not effectively prepare the future minimum lease payment schedule for disclosure in its financial report, because we identified differences between the future minimum lease payment schedule and the lease agreements for 32 of the 56 leases tested at certain components. As a result of our observations, Interior analyzed and adjusted its schedule of future minimum lease payments by a total of approximately \$157 million.

As a result of our observations, Interior expended a significant amount of time and resources analyzing and adjusting property, plant, and equipment balances and future minimum lease payment disclosures as of and for the year ended September 30, 2005.

Recommendations

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

1. Recording Transactions

- a. Periodically train personnel on how to distinguish between costs that should be capitalized versus expensed, and on properly classifying heritage, stewardship, and operating costs in the accounting system.
- b. Require a second individual to compare property and expense transactions to the related source documents to verify that transactions are properly expensed or capitalized as well as properly classified, and document his/her approval on the supporting documentation.
- c. Record property transactions at the time the transaction occurs.
- d. Perform periodic inventories of property.

2. Construction-in-Progress

- a. Review its construction-in-progress accounts to identify completed projects that should be transferred to the appropriate completed property account and projects that are improperly classified as construction-in-progress. This review should be performed monthly.
- b. Require a second individual to compare construction-in-progress transfers to the related source documents to verify that transactions are properly transferred, and to document his/her approval on the supporting documentation.



3. Reconciliation and Review

- a. Reconcile the property subsidiary ledgers to the general ledger and resolve any differences on a monthly basis.
- b. Require a second individual to review and approve certain land inventory records, internal use software transactions, and changes to asset useful lives.

4. Capital versus Operating Lease Assessments

- a. Provide additional guidance and training to personnel on the process of identifying whether leases should be classified as capital or operating leases.
- b. Document the evaluation of whether leases should be classified as capital or operating leases.
- c. Require a second individual to agree the lease evaluations to the supporting documentation and to document his/her approval on the lease evaluations.
- d. Require a second individual to compare capital lease transactions from the general ledger to the supporting documentation and document his/her approval on the supporting documentation.
- e. Maintain the lease evaluation documentation, including the related present value calculations and fair market value assessments.

5. Future Minimum Lease Payments

- a. Provide additional guidance and training to personnel on preparing the future minimum lease payment schedule.
- b. Require supervisors to compare the future minimum lease payment schedules to supporting documentation and document his/her approval on the future minimum lease payment schedules.
- c. Develop and maintain a database of all real and personal property leases to assist in monitoring and reporting future minimum lease payments. This database should include lease number, type, term, payments, and other information that facilitates preparation of the future minimum lease payment disclosure.

Management Response

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

F. Controls over Accruals

In accordance with the accounting standards, Interior is required to record liabilities based on a probable future outflow or other sacrifice of resources as a result of past transactions or events. Interior did not establish controls to ensure that three of its programs properly recorded liabilities at the end of the reporting period. In addition, for two programs, Interior did not test the accuracy of accrual methodologies by comparing estimated amounts to actual amounts. Interior also did not ensure that the subsequent activity report used to estimate accruals was complete by approximately \$5 million for one of its programs. In addition, Interior did not properly allocate the accruals to receivables and advances from others, resulting in a net misclassification of approximately \$2 million. Furthermore, Interior did not properly reconcile the



accrual calculations to the general ledger for one component, because the general ledger exceeded the accrual calculations by approximately \$15 million.

As a result of our observations, Interior performed additional analysis and recorded additional accruals of approximately \$62 million.

Recommendations

We recommend that Interior perform the following:

1. Establish controls to ensure that accruals are properly recorded at the end of the reporting period.
2. Require all of its components to finalize and test the accrual methodology for the quarterly financial statements. Testing should include comparing prior year estimates to actual results and adjusting the methodology based on these results.
3. Provide guidance and training to personnel on the development and testing of accrual methodologies.
4. Reconcile the accrual calculations to the general ledger and enhance controls to ensure that the accrual calculations are complete and accurate. This should include having a supervisor review and approve the accrual calculation and reconciliation from the calculation to the general ledger.

Management Response

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

G. Controls over Environmental Contingencies

Interior has not properly designed controls or sufficiently trained staff to ensure that environmental information is effectively identified, maintained, and reported. Although Interior issued policies for estimating environmental liabilities, Interior did not consistently interpret and apply these policies, consistently prepare documentation supporting the environmental liability estimates, or consistently update the estimates for inflation. In addition, Interior did not estimate costs or had incorrectly removed prior year estimates for certain sites. Interior also did not consistently have a second individual review and approve the probability assessments, site identifications, and the cost estimate documentation for 21 of the 181 environmental liability projects tested at certain components. In addition, BIA's organizational and communication structure did not facilitate developing and assessing environmental liabilities for that component. Furthermore, Interior completed a site prioritization at the regional level, rather than across BIA. As a result, the accrued environmental liabilities were understated by approximately \$13 million, and the disclosed range of environmental liabilities was understated by approximately \$10 million to \$32 million.

As a result of our observations, Interior analyzed and adjusted its environmental balances and disclosures.



Recommendations

We recommend that Interior improve internal controls to ensure that environmental contingencies are properly accrued or disclosed in its financial statements, as follows:

1. Continue to provide periodic training to scientists, financial management staff, and others, to ensure that they understand Interior policies and the accounting standards related to estimating and recording environmental liabilities.
2. Annually adjust environmental estimates based on inflation.
3. Require components to consistently estimate costs for each site, and consider the experience across Interior in developing these estimates.
4. Require a second individual to review and approve the probability assessment, site identification, and the cost estimate documentation, to ensure that they are properly prepared and match the supporting documentation.
5. Implement an organizational structure that fosters communication between scientists, financial management staff, and others at BIA.
6. Perform site prioritization across BIA.

Management Response

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

H. Financial Management at BIA

Interior needs to improve its BIA financial management organization and processes, as follows:

1. BIA did not have enough sufficiently trained financial staff to manage accounting operations and ensure financial transactions are properly recorded. BIA has attempted to compensate for staff departures by assigning additional responsibilities to the remaining personnel and subcontractors. However, this does not provide an effective or efficient long-term solution.
2. BIA financial management policies and procedures were not fully developed or consistently applied throughout BIA. Specifically, we noted that the policies and procedures related to construction-in-progress and environmental contingent liabilities were developed in prior years, but not consistently implemented during fiscal year 2005. Additionally, BIA had not developed policies and procedures for several financial management areas, such as suspense and deposit accounts, reimbursable agreements, monitoring grantees, and referral of debt to Treasury.
3. BIA did not consistently perform timely management review procedures, including analysis of select financial statement accounts, reconciling items with its trading partners, and resolving differences between the general ledger and subsidiary ledgers. In addition, BIA did not investigate and resolve suspense accounts totaling \$7 million, including \$4 million from prior years. Furthermore, BIA did not effectively review journal vouchers, as we noted that BIA recorded adjustments to the incorrect accounts.



