

# Analysis of Financial Statements

The Department received, for the ninth consecutive year, an unqualified audit opinion on its financial statements. These financial statements are prepared in accordance with established Federal accounting standards and are audited by the independent accounting firm of KPMG, LLP. It is the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources.

*Figure 1-38* illustrates a condensed version of the Department's Consolidated Balance Sheet and Statement of Net Cost.

## Overview of Financial Position

### Assets

In FY 2005, the Department's assets totaled \$63,434 million. This is an increase of \$6,488 million over the prior year's assets, which totaled \$56,946 million. Intragovernmental Assets are primarily composed of the Fund Balance with Treasury, Investments in U.S. Treasury Securities, and Loans and Interest Receivable. Intragovernmental Assets and General Property, Plant, and Equipment comprise 94% of the total assets. *Figure 1-39* summarizes the Department's assets as of September 30, 2005.

The increase in assets is primarily due to a change in the accounting principle that established intragovernmental loans receivable for the Western Area Power Administration and the Bonneville Power Administration in a total amount of \$2,344 million. Both entities are components of the Department of Energy. This increased Net Position by the same amount.

Accounts Receivable with the Public also increased significantly due to royalty receivable increases that resulted from BLM onshore solid mineral lease permitting increases and commodity prices and volume production increases.

Investments are largely composed of U.S. Treasury Securities invested on behalf of the Environmental Improvement and Restoration Fund, the Abandoned Mine Land Fund, and the Aquatic Resources Trust Fund, as well as other funds.

FIGURE 1-38

Condensed Balance Sheet  
As of September 30, 2005 and 2004  
(dollars in thousands)

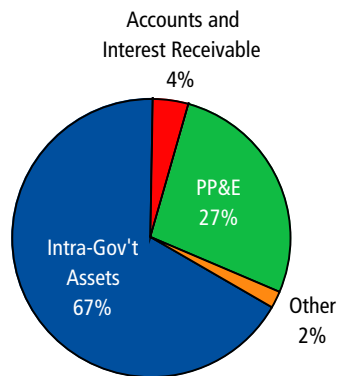
	2005	2004	% Change
<b>Assets</b>			
Intragovernmental Assets	\$ 42,462,958	\$ 37,402,718	14%
General Property, Plant, and Equipment, Net	17,323,778	17,154,211	1%
Accounts and Interest Receivable, Net	2,660,566	1,347,641	97%
Other	986,598	1,041,708	-5%
<b>Total Assets</b>	<u>\$ 63,433,900</u>	<u>\$ 56,946,278</u>	11%
<b>Liabilities</b>			
Intragovernmental Liabilities	\$ 6,877,463	\$ 4,738,939	45%
Accounts Payable	1,087,718	1,024,845	6%
Federal Employee and Veteran Benefits	1,367,705	1,304,355	5%
Contingent Liabilities	631,174	760,482	-17%
Other	2,732,918	2,143,100	28%
Total Liabilities	<u>12,696,978</u>	<u>9,971,721</u>	27%
<b>Net Position</b>			
Unexpended Appropriations	4,179,242	4,080,359	2%
Cumulative Results of Operations	46,557,680	42,894,198	9%
Total Net Position	<u>50,736,922</u>	<u>46,974,557</u>	8%
<b>Total Liabilities and Net Position</b>	<u>\$ 63,433,900</u>	<u>\$ 56,946,278</u>	11%

Condensed Statement of Net Cost  
For the Fiscal Years Ended September 30, 2005 and 2004  
(dollars in thousands)

	2005	2004	% Change
<b>Mission</b>			
Resource Protection	2,298,764	\$ 2,419,125	-5%
Resource Use	2,902,861	2,162,333	34%
Recreation	1,507,425	1,866,592	-19%
Serving Communities	5,833,820	5,857,916	0%
<b>Non-Mission</b>			
Reimbursable Activity and Other Costs	870,156	753,083	16%
<b>Net Cost of Operations</b>	<u>13,413,026</u>	<u>13,059,049</u>	3%
Total Cost	19,750,645	17,793,034	11%
Total Revenue	6,337,619	4,733,985	34%
<b>Net Cost of Operations</b>	<u>\$ 13,413,026</u>	<u>\$ 13,059,049</u>	3%

