

# ANALYSIS OF FINANCIAL STATEMENTS

Interior received, for the 10th consecutive year, an unqualified audit opinion on its financial statements. These financial statements are prepared in accordance with established Federal accounting standards and are audited by the independent accounting firm of KPMG LLP. It is Interior's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources.

*Figure 1-79* illustrates a condensed version of Interior's Consolidated Balance Sheet and Statement of Net Cost.

## Overview of Financial Position

### Assets

In FY 2006, Interior's assets totaled \$65,433 million. This is an increase of \$1,999 million over the prior year's assets, which totaled \$63,434 million. Intragovernmental Assets and General Property, Plant, and Equipment comprise 95% of the total assets. *Figure 1-80* summarizes Interior's assets as of September 30, 2006.

Intragovernmental Assets are primarily composed of the Fund Balance with Treasury, Investments in U.S. Treasury Securities, and Loans and Interest Receivable.

General Property, Plant, and Equipment are primarily composed of land, structures, and facilities which are used for general operations, power, wild-life enhancement, and recreation. Most of Interior's structures and facilities are composed of dams, power, and irrigation facilities managed by BOR. The remainder consists of buildings and facilities used in Interior's operations (e.g., visitor centers, fish hatcheries, and BIA schools).

### Liabilities

In FY 2006, Interior's liabilities totaled \$11,938 million. This is a decrease of \$759 million over the prior year's liabilities, which totaled \$12,697 million. Intragovernmental Liabilities, Federal Employee and Veteran's Benefits and Accounts Payable with the Public comprise 72% of the total liabilities. *Figure 1-81* summarizes Interior's liabilities as of September 30, 2006.

Intragovernmental Liabilities comprises primarily

FIGURE 1-79

Condensed Balance Sheet  
As of September 30, 2006 and 2005  
(dollars in thousands)

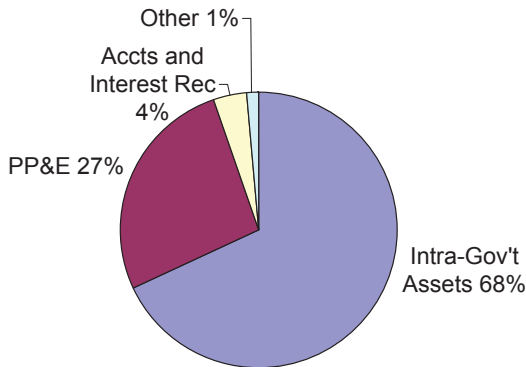
	2006	2005	% Change
<b>Assets</b>			
Intragovernmental Assets	\$ 44,577,141	\$ 42,462,958	5%
General Property, Plant, and Equipment, Net	17,491,901	17,323,778	1%
Accounts and Interest Receivable, Net	2,478,037	2,660,566	-7%
Other	885,908	986,598	-10%
<b>Total Assets</b>	<u>\$ 65,432,987</u>	<u>\$ 63,433,900</u>	3%
<b>Liabilities</b>			
Intragovernmental Liabilities	\$ 6,068,514	\$ 6,877,463	-12%
Accounts Payable	1,109,655	1,082,888	2%
Federal Employee and Veteran Benefits	1,387,423	1,367,705	1%
Contingent Liabilities	614,468	631,174	-3%
Other	2,757,915	2,737,748	Less than 1%
Total Liabilities	<u>11,937,975</u>	<u>12,696,978</u>	-6%
<b>Net Position</b>			
Unexpended Appropriations	4,227,548	4,179,242	1%
Cumulative Results of Operations	49,267,464	46,557,680	6%
Total Net Position	<u>53,495,012</u>	<u>50,736,922</u>	5%
<b>Total Liabilities and Net Position</b>	<u>\$ 65,432,987</u>	<u>\$ 63,433,900</u>	3%

Condensed Statement of Net Cost  
For the Fiscal Years Ended September 30, 2006 and 2005  
(dollars in thousands)

	2006	2005	% Change
<b>Mission</b>			
Resource Protection	\$ 2,810,075	\$ 2,298,764	22%
Resource Use	2,615,472	2,902,861	-10%
Recreation	1,410,049	1,507,425	-6%
Serving Communities	5,614,166	5,833,820	-4%
<b>Non-Mission</b>			
Reimbursable Activity and Other Costs	954,780	870,156	10%
<b>Net Cost of Operations</b>	<u>\$ 13,404,542</u>	<u>\$ 13,413,026</u>	Less than 1%
Total Cost	19,484,442	19,750,645	-1%
Total Revenue	6,079,900	6,337,619	-4%
<b>Net Cost of Operations</b>	<u>\$ 13,404,542</u>	<u>\$ 13,413,026</u>	Less than 1%

FIGURE 1-80

## FY 2006 Asset Categories



debt to the U.S. Treasury, resources payable to Treasury, and advances and deferred revenue.

