



U.S. Department of the Interior  
**Office of Surface Mining  
Financial and Performance  
Accountability Report**  
Fiscal Year 2005



***Celebrating 15 years of  
unqualified audit opinions***

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**Cover:** Final cut impoundment at Arch Minerals, Horse Creek Mine. The photo is by Tami Heilemann.

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## ***“RECLAIMING THE FUTURE”***

### **A MESSAGE FROM THE DIRECTOR**

***Jeffrey D. Jarrett***

At OSM we are tasked with implementing the Surface Mining Control and Reclamation Act of 1977 (SMCRA). In that Federal law, Congress gave OSM and our State and Tribal partners a complex mission: to strike a balance between protecting the environment and meeting the Nation’s demand for coal as an essential energy source. Through that mission, Congress wanted to ensure that mining is a temporary use of the land and that reclamation after mining results in an equal or better use.

As we look back over the past 28 years, we can’t help but recognize the tremendous strides that have been made in coal mining and reclamation. Today, good reclamation is the coal industry standard and great reclamation has become common place. Over the years, OSM has publicly recognized operators for taking extra or innovative steps to reclaim land and water and create sustainable environments and long-term benefits for landowners and local communities. Our annual reclamation awards are highly coveted, and the competition to earn an award is fierce. Operators now recognize the value of being good neighbors.

Now, we have an opportunity to build upon these successes and take reclamation to the next level – an opportunity to change not only the way we look at reclamation but also the way we look at coal mining.

We, the Federal, State and Tribal governments, along with coal operators, landowners, and citizens who care about the environment, need to promote a more thoughtful, forward-looking approach to post-mining land use – an approach that ensures that mine reclamation contributes to a sustainable environment, a sound economy, and a healthy society. I call this “Reclaiming the Future.”

We need to work with states to ensure that industry mining and reclamation practices result in post-mining land uses that accommodate the wishes of communities and landowners. I am not talking about eliminating or reducing protections. This is about focusing our programs and regulatory requirements more toward what we want to achieve, keeping in mind that the ultimate decision on post-mining land use is the landowner’s.

There is a better way to reclaim the land; we need to think about the desired outcome and then develop plans to accomplish it. This means more than just meeting the legal requirements for reclaiming the land. It means thinking about and planning for what we want to create for the future.

At OSM we have not only taken this challenge to heart, we are making it happen. This year, we hosted a Wildlife Summit to discuss how to introduce and sustain diverse and viable wildlife habitat on mined lands. We also substantially advanced our Appalachian Regional Reforestation Initiative by receiving the pledges of additional states, industry, academia, local

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governments and conservation groups to work toward restoring hardwood forests on mined lands.

In addition to focusing on the future of reclamation, we must also focus on mines that were abandoned and left unreclaimed prior to the enactment of the SMCRA. As the Director of OSM this past four years, I have spent much of my time and energy working to reauthorize our Abandoned Mine Land fee collection authority – something that must be done if we are to continue the critical job of reclaiming the thousands of abandoned mines that threaten the health and safety of Americans all across this Nation. OSM will continue to work with Congress and other stakeholders to find a viable National solution to this National problem.

We also need to continue bringing regulatory stability to our programs by stressing the need for predictable mining and reclamation requirements. The vast majority of coal operators are willing to reclaim by the rules, but it's difficult to plan coal operations when the rules keep changing from year-to-year. Regulatory stability is also important for citizens in knowing what should and should not be happening at coal mines. I hope I have put my stamp on how the industry ideally approaches reclamation by establishing the "Good Neighbor" awards to encourage operators to work with citizens and local communities before, during and after reclamation.

As a regulatory office, OSM has always been in the middle of the debate about what is allowed and what is not, and that's where we're supposed to be. But there's much more that can be done than just set limits; as we have emphasized this year, the middle is also a place for finding possibilities. It's a perfect place for OSM to provide the States, Tribes and coal industry with, technical expertise, applied science and training so vital to the continuous improvement of mining and reclamation practices in the United States. The middle is also a place where OSM can bring States, Tribes, Federal and local agencies, academia, the industry, citizen groups and communities together in partnership to make the most of the growing opportunities and increased choices we have related to mining.

As we move forward, our job is to place more emphasis on the possibilities and to develop a supporting structure and network of expertise. By thinking not only about legal limits but also about the reclamation potential at any given mine, we have the opportunity to leave behind something better for the landowner and for the community.

I am grateful to have the chance to be a part of OSM at this pivotal period in its history and to contribute to OSM advances that are empowering all Americans to "Reclaim the Future."

Sincerely,



Jeffrey D. Jarrett

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U.S. Department of the Interior  
Office of Surface Mining

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Management's Discussion and Analysis

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## Overview of the Report

This year, OSM is presenting the FY 2005 Financial and Performance Accountability Report as a separate report from OSM's 2005 Annual Report as required by Section 706 of the Surface Mining Control and Reclamation Act of 1977. This report describes the financial and performance operations of OSM for the period October 1, 2004, (Fiscal Year 2004) to September 30, 2005, (Fiscal Year 2005) and meets the reporting requirements for audited financial and performance reports.

This report was compiled to provide OSM specific financial and performance information similar to that required of the Department of the Interior under the Chief Financial Officers Act of 1990 (CFO). Our report includes a summary of results required by the Government Performance and Results Act of 1993 (GPRA). As required by the Office of Management and Budget (OMB) A-136, Form and Content of the Performance and Accountability Report, this document combines OSM's performance and accountability reports for fiscal year 2005.

To meet the Interior Department's FY 2005 reporting schedule, some state program performance information was collected for the 12-month period of July 1, 2004 - June 30, 2005. Results are then calculated by subtracting the 2004 quarter data (July 1 – September 30, 2004) and adding the 2005 quarter (July 1 – September 30, 2005) to determine the Federal fiscal year data. All calculated statistics reported are clearly identified and footnoted.

OSM's 2005 Annual Report describes our programs and accomplishments in more detail. You may access this report in the future on OSM's website at [www.osmre.gov](http://www.osmre.gov) or obtain a copy by contacting our Office of Communications, 1951 Constitution Ave., NW, Washington, DC 20240.



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## OVERVIEW OF OSM'S MISSION AND ORGANIZATIONAL STRUCTURE

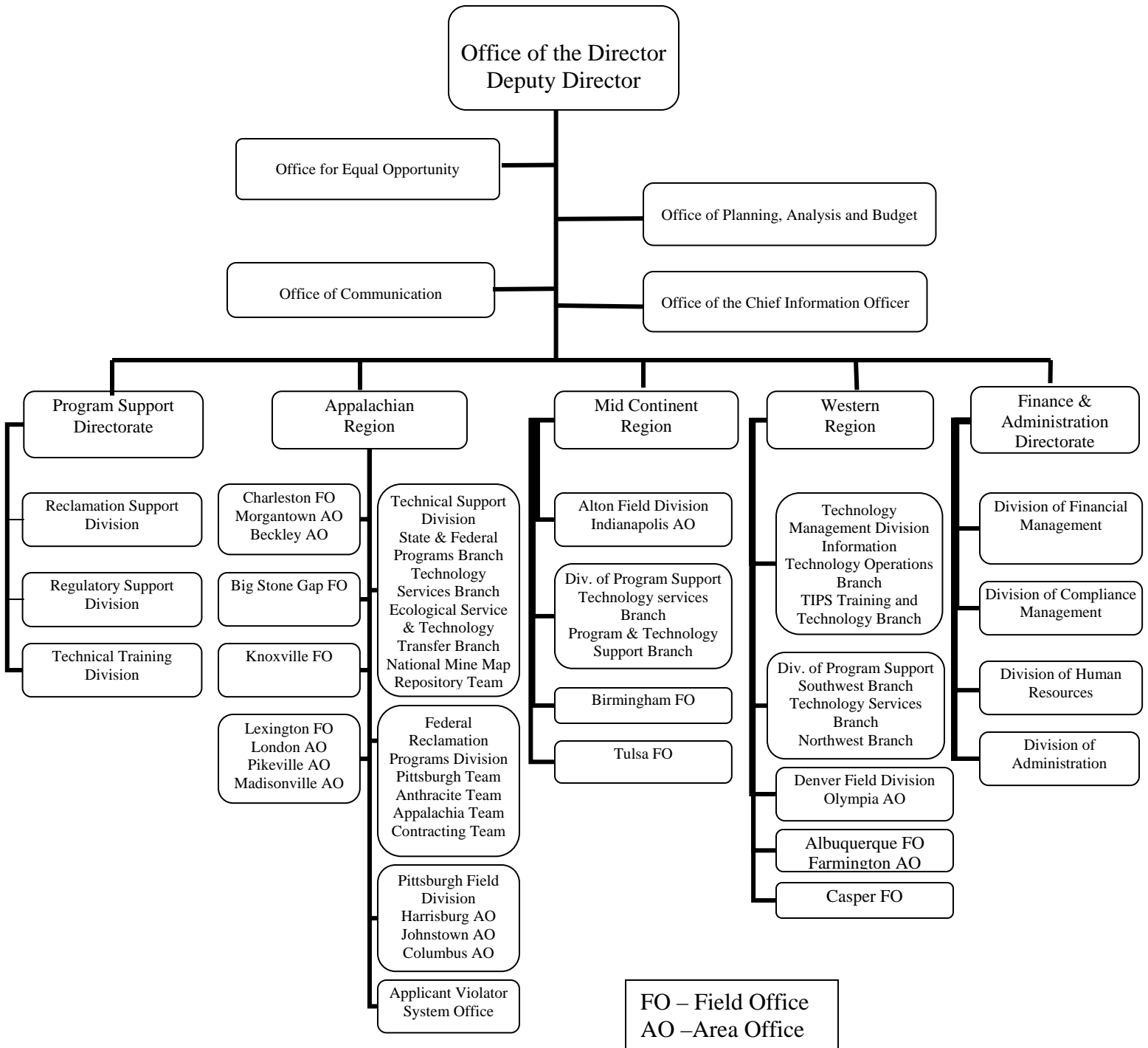
OSM was created by Public Law 95-87, the Surface Mining Control and Reclamation Act of 1977 (SMCRA). The Act established a framework for developing uniform environmental controls for surface coal mining and reclamation. It also sought to correct damage at abandoned mines. SMCRA mandated that a coordinated effort between the State, Indian Tribes and the Federal Government would serve as the mechanism for meeting the requirements of the Act.

OSM's Mission is organized around two requirements: regulating active coal mining and reclaiming abandoned mines. OSM also operates programs to eliminate impacts of acid mine drainage from abandoned coal mines, encourage reforestation of reclaimed mine land, develop techniques that ensure reclamation of prime farmland soils, and publicly recognize outstanding reclamation.

OSM is field-oriented, with headquarters in Washington, D.C. Three regional offices (Pittsburgh, Pennsylvania; Alton, Illinois; and Denver, Colorado) respond to AML emergencies, and provide technical assistance and oversight to the field offices, states, and tribes. Eight field offices (Albuquerque, New Mexico; Big Stone Gap, Virginia; Birmingham, Alabama; Casper, Wyoming; Charleston, West Virginia; Knoxville, Tennessee; Lexington, Kentucky; and Tulsa, Oklahoma) and 11 area offices (Beckley, West Virginia; Columbus, Ohio; Farmington, New Mexico; Harrisburg, Pennsylvania; Indianapolis, Indiana; Johnstown, Pennsylvania; London, Kentucky; Madisonville, Kentucky; Morgantown, West Virginia; Olympia, Washington; and Pikeville, Kentucky) are located where coal mining is most active, and are responsible for on-the-ground regulation and oversight.

OSM also maintains a financial management office in Denver, Colorado; an Applicant Violator System (AVS) Office in Lexington, Kentucky; an Anthracite Office in Wilkes-Barre, Pennsylvania; and an Appalachia Abandoned Mine Land Office in Ashland, Kentucky.

# Office of Surface Mining Organization



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## OVERVIEW OF OSM'S PROGRAMS

### Budget & Appropriations

OSM receives its budget from two sources. The Regulation and Technology program appropriations come from Treasury General Fund. The Reclamation program is funded from the Abandoned Mine Land (AML) Fund which is comprised of receipts from coal mining companies and interest earned on the investment of the AML fund. OSM appropriations for the past two years are shown below.

**Table 1**  
**Appropriations**

(Dollars in Thousands)	FY 2005	FY 2004
<b>Regulation &amp; Technology</b>		
Environmental Restoration	\$ 159	\$ 161
Environmental Protection	22,983	22,028
Regulatory Grants	56,837	56,866
Technology Dev. & Transfer	13,300	12,387
Financial Management	485	485
Executive Dir. & Admin		
Executive Direction	2,454	2,404
Administrations Support	4,257	4,093
General Services	7,793	6,689
<b>Subtotal</b>	<b>108,268</b>	<b>105,113</b>
<b>Abandoned Mine Reclamation Fund</b>		
Environmental Restoration	21,796	16,345
Reclamation Grants	147,523	158,606
Environmental Protection		
Technology Dev. & Transfer	3,021	2,654
Financial Management	8,444	6,183
Executive Dir. & Admin		
Executive Direction	1,312	1,297
Administrations Support	2,208	2,208
General Services	3,902	3,298
<b>Subtotal</b>	<b>188,206</b>	<b>190,591</b>
Legislated OSM Budget	296,474	295,704
Legislated Transfer to United Mine Workers Fund	66,533	14,967
<b>Total</b>	<b>\$ 363,007</b>	<b>\$ 310,671</b>

*Note: The appropriation figures include reprogramming and rescissions for FY 2004 and rescissions for FY 2005. The figures do not include available receipt collections included in the budget authority on the Statement of Budgetary Resources.*

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Some of OSM's major programs are identified in this section. More in-depth analysis and performance information is included in section entitled Report on Performance Goals and Results.

During 2005, OSM took meaningful steps in several areas that will serve as foundations on which to build the concept of "Reclaiming the Future"—an approach that ensures that mine reclamation contributes to a sustainable environment, a sound economy, and a healthy society.

### **Abandoned Mine Land Programs**

Title IV of SMCRA establishes the Abandoned Mine Land Reclamation Program, which provides for the restoration of lands mined and abandoned or left inadequately restored before August 3, 1977. The program is implemented through an emergency program (for sudden problems presenting a high probability of substantial harm to the health, safety or general welfare of people before the danger can be abated under the normal program operating procedures) and a non-emergency program. States and tribes with approved programs carry out these responsibilities using grants administered by OSM.

### **Abandoned Mine Reclamation Fund**

The program is funded from the collection of fees from active mining operations. Since 1978, fees have been assessed at the rate of 35 cents per ton of surface mined coal, 15 cents per ton for coal mined underground, and 10 cents per ton for lignite coal. The fees are deposited in the Abandoned Mine Reclamation Fund, which is used to pay the costs of abandoned mine land reclamation projects. From January 30, 1978, when the first fees were paid, through September 30, 2005, the fee collections totaled \$7.4 billion. For the same period, appropriations from the Fund totaled \$5.7 billion.