FIGURE 1-39

## FY 2005 Asset Categories



General Property, Plant, and Equipment are primarily composed of land, structures, and facilities which are used for general operations, power, wildlife enhancement, and recreation. Most of the Department's structures and facilities are composed of dams, power, and irrigation facilities managed by the Bureau of Reclamation. The remainder consists of buildings and facilities used in the Department's operations (e.g., visitor centers, fish hatcheries, and Bureau of Indian Affairs schools).

### Liabilities

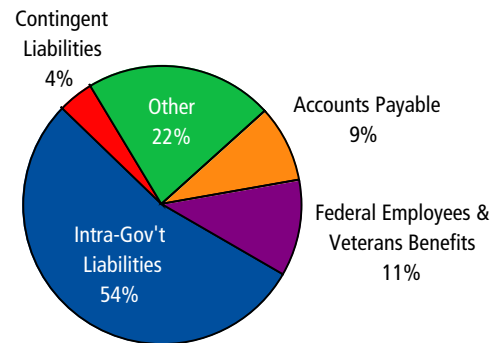
In FY 2005, the Department's liabilities totaled \$12,697 million. This is an increase of \$2,725 million over the prior year's liabilities, which totaled \$9,972 million. Intragovernmental Liabilities comprises primarily debt to the U.S. Treasury, resources payable to Treasury, and advances and deferred revenue. Intragovernmental Liabilities, Federal Employee and Veteran's Benefits and Accounts Payable with the Public comprise 74% of the total liabilities. *Figure 1-40* summarizes the Department's liabilities as of September 30, 2005.

The increase in Intragovernmental Liabilities is primarily due to a change in the accounting principle that established a \$2,187 million liability for Resources Payable to Treasury. This decreased Net Position by the same amount.

Federal agencies, by law, cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. The Department's unfunded liabilities consist primarily of environmental

FIGURE 1-40

## FY 2005 Liability Categories



and legal contingent liabilities and unfunded employee compensation costs, which include FECA and annual leave. These liabilities will be paid from funds made available to the Department in future years. The associated expense is recognized in the period in which the liability is established, regardless of budgetary funding considerations.

### Ending Net Position

The Department's Net Position at the end of 2005, disclosed in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$50,737 million, an increase of about \$3,763 million or 8% from the previous year.

The Net Position of the Department consists of two components (1) Unexpended Appropriations of \$4,179 million and (2) Cumulative Results of Operations of \$46,558 million. The growth in Unexpended Appropriations is primarily due to the annual increase in budget authority the Department receives for its missions.

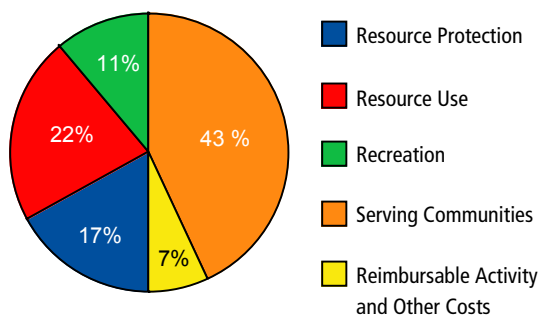
### Results of Operations

The Department's net cost of operations for FY 2005 was \$13,413 million. This is an increase of \$354 million from the previous year's net cost of \$13,059 million. Most costs incurred by the Department are directly related to providing services to the public. Costs associated with earning revenue from Federal agencies are approximately 11% of total expenses.

The increase in Total Costs is primarily due to increased royalty collections that are paid to States and increased IFF reimbursable expenses attributed to increased business volume.