Federal agencies, by law, cannot disburse money unless Congress has appropriated funds. Funded liabilities are expected to be paid from funds currently available to the Department. Interior's unfunded liabilities consist primarily of environmental and legal contingent liabilities and unfunded employee compensation costs, which include Federal Employment and Compensation Act and annual leave. These liabilities will be paid from funds made available to Interior in future years. The associated expense is recognized in the period in which the liability is established, regardless of budgetary funding considerations.

#### Ending Net Position

Interior's Net Position at the end of 2006, disclosed in the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$53,495 million, an increase of about \$2,758 million or 5% from the previous year.

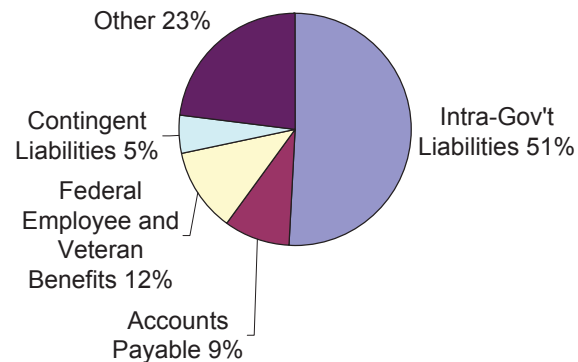
The Net Position of Interior consists of two components (1) Unexpended Appropriations of \$4,228 million and (2) Cumulative Results of Operations of \$49,267 million. The growth in Unexpended Appropriations is primarily due to the annual increase in budget authority Interior receives for its missions.

#### Results of Operations

Interior's net cost of operations for FY 2006 was \$13,404 million. This is a decrease of \$9 million from the previous year's net cost of \$13,413 million.

FIGURE 1-81

## FY 2006 Liability Categories



Most costs incurred by Interior are directly related to providing services to the public. Costs associated with earning revenue from Federal agencies are approximately 11% of total expenses.

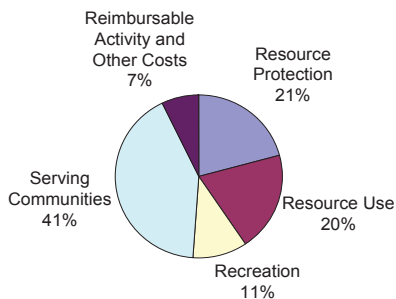
The Consolidated Statement of Net Cost is divided into the following five major program segments: Resource Protection; Resource Use; Recreation; Serving Communities; and Management Excellence, Reimbursable Activity and Other. Serving Communities represents 41% of the Department's net cost of operations (*Figure 1-82*).

#### Revenues

During FY 2006, Interior earned approximately \$2,911 million in revenue from the public and approximately \$3,169 million in revenue from other Federal entities, for a total of \$6,080 million (*Figure 1-79*). This is a decrease of about \$258 million from September 30, 2005. In FY 2005, approximately \$3,166 million was earned in revenue from the public and approximately \$3,172 million was earned in revenue from other Federal entities for a total of \$6,338 million.

Interior classifies revenue as either exchange or non-exchange revenue. Exchange revenues are those that derives from transactions in which both the government and the other party receive value, including park and wildlife refuge entrance fees, map sales, and other products and services that are directly related to Department operations. Revenue collected from other Federal agencies consists of reimbursable activities such as construction, engineering, and other technical services. Most of the revenue received from Federal

**FIGURE 1-82**  
**FY 2006 Net Cost of Operations**



agencies is generated from Interior Franchise Fund and National Business Center operations that provide shared administrative services. Interior also collects mineral lease revenues on behalf of the Federal Government. These are presented in the Statement of Custodial Activity rather than the Statement of Net Cost.

Interior collects various non-exchange revenue. Examples of non-exchange revenue are taxes, fines and penalties that the Federal Government collects as a result of its sovereign powers rather than as a result of providing goods or services for a fee. Non-exchange revenue decreased from \$1,277 in FY 2005 to \$1,250 million for FY 2006.

### Custodial Activity

In accordance with Federal accounting standards, receipts from mineral leasing revenue are presented in the Department's Statement of Custodial Activity since the collections are considered to be revenue of the Federal Government as a whole rather than the Department. Mineral leasing revenue was \$11,867 and \$12,386 million as of September 30, 2006, and 2005, respectively, and include Outer Continental Shelf and onshore oil, gas, and mineral sales and royalties.