Under the provisions of the Surface Mining Law, the authority to collect abandoned mine land fees was limited in time. This authority has been extended on three separate occasions to date. Although the issue is not yet resolved, Congress has extended the fee collection authority until June 30, 2006. Following is a status of the AML 2005 cash balance.

### **Abandoned Mine Land Fee Reauthorization**

For the past two years, reauthorization of Abandoned Mine Land reclamation fee collections has been OSM's primary policy objective. Although Congress has extended OSM's current fee collection authority until June 30, 2006, it has not yet resolved the difficult long-term issues associated with reauthorization of the fee.

The Administration continues to focus on the priorities outlined in the initial reauthorization proposal developed in 2003: Directing more money to the reclamation of high priority coal related health and safety problems so that reclamation can occur at a faster rate, thereby reducing the risk of injury from those sites to those who live, work and recreate in the coalfields, as soon as possible; Honoring commitments made to States and Tribes; Addressing funding for the unassigned beneficiaries of the United Mine Worker's Combined Benefit Fund (CBF) while

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protecting the integrity of the AML fund; and, Providing for enhancements, efficiencies and the effective use of AML funds.

**Table 2**  
**Abandoned Mine Land Fund Status**  
**Cash Basis (Includes Investments)**

(Dollars in Thousands)	<b>FY 2005</b>		<b>FY 2004</b>	
Balance, Start of Year	\$	2,043,080	\$	1,927,410
Fees, debts, and interest collected		293,604		287,023
Interest earned on investments		75,017		45,695
<b>Total Earnings</b>	<b>\$</b>	<b>368,621</b>	<b>\$</b>	<b>332,718</b>
Less:				
Disbursements		211,199		202,081
Transfers to the United Mine Workers		66,533		14,967
<b>Total Disbursements and Transfers</b>	<b>\$</b>	<b>277,732</b>	<b>\$</b>	<b>217,048</b>
<b>Balance, End of the Year</b>	<b>\$</b>	<b>2,133,969</b>	<b>\$</b>	<b>2,043,080</b>

*Note: The information presented in this table is on a cash basis and therefore will not reconcile to accrual based financial data presented in this report.*

## **E-Filing Coal Production Reports**

E-File, created by OSM in 2001, is an internet website used by coal companies to report coal production tonnage, file quarterly Coal Reclamation Fee Reports, and pay reclamation fees. In May, the E-Filing program passed a milestone when 391 companies holding 51 percent of coal mining permits nationwide used OSM's E-Filing system. In fact, 83 percent of total fees were reported to OSM using E-File, and one-third of fees were paid online via E-File.

OSM collects fees from coal operators through voluntary reporting, audit, and debt collection. SMCRA requires the Secretary of the Interior to ensure full compliance with the Act's reclamation fee provisions. In 2005, the rate of those reporting tonnage and paying the fees that were due was 99.9 percent. To achieve that compliance rate, OSM's highly integrated collection and audit functions focus on providing coal operators the information and assistance needed to comply. Experience has shown that a proactive, cooperative approach with industry can reduce the time and costs required for all the parties involved. Specific steps taken include: providing preprinted forms to all active coal mining companies on the E-filing website or by mail; contacting all new operators to offer compliance assistance; and providing guidance by mail, phone, and during audits.

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## **Regulation and Technology Programs**

OSM provides states, Indian tribes, federal agencies, and the coal industry with the technical information and tools they need to carry out their responsibilities under SMCRA. The goal is to help stakeholders develop the skills needed for solving problems on their own. In recent years, OSM has been supplementing its traditional oversight presence with an increased emphasis on providing technical assistance and support to states and tribes.

While the focus of OSM is to help state and tribal partners do their jobs, the ultimate goal is to improve the health, safety, and the environment for our primary customers—the people who live and work in coalfield communities.

### **Increased Emphasis on Technology Transfer**

OSM must take advantage of the tools modern science and technology have to offer if we expect to improve our ability to operate effective programs and deliver services efficiently. The release of the President's proposed budget for 2006 continued OSM's growing emphasis on technology transfer to States and Indian Tribes. The President's proposal included a \$2 million increase over the 2005 level for funding technical initiatives, including increases in the National Technical Training Program, the Technical Innovation and Professional Services Program and applied science studies.

For example, in 2005, OSM sponsored three New Technologies Implementation Information Workshops, in which the seven western primacy States defined needs of each State for records conversion, database design, mass storage, and implementation of new technologies such as Geographic Information Systems (GIS) and Geospatial Positioning Systems (GPS). The goal of these small regional meetings was to assist in making informed decisions on the different technologies available and to gain a better understanding of and an appreciation for what is involved in implementing new technologies. By providing hands-on opportunities and participating in accessing what individual states are accomplishing, we were able to develop better prepared staff, and more informed managers.

### **Regulatory Stability**

On January 26, 2005, OSM proposed revisions to its regulations governing the transfer, assignment, or sale of permit rights. The proposed rule was part of OSM's implementation of a court settlement of the National Mining Association's litigation over related regulations issued by OSM in December of 2000.

OSM also began the scoping process for an environmental impact statement (EIS) of its proposed excess spoil disposal and stream buffer zone regulations. In light of recent court decisions, OSM proposed the regulatory changes on January 7, 2004, to clarify the interpretation of Federal stream buffer zone and excess spoil disposal requirements under

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SMCRA. OSM held public meetings in late summer to discuss the scope of the proposed EIS, reasonable alternatives to conducting an EIS, and significant issues that should be examined in the course of preparing the statement.

### **Oversight – Missouri Takes Steps to Resume Surface Mining Enforcement**

In 2005, after nearly two years of direct Federal enforcement by OSM, the State of Missouri petitioned OSM and initiated actions to resume regulatory authority over surface coal mining operations in the State.

In 2003, the Missouri Legislature failed to appropriate sufficient funds to carry out Missouri's inspection, enforcement, and permitting responsibilities under the federally-approved State regulatory program. Under Federal regulations, when a State fails to carry out any of the provisions of the approved State program, OSM must enforce those provisions directly. OSM took over State enforcement, permitting, and bonding responsibilities in August 2003 after determining that Missouri had failed to provide adequate staff or funding to carry out those provisions.

In 2005, Missouri provided OSM with information that demonstrated the State's commitment to resume full regulatory and reclamation responsibilities. If Missouri follows through on its commitment to funding and hiring a sufficient number of qualified personnel to comply with all the requirements of the State Program, it may resume full responsibility. On July 1, 2005, OSM awarded funding so the State could work cooperatively with OSM to restart the Missouri Regulatory Program. During the next few months OSM will be reviewing the State's efforts to determine if Missouri satisfies the full program requirements. If OSM returns full authority to Missouri, OSM will continue to provide technical assistance to support the State in its implementation of its Regulatory Program.

### **Partnerships – Agencies Agree to Joint Regulatory Framework**

On February 20, 2005, OSM signed a memorandum of understanding (MOU) with three other Federal offices – the Army Corps of Engineers, the Environmental Protection Agency and the Fish and Wildlife Service – on a joint framework to improve permit application procedures for surface coal mining operations that place dredged or fill material in waters of the United States. The MOU encourages States, Tribes and Federal field offices to develop collaborative processes that emphasize early and close interagency coordination in the permitting process. The MOU is designed to reduce the time it takes to process permit applications and to eliminate redundant agency reviews while preserving the statutory and regulatory authorities and responsibilities of each agency.

### **Mountaintop Mining Environmental Impact Statement**

OSM is one of five agencies involved in preparing a final environmental impact statement (EIS) on mountaintop mining and valley fills within an Appalachian study area of portions of West Virginia, Kentucky, Virginia, and Tennessee. The programmatic EIS evaluates broad Federal actions, such as developing agency policies, guidance, and coordinated agency decision-making processes to minimize the adverse environmental effects of mountaintop

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mining operations on water and fish and wildlife resources. The U.S. Environmental Protection Agency, the Army Corps of Engineers, the Fish and Wildlife Service and the West Virginia Department of Environmental Protection are working with OSM in developing the EIS.

### **Assessing Environmental Impacts on Indian Lands**

In the Southwest, OSM is the lead federal agency in an environmental impact statement (EIS) to assess the impact of Peabody Western Coal Company's proposed operation and reclamation plans for the Kayenta and Black Mesa coal mines and related projects on the Hopi and Navajo Reservations. Studies will examine the effects of several projects, including a coal-slurry preparation plant, reconstruction of a coal-slurry pipeline, and water-supply wells and pipelines. The EIS will help OSM make a decision about whether to approve Peabody's application to continue mining operations at the two mines.

In January and February, OSM held public scoping meetings on the Hopi and Navajo Reservations and in Kingman, Laughlin and Flagstaff, Arizona, to explain the EIS and receive public comments. Studies will continue through the next several months, and a draft EIS should be available to the public in spring 2006.

### **Reforestation Initiative**

The Appalachian Regional Reforestation Initiative (ARRI), launched last year, really got rolling in 2005 with seven Appalachian states, the National Mining Association, and scores of universities, local governments, mining operators and conservation groups pledging to work toward restoring hardwood forests on mined lands.

In the spring, school kids across the region spread out to plant trees in a series of Arbor Day events to publicize the advantages of adopting practices that will improve soil and water conditions for high-value hardwoods. To support this effort, we created materials to promote ARRI such as brochures, newsletters, a website, and posters. In addition, we completed three ARRI draft training modules; one for industry and landowners, one for inspection, and one for permitting.

At OSM we have taken a close look at our programs to see if the law, regulations or our actions have created any impediments to reforestation as part of our effort to bring down barriers and come up with new and better ways to grow trees successfully. We have established an Academic Team with representatives from across the country to support the science behind ARRI and created an awards program to honor operators who exemplify the provisions of the Forestry Reclamation Approach.

### **Revegetation Rule**

On March 17, 2005, OSM proposed new revegetation rules to encourage species diversity and remove barriers to reforestation on mined lands. This is an opportunity to make some relatively minor regulatory changes that should pay big dividends through environmentally improved revegetation practices. We expect this revegetation rule change, combined with our

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reforestation initiative, to take us a long way toward restoring mined lands to the kind of healthy, thriving and diverse landscapes that existed before mining.

The rulemaking would include minor revisions to OSM's regulations governing topsoil replacement and revegetation success standards. The new rule also would make the timing of revegetation success measurements consistent nationwide and allow States more flexibility in applying success standards and refining sampling techniques.

### **Wildlife Habitat on Mined Lands**

Our first Wildlife Summit Conference in Louisville, KY, June 22-23, brought together mining, reclamation, land-use and wildlife habitat experts to discuss how to introduce and sustain diverse and viable wildlife habitat on mined lands. The creation of viable habitat requires landscape diversity rather than uniform soil redistribution. Trees are a good example; trees provide shelter, vegetative cover, and food.

We recognize that our regulations may have inadvertently stove-piped post-mining land use options and limited operator and landowner choices. Segregating post-mining land uses, rather than encouraging a diverse landscape, is not conducive to establishing successful fish and wildlife habitat.

The Summit included discussions about establishing wetlands in reclamation; the planning role of state wildlife agencies in habitat management at reclaimed coal mines; habitat and forestry reclamation costs; corporate policy considerations; and the importance of thorough planning for habitat-friendly post-mining land uses early in the permit application process.

Stewardship is everyone's job. When a parcel of land is mined for coal, we have the best chance we'll ever have to improve that parcel of land for the future of the community. We all have the responsibility to involve communities and owners early in the mine permit application process so we can have mutually beneficial results when mining and reclamation are completed.

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## **Other OSM Programs**

### **International Activities**

In 2005, OSM and its state partners were actively engaged in projects with the Indonesian Ministry of Energy and Mineral Resources and the Indonesian Ministry of the Environment, and occasionally with the Ministry of Forestry. The goals were to provide technical and policy assistance in developing environmental regulation of mining. Both agencies had decentralized much of the environmental decision making to the county level, and thus needed assistance in converting to central policy, training, and oversight agencies. OSM's relationships with its state partners and with other federal agencies, such as the Environmental Protection Agency, provided useful models for the Indonesian national ministries to form cooperative, consultative relationships with each other and with the provincial and county governments.

### **Information Technology**

OSM continues to strengthen its information technology management processes to improve its mission delivery support capabilities. Refinement of the OSM security program was a key initiative during the year. Penetration testing was conducted to verify the security of OSM systems, and all systems were rated green—the highest level possible.

The major management initiative undertaken near the end of 2005, which will continue through 2006, was the integration of information management processes through establishment of an Integrated Program Management Office (IPMO). These processes will be integrated with other OSM functions such as asset management, budget, e-Gov, human resources, and facilities management to support the Administration's emphasis on creating a more effective, efficient delivery of services.

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## REPORT ON PERFORMANCE GOALS AND RESULTS

OSM's mission and vision is to carry out the requirements of the Surface Mining Law in cooperation with states and tribes (see Figure 1). The primary objectives are to ensure that coal mines are operated in a manner that protects citizens and the environment during mining, and that the land is restored to beneficial use following mining, and to mitigate the effects of past coal mining by aggressively pursuing reclamation of abandoned coal mines.

In accordance with the Government Performance and Results Act of 1993 (GPRA) and associated Office of Management and Budget guidance, OSM prepares an annual performance plan as part of its "Budget Justifications and Performance Information" document. OSM's annual performance plan and related performance measures have been revised to align with the Department's "Strategic Plan for Fiscal Years 2003-2008" published on September 30, 2003. The Department's Plan can be found at [www.doi.gov/ppp/strat\\_plan\\_fy2003\\_2008.pdf](http://www.doi.gov/ppp/strat_plan_fy2003_2008.pdf).

The primary goal of programs funded through OSM is to protect society and the environment from the adverse environmental effects of surface coal mining operations. Federal and State regulatory programs establish mining and reclamation requirements for current coal mining operations. Federal, State and Tribal Abandoned Mine Land programs address public health, safety and environmental hazards at abandoned mines.

The annual performance plan emphasizes on-the-ground program accomplishments primarily by our partners, the states and tribes. In addition to regulating mining in states without approved programs, OSM activities focus on technical assistance. In addition, OSM seeks improved management efficiencies through implementation of the President's Management Agenda and Secretary Norton's Citizen-Centered Governance Plan. These initiatives complement GPRA and focus on program performance in five key management areas: strategic management of human capital, competitive sourcing, electronic government, financial management, and budget and performance integration.

Secretary Norton's Citizen-Centered Governance Plan implements the President's agenda within the Department of Interior based upon the Secretary's vision of how the Department is to conduct business using the four Cs: Communication, Cooperation, and Consultation in the service of Conservation. In carrying out the mandates of the Surface Mining Law, OSM continues to seek input from state and tribal partners, industry, citizens, and citizen groups. The development of the initial suite of goals and measures was completed after extensive consultations with these partners and stakeholders in the mid-1990s. Starting in 2002 with the Abandoned Mine Land Reclamation Program and continuing in 2004 with the regulatory program, OSM met with the states and tribes to establish new measures which better reflect program performance. This year will be the first time that results will be reported for some of these new measures.