As a result, BIA expended a significant amount of time and resources reconciling its financial accounts, resolving differences between the general ledger and subsidiary ledgers, and adjusting the general ledger for purposes of preparing its fiscal year 2005 financial statements.

Recommendations

We recommend that Interior's Office of Financial Management work with BIA to perform the following:

1. Recruit additional accounting staff and continue to train existing staff to ensure that BIA has sufficiently trained resources to account for and report financial transactions.
2. Evaluate and implement best practices of other Interior components and consider outsourcing certain functions.
3. Develop and communicate, to financial and program staff, financial management policies and procedures.
4. Enforce consistent application of financial management policies and procedures through internal control reviews.
5. Develop and implement formal month-end financial reporting processes to review all financial statement accounts, reconcile balances and transactions with trading partners, investigate and resolve suspense accounts, and resolve differences between the general ledger and subsidiary ledgers. This should include having a supervisor review and approve the procedures and completed reconciliations.

Management Response

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

I. Controls over Revenue

Interior needs to improve controls over its revenue process, to ensure that transactions are promptly and properly recorded for timely and reliable financial reporting as follows:

1. Interior had not investigated and resolved over \$98 million of royalty receivables that were over one year old and fully reserved as doubtful royalty receivables, or approximately \$66 million of credit balances that were over 30 days old, including approximately \$23 million of credits that are over one year old as of September 30, 2005.
2. Interior did not implement the appropriate controls to effectively reconcile subsidiary ledgers to the general ledger for receivables, review unbilled receivables and deferred revenue accounts on a regular basis, properly record revenue transactions, bill receivables in a timely manner, prevent duplicate bills, and consistently review and approve the related allowance calculation at BIA.
3. Interior did not adequately monitor certain reimbursable agreements, because Interior did not approve 5 of the 45 reimbursable agreements that we tested, did not include administrative costs in bills for reimbursable agreements, and did not consistently record advances and receivables at the agreement level, resulting in an understatement of \$15 million in deferred revenue.



4. Interior did not have adequate controls to ensure that delinquent receivables for BIA and the Minerals Management Service (MMS) were identified for referral to Treasury for collection or offset in a timely manner.
5. Interior did not formally document procedures for certain mineral lease revenue transactions at the Bureau of Land Management (BLM), consistently prepare the accounting documentation for the mineral lease revenue transactions, effectively review and approve mineral lease documentation, or consistently transfer mineral lease revenues and the accounting documentation between its components in a timely manner.

As a result of our comments, Interior performed a detailed analysis of revenue transactions and adjusted the fiscal year 2005 financial statements accordingly.

Recommendations

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

1. Analyze and resolve aged and credit accounts receivable balances.
2. Reconcile the subsidiary ledger and the general ledger on a monthly basis, including investigating and resolving any differences identified.
3. Review unbilled receivables and deferred revenue accounts on a regular basis, to ensure that revenue transactions are properly recorded, receivables are billed in a timely manner, and bills are not issued more than once.
4. Require a second individual to review the allowance calculation and reimbursable agreements, and to document his/her approval.
5. Develop and implement a methodology to identify, record, and bill for the administration costs related to reimbursable agreements.
6. Record advance and receivable transactions at the agreement level.
7. Identify and resolve customer agreements with both an accounts receivable and advance balance.
8. Implement controls to ensure timely referral of delinquent debt to the U.S. Department of the Treasury.
9. Develop and implement formal documented procedures to account for mineral lease revenue at BLM.
10. Require supervisors to review and approve the accounting documentation for the related mineral lease revenue transactions, to ensure that the documentation is consistently prepared and approved.
11. Transfer mineral lease revenues and the accounting documentation between components at the time the transactions occur.

Management Response

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



J. Controls over Grants

In accordance with *Single Audit Act Amendments of 1996* as well as Public Laws 93-638 and 100-297, Interior should monitor grantees to ensure grantees expend awards in accordance with the grant requirements and Federal regulations. Interior improved its monitoring processes during the year; however, Interior had not fully developed controls to monitor the grantees to detect and prevent misuse of federal awards. Specifically, we noted that Interior did not consistently perform the following:

1. Grant Database

Maintain a grant database that includes information such as the grantee name, grant number, date granted, award amount, funds expended, date audit reports are received, period covered by the audit reports, findings in the audit reports, and management decisions on findings.

2. Progress Reports

Ensure that grantees submit grant progress reports, such as form SF-269, *Report for Status of Funds*, form SF-270, *Request for Advance of Reimbursement*, and/or form SF-272, *Report of Federal Cash Transactions*. Interior did not receive the required or equivalent forms for 15 of the 32 transactions that we tested at the National Park Service.

3. Audit Reports

Ensure that grantees complete single audits and submit reports within nine months of the grantees' year end. Interior had not received 395 single audit reports within the required time period. Interior indicated that it had provided extensions to seven of these grantees; however, Interior did not formally document extensions provided to five of those seven grantees.

4. Findings

Issue management decisions on audit findings within six months after receipt of audit reports and ensure that the grantees take appropriate and timely corrective action, because Interior identified 59 instances where Interior had not issued responses within the required timeline.

Recommendations

We recommend the Interior perform the following, to improve the monitoring efforts of grantees as follows:

1. Grant Database

Maintain a grant database that enables Interior to monitor the status of the grants and document monitoring procedures completed. This database should include the grantee name, grant number, date granted, award amount, funds expended, date audit reports are received, period covered by the audit reports, findings in the audit reports, and management decisions on findings.

2. Progress Reports

Require grantees to submit forms SF-269, SF-270, and SF-272 when funds are paid in advance. In addition, Interior should require SF-269 to be submitted periodically and at the end of the project.



3. *Audit Reports*

Establish a monitoring and follow-up process to verify receipt of single audit reports within nine months of the grantees' year end. Interior should utilize the Federal Clearinghouse website on an ongoing basis to determine when an audit report has been submitted. If reports are not received, Interior should require grantees to submit formal requests for audit extensions, evaluate the requests, and formally document approval of the requests. In addition, Interior should consider the need to limit future grant awards until extensions are provided or audit reports are received.

4. *Findings*

Issue management decisions on audit findings within six months after receipt of single audit reports and verify that grantees take appropriate and timely corrective action.

Management Response

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

K. *Segregation of Responsibilities over Purchases and Entries*

The principles of segregation of duties stipulate that no one individual should have complete control over transaction processing functions, which include the initiation, approval, and execution of a transaction. Allowing a single individual to perform all phases of a transaction increases the likelihood that errors or irregularities may occur and not be detected. Interior did not properly segregate BLM purchasing responsibilities, as certain individuals had the ability to create and approve a purchase requisition, create and approve a purchase order, and approve invoices for payment. Additionally, for 10 of the 150 Bureau of Reclamation journal entries that we tested, Interior did not have a second individual review and approve the entry or complete the review in a timely manner. Finally, Interior did not have evidence of supervisory review and resolution for differences on two monthly reconciliations between the general ledger and reports from Treasury.