FIGURE 1-41

## FY 2005 Net Cost of Operations



The Consolidated Statement of Net Cost is divided into the following five major program segments: Resource Protection; Resource Use; Recreation; Serving Communities; and Management Excellence, Reimbursable Activity and Other. Serving Communities represents 43% of the Department's net cost of operations (*Figure 1-41*).

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

### Revenues

During FY 2005, the Department earned approximately \$3,166 million in revenues from the public and approximately \$3,172 million in revenue from other Federal entities, for a total of \$6,338 million (*Figure 1-38*). This is an increase of about \$1,604 million from September 30, 2004. In FY 2004, approximately \$2,208 million was earned in revenues from the public and approximately \$2,526 million was earned in revenue from other Federal entities for a total of \$4,734 million. The increase in Total Revenue is primarily due to increased BLM land sales and the associated revenue from the IFF reimbursable expenses.

Interior classifies revenues as either exchange 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 and wildlife refuge entrance fees, map sales, and

other products and services that are directly related to Department operations. Revenues collected from other Federal agencies consist of reimbursable activities such as construction, engineering, and other technical services. Most of the revenue received from Federal agencies is generated from Interior Franchise Fund and National Business Center operations that provide shared administrative services. The Department also collects mineral lease revenues on behalf of the Federal Government. These are presented in the Statement of Custodial Activity rather than the Statement of Net Cost.

The Department collects various non-exchange revenues. Examples of non-exchange revenues are taxes, fines and penalties that the Federal Government collects as a result of its sovereign powers rather than as a result of providing goods or services for a fee. Non-exchange revenue increased from \$1,162 in FY 2004 to \$1,277 million for FY 2005.

### Custodial Activity

In accordance with Federal accounting standards, receipts from mineral leasing revenues are presented in the Department's Statement of Custodial Activity since the collections are considered to be revenue of the Federal Government as a whole rather than the Department. Mineral leasing revenues were \$12,386 and \$9,250 million as of September 30, 2005, and 2004, respectively, and include Outer Continental Shelf and onshore oil, gas, and mineral sales and royalties. The increase in custodial revenue is primarily due to an increase in onshore solid mineral lease sales and an increase of royalty collections.

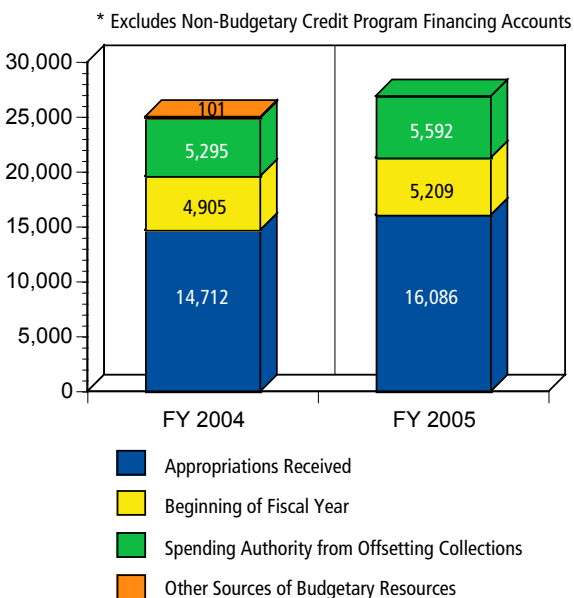
The Department collects a portion of revenue as royalties-in-kind for transfer to the Strategic Petroleum Reserve. Interior received approximately 25.6 and 38.4 million barrels of petroleum as in-kind mineral lease revenues for the periods ended September 30, 2005, and 2004, respectively.

### Budgetary Resources

The Department receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by Congress. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections, as well as, other sources of budget-

FIGURE 1-41

**Budgetary Resources \***  
(in millions)



Note - Other Sources of Budgetary Resources totaled -\$62 in FY 2005

ary resources (Figure 1-41). Other resources include special and trust funds such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), the Reclamation fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to the Department for the year and the status of those resources at the end of the fiscal year. Obligations of \$21,114 and \$19,803 million were incurred as of September 30, 2005, and 2004 on total budgetary resources of \$26,825 and \$25,013 million, respectively (Figure 1-42).