OSM activities support three of the four Departmental mission areas - Resource Protection, Resource Use, and Serving Communities. The reclamation program supports both the Resource Protection and Serving Communities goals. Reclamation activities protect the environment by abating health and safety problems and serve communities by protecting people

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and property. The reclamation technical activities generally support the Resource Protection goal. Reclamation program administration activities support the Serving Communities goal. OSM's regulatory program supports the Resource Use goal by ensuring that coal extraction operations are conducted in an environmentally responsible manner, and that the land is reclaimed during and following the mining process. Regulatory program administration and technical activities generally support the Resource Use goal.

**Figure 1**  
**OSM MISSION AND VISION**

**Mission**

Our mission is to carry out the requirements of the Surface Mining Law in cooperation with states and tribes. Our primary objectives are to ensure that coal mines are operated in a manner that protects citizens and the environment during mining and assures that the land is restored to beneficial use following mining, and to mitigate the effects of past mining by aggressively pursuing reclamation of abandoned coal mines.

**Vision**

- In regulating active coal mining, we will maintain compliance at high levels and ensure that all mines are properly operated and promptly reclaimed to the standards established under the law. We will emphasize prevention and ensure that long-term environmental problems do not occur. We will ensure that the premining productivity of the land is restored.
- In reclaiming abandoned mine lands, we will aggressively pursue reclamation with a primary emphasis on correcting the most serious problems related to public health, safety, and the general welfare. We will ensure maximum public benefit through the prompt and fair distribution of public funds.
- In cooperating with state regulatory authorities, the primary enforcers of the Surface Mining Law, and with tribes, we will promote a shared commitment to the goals of the Law. We will develop a comprehensive understanding of the fairness, effectiveness, and efficiency of the Surface Mining Law programs. We will provide constructive program reviews, oversight monitoring, and technical assistance that focus on results. We will act independently to protect the public interest in situations of imminent harm or when a state does not implement an approved regulatory program.
- In dealing with those who are affected by mining and reclamation, we will ensure the protection of citizens from abusive mining practices, be responsive to their concerns, and allow them full access to information needed to evaluate the effect of mining on their health, safety, general welfare and property.
- In our relations with the coal industry, we will have clear, fair, and consistently applied policies and will respect the importance of coal production as a source of our Nation's energy supply.
- In all communications, we will maintain open, courteous, constructive, and timely dialogue and will use information to understand and improve our programs and those of our state and tribal partners.
- In demonstrating leadership in mining and reclamation, we will promote the development of the highest quality technical information and research and will seek the transfer of technology to those who would benefit.
- In meeting our responsibilities, we will be a diverse, competent, innovative, and highly-trained work force. We will serve with integrity, and demonstrate technical, legal, administrative, and professional excellence at all times. We will constantly strive to create a more responsive, efficient, and effective process for achieving the objectives of Surface Mining Law.

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## **RESOURCE PROTECTION: ABANDONED MINE RECLAMATION**

*Strategic Goal: Improve health of watersheds, landscapes, and marine resources that are Department of Interior managed or influenced in a manner consistent with obligations regarding the allocation and use of water.*

The reclamation program supports Resource Protection by influencing federal, state, and tribal activities to improve the health of watersheds and landscapes by correcting problems caused by past mining. Federal grants enable states and tribes to reclaim land and water adversely impacted by past coal mining. Technical assistance, training and technology development is provided to the states and tribes through OSM's technology development and transfer program.

### *Measuring Performance Results*

One of the highest goals of Federal, State and Tribal programs is to ensure that land and water resources disturbed by mining are reclaimed. The amount of reclamation that occurs is a key factor in the success of both regulatory and AML programs. For abandoned mines, OSM measures this desired outcome in terms of the number of acres reclaimed or the number of miles of degraded streams that have been improved. See Figure 2.

## **RESOURCE USE: CONTROL OF THE ENVIRONMENTAL IMPACTS OF SURFACE COAL MINING**

*Strategic Goal: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value.*

The Surface Mining Law requires that coal mining operations be conducted in an environmentally responsible manner and that land and water resources be adequately reclaimed during and following the mining process. State and federal regulatory programs are designed to promote and monitor compliance with these requirements. The technology development and transfer program provides technical assistance, training, and technology development resources to states and tribes.

### *Measuring Performance Results*

In the case of regulated mining operations, annual success is measured by the number of permitted acres that have met the highest long-term reclamation standards required for release of "Phase III" performance bonds. Because of the importance of preventing mining operations from adversely affecting land or water resources outside of the permitted area, OSM also measures the percent of operations that are free of any offsite impacts.

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## **SERVING COMMUNITIES**

*Strategic Goal: Protect lives, resources and property.*

The Abandoned Mine Land Reclamation Program (AML) addresses health and safety problems and serves communities by protecting the lives and property of citizens interacting in the coal field area. As a way of linking reclamation success at abandoned mines with the overriding purpose of protecting public health and safety, OSM also presents reclamation data in terms of reductions in the number of people exposed to the hazards of such mines. This is done with a calculation of the number of people interacting within one-mile of a high-priority abandoned mine and, thus, potentially at risk. As the number of hazardous mines is reduced through reclamation, the number of people at risk from those mines is also reduced.

### *Measuring Performance Results*

In 2005 the OSM is reporting on six performance measures (See Figure 2) which are identified as end outcome performance measures for the Interior Department's Strategic Plan.

**Figure 2**  
**OSM/DOI STRATEGIC PLAN MEASURES**

Measure	Target	Results
<b><i>Mission Area: Resource Protection</i></b>		
Number of land acres reclaimed or mitigated from the effects of degradation from past mining. (Calculated equivalent acres)	6,900	6,533 <sup>1</sup>
Number of stream-miles for which degradation from past surface coal mining has been improved.	35	28 <sup>1 &amp; 2</sup>
Number of surface acres of water for which degradation from coal mining has been improved.	35	23 <sup>1 &amp; 3</sup>
<b><i>Mission Area: Resource Use</i></b>		
Percent of active sites that are free of offsite impacts.	93	89 <sup>4</sup>
Number of acres where reclamation goals are achieved as evidenced by release from Phase III Performance Bonds.	70,000	53,353 <sup>4 &amp; 5</sup>
<b><i>Mission Area: Serving Communities</i></b>		
Number of people with reduced exposure potential to safety risks from abandoned mine lands.	11,000	1,276,549 <sup>1 &amp; 6</sup>

1. Information calculated from projects reported with completion dates of 10/1/04 - 9/30/05 and entered in the Abandoned Mine Land Inventory System as of 10/3/05. Data are recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management and agreed to by the participating states.
2. Results based on 30 projects ranging from 0.05 to 12.12 miles.
3. Results based on 7 projects ranging from 0.10 to 13.13 acres.
4. Calculated values: State programs provide data on a July 1, 2004 - June 30, 2005 timeframe, to accommodate the accelerated publishing requirements. Results are calculated by subtracting the 2004 quarter data (July 1 – September 30, 2004) and adding the 2005 quarter for (July 1 - September 30, 2005). Federal data is on the federal fiscal year.
5. Data limitations: restoration of coal-mined land to its pre-mining capability or to conditions capable of supporting higher or better use may be accomplished without coal operators seeking phase III bond release. Operators are not required to request bond release, thus causing an under-reporting of results. Trend data does not support the current target; OSM will revise this target in the future. Furthermore, OSM has made significant progress in developing a new performance measure to compare cumulative acres reclaimed and cumulative acres bonded.
6. Data anomalies: Of the 1,276,549 people with reduced exposure, 1,138,010 were reported on 4 projects in Alaska and 1 project in Colorado. All 4 Alaska projects are located near National Parks or Forests which are visited by local and tourist populations. The Colorado project is located in a popular hiking and outdoor recreation area which attracts visitors and residents alike. Trend data does not support the current target; OSM will revise this target in the future.

## United Mine Workers Combined Benefit Fund Program

Under Public Law 102-486, OSM is required to transfer annually a portion of the interest earned from the AML fund to the United Mine Workers of America Combined Benefit Fund (see Figure 3).

The annual transfers began in 1996. Funds earned in 1993 through 1995 were earmarked to establish a reserve pool to support transfers of up to \$70 million, where the interest collected was not sufficient to meet the shortfalls of health benefits provided to “orphaned” miners under the United Mine Workers Combined Benefit Fund Program. This reserve was exhausted in 2003.

### Measuring Performance Results

OSM determined that meaningful performance measures for this transfer are not possible. Once the transfer is made (within five business days of the request by the United Mine Workers of America Combined Benefit Fund), OSM has no authority over how the transferred money is used.

**Figure 3**  
**United Mine Workers of America Combined Benefit Fund**  
**(Cash Basis)**

(dollars in thousands)

Fiscal Year	Unassigned Beneficiaries	Rate of Interest Earned	Interest Collected	Transfers through FY 2003	FY 2004 Transfer	FY 2004 Special Transfer	FY 2005 Transfer	Transfers to Date	Interest Balance
1992	N/A	3.52%	\$ 32,328	\$ 32,328	\$ -	\$ -	\$ -	\$ 32,328	\$ -
1993-1995	N/A	3.85%	132,453	91,320	-	-	-	91,320	41,133
1996	21,442	5.07%	69,384	52,702	(3,770)	-	229	49,161	20,223
1997	13,764	5.03%	81,006	72,658	(4,752)	-	241	68,147	12,859
1998	15,469	5.00%	67,031	64,230	(4,314)	-	377	60,293	6,738
1999	19,663	4.48%	82,830	82,599	(4,620)	-	280	78,259	4,571
2000	16,972	5.15%	94,369	79,943	(3,415)	-	304	76,832	17,537
2001	17,411	4.82%	103,496	69,952	(3,893)	-	237	66,296	37,200
2002	16,770	1.86%	43,278	70,000	(1,421)	1,421	-	70,000	(26,722)
2003	15,562	1.22%	23,620	48,170	(8,717)	(1,421)	-	38,032	(14,412)
2004	17,934	2.76%	45,695	-	49,869	-	(4,174)	45,695	-
2005	16,502	3.61%	75,017	-	-	-	69,040	69,040	5,977
			<b>\$ 850,507</b>	<b>\$ 663,902</b>	<b>\$ 14,967</b>	<b>\$ -</b>	<b>\$ 66,534</b>	<b>\$ 745,403</b>	<b>\$ 105,104</b>



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## Program Assessment Rating Tool (PART)

Improving programs by focusing on results is an integral component of the President's budget and performance integration initiative. The PART is a series of questions designed to provide a consistent approach to rating programs throughout the Federal government. Programs are rated in four distinct areas: purpose and design, strategic planning, program management, and program results. OSM conducted PART reviews of its Abandoned Mine Land Grants Program (conducted in 2002 for the FY 2004 budget process), Regulation of Surface Coal Mining Activities (conducted in 2003 for the FY 2005 budget process), and Federal Regulatory and Abandoned Mine Land Program (conducted in 2004 for the FY 2006 budget process). With the completion of the FY 2006 PART, all of OSM's major programs have been reviewed under the PART process.

Actions to date on OSM's three PART reviews are as follows:

The PART review of the Abandoned Mine Lands Grants Program for FY 2004 identified three recommendations for the program. The first and second recommendations required (1) the proposal of legislative changes to the AML program's authorization to increase the rate of pre-1977 abandoned coal mine land reclamation and (2) the extension of the coal fee, which was initially to expire on September 30, 2004. In response to these recommendations, OSM worked diligently with the Department of the Interior and Office of Management and Budget (OMB) officials in drafting legislative changes to the AML program. Legislation was presented in both the House (H.R. 3778) and Senate (S.2049 & S.2086). In part, the legislative changes seek to extend the authorization of fee collection authority while balancing the interests of all coal states and focusing on the need to accelerate the cleanup of dangerous abandoned coal mines by directing funds to the highest priority areas so that reclamation can occur at a faster rate, thereby removing the risks to those who live, work and recreate in the coalfields as soon as possible. Although the legislation was not passed, OSM continues to work with Congress to review current bills for AML reauthorization. For the fee extension, after several provisions to extend the fee for limited timeframes, the fee is now extended until June 30, 2006.

(3) The third recommendation was to develop long-term measures that are more outcome oriented and develop at least one efficiency measure. OSM, States and Tribes developed more meaningful performance measures and collected data from States and Tribes for those measures in FY 2004. The measures are:

Number of stream-miles for which degradation from past surface coal mining has been improved.

Number of surface acres of water for which degradation from coal mining has been improved.

Number of active partnering and leveraging agreements.

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The amount of increased funds derived from active partnering and leveraging agreements.

Number of people with reduced exposure potential to safety risks from abandoned mine lands.

Percentage of declared emergencies abated within six months.

Number of people directly affected (emergency abatements).

Percent of AML grant funds obligated nationally by States and Tribes.

Note: Baseline data for the above measures has not yet been established. As such, the current information is preliminary.

For the FY 2005 PART review, OSM reviewed the regulation of surface coal mining activities.  
The principal findings from that review are:

The purpose of the regulatory program is clear, as articulated in SMCRA.

An independent auditor has not reviewed the regulatory program. However, States and Indian Tribes assess implementation of the program through meetings and conferences held throughout the year.

Measurable outcome-based performance goals are needed to effectively and efficiently guide management of the program.

In response to the third finding above, OSM has held several meetings in 2003 - 2004 with State representatives to develop new measures. OSM is considering recommended measures from those meetings in its development of final measures. Furthermore, as a result of a review by DOI's Office of Inspector General issued October 2004, OSM initiated a study using trend data and ratios of past mining and reclamation of mined sites to identify data elements, determine availability of data, and further develop a measure for its regulatory accomplishments. OSM currently has a proposed measure pending with the Office of Management and Budget for review.

For the FY 2006 budget process, OSM's Federal Regulatory and Abandoned Mine Land Programs were evaluated. The scope of this review included the components of Federal regulation of mining operations in 12 states and on Indian Lands, recommendations on mining plans on Federal Lands; Federal reclamation of abandoned mined lands through high priority and emergency projects; and associated support costs such as technology development and training. Results showed that the program is needed and well run. Performance measures for the regulatory program need further development as previously indicated in the FY 2005 PART (see status above). In addition, the PART recommended that FY 2006 funding be targeted to increase the technical capacity of OSM staff and inspectors. The FY 2006 budget request is

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consistent with that recommendation and provides for funding increases in OSM's National Technical Training program and Technical Innovation and Professional Services programs.

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U.S. Department of the Interior  
Office of Surface Mining

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Financial Statements, Notes to Financial Statements,  
and other Required Accountability Report Information

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## COMPLIANCE WITH LEGAL AND FINANCIAL REQUIREMENTS

The following provides information on OSM's compliance with:

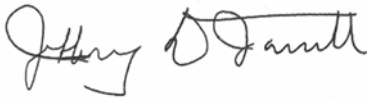
- Federal Managers' Financial Integrity Act (FMFIA)
- Federal Financial Management Improvement Act (FFMIA)
- Other key legal and regulatory requirements

### **Federal Managers' Financial Integrity Act (FMFIA)**

The FMFIA requires agencies to annually provide a statement of assurance of the effectiveness of internal controls in achieving reliability of financial reporting, compliance with applicable laws and regulations, and reliability of performance reporting.