Recommendation

We recommend that Interior perform the following:

1. Segregate the responsibilities for creating and approving a purchase requisition, creating and approving a purchase order, and approving invoices for payment, to ensure transactions are properly recorded and assets are safeguarded.
2. Require a second individual to compare journal entries to supporting documentation and document his/her approval on the journal entry.
3. Document review and resolution of reconciliation differences.
4. Require a second individual to review and approve reconciliations.



Management Response

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

L. Controls over Charge Cards

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

However, Interior did not consistently follow these internal control procedures, as we identified 90 exceptions in the 255 statements that we tested at certain components. For example, cardholders and supervisors did not always sign and date the charge card statements or consistently sign and date the charge card statements in a timely manner. In addition, card holders did not consistently maintain charge card receipts to support the charges. Interior also did not consistently investigate and resolve transactions on the unusual charge card transaction reports. Furthermore, Interior had not terminated cards for 99 former employees at one component.

Recommendations

We recommend that Interior perform the following:

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

Management Response

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

M. Controls over Obligations

Obligations should be promptly recorded, properly classified, and accounted for, in order to prepare timely and reliable reports. Interior incorrectly documented the sum of the current order amount and the estimated future potential order amounts rather than the actual order amount on certain purchase orders. Interior recorded obligations based on these incorrect purchases orders, resulting in an overstatement of obligations and an understatement of unobligated balances. Interior performed an analysis and adjusted its financial statements by \$85 million.



Recommendations

We recommend that Interior improve internal controls to ensure that obligations are properly recorded in the financial report, as follows:

1. Provide additional guidance and training to personnel on the process of preparing purchase orders and entering purchase orders into the accounting system.
2. Require contract supervisors to review purchase orders to ensure that they are properly prepared and properly entered into the accounting system and document his/her approval on the purchase order.

Management Response

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

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

Interior is required to determine and record a liability for the actuarial present value of the future benefits of the U.S. Park Police Pension Plan (USPP Pension Plan). Interior obtained the census data to calculate the liability from the District of Columbia, the plan administrator. Interior recalculated a sample of annuity payments based on the supporting documentation available in the pension files maintained by the District of Columbia and identified several differences between the census data file and the supporting documentation maintained in the pension files.

As part of our testing of the USPP Pension Plan liability, we also recalculated a sample of the annuity payments and identified differences between the census data file and the supporting documentation. These differences included both underpayments and overpayments that netted to approximately 1% of the total annuity payments that we tested. In addition, we compared the census data file to the supporting documentation for 219 participants and identified 69 differences in gender, age, and other factors. Interior, in consultation with its actuaries, evaluated the differences identified and concluded that the USPP Pension Plan liability was fairly stated as of September 30, 2005. However, all census data differences need to be resolved so as not to affect future actuarial projections and to ensure pension payments for retirees are not adversely affected.

Recommendation

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

Management Response

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



A summary of the status of prior year reportable conditions is included as Exhibit I. We also noted certain additional matters that we reported to the management of Interior in a separate letter dated November 15, 2005.

INTERNAL CONTROL OVER REQUIRED SUPPLEMENTARY INFORMATION, INCLUDING PERFORMANCE MEASURES, AND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

O. Performance Measure Reporting

With respect to the design of internal controls relating to existence and completeness assertions over performance measures determined by management to be key and reported in Interior's *Fiscal Year 2005 Annual Report on Performance and Accountability*, we noted certain significant deficiencies in internal control over reported performance measures discussed in the following paragraph that, in our judgment, could adversely affect Interior's ability to collect, process, record, summarize, and report performance measures in accordance with management's criteria.

Interior did not properly design controls to collect, process, record, summarize, and report performance measures related to the BIA and the BLM programs. Specifically, we noted that Interior did not consistently provide adequate evidence to support the performance measure results and revised the performance results as a result of our observations for the BIA programs. In addition, Interior had reported prior year results as current year results for many of the BLM programs. In addition, BIA management did not review and approve the reported performance measures results.

Recommendation

We recommend that Interior perform the following related to the BIA and the BLM programs:

1. Design and implement controls to collect, process, record, summarize, and report performance measures.
2. Document performance results and maintain this documentation.
3. Implement procedures to estimate performance results when actual results are not available.

Management Response

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

P. Deferred Maintenance Estimates

We noted certain significant deficiencies in internal control over Required Supplementary Information discussed in the following paragraphs that, in our judgment, could adversely affect Interior's ability to collect, process, record, and summarize Required Supplementary Information related to deferred maintenance.

Interior has not fully implemented the required accounting standards to estimate the deferred maintenance for its general, heritage, and stewardship assets, using either the condition assessment survey or life cycle costing method. Interior has adopted the condition assessment survey method, which requires Interior to perform periodic inspections of assets at least every five years, to determine their current condition and



estimate the cost to correct any deficiencies. However, Interior has not fully established controls over the condition assessments performed to determine deferred maintenance for all assets as follows:

1. *General Property, Plant, and Equipment and Heritage Assets*

As reported in the Required Supplementary Stewardship Information (RSSI) section of Interior's *Fiscal Year 2005 Annual Report on Performance and Accountability*, Interior had not completed condition assessments for all property and equipment, such as archeological sites, historic sites, historic and prehistoric structures, landmarks, paleontological sites, national register of historic places, museum collections, and world heritage properties. As a result, Interior had not estimated the related deferred maintenance for these assets. Interior also had not assigned responsibility or fully implemented information systems to account for and report condition assessments and the related deferred maintenance at certain components. Interior also disclosed deferred maintenance ranging from \$5 million to \$10 million for concession assets that non-federal entities are responsible for maintaining. Furthermore, Interior did not consistently update the condition assessments and related deferred maintenance estimates for certain irrigation systems and power projects and had not performed condition assessments and estimated related deferred maintenance during the past five years, for 4 of the 45 assets that we tested at one component.

2. *Stewardship Land*

Interior is required to disclose deferred maintenance information for all categories of property, plant, and equipment, including stewardship land and related improvements in accordance with the accounting standards. Interior incurred costs to improve and maintain stewardship land and related improvements. In addition, Interior identified known instances of land in need of intervention and requested future outlays in various budget requests and reports. However, Interior did not estimate or disclose deferred maintenance of stewardship land and the related improvements. In addition, Interior did not have documented evidence that it completed condition assessments for all stewardship land and related improvements and, therefore, had not demonstrated that there was not any related deferred maintenance for all stewardship land and related improvements.

As a result, the Required Supplementary Stewardship Information disclosure on the condition of major classes of assets and the Required Supplementary Information disclosure on deferred maintenance amounts are not complete or current.