Interior collects a portion of revenue as royalties-in-kind for transfer to the Strategic Petroleum Reserve. Interior received approximately 25.6 million barrels of petroleum as in-kind mineral lease revenues for the period ended September 30, 2005. This initiative was completed in July 2005. During FY 2006, subsequent revisions to the petroleum estimate were made based on actual data, thus decreasing the reserve value by \$18 million.

### Budgetary Resources

Interior receives most of its funding from general government funds administered by the U.S. Treasury and appropriated for Interior's use by Congress. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections, as well as other sources of budgetary resources (*Figure 1-83*). Other resources include special and trust funds such as Conservation Funds (the Land and Water Conservation Fund, Historic Preservation Fund, and the Environmental Improvement and Restoration Fund), the Reclamation fund, and the Aquatic Resources Trust Fund. These funds are administered in accordance with applicable laws and regulations.

The Statement of Budgetary Resources provides information on the budgetary resources that were made available to Interior for the year and the status of those resources at the end of the fiscal year. Obligations of \$21,434 and \$21,114 million were incurred as of September 30, 2006, and 2005 on total budgetary resources of \$27,620 and \$26,825 million, respectively (*Figure 1-84*).

### Stewardship Assets and Investments

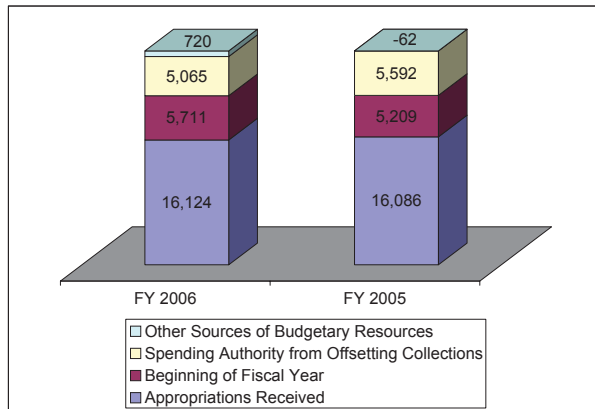
Interior is the Federal Government's largest land-managing agency, administering over 500 million acres of America's land mass and serving as steward for the natural and cultural resources associated with these lands. Each bureau within Interior that administers stewardship lands serves to preserve, conserve, protect, and interpret how best to manage the Nation's natural, cultural, and recreational resources. Some of these stewardship lands have been designated as multiple use, which Congress defines as management of both the land and use of the land in a combination that will best meet the present and future needs of the American people. The stewardship assets managed by Interior generally remain constant (*Figure 1-86*).

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

**FIGURE 83**

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

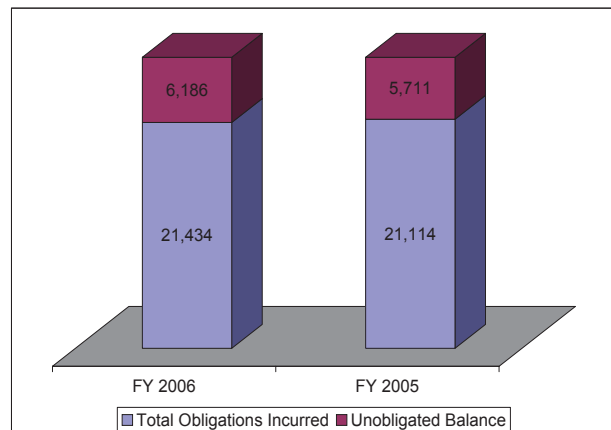
\* Excludes Non-budgetary Credit Program Financing Accounts



**FIGURE 84**

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

\* Excludes Non-budgetary Credit Program Financing Accounts



**FIGURE 1-85**

**Stewardship Investments**  
(in millions)

	FY 2006	FY 2005	Change	% Change
Non-Federal Physical Property	665	557	108	19%
Research and Development	857	918	-61	-7%
Human Capital	605	614	-9	-1%
Totals	2,127	2,089	38	-2%

The increase in Non-Federal Physical Property can be attributed to the completion of several significant Reclamation projects.

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

**Limitations of Financial Statements**

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

While these statements have been prepared from the records of the Department in accordance with

generally accepted accounting principles and formats prescribed in OMB Circular No. A-136, “Financial Reporting Requirements,” these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same records.

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

**FIGURE 1-86**

**Stewardship Land**  
(Federal Units)

	Beginning Units	Additions	Withdrawals	Ending Units
BLM	126	-	-	126
NPS	388	2	-	390
FWS	668	2	-	670
BOR	146	-	-1	145
BIA	220	1	-	221
Other	1	-	-	1
Total	1,549	5	-1	1,553