#### *Assurance Statement*

Based upon OSM's comprehensive management control program, I am pleased to certify, with reasonable assurance, that OSM's systems of management, accounting, and administrative control achieve the objectives of Section 2 of the FMFIA. OSM can also provide reasonable assurance that its accounting and financial systems generally conform to the Comptroller General's principles, standards, and related requirements and achieve the objectives of Section 4 of the FMFIA.



Jeffrey D. Jarrett, Director

### **Management Control Review**

The Office of Surface Mining conducted its annual assessment of agency programs and systems in accordance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget circular A-123. FMFIA requires us to conduct periodic reviews of our programs and systems to provide reasonable assurance that management controls are in compliance with the applicable laws, regulations, and policies.

For 2005, we conducted assessments of selected programs and administrative functions that were sufficient to ensure the adequacy of controls in place. Areas for improvement were identified and corrective actions are being implemented. In general, we found our management controls adequate to safeguard our programs and systems against waste, fraud, abuse, and mismanagement. No material weaknesses were identified (see Figure 4).

**Figure 4**  
**2005 Management Control Reviews**

<b>Review</b>	<b>Scope</b>	<b>Results</b>
Budget Execution: Administrative Control of Funds	To determine if adequate controls are in place at Headquarters for funds distribution and to review the process for requests from Regional Directors for program funding such as State grants, high priority projects, watershed cooperative agreements, and federal emergencies.	No material weaknesses identified.
Space Management	To analyze the physical measurements of each OSM office to include specialty rooms such as computer rooms, storage rooms, conference rooms etc., and parking requirements for vehicles.	No material weaknesses identified. Improvements were recommended and are being implemented.
Smart Pay Program	To review the Smartcard purchase business line cardholders within the Office of Surface Mining Reclamation and Enforcement. To reduce the number of cardholders by determining if those individuals with less than 10 transactions in a calendar year can justify the need for having the purchase business line when the cardholder does not utilize it.	No material weaknesses identified.
Acquisition Management	To review the Western Regional and the Division of Financial Management Offices located in Colorado for compliance with the Federal Acquisition and the DOI Acquisition Regulations. Also included is a review of compliance with training requirements for staff in those offices.	No material weaknesses identified. Improvements were recommended and are being implemented.
Sensitive Automated Information Systems	To certify that all prescribed controls or alternative controls are in place and effective for systems in each Region, at Denver Financial Management, and at Headquarters.	No material weaknesses identified.

NOTE: Several programmatic reviews were conducted in FY 2004 during the Program Assessment and Rating Tool review of Federal Abandoned Mine Land and Regulatory Programs. New programmatic reviews will be scheduled in FY 2006.

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## **Federal Financial Management Improvement Act (FFMIA)**

This law requires agencies to report on their substantial compliance with federal financial management systems requirements, federal accounting standards, and the U.S. Government Standard General Ledger. It also requires agencies to provide full disclosure of financial data, which is accomplished through the financial statements included in this report.

OSM concludes that it is in substantial compliance with FFMIA. OSM received an unqualified opinion on the financial statements, no material weaknesses in the report on internal controls and no identified significant instances of non-compliance with laws and regulations including FFMIA that could have a direct and material effect on the determination of financial statement amounts.

## **Other Key Legal and Financial Regulatory Requirements**

- Improper Payments Information Act (IPIA) of 2002
- Narrative Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005-2007
- OSM is in substantial compliance with the Improper Payments Information Act (IPIA).
- OSM took the following steps to ensure compliance with the plan:
  - Reviewed all programs we administer
  - Conducted a review to determine whether any programs were susceptible to significant erroneous payments
  - Estimated the amount of potential erroneous payments in the programs (less than \$2,000 in total)
  - Implemented a plan to reduce the potential erroneous payments
  - Reported on the estimates and progress annually, beginning with the FY 2004 Performance and Accountability Report
- OSM performed its review of all programs, by conducting the required Risk Assessment Rating. We also participated in the Departmental Function Reviews (DFR) of various payment processes. It was determined that OSM did not identify any programs as “High Risk” during this assessment. Also, in compliance with the IPIA initiatives, OSM prepared an action plan based on the findings from the risk assessments, to further mitigate potential erroneous or improper payments.
- OSM is currently in the process of working with an independent contractor to review all vendor payments to see if recovery of payments may be appropriate.

## **Prompt Payment Act**

OSM substantially complies with the Prompt Payment Act as evidenced by the fact that 99.5 percent of its payments are made on time. OSM took the following steps to ensure that this continues:

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- Charge cards were used to cut through red tape and expedite payment. Almost 91 percent of purchase transactions were made with charge cards in FY 2005, and the agency continues to promote their increased use, and
  - Electronic funds transfer (EFT) was used to make 99.8 percent of the agency's vendor payments (including the charge card payments) covering 99.9 percent of the dollar amount paid.

### **Debt Collection Improvement Act**

OSM's largest debt collection program is the Abandoned Mine Land Reclamation Fee. OSM collected over 99.87% of the fees due this year, a total of \$293 million. This is the result of an integrated fee compliance program that works with the coal mining industry to provide clear guidance on fee payment and reporting issues, as well as active follow-up through audits and several other compliance activities.

OSM is in substantial compliance with the Debt Collection Improvement Act and routinely refers its eligible, uncollected debts to the Department of the Treasury for collection.

### **Civil Monetary Penalty Act**

To comply with the Civil Monetary Penalty Act, OSM has increased the assessment amounts of civil monetary penalties. The agency issues these penalties for violation of the Surface Mining Control and Reclamation Act.



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## DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

OSM received, for the 15<sup>th</sup> consecutive year, an unqualified or “clean” audit opinion on its audited financial statements. OSM received 14 unqualified opinions on the full set of financial statements from 1991 to 2004. During FY 2005, the Department of the Interior provided guidance that certain bureaus could reduce their audit requirements to Consolidated Balance Sheet only audits. Qualifying bureaus must have received unqualified audit opinions and no material weaknesses or reportable condition findings in FY 2004. OSM was the only bureau to meet these requirements. The FY 2005 financial statements are prepared in accordance with established federal accounting standards and the balance sheet is audited by the independent accounting firm of KPMG LLP.

### Objectives of Financial Reporting

Financial reporting is important in any business or government organization. Though the financial statements are different, the objectives of a government organization are much the same as the objectives in a commercial organization:

- Budgetary integrity (accounting for resources obtained and resources spent)
- Operating performance (the cost of programs and the results achieved for the dollars spent)
- Systems and controls (the presence of cost-effective systems and controls to adequately safeguard assets)

To meet these reporting objectives, OSM is presenting the following financial reports in this Annual Financial and Performance Accountability Report:

*Consolidated Balance Sheets:* These statements report on the operating assets and liabilities related to the delivery of goods and services. They display the dollar value of unspent funds, assets (such as accounts receivable, inventory, investments, and property, plant and equipment), and liabilities (such as accounts payable and various accrued liabilities).

*Consolidated Statements of Net Cost and the Consolidated Statements of Changes in Net Position:* These two statements report the cost of providing governmental goods, services, and benefits, and provide information on the changes in financial position from one year to the next. They contain the total cost of operations, revenue generated from operations, and appropriations (dollars) used to fund the net cost of operations.

*Combined Statements of Budgetary Resources and the Consolidated Statements of Financing:* The Combined Statements of Budgetary Resources show the budgetary resources made available through appropriations and other sources, obligations incurred against those resources and the dollar amount of cash outlays. The Consolidated Statements of Financing explain and reconcile the relationship of budgetary obligations to the net cost of operations.

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OSM believes the financial statements are a fair and accurate presentation of its financial position, net cost of operations, changes in net position, and budgetary resources, as well as details regarding financing. This is reflected in the unqualified (clean) audit opinion rendered on OSM's financial statements by its independent auditors. Sound financial management is a top priority for OSM at all levels of the organization.

#### *Limitations of the Financial Statements*

The financial statements have been prepared pursuant to the requirements of the Chief Financial Officers Act of 1990. While the statements have been prepared from OSM's books and records in accordance with the guidance provided by the Office of Management and Budget, the financial statements differ from financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without enactment of an appropriation that provides the resources and the legal authority to do so.

#### *Consolidated Balance Sheets*

Investments are OSM's primary asset making up 97% of our total assets. Since 1992, OSM has been allowed to invest Abandoned Mine Land (AML) fee receipts and balance until these receipts are disbursed for program costs. Only the AML fee receipts are available for investment. All other cash received by OSM is unavailable for investment by OSM. See Note 4 for further information.

Accounts and Interest Receivable, Net, shows a difference of \$4.8 million between FY 2005 and FY 2004. This difference is caused by the annual adjustment process with the United Mine Workers of America Combined Benefit Fund (UMWA-CBF). On September 30, 2004, the adjustment from estimated expenses to actual expenses and the adjustment from estimated interest earnings to actual interest earnings created a receivable to OSM in the amount of \$5 million. On September 30, 2005, these adjustments created a receivable to OSM in the amount of \$11 million. These are annual adjustments recorded at the end of each fiscal year. In some cases, the adjustments create a payable to the UMWA-CBF. In FY 2004 and FY 2005, the adjustments created receivables.

Advances and Deferred Revenue Liabilities changed by just over \$200 thousand between FY 2005 and FY 2004. This difference is a single reimbursable advance where OSM has agreed to develop a single source coal reporting e-filing site for multiple agencies.

Accounts Payable changed to \$7 million on September 30, 2005, from \$18 million on September 30, 2004. On September 30, 2004, several large grant payments were requested but not yet disbursed to state and tribes creating this large payable. On September 30, 2005, most grant

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payments that had been requested had been disbursed to states and tribes so no significant grant related accounts payables remained.

Contingent Liabilities also reflected a major decrease from September 30, 2004. During FY 2005, the U.S. Court of Appeals for the Federal Circuit reversed the Court of Federal Claims' finding of a physical taking, which reduced OSM's liability on this case from \$68 million in FY 2004 to zero in FY 2005. Please see Note 10 for additional information.

#### *Consolidated Statements of Net Cost*

The Consolidated Statements of Net Cost was \$358 million for FY 2004 and \$307 million for FY 2005. This decrease was cost by two factors. Our expenses decreased by \$68 million because of the reduction of the Contingent Liability discussed above. Our expenses increased by \$19 million related to our United Mine Workers of America Combined Benefit Fund transfers. Our transfer for FY 2005 was \$61 million and our transfer for FY 2004 was \$43 million. Our transfer increased because of higher investment earnings allowing us to make a larger transfer. Please see Figure 3 for a detailed schedule.

#### *Combined Statements of Budgetary Resources*

The Combined Statement of Budgetary Resources discloses only Total Budgetary Accounts. OSM does not have Non-Budgetary Credit Program Financing.

Appropriations Received increased by \$53 million in FY 2005 from FY 2004. This increase is the increased United Mine Workers of America Combined Benefit Fund (UMWA-CBF) cash transfer, net of adjustments. OSM's appropriations include the cash transfer for the UMWA-CBF each year. The \$53 million variance here is different from the variance on the Consolidated Statements of Net Cost because of the accruals of receivable adjustments.

The Obligations Incurred: Direct increased by \$38 million in FY 2005 from FY 2004. This variance is related to the increase of \$53 million from the UMWA-CBF and a decrease in grant and other disbursements of \$15 million.

#### *Consolidated Statements of Financing*

OSM's investment collections are the Offsetting Receipts Not Part of the Net Cost of Operations. Increased interest rates allowed OSM to collect \$29 million more in FY 2005 than in FY 2004. These collections are not included in the Net Cost of Operations as revenues to offset the cost of the UMWA-CBF transfer. The collections are, however, shown as Offsetting Receipts on the Combined Statements of Budgetary Resources.

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*AML Fee Reauthorization*

OSM is authorized to collect fees through the Surface Mining Control and Reclamation Act (SMCRA). This authorization was to expire on September 30, 2004. Although the issue is not yet resolved, Congress has extended OSM's current fee collection authority until June 30, 2006. OSM has published a Final Rule which would extend the fee to a level sufficient to meet the requirements of the UMWA-CBF transfer as required by SMCRA. The balance of the AML fund as of September 30, 2005, would allow OSM to operate at FY 2005 appropriation levels through FY 2010.

**Department of the Interior  
Office of Surface Mining  
Consolidated Balance Sheets**

As of September 30, 2005 and September 30, 2004

(dollars in thousands)	2005	2004
<b>ASSETS</b>		
<b>Intragovernmental Assets:</b>		
Fund Balance with Treasury (Note 3)	\$ 49,332	\$ 44,792
Investments, Net (Notes 4 and 19)	2,141,599	2,051,300
Accounts and Interest Receivable (Note 5)	34	45
Other	44	50
<b>Total Intragovernmental Assets</b>	<b>2,191,009</b>	<b>2,096,187</b>
Accounts and Interest Receivable, Net (Note 6)	11,439	6,631
General Property, Plant and Equipment, Net (Note 7)	2,417	2,561
<b>TOTAL ASSETS (Note 2)</b>	<b>\$ 2,204,865</b>	<b>\$ 2,105,379</b>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities:</b>		
Accounts Payable	\$ 52	\$ 45
Other		
Advances and Deferred Revenue	208	6
Other Liabilities (Note 9)	1,576	1,500
<b>Total Intragovernmental Liabilities</b>	<b>1,836</b>	<b>1,551</b>
Accounts Payable	7,098	17,947
Federal Employee and Veterans' Benefits	3,867	3,829
Other		
Contingent Liabilities (Note 10)	2,570	68,600
Other Liabilities (Note 9)	7,151	7,083
<b>TOTAL LIABILITIES (Note 8)</b>	<b>22,522</b>	<b>99,010</b>
Commitments and Contingencies (Note 11)		
<b>Net Position</b>		
Unexpended Appropriations	41,544	38,490
Cumulative Results of Operations	2,140,799	1,967,879
<b>Total Net Position</b>	<b>2,182,343</b>	<b>2,006,369</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,204,865</b>	<b>\$ 2,105,379</b>

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

**Department of the Interior  
Office of Surface Mining  
Consolidated Statements of Net Cost**

For the Years Ended September 30, 2005 and September 30, 2004

(dollars in thousands)	2005 (unaudited)	2004
<b>Resource Protection</b>		
Costs	\$ 60,113	\$ 72,131
Less: Earned Revenue	1	-
<b>Net Cost</b>	<b>60,112</b>	<b>72,131</b>
<b>Resource Use</b>		
Costs	67,649	107,037
Less: Earned Revenue	1,522	1,224
<b>Net Cost</b>	<b>66,127</b>	<b>105,813</b>
<b>Serving Communities</b>		
Costs	118,744	137,395
Less: Earned Revenue	87	26
<b>Net Cost</b>	<b>118,657</b>	<b>137,369</b>
<b>UMWA - CBF Transfer</b>		
Costs	61,684	42,696
Less: Earned Revenue	-	-
<b>Net Cost</b>	<b>61,684</b>	<b>42,696</b>
<b>Total</b>		
Costs	308,190	359,259
Less: Earned Revenue	1,610	1,250
<b>Net Cost of Operations (Note 12)</b>	<b>\$ 306,580</b>	<b>\$ 358,009</b>

The accompanying notes are an integral part of these financial statements.  
The 2005 statement is unaudited. See the accompanying independent auditors' report.