Recommendations

We recommend that Interior implement the following:

1. *General Property, Plant, and Equipment and Heritage Assets*

- a. Perform condition assessments of all general, property, plant, and equipment; and heritage assets and estimate the related deferred maintenance.
- b. Require supervisors to review and approve condition assessments and deferred maintenance estimates to ensure they are performed consistently and in accordance with Interior's policies.
- c. Assign responsibilities and implement systems to account for and report condition assessments and deferred maintenance at all components.



- d. Remove from the deferred maintenance disclosures, the estimates on concession assets that non-federal entities are responsible for maintaining.
- e. Update the condition assessment and deferred maintenance estimates at least every five years.

2. Stewardship Land

- a. Implement procedures to conduct condition assessments and estimate deferred maintenance related to stewardship land.
- b. Disclose deferred maintenance estimates for stewardship land.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings. Management indicated that the stewardship land managed by Interior does not have deferred maintenance as defined by the accounting standards.

Auditors' Response to Management's Response

As of September 30, 2005, Interior did not have documented evidence that it had completed condition assessments for all stewardship land and therefore, Interior was unable to demonstrate that there was no deferred maintenance for all of its stewardship land. Furthermore, Interior has reported known instances of land that is in need of intervention and has requested future outlays to correct these conditions in various budget requests and reports. Therefore, we recommend that Interior complete the condition assessments of all its stewardship land and disclose the related deferred maintenance as required by the accounting standards.

Q. Stewardship Reporting

We noted certain significant deficiencies in internal control over RSSI discussed in the following paragraphs that, in our judgment, could adversely affect Interior's ability to collect, process, record, and summarize RSSI.

Interior did not consistently follow its established procedures and controls over recording RSSI. Specifically, we noted the following:

1. Stewardship Property, Plant, and Equipment – Physical Units

Interior did not consistently record stewardship property, plant, and equipment (stewardship asset) transactions accurately or in a timely manner. Interior incorrectly recorded certain transactions and recorded several adjustments in the current year that should have been recorded in prior years, including 96 of the 166 stewardship transactions that we tested at certain components. In addition, Interior reported in the RSSI section of Interior's *Fiscal Year 2005 Annual Report on Performance and Accountability* that Interior identified adjustments in the current year that should have been recorded in the prior year. Interior also did not consistently have a second individual review and approve the stewardship asset transactions in accordance with Interior policies, as Interior did not have evidence of approval for 38 of the 91 stewardship transactions that we tested at certain components. In addition, Interior was not able to provide us adequate supporting documentation for 11 of 76 stewardship transactions that we tested at certain components and did not properly remove concession assets. Furthermore, one Interior



component adjusted the number of museum collections as a result of our request for supporting documentation.

2. *Stewardship Property, Plant, and Equipment – Condition Assessments*

As reported in the RSSI section of Interior's *Fiscal Year 2005 Annual Report on Performance and Accountability*, Interior had not completed condition assessments for all stewardship and heritage assets, including archeological sites, historic sites, historic and prehistoric structures, landmarks, stewardship land, paleontological sites, national register of historic places, museum collections, and world heritage properties. In addition, Interior components did not consistently follow Interior's five-year periodic assessment policy, as we noted that 4 of the 45 condition assessments that we tested were over five years old at one component and another component had not updated the condition assessments for certain irrigation systems and power projects in the past five years. In addition, Interior did not have documented evidence that it completed condition assessments for all stewardship land and related improvements. Interior also did not consistently consider the use of the land in determining the condition of the land. Furthermore, Interior did not disclose the condition of museum collections in accordance with the accounting standards, as Interior disclosed the condition of the facility housing the collection rather than the condition of the underlying museum collection.

3. *Stewardship Investments*

Interior reported obligations rather than expenses incurred for natural resource research and development investments, because Interior did not track actual expenses related to such investments.

As a result, the RSSI disclosures for stewardship assets and investments are not complete, current, or consistently supported.

Recommendations

We recommend that Interior strengthen internal controls over recording Required Supplementary Stewardship Information to:

1. *Stewardship Property, Plant, and Equipment – Physical Units*

- a. Record and report stewardship property, plant, and equipment transactions at the time the event occurs.
- b. Require supervisors to review and approve stewardship transactions to ensure that they are properly recorded and disclosed.
- c. Maintain source documentation for stewardship transactions.
- d. Identify and remove concession assets.
- e. Perform periodic inventories of stewardship assets.

2. *Stewardship Property, Plant, and Equipment – Condition Assessments*

- a. Perform and report condition assessments for all stewardship property, plant, and equipment on a periodic basis.
- b. Document condition assessments and maintain the source documentation.



- c. Require supervisors to review and approve condition assessments to ensure they are performed consistently and in accordance with policies.
- d. Consider the use of the land in determining the condition of the land.
- e. Assess and disclose the condition of the museum collections rather than the facility housing the collection. Although the condition of the facility may be an important criterion in determining the condition of the museum collection, we recommend that Interior consider other factors, such as whether or not Interior intends to improve the collection, in defining the acceptable condition for museum collections.

3. Stewardship Investments

Accumulate and report actual expenses incurred for investments in research and development.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings. Management indicated that they believe condition assessments are not required for stewardship land.

Auditors' Response to Management's Response

We believe that Interior is required to report condition assessments for stewardship land in accordance with the accounting standards. For example, paragraph 83 of Statement of Federal Financial Accounting Standard (SFFAS) No. 8, *Supplementary Stewardship Reporting*, indicates "Minimum reporting shall include the following...the condition of the stewardship land, unless it is already reported in a note to the financial statement, in which case a reference to the note will suffice." In addition, paragraph 41 of SFFAS No. 29, *Heritage Assets and Stewardship Land* indicates "Entities should report the condition of the stewardship land (which may be reported with the deferred maintenance information) as required supplementary information." As a result, we recommend that Interior perform condition assessments for all stewardship land and related improvements and disclose those condition assessments.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

R. Single Audit Act Amendments of 1996

As discussed in the Internal Control over Financial Reporting section of this report, Interior needs to continue improving its processes and controls over monitoring of grantees in accordance with the *Single Audit Act Amendments of 1996*, and the related OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Interior needs to develop and maintain a database to monitor grant proposals and awards. Interior also needs to ensure that grantees submit progress reports, complete single audits, and submit single audit reports in a timely manner. If grantees do not submit single audit reports, Interior should require grantees to submit formal requests for audit report extensions, evaluate the requests, and formally document approval of the requests or consider the need to limit future grant awards. In addition, Interior needs to issue management decisions on findings in a timely manner.

***Recommendation***

We recommend that in fiscal year 2006, Interior improve its grantee monitoring process to ensure compliance with the reporting requirements of the *Single Audit Act Amendments of 1996* and the related OMB Circular A-133.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our findings. Management indicated that they believe Interior has implemented policies and procedures to comply with *Single Audit Act Amendments of 1996* and the related OMB Circular A-133.