**Stewardship Assets and Investments**

Interior is the Federal Government’s largest land-managing agency, administering over 500 million acres of America’s land mass and serving as steward for the natural and cultural resources associated with these lands. Approximately 438 million acres of the 500 million acres managed by Interior are considered stewardship land (Table 1-28). The non-stewardship

FIGURE 1-42

**Status of Budgetary Resources \***  
(in millions)

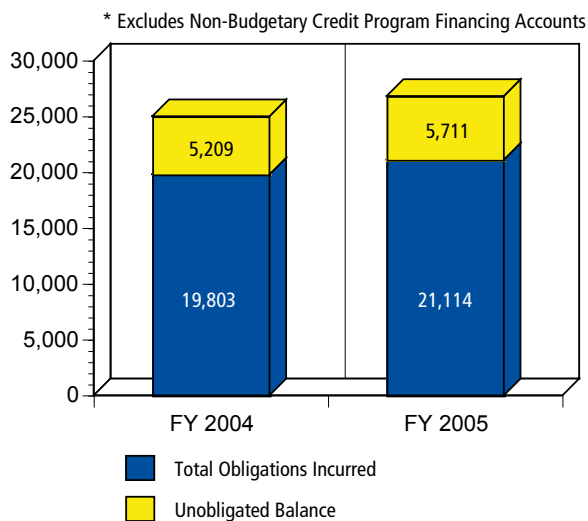


TABLE 1-28

Stewardship Land (Federal Acres)				
	Beginning Acres	Additions	Withdrawals	Ending Acres
BLM	261,848,120	72,272	(157,480)	261,762,912
NPS	79,022,673	35,101	(12,741)	79,045,033
FWS	90,306,600	125,400	-	90,432,000
BOR	5,724,998	1,799	(247,312)	5,479,485
BIA *	205,521	170	(170)	205,521
Other	12,731	306	-	13,037
Total	437,120,643	235,048	(417,703)	436,937,988

\* The BIA also administers approximately 56 million acres of Tribally and individually-owned land held in trust status.

land managed by Interior consists primarily of Tribally and individually-owned land held in trust status and non-Federal land (i.e., private, State, or local) that lies within the administrative boundaries of the National Park System and the National Wildlife Refuge System.

Interior-administered stewardship lands encompass a wide range of activities, including recreation, conservation, and functions vital to the health of the economy and to the American people. The stewardship assets managed by the Department remained constant.

Stewardship investments represent expenses charged to current operations that are expected to benefit the Nation over time. The Department's Stewardship Investments include research and development programs, investments in education, and the purchase or construction of assets for which State, local, or Tribal governments and insular areas retain title.

Stewardship investments are summarized in *Table 1-29*. The decrease in the investments from FY 2004 to FY 2005 is due primarily to reduced available funding for stewardship investments.

The Department's reported values for Property, Plant, and Equipment exclude stewardship assets because they are considered priceless and do not have an identifiable value. Therefore, monetary amounts cannot be assigned. An in-depth discussion of these assets is presented in the Required Supplementary Stewardship Information section of the Performance and Accountability Report.

#### Limitations of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of the Interior pursuant to the requirements of Chapter 31 of the U.S.C. Section 3515(b).

While these statements have been prepared from the records of the Department in accordance with the formats prescribed in OMB Circular A-136, "Financial Reporting Requirements," these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

**TABLE 1-29**

Stewardship Investments (in millions)				
	FY 2005	FY 2004	Change	% Change
Non-Federal Physical Property	\$557	\$651	(\$95)	(15%)
Research and Development	917	991	(74)	(7%)
Human Capital	614	640	(26)	(4%)
Totals	\$2,088	\$2,282	(\$195)	(9%)