**Department of the Interior  
Office of Surface Mining  
Consolidated Statements of Changes in Net Position**

For the Fiscal Years Ended September 30, 2005 and September 30, 2004

(dollars in thousands)	2005 (unaudited)		2004
<b>UNEXPENDED APPROPRIATIONS</b>			
<b>Beginning Balance</b>	\$	38,490	\$ 36,299
<b>Budgetary Financing Sources</b>			
Appropriations Received, General Funds		109,804	106,424
Appropriations-Used		(104,439)	(101,939)
Other Adjustments		(2,311)	(2,294)
<b>Net Change</b>		3,054	2,191
<b>Ending Balance - Unexpended Appropriations</b>	\$	41,544	\$ 38,490
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
<b>Beginning Balance</b>	\$	1,967,879	\$ 1,878,297
<b>Budgetary Financing Sources</b>			
Appropriations-Used		104,439	101,939
Non-Exchange Revenue (Note 19)		368,899	340,929
<b>Other Financing Sources</b>			
Imputed Financing from Cost Absorbed by Others		6,828	5,124
Transfers In/Out without Reimbursement		(666)	(401)
<b>Total Financing Sources</b>		479,500	447,591
<b>Net Cost of Operations</b>		(306,580)	(358,009)
<b>Net Change</b>		172,920	89,582
<b>Ending Balance - Cumulative Results of Operations</b>	\$	2,140,799	\$ 1,967,879

The accompanying notes are an integral part of these financial statements.  
The 2005 statement is unaudited. See the accompanying independent auditors' report.

**Department of the Interior  
Office of Surface Mining  
Combined Statements of Budgetary Resources**

For the Fiscal Years Ended September 30, 2005 and September 30, 2004

(dollars in thousands)	2005 (unaudited)	2004
<b>Budgetary Resources:</b>		
Budget Authority:		
Appropriations Received (Note 13)	\$ 367,290	\$ 314,435
Unobligated Balance:		
Beginning of Fiscal Year	36,198	43,463
Spending Authority From Offsetting Collections:		
Earned		
Collected	1,582	1,196
Receivable From Federal Sources	(11)	(8)
Change in Unfilled Customer Orders		
Without Advance From Federal Sources	239	(97)
Subtotal: Spending Authority From Offsetting Collections	1,810	1,091
Recoveries of Prior Year Obligations	45,774	48,126
Temporarily Not Available Pursuant to Public Law	(2,658)	(2,379)
Permanently Not Available	(2,311)	(2,294)
<b>Total Budgetary Resources</b>	<b>\$ 446,103</b>	<b>\$ 402,442</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred: (Note 14)		
Direct	\$ 403,171	\$ 365,048
Reimbursable	1,902	1,196
Total Obligations Incurred	405,073	366,244
Unobligated Balance:		
Apportioned	33,698	31,942
Unobligated Balance not Available	7,332	4,256
<b>Total Status of Budgetary Resources</b>	<b>\$ 446,103</b>	<b>\$ 402,442</b>
<b>Relationship of Obligations to Outlays:</b>		
Obligations Incurred: (Note 14)	\$ 405,073	\$ 366,244
Obligated Balance, Net, Beginning of Fiscal Year	362,672	365,202
Obligated Balance, Net, End of Fiscal Year:		
Accounts Receivable	34	45
Unfilled Customer Orders From Federal Sources	403	166
Undelivered Orders	(328,858)	(343,068)
Accounts Payable	(9,795)	(19,815)
Total Obligated Balance, Net, End of Fiscal Year	(338,216)	(362,672)
Less: Spending Authority Adjustments	(46,001)	(48,021)
Outlays:		
Disbursements	383,528	320,753
Collections	(1,579)	(1,196)
Net Outlays Before Offsetting Receipts	381,949	319,557
Less: Offsetting Receipts (Note 15)	(75,246)	(46,603)
<b>Net Outlays</b>	<b>\$ 306,703</b>	<b>\$ 272,954</b>

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

The 2005 statement is unaudited. See the accompanying independent auditors' report.



**Department of the Interior  
Office of Surface Mining  
Consolidated Statements of Financing**

For the Fiscal Years Ended September 30, 2005 and September 30, 2004

(dollars in thousands)	2005 (unaudited)	2004
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 405,073	\$ 366,244
Less: Spending Authority From Offsetting Collections/Adjustments	(47,583)	(49,217)
Obligations Net of Offsetting Collections and Adjustments	357,490	317,027
Less: Offsetting Receipts (Note 15)	(75,246)	(46,603)
Net Obligations	282,244	270,424
Other Resources		
Transfers In/Out Without Reimbursement	(666)	(401)
Imputed Financing From Costs Absorbed by Others	6,828	5,124
Net Other Resources Used to Finance Activities	6,162	4,723
Total Resources Used to Finance Activities	288,406	275,147
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	14,216	8,836
Increase (Decrease) in Unfilled Customer Orders	238	(97)
Resources That Fund Expenses Recognized in Prior Periods	(66,659)	(719)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Offsetting Receipts Not Part of the Net Cost of Operations	75,260	46,608
Resources That Finance the Acquisition of Assets	(501)	(209)
Other Resources or Adjustments to Net Obligated Resources That Do		
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	22,554	54,419
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>310,960</b>	<b>329,566</b>
<b>Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	-	205
Other		
Change in UMWA-CBF Receivable	(4,849)	27,729
Other	(76)	110
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(4,925)	28,044
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	644	626
Allocation Transfer Account Reconciling Item (Note 17)	(100)	(228)
Bad Debt Expense	1	1
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	545	399
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>(4,380)</b>	<b>28,443</b>
<b>Net Cost of Operations</b>	<b>\$ 306,580</b>	<b>\$ 358,009</b>

The accompanying notes are an integral part of these financial statements.  
The 2005 statement is unaudited. See the accompanying independent auditors' report.

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**Office of Surface Mining  
Notes to Financial Statements  
For the Years Ended September 30, 2005 and 2004**

**Note 1. Summary of Significant Accounting Policies:**

**A. Reporting Entity**

The Office of Surface Mining (OSM) was established as a Bureau of the U.S. Department of the Interior by Public Law 95-87, also known as the Surface Mining Control and Reclamation Act of 1977 (SMCRA). SMCRA was passed by Congress on August 3, 1977, and has since undergone several revisions, the most recent being the Energy Policy Act of 1992 (Public Law 102-486). Although SMCRA initially empowered OSM with the authority to collect a statutory coal reclamation fee through FY 1992, a 1992 revision extended this authority through September 30, 2004. The main purpose of this fee is to fund the reclamation of abandoned mine lands.

On September 30, 2004, the authority to collect this standard fee expired. The fee has been extended by various special laws through June 30, 2006. There are currently more than six separate proposals being reviewed by Congress to extend the fee for a significant period of time. If no extension is granted by the expiration date, section 402(b) of SMCRA requires OSM to establish a new fee at a rate sufficient to continue to provide for the needs of certain beneficiaries of the United Mine Workers Combined Benefit Fund (UMWA-CBF), a non-governmental entity. OSM provides an annual transfer to the UMWA-CBF to help defray the health care costs of mine workers and their beneficiaries for which no current mining company is responsible. SMCRA allows an annual transfer of up to \$70 million to fulfill this requirement. OSM will issue a final rule establishing a fee rate which will provide \$70 million for the UMWA-CBF annually unless Congress passes further extensions or an amendment to the fee.

OSM's mission is further defined by SMCRA to include the administration of programs designed to (1) protect society and the environment from the effects of coal mining operations, (2) reclaim existing and future mined areas which pose both a hazard to public health and safety and affect the quality of the nation's natural resources, and (3) provide technical and financial assistance to states with primary regulatory authority over jurisdictional coal mining activities.

Budget authority of funds appropriated for SMCRA is vested in OSM, which is also responsible for the administrative oversight and policy direction of the program. OSM is required by the U.S. Department of the Treasury (Treasury), the General Accountability Office (GAO), and the Office of Management and Budget (OMB) to report on the accounting of SMCRA funds. The Treasury acts as custodian over all monies appropriated and collected by OSM.

In fulfilling its mission, the OSM administers a variety of funds:

1. General Funds: These funds consist of expenditure accounts used to record financial transactions arising from congressional appropriations as well as receipt accounts. The principal general fund expenditure and receipt accounts maintained are:
  - a. Regulation and Technology - These funds consist of expenditure accounts used to record financial transactions arising from congressional appropriations to spend general revenue. These funds support the financing of state regulatory grants, oversight of state regulatory programs, research and development facilitating the transfer of reclamation expertise to states, and the partial financing of all OSM operations and maintenance costs. Funding is appropriated on an annual basis.
  - b. Bond Forfeitures – This fund consists of receipt and expenditure accounts. Monies collected on bonds forfeited by coal operators are used to reclaim the mine sites secured by the bonds.

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2. Special Funds: These funds consist of special fund receipt, expenditure, and investment accounts and include the following:
    - a. Abandoned Mine Land (AML) Funds - These funds were established by SMCRA for the deposit of coal reclamation fees, related late payment interest, and administrative charges recovered in pursuing collections. Available reclamation fees are used solely to finance the AML reclamation program. However, before AML funds can be used, a Congressional appropriation is necessary to authorize yearly spending limits. Available AML special fund balances, in excess of current cash requirements, are regularly invested in non-marketable federal securities as authorized under Public Law 101-508.
    - b. Civil Penalties - This fund consists of receipt and expenditure accounts used to collect penalties levied against operators who violate any permit condition or provision of Title 30 U.S.C. 1268. Funds from these assessments are used to reclaim lands adversely affected by coal mining practices on or after August 3, 1977.
  3. Deposit Funds: These funds are maintained to account for receipts awaiting proper classification or receipts held in escrow until ownership is established, at which time proper distribution can be made. Additionally, OSM collects miscellaneous interest, judicial service and administrative fees which are credited to Treasury's general fund. In the billing and collection of these funds, OSM is merely acting as an agent for the Treasury.

Government Performance and Results Act (GPRA) Program Activities – GPRA requires that Federal agencies formulate strategic plans, identify major strategic goals, and report performance and costs related to these goals. OSM's 2005 GPRA program activities are:

1. Resource Use - This program is responsible for ensuring that the Surface Mining Law's goals are achieved, primarily through the States and Indian Tribes. It includes OSM rule making, grants to States and Indian Tribes to conduct and develop their regulatory programs, OSM regulatory operations in non-primacy states, and OSM state program evaluations and oversight.
2. Resource Protection – This is a component of the OSM reclamation program which is responsible for the reclamation of abandoned mine land affected by mining that took place before the Surface Mining Law was passed in 1977. The resource protection activities are primarily conducted through grants given to states and tribes; and by technical assistance, training and technology development provided to states and tribes. The financial management of Abandoned Mine Land fees and investments, and bond forfeiture and civil penalty reclamations projects are included in this goal.
3. Serving Communities – This reclamation activity protects the lives and property of citizens living in proximity to coal fields, again primarily through grants to states and tribes. It also includes federal reclamation work in emergency situations and the AML state oversight and grants administration activities.
4. United Mine Workers of America Combined Benefit Fund Transfer (UMWA-CBF) – This program is for the transfer of funds to the United Mine Workers of America Combined Benefit Fund. This is an annual transfer required by the Energy Policy Act of 1992. The transfer is used to pay for health care benefits for certain coal miners and their beneficiaries.

## **B. Basis of Accounting and Presentation**

These financial statements have been prepared to report the financial position, the net cost, the changes in net position, the budgetary resources, and the statement of financing of OSM, 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 OSM in accordance with accounting principles generally accepted in the United States of America using guidance issued by the Federal Accounting Standards Advisory Board (FASAB), the Office of Management and Budget (OMB) and OSM's accounting policies, which are summarized in this note. In certain instances prior year amounts have been reclassified to conform to current year presentation. These financial statements present proprietary and budgetary information while other financial reports also prepared by OSM pursuant to OMB directives are used to monitor and control OSM's use of budgetary resources.

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These are the financial statements of a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources and the legal authority to do so.

The accounting structure of OSM 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.

The accounting principles and standards applied in preparing the financial statements and described in this note are in accordance with the following hierarchy of accounting principles:

1. FASAB Statements entitled Statements of Federal Financial Accounting Standards (SFFAS). These statements reflect the accounting principles, standards, and requirements recommended by the FASAB and approved by the General Accountability Office (GAO), OMB and Treasury. Additionally, FASAB interpretations provide further clarification to the approved standards.
2. Form and content requirements for financial statements, as presented in OMB Bulletin A-136 (Form and Content of the Performance and Accountability Report). Note that the provisions of published SFFAS and interpretations take precedence over OMB Form and Content Guidance.
3. Other Authoritative Guidance. If questions arise regarding issues that are not addressed by SFFAS or OMB Form and Content guidance, the agency looks to authoritative guidance issued by other standard setting bodies, such as the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).
4. The accounting principles and standards contained in departmental and bureau accounting policy and procedures manuals, and/or related guidance.
5. Statements of Federal Financial Accounting Concepts (SFFAC). These concepts are not authoritative, per se, and do not have required implementation dates. However, they do contain very useful guidance regarding the completeness of the reporting entity and the presentation of financial information.

### **C. Revenues and Financing Sources**

OSM receives most of the funding needed to support its programs through appropriations authorized by Congress. OSM receives annual and no-year appropriations that may be used within statutory limits, for operating and capital expenditures.

The AML program is funded by a reclamation fee assessed on coal mine operators. The fee is based on the type and volume of coal produced for sale, transfer, or use. As appropriated by Congress, monies received and deposited in this special fund are used to reclaim lands adversely affected by past mining. Fees collected, but not yet appropriated, are held for future appropriations. Payments to the United Mine Workers of America Combined Benefit Fund are funded through earnings on investments of undisbursed AML fund balances. See Notes 1.G and 4 for additional information on investments.

Additional amounts are obtained through reimbursements for services performed for other Federal agencies. These revenues may be used to offset the cost of producing products or furnishing services and to recover overhead costs. Additionally, OSM receives imputed financing from the Office of Personnel Management (OPM) for current and future pension and retirement benefits paid by OPM on behalf of OSM, and from the Treasury Judgment Fund for payment of any settlements resulting from litigation against OSM.