Auditors' Response to Management's Response

Interior did not effectively ensure that grantees submitted progress reports, completed single audits, and submitted single audit reports in a timely manner for Interior programs that administer over \$2 billion in annual grant expenditures. For example, as discussed in the Internal Control over Financial Reporting section of the report, we noted that Interior did not have Single Audit Reports for 395 different grants and did not issue corrective action plans for 59 findings. In addition, we noted that one component did not obtain progress reports for 15 of a sample of 32 grants that we selected for testing. As a result, Interior did not comply with the requirements of *Single Audit Act Amendments of 1996* and the related OMB Circular A-133.

S. Debt Collection Improvement Act of 1996

In accordance with the *Debt Collection Improvement Act of 1996*, Interior is required to refer eligible receivables that are delinquent to Treasury for collection or offset. Eligible receivables include those that are not the subject of litigation, related to foreclosure proceedings, or from organizations in bankruptcy. Interior did not have adequate controls to ensure that they identified MMS and BIA receivables for referral to Treasury in a timely manner. Interior had over \$79 million of MMS receivables that were over 180 days past due as of September 30, 2005. In addition, Interior reported that it had not referred certain BIA receivables to Treasury and did not consistently charge the proper interest rate.

Recommendation

We recommend that in fiscal year 2006, Interior establish a process to ensure that eligible receivables are referred to Treasury in a timely manner.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our findings because Interior has an appeals process and receivables that are the subject of an appeals process are not eligible for referral and because Interior improved its process such that Interior does not believe that there is non-compliance at the Department level.



Auditors' Response to Management's Response

We acknowledge that Interior is in the process of improving its debt referral processes; however, we noted the following conditions:

1. MMS receivables represent Interior's largest receivables with the public. Interior did not perform timely follow up procedures over the MMS receivables as MMS had receivables over 180 days delinquent that may be eligible for referral. We tested a sample of 32 MMS receivables and found no evidence that 9 of those receivables had been referred to Treasury or documentation to support that the receivables did not need to be referred to Treasury, within 180 days (i.e., the receivables were not the subject of an appeal).
2. Interior indicated that it did not refer certain BIA receivables in a timely manner and did not charge the correct interest rate for BIA receivables.

As a result, Interior did not comply with the requirements of the *Debt Collection Improvement Act of 1996*.

T. OMB Circular No. A-25, *User Charges*

OMB Circular No. A-25, *User Charges*, establishes policies for Federal entities related to user charges associated with the sale or use of Federal resources within the Federal Government. Specifically, it requires Federal agencies to ensure that charges to other Federal agencies are sufficient to recover the full cost of providing the service, resource, or goods. Interior did not recover the full costs they incurred at BIA because Interior did not charge other Federal agencies for the administration costs associated with the reimbursable agreements. Interior had over 2,000 reimbursable agreements at BIA totaling approximately \$310 million in fiscal year 2005. Interior has estimated that the administration costs associated with these reimbursable agreements may be as high as 25% of direct costs or \$103 million.

Recommendation

We recommend that in fiscal year 2006, Interior:

1. Implement policies and procedures to ensure compliance with the requirements of OMB Circular No. A-25, *User Charges*.
2. Develop and implement a methodology to identify and track the administration costs.
3. Charge other Federal entities for the administration costs.

Management Response

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

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.



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

U. Federal Financial Management Improvement Act of 1996

1. Federal Accounting Standards

Interior is required to prepare its financial statements in accordance with Federal accounting standards. As discussed in the Internal Control over Financial Reporting section of this report, we identified two material weaknesses that affected Interior's ability to prepare its financial statements and related disclosures in accordance with Federal accounting standards.

Also as discussed in the Internal Control over Required Supplementary Information, including Performance Measures, and Required Supplementary Stewardship Information section of this report, Interior needs to improve controls over reporting deferred maintenance, performance measures, stewardship assets, and stewardship investment disclosures to comply with Federal accounting standards. The Required Supplementary Information disclosures for deferred maintenance are not complete or current because Interior had not estimated deferred maintenance for all assets and did not consistently update deferred maintenance estimates. Additionally, performance measure results may not be accurate as Interior did not properly design controls to collect, process, record, summarize, and report performance measure information. Furthermore, Interior did not disclose the costs incurred to generate intragovernmental revenues by budget functional classification, as required. Interior also did not fully reconcile intragovernmental transactions and balances with its trading partners. Finally, the Required Supplementary Stewardship Information disclosures for stewardship assets and investments are not current, complete, or consistently supported because Interior did not consistently follow its established procedures and controls to accumulate and report the disclosure information and did not disclose all required information. As a result, Interior did not substantially comply with the Federal accounting standard requirements.

2. United States Government Standard General Ledger at the Transaction Level

In accordance with OMB Circular A-127, *Financial Management Systems*, Interior is required to record financial events consistent with the applicable account descriptions and attributes reflected in the SGL at the transaction level. Interior records certain BIA receivables as a total in its subsidiary ledgers rather than recording the individual transactions. As a result, Interior did not substantially comply with the SGL requirements.

Recommendations

We recommend that Interior finance offices perform the following during fiscal year 2006:

1. Federal Accounting Standards

Improve procedures and internal controls to ensure that the financial statements and related disclosures are prepared in accordance with the Federal accounting standards.



2. *United States Government Standard General Ledger at the Transaction Level*

Revise the process for recording BIA receivables to ensure that Interior records activity consistent with the SGL at the transaction level.

Management Response

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

RESPONSIBILITIES

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA), *Accountability of Tax Dollars Act of 2002*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, Interior prepares and submits financial statements in accordance with Part A of OMB Circular A-136.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements of Interior based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Interior's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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



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

In planning and performing our fiscal year 2005 audit, we considered Interior's internal control over financial reporting by obtaining an understanding of Interior's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on Interior's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, we considered Interior's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of Interior's internal controls, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal controls related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis and Performance Data and Analysis sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether Interior's fiscal year 2005 financial statements are free of material misstatement, we performed tests of Interior's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Interior. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether Interior's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

**DISTRIBUTION**

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

KPMG LLP

November 15, 2005

U.S. DEPARTMENT OF THE INTERIOR

Summary of the Status of Prior Year Findings

September 30, 2005

Ref	Condition	Status
A	Controls over property, plant, and equipment	This has been partially corrected and is repeated at finding E.
B	Process for year-end closing	This has been corrected.
C	Reconciliation of intragovernmental transactions and balances	This has been partially corrected and is repeated at finding C.
D	Controls over Indian Trust funds	This has not been corrected and is repeated at finding B.
E	Application and general controls over financial management systems	This has not been corrected and is repeated at finding D.
F	Controls over accruals	This has not been corrected and is repeated at finding F.
G	Controls over legal and environmental contingencies	This has been partially corrected and is repeated at finding G.
H	Financial management at the Bureau of Indian Affairs	This has not been corrected and is repeated at finding H.
I	Controls over revenue and other financial sources	This has not been corrected and is repeated at finding I.
J	Controls over grants	This has not been corrected and is repeated at finding J.
K	Controls over payments in lieu of taxes	This has been corrected.
L	Controls over budgetary transactions	This has been corrected.
M	Controls over charge cards	This has not been corrected and is repeated at finding L.
N	Controls over benefit programs	This has not been corrected and is repeated at finding N.