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#### **D. Distribution of AML Appropriation for Reclamation Grants**

OSM distributes the Congressional appropriation from the collections of AML fees through grants to states and tribes. The distribution contains three main components: state-share distribution, federal-share distribution, and emergency program distribution. The state-share portion is based on the percentage of each state's balance in the AML Special Fund. All states or tribes with a participating state or tribal reclamation program receive state-share distributions on an annual basis if they have a balance in the fund. OSM distributes additional monies from the federal-share portion of the AML appropriation based upon state historical coal production prior to 1978. Under the minimum program provision, OSM distributes at least \$1.5 million to states or tribes with qualifying reclamation projects. This provides additional funding for Priority 1 and Priority 2 AML coal projects. OSM also distributes monies to be used only for qualifying emergency programs from the federal-share portion of the appropriation.

#### **E. Grant Expenditures**

OSM awards grants to states and Indian tribes to facilitate the accomplishment of its overall mission. To meet immediate cash needs, grantees draw down funds that are disbursed through an automated payment system. OSM records these draw downs as expenditures because they are either reimbursements or the state or tribe immediately disburses the money for its program. All of OSM disbursements are made by the Treasury.

#### **F. Fund Balance with Treasury**

OSM maintains all cash accounts with the Treasury. The account "Fund Balance with Treasury" represents appropriated and special fund balances, both available and unavailable. Cash receipts and disbursements are processed by Treasury. OSM reconciles its records with those of the Treasury on a monthly basis. Note 3 provides additional information on Fund Balances with Treasury.

#### **G. Investments**

OSM invests excess cash from AML fee collections in Treasury notes and certificates. OSM intends to hold long-term notes to maturity, and therefore our values do not fluctuate with market fluctuations. Note 4 provides additional information concerning investments. Some of the earnings from these investments are transferred to the United Mine Workers of America Combined Benefit Fund.

#### **H. Allowance for Doubtful Accounts**

OSM uses two different methodologies to recognize bad debts arising from uncollectible accounts receivable, the net of the allowance method and the specific analysis method. The net of the allowance method is used for special and civil penalty funds accounts receivable. Under this method, an allowance for doubtful accounts is calculated based upon OSM's past experience in successfully collecting delinquent accounts receivable by aging category. OSM's allowance methodology is representative of the collectability of delinquent accounts. For all other types of receivables, the allowance is based on an analysis of each account receivable.

#### **I. Personnel Compensation and Benefits**

Annual leave is accrued as it is earned by employees. The accrual is reduced as leave is taken. Each year, the balance of accrued annual leave is adjusted to reflect current pay rates. Appropriations do not provide for leave as it is earned, only as it is used. Consequently, OSM has a liability for unused annual leave which is considered unfunded. Sick leave and other types of non-vested leave are expensed as used.

Workers compensation costs and unemployment compensation insurance are funded from current appropriations when paid. An unfunded liability is recognized for benefits received by employees, but not yet paid by OSM.

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OSM employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS, which became effective on January 1, 1984). Most OSM 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.

OSM employees may contribute up to seven percent of their gross pay to CSRS. OSM makes matching contributions to CSRS on behalf of CSRS employees. 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. CSRS employees, however, do contribute to Medicare. FERS employees are subject to Social Security and Medicare taxes. OSM also contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay for FERS employees. FERS employees can contribute up to fourteen percent of their gross earnings to the plan. CSRS employees have the option of contributing to the thrift savings plan up to nine percent of their gross salary with no additional government matching.

These financial statements also reflect CSRS or FERS accumulated plan benefits and unfunded retirement liabilities, if any. These figures are calculated and provided to OSM by the Office of Personnel Management.

Pursuant to OMB guidance, the presentation of Federal Employees' Compensation Act actuarial liability is based on Department of Labor computations. This liability includes the expected future liability for death, disability, medical, and other approved costs relating to current compensation act claims.

#### **J. Income Taxes**

As an agency of the U.S. Government, OSM is exempt from all income taxes imposed by any governing body, whether it is a federal, state, or commonwealth of the United States or a local or foreign government.

#### **K. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses during the reporting period. Actual results will invariably differ from those estimates.

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**Note 2. Asset Analysis:**

Assets can be classified as entity or non-entity and restricted or unrestricted. Entity assets are those that OSM has the authority to use in its operations. Non-entity assets include certain accounts and interest receivable that will be forwarded to the Treasury upon collection. OSM's non-entity receivables were less than one thousand dollars for fiscal year 2004. In general, large trust funds that are outside the scope of bureau day-to-day operations are further classified by the Department of Interior as restricted. OSM does not hold any Entity restricted assets.

**Asset Analysis****FY 2005**

(dollars in thousands)	Entity Unrestricted	Non Entity Restricted	Total
<b>Intragovernmental Assets:</b>			
Fund Balance with Treasury	\$ 49,332	\$ -	\$ 49,332
Investments, Net	2,141,599	-	2,141,599
Accounts and Interest Receivable	34	-	34
Other			
Advances and Prepayments	44	-	44
<b>Total Intragovernmental Assets</b>	<b>2,191,009</b>	<b>-</b>	<b>2,191,009</b>
Accounts and Interest Receivable, Net	11,437	2	11,439
General Property, Plant and Equipment, Net	2,417	-	2,417
<b>TOTAL ASSETS</b>	<b>\$ 2,204,863</b>	<b>\$ 2</b>	<b>\$ 2,204,865</b>

**FY 2004**

(dollars in thousands)	Entity Unrestricted	Non Entity Restricted	Total
<b>Intragovernmental Assets:</b>			
Fund Balance with Treasury	\$ 44,792	\$ -	\$ 44,792
Investments, Net	2,051,300	-	2,051,300
Accounts and Interest Receivable	45	-	45
Other			
Advances and Prepayments	50	-	50
<b>Total Intragovernmental Assets</b>	<b>2,096,187</b>	<b>-</b>	<b>2,096,187</b>
Accounts and Interest Receivable, Net	6,631	-	6,631
General Property, Plant and Equipment, Net	2,561	-	2,561
<b>TOTAL ASSETS</b>	<b>\$ 2,105,379</b>	<b>\$ -</b>	<b>\$ 2,105,379</b>

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**Note 3. Fund Balance with Treasury:**

The Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury represents the right of OSM to draw on the Treasury for allowable expenditures. The Fund Balance with Treasury represents OSM's unexpended, uninvested account balances. All funds reported on these statements are entity funds.

The status of the fund balance may be classified as unobligated available, unobligated unavailable, and obligated not yet disbursed. Unobligated funds, depending on budget authority, are generally available for new obligations associated with current operations. Unavailable authority includes amounts appropriated in prior fiscal years, which may not be used for current operations. Obligated funds represent amounts designated for payment of goods and services ordered, but not received.

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

**Fund Balance with Treasury by Fund Type**

(dollars in thousands)	FY 2005	FY 2004
General Funds	\$ 46,591	\$ 43,075
Special Funds	1,627	877
Other Fund Types	1,114	840
<b>Total Fund Balance with Treasury by Fund Type</b>	<b>\$ 49,332</b>	<b>\$ 44,792</b>

**Status of Fund Balance with Treasury**

(dollars in thousands)	FY 2005	FY 2004
Unobligated		
Available	\$ 2,518	\$ 1,651
Unavailable	5,455	4,255
Obligated Not Yet Disbursed	40,245	38,046
Subtotal	48,218	43,952
Fund Balance with Treasury Not Covered by Budgetary Resources		
Deposit Funds, Clearing, and Suspense Accounts	1,114	840
<b>Total Status of Fund Balance with Treasury</b>	<b>\$ 49,332</b>	<b>\$ 44,792</b>



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**Note 4. Net Investments, Non-Marketable:**

Effective October 1, 1991, OSM was given authority to invest the balance of the AML Fund in non-marketable federal securities under Public Law 101-508. The Bureau of Public Debt is the sole issuer of authorized non-marketable Federal securities, which are purchased by OSM directly from the Treasury. OSM may invest in bills, notes, bonds, and one-day certificates. There are no restrictions on federal agencies as to the use or convertibility of Treasury non-marketable securities. During FY 2004 and FY 2005 OSM was invested in both notes and one-day certificates. OSM intends to hold the 10-year T-Notes to maturity. The Market Value Disclosure reflects the sell value of the security on September 30<sup>th</sup> of each fiscal year.

**Net Investments, Non-Marketable****FY 2005**

(dollars in thousands)	Cost	Net Amortized Discount	Investments, Net	Market Value Disclosure
<b>U.S. Treasury Securities</b>				
Non-Marketable, market-based	\$ 2,132,892	\$ 376	\$ 2,133,268	\$ 2,122,530
Accrued Interest	8,331	-	8,331	8,331
<b>Total Investments</b>	<b>\$ 2,141,223</b>	<b>\$ 376</b>	<b>\$ 2,141,599</b>	<b>\$ 2,130,861</b>

**FY 2004**

(dollars in thousands)	Cost	Net Amortized Discount	Investments, Net	Market Value Disclosure
<b>U.S. Treasury Securities</b>				
Non-Marketable, market-based	\$ 2,042,801	\$ 168	\$ 2,042,969	\$ 2,051,753
Accrued Interest	8,331	-	8,331	8,331
<b>Total Investments</b>	<b>\$ 2,051,132</b>	<b>\$ 168</b>	<b>\$ 2,051,300</b>	<b>\$ 2,060,084</b>

**Note 5. Intragovernmental Accounts Receivable:**

There is no allowance for doubtful accounts recorded for receivables with other government agencies because such amounts are deemed fully collectible. All intragovernmental accounts receivable are aged as current.

**Accounts and Interest Receivable from Federal Agencies**

(dollars in thousands)	FY 2005	FY 2004
Unbilled Accounts Receivable	34	45

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**Note 6. Accounts and Interest Receivable, Net:**

Accounts receivable with the public are recorded net of the allowance for doubtful accounts. These receivables represent uncollected Abandoned Mine Land, civil penalty and audit fees, including related interest receivables. Additionally, OSM has an accrued accounts receivable from the United Mine Worker's Combined Benefit Fund in the amount of \$10.8 million as of September 30, 2005. This receivable is adjusting prior years' estimated payments to the actual costs incurred by the UMWA-CBF. OSM's 2006 payment will be offset by this amount.

An aging of OSM's accounts receivable with the public is displayed below for both fiscal years. Following that is an analysis of OSM's allowance for doubtful accounts.

**Accounts and Interest Receivable from the Public**

(dollars in thousands)	FY 2005	FY 2004
Accounts Receivable from the Public		
Current	\$ 309	\$ 405
1 - 180 Days Past Due	295	185
181 - 365 Days Past Due	47	289
1 to 2 Years Past Due	307	736
Total Billed Accounts Receivable - Public	958	1,615
Unbilled Accounts Receivable	10,820	5,971
Total Accounts Receivable - Public	11,778	7,586
Allowance for Doubtful Accounts - Public	(339)	(955)
<b>Total Accounts Receivable - Public Net of Allowance</b>	<b>\$ 11,439</b>	<b>\$ 6,631</b>
<b>Change in Allowance for Doubtful Accounts - Public</b>		
Allowance for Doubtful Accounts, beginning	\$ 955	\$ 1,735
Additions	412	212
Deletions	(1,028)	(992)
<b>Allowance for Doubtful Accounts - Public</b>	<b>\$ 339</b>	<b>\$ 955</b>

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**Note 7. General Property, Plant and Equipment, Net:**

OSM does not own any real estate or buildings; however, OSM capitalizes tenant improvements to office space as leasehold improvements. Leasehold improvements are capitalized when the acquisition cost is \$100 thousand or more. They are depreciated using straight-line depreciation over the useful life according to GSA schedules.

Personal property and equipment are valued at historical cost and are capitalized whenever the initial acquisition cost is \$15 thousand or greater and the estimated useful life is two years or longer. Property and equipment are depreciated using the straight-line method and an asset's useful life is determined using OMB guidance.

Internal use Software in Development costs are captured as they are expensed and then once the software is completed, these costs transfer to an asset which will be depreciated over its useful life.

**General Property, Plant and Equipment, Net****FY 2005**

(dollars in thousands)	<b>Acquisition Cost</b>	<b>Less Accumulated Depreciation</b>	<b>Net Book Value</b>
Leasehold Improvements	\$ 599	\$ 211	\$ 388
Equipment, Vehicles, and Aircraft	4,934	2,999	1,935
Internal Use Software:			
In Development	94	-	94
<b>Total Property, Plant, and Equipment</b>	<b>\$ 5,627</b>	<b>\$ 3,210</b>	<b>\$ 2,417</b>

**FY 2004**

(dollars in thousands)	<b>Acquisition Cost</b>	<b>Less Accumulated Depreciation</b>	<b>Net Book Value</b>
Leasehold Improvements	\$ 599	\$ 138	\$ 461
Equipment, Vehicles, and Aircraft	5,210	3,110	2,100
<b>Total Property, Plant, and Equipment</b>	<b>\$ 5,809</b>	<b>\$ 3,248</b>	<b>\$ 2,561</b>

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**Note 8. Liabilities:**

Liabilities covered by budgetary resources and liabilities not covered by budgetary resources are combined and presented together in the balance sheets. Liabilities covered by budgetary resources are liabilities to be paid with existing appropriation authority. Liabilities not covered by budgetary authority represent those liabilities for which Congressional action is needed before budgetary resources can be provided. Current liabilities are expected to be liquidated during the subsequent fiscal year.

<b>Liabilities</b>				
FY 2005	Covered by Budgetary Resources	Not Covered by Budgetary Resources		Total
	Current	Current	Non-Current	
(dollars in thousands)				
<b>Intragovernmental Liabilities:</b>				
Accounts Payable	\$ 52	\$ -	\$ -	\$ 52
Other				
Accrued Employee Benefits	378	-	159	537
Advances and Deferred Revenue	206	-	-	206
Deposit Funds	2	-	-	2
Unfunded FECA Liability	-	251	376	627
Other Miscellaneous Liabilities	2	43	367	412
<b>Total Other Liabilities</b>	<b>588</b>	<b>294</b>	<b>902</b>	<b>1,784</b>
<b>Total Intragovernmental Liabilities</b>	<b>640</b>	<b>294</b>	<b>902</b>	<b>1,836</b>
<b>Public Liabilities:</b>				
Accounts Payable	7,098	-	-	7,098
Federal Employee and Veterans' Benefits	-	-	3,867	3,867
Other				
Accrued Payroll and Benefits	2,267	-	-	2,267
Unfunded Annual Leave	-	-	3,978	3,978
Deposit Funds	-	11	895	906
Contingent Liabilities	-	2,500	70	2,570
<b>Total Other Liabilities</b>	<b>2,267</b>	<b>2,511</b>	<b>4,943</b>	<b>9,721</b>
<b>Total Public Liabilities</b>	<b>9,365</b>	<b>2,511</b>	<b>8,810</b>	<b>20,686</b>
<b>Total Liabilities</b>	<b>\$ 10,005</b>	<b>\$ 2,805</b>	<b>\$ 9,712</b>	<b>\$ 22,522</b>
<b>FY 2004</b>				
<b>Intragovernmental Liabilities:</b>				
Accounts Payable	\$ 45	\$ -	\$ -	\$ 45
Other				
Accrued Employee Benefits	290	-	-	290
Advances and Deferred Revenue	4	-	-	4
Deposit Funds	2	-	-	2
Unfunded FECA Liability	-	288	442	730
Other Miscellaneous Liabilities	-	69	411	480
<b>Total Other Liabilities</b>	<b>296</b>	<b>357</b>	<b>853</b>	<b>1,506</b>
<b>Total Intragovernmental Liabilities</b>	<b>341</b>	<b>357</b>	<b>853</b>	<b>1,551</b>
<b>Public Liabilities:</b>				
Accounts Payable	17,947	-	-	17,947
Federal Employee and Veterans' Benefits	-	-	3,829	3,829
Other				
Accrued Payroll and Benefits	1,534	-	171	1,705
Unfunded Annual Leave	-	-	4,544	4,544
Deposit Funds	-	172	662	834
Contingent Liabilities	-	50	68,550	68,600
<b>Total Other Liabilities</b>	<b>1,534</b>	<b>222</b>	<b>73,927</b>	<b>75,683</b>
<b>Total Public Liabilities</b>	<b>19,481</b>	<b>222</b>	<b>77,756</b>	<b>97,459</b>
<b>Total Liabilities</b>	<b>\$ 19,822</b>	<b>\$ 579</b>	<b>\$ 78,609</b>	<b>\$ 99,010</b>

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**Note 9. Other Liabilities:**

Other liabilities consist of advances from others for reimbursable agreements, miscellaneous liabilities associated with non-entity receivables that will be transferred to Treasury upon collection and amounts recorded in deposit and suspense funds. Amounts recorded in deposit and suspense funds include; permit and civil penalty escrows, bonds, misapplied deposits pending correction and excess AML fee payments due to be refunded or remitted to Treasury.

**Note 10. Contingent and Environmental Liabilities:**

There have been claims filed against OSM with adjudications pending. As of September 30, 2005, a liability of \$2,570 thousand has been accrued in the financial statements for cases in which payment has been deemed probable and for which the amount of potential liability is estimable. The U.S. Treasury's Judgment Fund would likely bear most of the costs incurred to pay any judgments or settlements and the resultant outcomes should not materially affect OSM's future financial condition. The related liability at September 30, 2004 was \$68,600 thousand. During FY 2005, the U.S. Court of Appeals for the Federal Circuit reversed the Court of Federal Claims' finding of a physical taking, which changed OSM's estimate on this case from \$68,500 thousand in FY 2004 to zero in FY 2005.

In addition to the amounts disclosed above, OSM has adjudications pending where the likelihood of an unfavorable outcome is reasonably possible. An estimate of potential loss for pending adjudications in this category for FY 2005 ranges from \$110 to \$410 thousand and the FY 2004 possible loss ranged from \$237 to \$ 700 thousand. However, no amounts have been accrued in the financial records for claims where the probability or amount of judgment is uncertain.

OSM has another case where the risk of an unfavorable outcome is probable, but, at this time, it is not possible to estimate the amount of potential liability with any degree of certainty. The issue in this case is whether the Abandoned Mine Land (AML) reclamation fee OSM collects from coal operators violates the Export Clause of the United States Constitution to the extent it is collected on exported coal. Though a trial court has ruled against OSM on the issue of liability, significant issues pertaining to damages (*i.e.*, the amount of any refunds) remain unresolved in the case; as such, final judgment has not been entered by the trial court. Given the large number of plaintiffs, the total amount of potential refunds could be significant.

**Contingent Liabilities**

**FY 2005**

(dollars in thousands)	Accrued Liabilities	Total Estimated Range of Loss	
		Lower End of Range	Upper End of Range
Contingent Liabilities			
Probable	\$ 2,570	\$ 2,570	\$ 2,725
Reasonably Possible		110	410
<b>Total Contingent Liabilities</b>	<b>\$ 2,570</b>	<b>\$ 2,680</b>	<b>\$ 3,135</b>

**FY 2004**

Contingent Liabilities			
Probable	\$ 68,600	\$ 68,600	\$ 78,820
Reasonably Possible		237	700
<b>Total Contingent Liabilities</b>	<b>\$ 68,600</b>	<b>\$ 68,837</b>	<b>\$ 79,520</b>

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Environmental Liabilities:

The Congress has identified the reclamation of abandoned mine sites as an objective of providing for the general health and safety of the people. In order to finance the reclamation, OSM collects a fee for coal sold or used from current mining operations into a fund called the Abandoned Mine Land Fund. The purpose of this fee is to support, among other things, the reclamation of abandoned mine lands. Congress authorizes the funding for these projects on an annual basis through appropriations from this fund.

Although OSM's mission includes the administration of programs designed to protect society from the effects of coal mining operations, OSM has no liability for future environmental cleanup. OSM does not own land or contribute to environmental contamination. However, OSM provides some funding, through grants for states and tribes and through contracting in states or tribal lands that do not have approved abandoned mine land programs, in order to reclaim eligible abandoned mine sites or to work on other qualified projects. All costs associated with these projects are accrued in the accompanying financial statements as the grantee incurs them.

**Note 11. Commitments and Contingencies:**

OSM does not have any significant loss contingencies other than those disclosed in Note 10 related to pending litigation. Additionally, OSM does not have obligations related to canceled appropriations or contractual arrangements, which may require future financial obligations.

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**Note 12. Net Cost by Segment:**

OSM's net cost is presented below by responsibility segment and program activity with intragovernmental and public disclosures. The Office of Surface Mining Operations segment accounts for those net costs required to operate OSM and its Federal programs that are not transferred to states and tribes in the form of grants. Intragovernmental gross costs approximate intragovernmental revenues with the addition of a pro rata share of imputed costs. The FY 2005 Resource Use – Public Costs shows a negative balance because a certain case allocated more reduction of net costs than was charged during FY 2005. See Note 10.

**Consolidated Schedule of Net Cost by Responsibility Segment**

FY 2005 (unaudited)

(Dollars in thousands)	Operating	Grants	Other/UMWA	Total
<b>Resource Protection</b>				
Intragovernmental Costs	\$ 930	\$ -	\$ -	\$ 930
Public Costs	3,857	55,326	-	59,183
Total Costs	4,787	55,326	-	60,113
Less: Public Earned Revenue	1	-	-	1
Net Costs	4,786	55,326	-	60,112
<b>Resource Use</b>				
Intragovernmental Costs	17,250	-	-	17,250
Public Costs	(6,036)	56,435	-	50,399
Total Costs	11,214	56,435	-	67,649
Less:				
Intragovernmental Earned Revenue	1,463	-	-	1,463
Public Earned Revenue	59	-	-	59
Total Earned Revenue	1,522	-	-	1,522
Net Costs	9,692	56,435	-	66,127
<b>Serving Communities</b>				
Intragovernmental Costs	7,755	-	-	7,755
Public Costs	3,767	107,222	-	110,989
Total Costs	11,522	107,222	-	118,744
Less:				
Intragovernmental Earned Revenue	86	-	-	86
Public Earned Revenue	1	-	-	1
Total Earned Revenue	87	-	-	87
Net Costs	11,435	107,222	-	118,657
<b>UMWA - CBF Transfer</b>				
Public Costs	-	-	61,684	61,684
Net Costs	-	-	61,684	61,684
<b>Total</b>				
Intragovernmental Costs	25,935	-	-	25,935
Public Costs	1,588	218,983	61,684	282,255
Total Costs	27,523	218,983	61,684	308,190
Less:				
Intragovernmental Earned Revenue	1,549	-	-	1,549
Public Earned Revenue	61	-	-	61
Total Earned Revenue	1,610	-	-	1,610
Net Costs	\$ 25,913	\$ 218,983	\$ 61,684	\$ 306,580

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**Consolidated Schedule of Net Cost by Responsibility Segment**

**FY 2004**

(Dollars in thousands)	<b>Operating</b>	<b>Grants</b>	<b>Other/UMWA</b>	<b>Total</b>
<b>Resource Protection</b>				
Intragovernmental Costs	\$ 754	\$ -	\$ -	\$ 754
Public Costs	14,306	57,071	-	71,377
<b>Total Costs</b>	<b>15,060</b>	<b>57,071</b>	<b>-</b>	<b>72,131</b>
<b>Net Costs</b>	<b>15,060</b>	<b>57,071</b>	<b>-</b>	<b>72,131</b>
<b>Resource Use</b>				
Intragovernmental Costs	14,449	-	-	14,449
Public Costs	35,559	57,029	-	92,588
<b>Total Costs</b>	<b>50,008</b>	<b>57,029</b>	<b>-</b>	<b>107,037</b>
Less:				
Intragovernmental Earned Revenue	1,119	-	-	1,119
Public Earned Revenue	105	-	-	105
<b>Total Earned Revenue</b>	<b>1,224</b>	<b>-</b>	<b>-</b>	<b>1,224</b>
<b>Net Costs</b>	<b>48,784</b>	<b>57,029</b>	<b>-</b>	<b>105,813</b>
<b>Serving Communities</b>				
Intragovernmental Costs	6,650	-	-	6,650
Public Costs	20,047	110,698	-	130,745
<b>Total Costs</b>	<b>26,697</b>	<b>110,698</b>	<b>-</b>	<b>137,395</b>
Less:				
Intragovernmental Earned Revenue	22	-	-	22
Public Earned Revenue	4	-	-	4
<b>Total Earned Revenue</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>26</b>
<b>Net Costs</b>	<b>26,671</b>	<b>110,698</b>	<b>-</b>	<b>137,369</b>
<b>UMWA - CBF Transfer</b>				
Public Costs	-	-	42,696	42,696
<b>Net Costs</b>	<b>-</b>	<b>-</b>	<b>42,696</b>	<b>42,696</b>
<b>Total</b>				
Intragovernmental Costs	21,853	-	-	21,853
Public Costs	69,912	224,798	42,696	337,406
<b>Total Costs</b>	<b>91,765</b>	<b>224,798</b>	<b>42,696</b>	<b>359,259</b>
Less:				
Intragovernmental Earned Revenue	1,141	-	-	1,141
Public Earned Revenue	109	-	-	109
<b>Total Earned Revenue</b>	<b>1,250</b>	<b>-</b>	<b>-</b>	<b>1,250</b>
<b>Net Costs</b>	<b>\$ 90,515</b>	<b>\$ 224,798</b>	<b>\$ 42,696</b>	<b>\$ 358,009</b>



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**Note 13. Appropriations Received:**

**Permanent Indefinite Appropriations.** In addition to amounts annually appropriated by Congress, OSM appropriates a portion of the Abandoned Mine Land Fund in an amount equal to the annual transfer to the United Mine Workers Combined Benefit Fund. This appropriated transfer can be classified as a permanent indefinite appropriation, i.e., the budget authority is a permanent authorization in SMCRA and is of an indefinite amount determined on an annual basis to comply with the provisions of the law.

**Appropriations Received.** The amounts in Appropriations Received on the Statement of Budgetary Resources differ from those reported on the Consolidated Statement of Changes in Net Position because the latter statement excludes dedicated collections.

**Note 14. Apportionment Categories of Obligations Incurred:**

OMB usually uses one of two apportionment categories to distribute budgetary resources. Category A apportionments distribute budgetary resources by fiscal quarters. Category B apportionments typically distribute budgetary resources by activities, projects, or objects. All of OSM's direct and reimbursable obligations are incurred against amounts apportioned under Category B, as determined in accordance with OMB Circular A-11. This amount agrees with the aggregate of the related information reported on the year-end SF-133, Reports on Budget Execution.

**Apportionment Categories of Obligations Incurred**

(dollars in thousands) 2005 (unaudited)	Apportioned		Not Subject to Apportionment	Total
	Category A	Category B		
Obligations Incurred:				
Direct	\$ -	\$ 403,171	\$ -	\$ 403,171
Reimbursable	-	1,902	-	1,902
Total Obligations Incurred	\$ -	\$ 405,073	\$ -	\$ 405,073

(dollars in thousands) 2004	Apportioned		Not Subject to Apportionment	Total
	Category A	Category B		
Obligations Incurred:				
Direct	\$ -	\$ 365,048	\$ -	\$ 365,048
Reimbursable	-	1,196	-	1,196
Total Obligations Incurred	\$ -	\$ 366,244	\$ -	\$ 366,244

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**Note 15. Offsetting Receipts:**

Offsetting receipts are cash collections, resulting from business-type activities that are credited to the offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Per the Treasury Annual Report, the receipt types included for OSM are Intrabudgetary Receipts Deducted by Agencies (OSM's interest earned on investments), and Proprietary Receipts from the Public (OSM's interest and administrative fees related to the AML fees collected from mining companies). The expenditure of these funds is subject to annual appropriation by Congress or as legislated by SMRCA to the United Mine Workers Combined Benefit Fund.

**Note 16. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government:**

The Combined Statements of Budgetary Resources have been prepared to coincide with the amounts shown in the Budget of the United States Government (President's Budget). The actual amounts for FY 2005 in the President's Budget have not yet been published as of the date this report was published. The President's Budget containing the actual FY 2004 amounts was released in February 2005, and the actual FY 2005 President's Budget is anticipated for a February 2006 release. The President's Budget can be located at the OMB website <http://www.whitehouse.gov/omb>.

The President's Budget is rounded to millions of dollars while the Statement of Budgetary Resources is rounded to thousands of dollars. For comparison purposes, we have rounded this schedule to millions of dollars.

For OSM, the differences between the Combined Statement of Budgetary Resources (SBR) and the President's Budget are caused by the unique reporting requirements and objectives of those two reports, and do not indicate errors. For example, Beginning Unobligated Balances differ because the SBR includes the balances in all funds, whereas the President's Budget does not include expired funds. Amounts in Permanently Not Available in the U.S. Budget exclude canceled funds; the SBR includes these funds. The President's Budget also does not recognize recoveries and obligations of recovered funds for our AML appropriation. These figures are displayed in a separate column. All remaining differences in the Net Difference column relate to rounding at the millions.

**Reconciliation between the Statement of Budgetary Resources and the Budget of the U.S. Government**

(dollars in millions)

	Total President's Budget	Total Statement of Budgetary Resources	Difference	Expired and Cancelled Funds	Recovery and Obligation Net	Net Difference
<b>Budget Authority</b>						
Appropriations Received	314	314	0	0		0
<b>Unobligated Balance</b>						
Beginning of Fiscal Year	39	44	-5	5		0
Spending Authority from Offsetting Collections	1	1	0	0		0
Recoveries of Prior Year Obligations	47	48	-1	0	1	0
Temporarily Not Available Pursuant to Public Law	-2	-2	0	0		0
Permanently Not Available - Recission	-1	-2	1	-1		0
<b>Total Budgetary Resources</b>	<b>398</b>	<b>403</b>	<b>-5</b>	<b>4</b>	<b>1</b>	<b>0</b>
<b>Status of Budgetary Resources</b>						
Obligations Incurred	366	366	0	0	0	0
Unobligated Balance	32	37	-5	5		0
<b>Total Status of Budgetary Resources</b>	<b>398</b>	<b>403</b>	<b>-5</b>	<b>5</b>	<b>0</b>	<b>0</b>
<b>Relationship of Obligations to Outlays</b>						
Obligations Incurred	366	366	0	0	0	0
Obligated Balance, Net, Beginning of Fiscal Year	366	366	0	0		0
Obligated Balance, Transferred, Net	0	0	0	0		0
Obligated Balance, Net, End of Fiscal Year	-361	-361	0	0		0
Less: Spending Authority Adjustments	0	-48	48	0	-48	0
<b>Outlays:</b>						
Disbursements	321	321	0	0		0
Collections	-1	-1	0	0		0
Subtotal	320	320	0	0		0
Less: Offsetting Receipts	0	-47	47	0	-47	0
<b>Net Outlays</b>	<b>321</b>	<b>273</b>	<b>47</b>	<b>0</b>	<b>-47</b>	<b>0</b>

**Note 17. Allocation Transfer Account, Reconciling Item:**

In previous years OSM has transferred Abandoned Mine Land budget authority to the Department of Agriculture's Natural Resource Conservation Service in accordance with SMRCA and Congressional appropriations. These allocation transfers are for the purpose of providing for the control and prevention of erosion and sediment damages from unreclaimed mine lands, and promoting the conservation and development of soil and water resources on those lands.