Exhibit I

U.S. DEPARTMENT OF THE INTERIOR
 Summary of the Status of Prior Year Findings
 September 30, 2005

Ref	Condition	Status
A	Controls over property, plant, and equipment	This has been partially corrected and is repeated at finding E.
B	Process for year-end closing	This has been corrected.
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I	Controls over revenue and other financial sources	This has not been corrected and is repeated at finding I.
J	Controls over grants	This has not been corrected and is repeated at finding J.
K	Controls over payments in lieu of taxes	This has been corrected.
L	Controls over budgetary transactions	This has been corrected.
M	Controls over charge cards	This has not been corrected and is repeated at finding L.
N	Controls over benefit programs	This has not been corrected and is repeated at finding N.



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240



NOV 15 2005

Memorandum

To: Earl E. Devaney
Inspector General

KPMG LLP
2001 M. Street, N.W.
Washington, D.C. 20036

From: P. Lynn Scarlett *PLS*
Assistant Secretary - Policy, Management and Budget

Subject: Management Response to Draft Independent Auditors' Report for Fiscal Year 2005 (Assignment No. X-IN-MOA-0011-2005)

The Department has reviewed the draft report and provides its responses to the findings and recommendations. The Department appreciates the recognition noted in several findings and recommendations of the substantial improvement and progress achieved during fiscal 2005, and we are pleased that the result of the audit is an unqualified opinion on the Department Consolidated Financial Statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Reportable Conditions that are considered to be Material Weaknesses

A. New accounting policies and procedures

Management concurs. Interior will improve its policies and procedures related to recording selected assets and liabilities in accordance with OMB guidance.

B. Controls over the Indian Trust Funds

Management partially concurs. Management concurs that the recommendations will improve our internal processes, and we will continue to develop and implement additional procedures and internal controls to address the issues noted in the audit. A variety of actions are underway within Interior to improve internal controls for non-Federal Indian Trust Funds, including providing an accounting for non-Federal accounts. Interior contends that, based upon the reconciliations conducted by independent accounting firms, Interior is in a

position to draw conclusions with a high degree of confidence that the differences between supporting records and recorded transactions are few in number, small in size, and not widespread or systematic.

Other Reportable Conditions

C. **Reconciliation of intra-governmental transactions and balances**

Management concurs. Interior has implemented procedures to more timely reconcile and address trading partner differences. In addition Interior continues to actively work on improving trading partner coding of transactions.

D. **Application and general controls over financial management systems**

Management partially concurs. While management agrees that continued improvement is beneficial and continues to implement many of the recommendations, management does not concur that the finding rises to the level of a reportable condition. Interior has made substantial progress in improving controls over its systems in fiscal 2005 and believes there are no apparent systemic weaknesses at the Departmental level. Interior will continue its efforts to improve and enhance application and general controls in fiscal 2006 to address the issues noted in the audit report.

E. **Controls over property, plant and equipment**

Management concurs. During fiscal 2005, Interior continued to improve internal controls over property, plant, and equipment to ensure transactions are properly classified and recorded. A significant accomplishment included completing the land and land rights inventory reconciliation. Interior also released web-based training modules on new property policies and continued to aggressively monitor bureau compliance with the new policy guidance.

F. **Controls over accruals**

Management concurs. During fiscal 2005, Interior analyzed and revised a number of accrual calculations processes. Interior will continue to review and improve its controls over accruals.

G. **Controls over environmental contingencies**

Management concurs. In FY 2005, Interior established a departmental workgroup to standardize processes and documentation. In FY 2006, guidance and procedures will be revised to ensure that environmental information is effectively identified, maintained, and reported.

H. Financial Management at the Bureau of Indian Affairs

Management concurs. During fiscal 2005 Interior established a performance improvement plan to ensure that appropriate financial and program staffing and other resources were directed at financial management and reporting functions and continued to improve processes and procedures to promote better financial analysis, transaction entries and reconciliations were performed. In FY 2006, Interior will continue to improve financial management at the BIA.

I. Controls over revenue

Management concurs. Although Interior performed a detailed analysis of revenue transactions and adjusted the fiscal year 2005 financial statements accordingly, actions are planned to improve internal controls over the revenue process to ensure that the transactions are promptly and properly recorded for timely and reliable financial reporting. Interior is committed to improving its controls over revenue.

J. Controls over grants

Management concurs. Interior will continue to work with its financial assistance programs to improve grantee monitoring processes subject to the requirements of the *Single Audit Act Amendments of 1996*.

K. Segregation of responsibilities over purchases and entries

Management concurs. Interior will improve policies and procedures for better segregation of conflicting duties and to enhance review and approval responsibilities.

L. Controls over charge cards

Management concurs. Interior continues to believe it has a well-managed charge card program, although compliance issues are identified in several bureaus and offices. Interior continued to monitor supervisory reviews and approval, train and otherwise educate cardholders and supervisors on charge card responsibilities, and monitor the use of charge cards. In addition, through quarterly reviews of the personnel/payroll system, Interior continued to identify newly appointed supervisors who will have approving official responsibility.

M. Controls over obligations

Management concurs. Interior will implement new procedures for review and approval of purchase orders and revise guidance for the preparation and processing of transactions.

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

Management concurs. Interior will take action to investigate and resolve differences between the census data and the supporting documentation to ensure that the pension program is properly presented in the financial report.

INTERNAL CONTROL OVER RSI AND RSSI

O. Performance Measure Reporting

Management concurs. Interior will take action to improve internal control over reported performance measures including strengthening Interior's capability to collect, process, record, summarize, and report performance measurements in accordance with management's criteria.

P. Deferred maintenance estimates

Management partially concurs. Interior concurs that improvements can be made to processes related to management of appropriate cyclical reviews for those assets subject to deferred maintenance reporting, i.e., general property, plant and equipment, and constructed stewardship assets. However, Interior's consistent position has been that stewardship land managed by the Department does not have deferred maintenance as defined by SFFAS No. 6.

Q. Stewardship reporting

Management partially concurs. Interior concurs that processes can be improved related to stewardship reporting. However, Interior does not concur that condition assessments are required for stewardship land. While Interior believes that it is following standard practices, we will strive to improve our management of museum collections and other stewardship and heritage assets.

COMPLIANCE AND OTHER MATTERS

R. Single Audit Act Amendments of 1996

Management partially concurs. While Interior concurs that some bureaus must continue to take steps to obtain required reports from grantees previously issued grants, the Department and its bureaus have policies and processes in place that comply with the Single Audit Act and OMB Circular A-133. We do not agree that this issue rises to a Departmental level non-compliance issue.

S. Debt Collection Improvement Act of 1996

Management does not concur. Interior has an appeals process defined by law that impacts when payments become due for collection, and subsequently eligible for debt referral purposes. The appeals process may vary from bureau to

bureau as to the specifics of its process. As Treasury guidance stipulates, amounts that are the subject of an administrative appeal do not become eligible for referral until the appeal is concluded and the amount of the debt is fixed. In FY 2005, Interior continued to improve its process to ensure eligible receivables were referred to the U.S. Department of the Treasury in a timely manner. Interior does not believe there is a noncompliance at the Departmental level.

T. OMB Circular No. A-25, User Charges

Management concurs. Interior will implement policies and procedures that comply with OMB Circular No. A-25; develop and implement a methodology to track administration costs; and, charge other Federal entities for the administration costs.

U. Federal Financial Management Improvement Act (FFMIA) of 1996

Management concurs. Interior will continue to improve its controls over the FFMIA components related to Federal accounting standards and the U.S. Standard General Ledger at the transaction level. This will include improved monthly financial statement reporting, monitoring or performance metrics, and periodic reviews of financial performance with senior Department and bureau management.

We appreciate the value of the audit process and look forward to working with you to continue our marked improvement of financial management in the Department of the Interior.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

OCT 20 2005

Memorandum

To: Secretary

From: Earl E. Devaney
Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the Department of the Interior

In accordance with the Reports Consolidation Act of 2000, we submit the attached summaries of issues we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department or DOI), to be included in the Department's Performance and Accountability Report for fiscal year 2005. The challenges listed reflect what the Office of Inspector General (OIG) considers to be significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its agencies' management and operations.

The top challenges are as follows:

- Financial Management
- Information Technology
- Health, Safety and Emergency Management
- Maintenance of Facilities
- Responsibility to Indians and Insular Areas
- Resource Protection and Restoration
- Revenue Collections
- Procurement, Contracts and Grants

We view these issues as DOI's top challenges because they are important to the Department's mission, involve large expenditures, require significant management improvements, or involve significant fiduciary relationships.

The Department conducts a variety of activities that cut across bureau and program lines. In our opinion, by developing strategies to identify and correct deficiencies, especially in cross-cutting activities, the Department can enhance and improve its overall operational effectiveness and efficiency.

Attachment

Office of Inspector General Update of the Top Management Challenges for the Department of the Interior

1. Financial Management

Sound financial management is critical to providing accurate financial information, managing for results, and ensuring operational integrity. Although the Department has made some progress, internal control weaknesses continue to hinder DOI financial management systems. Even though the Department received an unqualified opinion in FY 2004 auditors assigned to conduct the financial statement audit concluded that the Department's financial management systems are not in compliance with the Federal Financial Management Improvement Act.

The Department has several initiatives aimed at improving financial management including: the Financial and Business Management System (FBMS) and Performance and Budget Integration. Although these initiatives should upgrade financial management in the future, they are placing increased demands on already stretched financial resources.

Financial and Business Management System

The implementation of the FBMS continues to be a major management challenge in DOI. FBMS will replace a variety of outdated, stand-alone, mainframe-based systems that are costly to operate and difficult to secure. The current systems do not provide timely financial and performance information, and do not comply with financial system standards. About 160 systems will be affected by this implementation.

The Department began implementing FBMS in fiscal year 2005 and planned to have the system to be fully implemented by the end of fiscal year 2008. DOI completed the first phase of the project in April 2005 with the launch of the Financial Assistance functionality for grant and cooperative agreement programs at Minerals Management Service (MMS), Office of Surface Mining Reclamation and Enforcement (OSM), and selected programs at the Fish and Wildlife Service (FWS). On September 29, 2005, DOI removed BearingPoint, their contractor from the project. While the vision and goals of the project remain the same, DOI is currently revising their implementation timelines and their training schedules.

Budget and Performance Integration

Better budget and performance integration is essential to results-oriented management and efficient allocation of scarce resources among competing needs. The variety and number of programs within DOI makes budget and performance integration particularly difficult.

DOI's Strategic Plan for Fiscal Years (FY) 2003-2008 made significant changes to DOI's goals and performance measures as part of an effort to aid in budget and performance integration. However, challenges still remain. Of the 18 DOI programs in Budget Year

2006 that received OMB Program Assessment Rating Tool evaluations, 7, or 38 %, had ratings of “Results Not Demonstrated”, a decrease from the 46% reported for Budget Year 2004. DOI needs to continue to focus on developing useful performance measures.

2. Information Technology

Since the enactment of Federal Information Security Management Act (FISMA) in 2002, DOI’s Information Technology (IT) Security program has seen increased management awareness, involvement, focus, and funding. IT security staffing has also increased and adequate training has been made available to the general workforce. The Department, in FY 2004 and FY 2005, established a body of policy and guidance and invested in various security technologies—at an estimated cost of \$100 million—needed to create a control environment which allows testing of the networks, systems, and programs comprising the Department’s IT assets. This has allowed our evaluation efforts to evolve from an essentially general controls based auditing approach to one where technical experts conduct valid and real world tests on the security of DOI’s networks and computer infrastructure.

In the FY 2005 reporting period we note that DOI has taken several positive steps to improve its overall security by:

- Implementing the DOI-wide Enterprise Services Network to provide a more secure computing and networking environment.
- Enhancing the DOI Vulnerability Scanning Program beyond just the SANS Top 20 list of vulnerabilities.
- Implementing an Active Directory and the use of group policy for enforcing Microsoft based security configurations.
- Significantly improving content and usability of the DOI End User IT Security Training and Awareness program.
- Completing its E-Authentication risk assessments.

However, after a thorough evaluation to assess compliance with the FISMA, we have determined that there are significant weaknesses in the DOI IT security program and compliance with FISMA’s requirements. Our audits, evaluations, and technical testing of DOI’s systems and IT Security program in Fiscal Year 2005 have revealed significant issues with the implementation of various departmental policies and non-compliance with OMB requirements for Certification and Accreditation. Additionally, problems in DOI’s overall Plan of Actions & Milestones program, which is a critical element for managing and prioritizing remediation activities, indicate that DOI’s management cannot be assured that IT security risk is properly identified, understood, prioritized, and mitigated. DOI lacks an effective agency-wide strategy to implement and provide oversight for the various policies and procedures issued. Field work continues to demonstrate that bureaus do not always adhere to DOI policy.