Budget authority that is transferred to another agency or bureau will create a reconciling item on the Statement of Financing because OSM reports the related budget activity on the Statement of Budgetary Resources while the Natural Resource Conservation Service reports its results of operations on its Statement of Net Cost. This presentation is required by authoritative accounting guidance. For 2005 and 2004, respectively, the reconciling amounts were \$100 thousand (unaudited) and \$228 thousand.

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**Note 18. Operating Leases:**

OSM's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. For Federally-owned property, OSM generally enters into cancelable 10-year occupancy agreements with GSA. OSM is normally required to give 120 to 180 days notice to vacate the property and the amount of these agreements remains fairly constant from year to year. These agreements are included in the estimated future lease payments for FY 2006 through termination of the lease agreements. For non-Federally owned property, an occupancy agreement is executed, and again OSM may normally cancel these agreements with 120 days notice. The estimated rent payments to GSA for both Federally-owned and publicly-owned buildings are presented in the table that follows. OSM rental expense for 2005 and 2004 was \$2,799 thousand (unaudited) and \$3,117 thousand, respectively. The future rent projections are based on an escalation factor of 1.7 percent for 2006 and an average escalation of 1.5 percent thereafter, in accordance with GSA budget estimates.

**Future Operating Lease Payments**  
(unaudited)  
(dollars in thousands)

<b>Fiscal Year</b>	<b>Real Property</b>		<b>Personal Property</b>		<b>Total</b>
	<b>Federal</b>	<b>Public</b>	<b>Federal</b>	<b>Public</b>	
2006	\$5,173	\$-	\$4	\$6	\$5,183
2007	3,862	-	4	6	3,872
2008	3,920	-	-	6	3,926
2009	3,850	-	-	6	3,856
2010	3,902	-	-	6	3,908
Thereafter	18,125	-	-	-	18,125
Total Future Operating Lease Payments	\$38,832	\$-	\$8	\$30	\$38,870

**Note 19. Dedicated Collections:**

Public Law 95-87 established the Office of Surface Mining (OSM) 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 pay the cost of abandoned mine land reclamation projects. The Surface Mining Law specifies that 50 percent of the reclamation fees collected in each state or tribe with an approved reclamation program are to be allocated to that state or tribe. This 50 percent is designated as the state or tribal share of the fund. The remaining 50 percent (the federal share) is used by OSM 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 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 OSM's annual appropriation and consider the individual state or tribe reclamation funding needs as well as their state and federal shares, emergency and special funding requirements.

Under authority of Public Law 101-509, OSM 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), OSM 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 coalmine 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 Serving Communities and Resource Protection GPRA program activities with the addition (+/-) of a pro rata share of allocated costs.

The following table provides condensed information on the AML Fund:

(dollars in thousands)	FY 2005 FY 2004	
<b>ASSETS</b>		
Fund Balance with Treasury	\$ 1,336	\$ 583
Investments, Net	2,141,599	2,051,300
Accounts Receivable, Net	11,401	6,578
Other Assets	21	22
<b>TOTAL ASSETS</b>	<b>\$ 2,154,357</b>	<b>\$ 2,058,483</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 4,562	\$ 15,286
Other Liabilities	902	648
<b>TOTAL LIABILITIES</b>	<b>5,464</b>	<b>15,934</b>
<b>Total Net Position</b>	<b>2,148,893</b>	<b>2,042,549</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,154,357</b>	<b>\$ 2,058,483</b>
	FY 2005	FY 2004
	(unaudited)	
<b>CHANGE IN NET POSITION</b>		
<b>Net Position, Beginning of Fiscal Year</b>	\$ 2,042,549	\$ 1,952,634
<b>Change in Net Position:</b>		
Non-exchange Revenue		
AML Fee Revenue	293,365	286,160
Investment Interest	75,347	54,625
Other Non-Exchange Revenue	100	27
Exchange Revenue - Services Provided and Other	87	26
Program Expenses	(262,553)	(250,923)
<b>Net Position, End of Fiscal Year</b>	<b>\$ 2,148,895</b>	<b>\$ 2,042,549</b>

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## Required Supplementary Information

**Department of the Interior**  
**Office of Surface Mining**  
**Supplementary Statement of Budgetary Resources by Major Budget Account**  
For the year ended September 30, 2005  
(unaudited)

(dollars in thousands)

	Abandoned Mine Land Reclamation	Regulation and Technology	Total
<b>Budgetary Resources:</b>			
Budget Authority:			
Appropriations Received	\$ 257,396	\$ 109,894	\$ 367,290
Unobligated Balance:			
Beginning of Fiscal Year	30,291	5,907	36,198
Spending Authority From Offsetting Collections:			
Earned			
Collected	93	1,489	1,582
Receivable From Federal Sources	(6)	(5)	(11)
Change in Unfilled Customer Orders			
Without Advance From Federal Sources	188	51	239
Subtotal: Spending Authority From Offsetting Collections	275	1,535	1,810
Recoveries of Prior Year Obligations	41,939	3,835	45,774
Temporarily Not Available Pursuant to Public Law	(2,657)	(1)	(2,658)
Permanently Not Available	-	(2,311)	(2,311)
<b>Total Budgetary Resources</b>	<b>\$ 327,244</b>	<b>\$ 118,859</b>	<b>\$ 446,103</b>
<b>Status of Budgetary Resources:</b>			
Obligations Incurred:			
Direct	\$ 294,407	\$ 108,764	\$ 403,171
Reimbursable	275	1,627	1,902
Total Obligations Incurred	294,682	110,391	405,073
Unobligated Balance:			
Apportioned	32,389	1,309	33,698
Unobligated Balance not Available	173	7,159	7,332
<b>Total Status of Budgetary Resources</b>	<b>\$ 327,244</b>	<b>\$ 118,859</b>	<b>\$ 446,103</b>
<b>Relationship of Obligations to Outlays:</b>			
Obligations Incurred:	\$ 294,682	\$ 110,391	\$ 405,073
Obligated Balance, Net, Beginning of Fiscal Year	325,211	37,462	362,672
Obligated Balance, Net, End of Fiscal Year:			
Accounts Receivable	-	34	34
Unfilled Customer Orders From Federal Sources	206	197	403
Undelivered Orders	(294,544)	(34,314)	(328,858)
Accounts Payable	(5,462)	(4,333)	(9,795)
Total Obligated Balance, Net, End of Fiscal Year	(299,800)	(38,416)	(338,216)
Less: Spending Authority Adjustments	(42,121)	(3,881)	(46,001)
Outlays:			
Disbursements	277,972	105,556	383,528
Collections	(91)	(1,488)	(1,579)
Net Outlays Before Offsetting Receipts	277,881	104,068	381,949
Less: Offsetting Receipts	(75,246)	-	(75,246)
<b>Net Outlays</b>	<b>\$ 202,635</b>	<b>\$ 104,068</b>	<b>\$ 306,703</b>

This statement is unaudited. See the accompanying independent auditors' report.

**Department of the Interior**  
**Office of Surface Mining**  
**Supplementary Statement of Budgetary Resources by Major Budget Account**  
For the year ended September 30, 2004  
(unaudited)

(dollars in thousands)	Abandoned Mine Lands	Regulation and Technology	Total
<b>Budgetary Resources:</b>			
Budget Authority:			
Appropriations Received	\$ 207,936	\$ 106,499	\$ 314,435
Unobligated Balance:			
Beginning of Fiscal Year	37,583	5,880	43,463
Spending Authority From Offsetting Collections:			
Earned			
Collected	21	1,175	1,196
Receivable From Federal Sources	6	(14)	(8)
Change in Unfilled Customer Orders			
Without Advance From Federal Sources	(1)	(96)	(97)
Subtotal: Spending Authority From Offsetting Collections	26	1,065	1,091
Recoveries of Prior Year Obligations	46,592	1,534	48,126
Temporarily Not Available Pursuant to Public Law	(2,378)	(1)	(2,379)
Permanently Not Available	-	(2,294)	(2,294)
<b>Total Budgetary Resources</b>	<b>\$ 289,759</b>	<b>\$ 112,683</b>	<b>\$ 402,442</b>
<b>Status of Budgetary Resources:</b>			
Obligations Incurred:			
Direct	\$ 259,442	\$ 105,606	\$ 365,048
Reimbursable	26	1,170	1,196
Total Obligations Incurred	259,468	106,776	366,244
Unobligated Balance:			
Apportioned	30,291	1,651	31,942
Unobligated Balance not Available	-	4,256	4,256
<b>Total Status of Budgetary Resources</b>	<b>\$ 289,759</b>	<b>\$ 112,683</b>	<b>\$ 402,442</b>
<b>Relationship of Obligations to Outlays:</b>			
Obligations Incurred	\$ 259,468	\$ 106,776	\$ 366,244
Obligated Balance, Net, Beginning of Fiscal Year	329,589	35,613	365,202
Obligated Balance, Net, End of Fiscal Year:			
Accounts Receivable	6	39	45
Unfilled Customer Orders From Federal Sources	19	147	166
Undelivered Orders	(309,302)	(33,766)	(343,068)
Accounts Payable	(15,933)	(3,882)	(19,815)
Total Obligated Balance, Net, End of Fiscal Year	(325,210)	(37,462)	(362,672)
Less: Spending Authority Adjustments	(46,597)	(1,424)	(48,021)
Outlays:			
Disbursements	217,250	103,503	320,753
Collections	(21)	(1,175)	(1,196)
Net Outlays Before Offsetting Receipts	217,229	102,328	319,557
Less: Offsetting Receipts	(46,603)	-	(46,603)
<b>Net Outlays</b>	<b>\$ 170,626</b>	<b>\$ 102,328</b>	<b>\$ 272,954</b>

This statements is unaudited. See the accompanying independent auditors' report.



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# Independent Auditor's Report



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

December 30, 2005

## Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

From: Anne L. Richards *Anne L. Richards*  
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Office of Surface Mining Reclamation and Enforcement's Balance Sheets as of September 30, 2005 and 2004, and the Related Financial Statements for the Year Ended September 30, 2004. (Report No. X-IN-OSM-0014-2005)

Attached is the subject auditors' report prepared by KPMG LLP. It contains an unqualified opinion on the Office of Surface Mining Reclamation and Enforcement's (OSM) balance sheets as of September 30, 2005 and 2004, and the related financial statements for the year ended September 30, 2004. The other related financial statements for the year ended September 30, 2005 were not within the scope of KPMG's audit. In addition, KPMG noted no matters involving OSM's internal control and its operation that KPMG considered to be material weaknesses. Furthermore, KPMG's tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance required to be reported under the "Government Auditing Standards" issued by the Comptroller General of the United States and the Office of Management and Budget's Bulletin 01-02, as amended, "Audit Requirements for Federal Financial Statements."

The Department of the Interior contracted with KPMG, an independent certified public accounting firm, to audit OSM's balance sheets as of September 30, 2005 and 2004, and the related financial statements for the year ended September 30, 2004. The contract required that KPMG conduct its audit in accordance with the "Government Auditing Standards," the "Audit Requirements for Federal Financial Statements," and the Government Accountability Office's/President's Council on Integrity and Efficiency's "Financial Audit Manual."

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

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

We appreciate the cooperation and assistance of OSM personnel during the audit. If you have any questions regarding the report, please call me at (202) 208-5512.

Attachment

cc: Assistant Secretary, Land and Minerals Management  
Chief Financial Officer, Office of Surface Mining Reclamation and Enforcement  
Director, Office of Financial Management  
Audit Liaison Officer, Land and Minerals Management  
Audit Liaison Officer, Office of Surface Mining Reclamation and Enforcement  
Audit Liaison Officer, Office of Financial Management  
Focus Leader for Financial Reporting, Office of Financial Management  
Focus Leader for Management Control and Audit Followup,  
Office of Financial Management



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

## INDEPENDENT AUDITORS' REPORT

The Director of the Office of Surface Mining and the Inspector General of the U.S. Department of the Interior:

We have audited the accompanying consolidated balance sheets of the Office of Surface Mining (OSM) as of September 30, 2005 and 2004, and the related consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2004. 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 OSM's internal control over financial reporting and tested OSM's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

The consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2005 was not within the scope of our audit. We did not audit these statements and, accordingly, we express no opinion on them.

### SUMMARY

As stated in our opinion on the financial statements, we concluded that OSM's consolidated balance sheets as of September 30, 2005 and 2004, and the related consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2004 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

The consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2005, were not audited by us and, accordingly, we do not express an opinion on them.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses.

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

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

## **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of OSM as of September 30, 2005 and 2004, and the related consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2004.

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

The accompanying consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2005, were not audited by us and, accordingly, we do not express an opinion on them.

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

## **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 material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are 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. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

We have noted other matters involving internal control over financial reporting and its operation that we have reported to the management of OSM in a separate letter dated October 31, 2005.

## **COMPLIANCE AND OTHER MATTERS**

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements described in the Responsibilities section of this report, exclusive of those referred to in *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

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

## **RESPONSIBILITIES**

### ***Management's Responsibilities***

The *Government Management Reform Act of 1994* (GMRA), *Accountability of Tax Dollars Act*, 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 assist the Department of the Interior in meeting these requirements, OSM prepares 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), and Required Supplementary Information
- Establishing and maintaining internal controls over financial reporting
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA

In fulfilling this responsibility, estimates and judgments by management are required 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 consolidated balance sheets of OSM as of September 30, 2005 and 2004, and the related consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2004. The consolidated statement of net costs, consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2005 was not within the scope of our audit. We did not audit these 2005 financial statements and, accordingly, we express no opinion on them.

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 OSM'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
- 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 OSM's internal control over financial reporting by obtaining an understanding of OSM's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion. 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 OSM'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, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of 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 OSM's fiscal year 2005 consolidated balance sheet was free of material misstatement, we performed tests of OSM'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 OSM. 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 OSM'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 OSM'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**

October 31, 2005