3. Health, Safety and Emergency Management

Annually, DOI has over 275 million visits to national parks, 69 million visits to recreational sites provided by the Bureau of Land management (BLM), and 39 million visits to 545 national wildlife refuges. In addition, there are 90 million visitor days of use at 308 Bureau of Reclamation (BOR) recreation sites. DOI must protect these visitors, hundreds of thousands of employees and volunteers, thousands of facilities, and millions of acres of property from both internal and external threats. The physical isolation of some DOI lands and facilities increases their vulnerability to threats and inhibits DOI's response time. DOI continues to be slow to change its mission and priorities to reflect its new security responsibilities and commitment. Specifically, enhancements are needed in DOI's radio communications, DOI's hazardous material program, and security surrounding national icons and BOR dams.

4. Maintenance of Facilities

DOI owns, builds, purchases, and contracts services for assets such as visitor centers, schools, office buildings, roads, bridges, dams, irrigation systems, and reservoirs. These assets include some deteriorating facilities that lack adequate funding for repair and maintenance. According to the January 2003 Government Accountability Office (GAO) report titled, *Major Management Challenges and Program Risks, Department of the Interior*, DOI needs to more aggressively address the deferred maintenance backlog. The report stated that the repair and maintenance on these assets has been postponed for years due to budgetary constraints and that the deterioration of facilities can adversely impact public health and safety, reduce employee morale and productivity, and increase the need for costly major repairs or early replacement of structures and equipment.

This effort is still a challenge for the Department. For example, in the fiscal year 2004 *Annual Report on Performance and Accountability*, the Department reported that exact estimates of deferred maintenance are difficult to determine due to the variety of assets entrusted to the Department. The fiscal year 2004 estimates for DOI's deferred maintenance were between \$8.9 billion and \$15.3 billion. The lack of concrete data makes it difficult to ascertain if the deferred maintenance backlog has even been reduced. The Department also stated that bureau estimates of deferred maintenance were based on data from a variety of systems, procedures, and data sources therefore the reliability of these sources as a basis for deferred maintenance estimates is variable.

The Bureaus have mostly completed a full and comprehensive inventory and condition assessments for all facilities. With this information a facility condition index has been developed and used to make determinations as to whether facilities should be repaired, replaced or relocated as well as determining priorities. Also, per Executive Order 13327, dated February 4, 2004, an agency Senior Real Property Officer has been established whose focus is to direct and oversee Department wide efforts to meet Interior's asset management goals and objectives.

5. Responsibility to Indians and Insular Areas

DOI needs to address persistent management problems in programs for Indians and island communities. DOI is responsible for administering the Federal government's trust responsibilities to Indian tribes and individual Indians, and it provides more than \$750 million annually for basic tribal services, such as social services, tribal courts, and natural resource management. Over the years, GAO and OIG have reported on DOI's poor management of Indian trust funds and programs. Despite DOI's efforts, inadequate accounting and information systems and internal controls, as well as other weaknesses, prevent DOI from ensuring that trust and program funds are properly managed. The single audit is the mechanism to ensure financial compliance with funding agreements; however, during fiscal year 2005, 86 tribes were delinquent in submitting their audit reports. We continue to be concerned about the deplorable conditions at the BIA-operated and funded schools and detention facilities. In addition, DOI has various responsibilities to seven island communities - four U.S. territories and three sovereign island nations. The Insular Area governments have serious long-standing financial and program management deficiencies.

6. Resource Protection and Restoration

DOI resource managers face the challenge of balancing the competing interests for use of the nation's natural resources. DOI manages 507 million acres, or about one-fifth, of the land area of the United States and 700 million acres of subsurface minerals. Federal lands account for 30 to 35 percent of energy produced in the United States. DOI has jurisdiction over an additional 1.76 billion acres of the Outer Continental Shelf. In addition, DOI protects thousands of wetlands, aquatic parcels and native plant and animal species, including more than 1,260 with special status under the Endangered Species Act.

In a 2003 report, GAO identified DOI as having continuing issues related to its ecosystem restoration efforts, specifically in the areas of: 1) wild land fire threats to communities and resources, 2) restoring the South Florida ecosystem, and 3) controlling and eradicating invasive species.

DOI has made progress in addressing the nation's wild land fire threats by increasing funding committed to addressing wildland fire problems, improving data and research on wildland fire problems and developing fire management plans that identify actions for addressing wildland fire threats at the local level. However, a recent GAO report, *Wildland Fire Management, Timely Identification of Long-Term Options and Funding Needs is Critical*, (GAO-05-923T, July 14, 2005) states that despite producing numerous planning and strategy documents, DOI, in conjunction with the Forest Service, has "yet to develop a cohesive strategy that explicitly identifies the long-term options and related funding needed to reduce the excess vegetation that fuels fires in national forests and rangelands".

In addition, DOI has improved its planning for the South Florida ecosystem restoration by refining the strategic plan and developing a land acquisition plan. However, the

Department, through its South Florida Ecosystem Restoration Task Force, has not yet completed action to develop a conflict resolution process and a science plan.

7. Revenue Collections

DOI revenue collected in FY 2004 was approximately \$11.4 billion and includes revenue from energy, minerals, grazing, timber, lands sales, and other revenue producing activities. The highest revenue collector in DOI is by far the MMS. For fiscal year 2005, MMS estimated that they will collect over \$12 billion in mineral revenues alone, representing a \$2.8 billion increase in collections from fiscal year 2004. The revenues are collected from companies with onshore and offshore Federal leases. Since 1982, the MMS Minerals Revenue Management Program has collected and distributed approximately \$139 billion to Federal, state, and Indian accounts. The MMS also conducts a comprehensive compliance effort to ensure that royalty payments from lessees are on time and accurate.

Because of the amount of revenues collected by MMS can have a significant potential for underpayments, OIG believes that revenue collections should continue as one of the top management challenges for the Department.

8. Procurement, Contracts and Grants

DOI spends substantial resources each year in contracting for goods and services and in providing Federal assistance to states and Indian organizations. Procurement has historically been an area subject to fraud and waste government-wide, and managing procurement activities is a continuing challenge requiring constant attention.

An OIG report *Framework Needed to Promote Accountability in Interior's Grants Management* (W-IN-MOA-0052-2004, August 2005) reported that Interior's grants management showed deficiencies including the lack of competition, training, reliable data and assurance that federal funds were being spent appropriately. Consequently, the grants program does not ensure that federal dollars are used as intended or promotes fair treatment for both grant applicants and recipients.

A GAO report, *Interagency Contracting, Problems with DOD's and Interior's Orders to Support Military Operations* (GAO-05-201, April 2005) found that to support DOD military operations in Iraq, Interior issued 11 task orders, valued at over \$66 million on an existing contract. The report stated that numerous breakdowns occurred in the issuance and administration of the orders for these services. GAO concluded that a lack of effective management controls, especially insufficient management oversight and a lack of adequate training, led to these breakdowns. For these reasons, this challenge remains on the FY 2005 list.