Analysis of Financial Statements

Interior received, for the 11th consecutive year, an unqualified audit opinion on its financial statements. The statements were audited by the independent accounting firm of KPMG LLP. Preparing the financial statements is part of Interior's goal to improve financial management and to provide accurate and reliable information that is useful for assessing financial performance and allocating resources. Interior management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this Report have been prepared from Interior's accounting records in conformity with generally accepted accounting principles. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board.

Information provided in the financial statements, the opinion presented as a result of the independent audit, and other disclosures and information provided in this Report provide assurance to the public that the information is accurate, reliable, and useful for decisionmaking.

The Department expects that balances of line items will fluctuate in the normal course of business. Therefore, while Interior notes these variances, any fluctuations of 10 percent or less are considered normal and will not be detailed specifically in this analysis.

Overview of Financial Position

Assets

At the end of FY 2007, Interior's assets totaled $66,984 million. This is an increase of $1,551 million or 2 percent over the previous year's assets, which totaled $65,433 million. Interior's assets reflected in the Balance Sheet are summarized in Figure 1- 75.

Interior's assets are primarily composed of the Fund Balance with Treasury and General Property, Plant, and Equipment. The Fund Balance with Treasury is money that Interior is authorized to pay liabilities resulting from operational activity and consists of funds received from direct appropriations, transfers, offsetting receipts, recoveries, and funds held in budget clearing accounts.

General Property, Plant, and Equipment are primarily composed of land, structures, and facilities which are used for general operations, power, wildlife enhancement, and recreation. Most of 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 IA schools).

The Department seeks to explain any variances exceeding 10 percent of the previous year's line item total. From FY 2006 to FY 2007, the Accounts and Interest Receivable line item had a significant variation, increasing by $450 million (15 percent) due to changes in FWS and MMS. FWS has an increase of approximately $1 billion in FY 2007 resulting from the implementation of OMB Guidance, which changed the reporting responsibilities for Treasury Managed Trust Funds with multiple component entities. In FY 2006, the FWS was only required to present the SFRA portion of the SFRBTF. The FY 2007 statements reflect a receivable of $1 billion from the U.S. Coast Guard, representing funds due to FWS for its portion of the SFRBTF. This increase is partially offset by a $500 million reduction in MMS accounts receivable due to the maturation of long-term coal lease deferred bonuses and an increase in allowances, which reduce accounts receivable, for aging Deepwater Royalty Relief receivables.

Liabilities

In FY 2007, Interior's liabilities totaled $10,979 million. This is a decrease of $959 million or 8 percent from the previous year's liabilities of $11,938 million. Interior's liabilities reflected in the Balance Sheet are summarized in Figure 1- 76.

FIGURE 1-75

(dollars in thousands)	FY 2007	FY 2006
Fund Balance with Treasury	$ 34,776,671	$ 33,409,382
Investments, Net	7,485,899	8,282,933
General Property, Plant, and Equipment, Net	17,930,798	17,491,901
Accounts and Interest Receivable, Net	3,368,896	2,918,547
Cash and Other Assets	3,421,256	3,330,224
Total Assets	$ 66,983,520	$ 65,432,987

FIGURE 1-76

(dollars in thousands)	FY 2007	FY 2006
Accounts Payable	$ 1,667,800	$ 1,154,601
Debt	858,007	1,056,572
Loan Guarantee Liability	41,434	92,380
Federal Employee and Veteran Benefits	1,363,633	1,387,423
Environmental and Disposal Liabilities	147,514	153,466
Other Liabilities	6,900,526	8,093,533
Total Liabilities	$ 10,978,914	$ 11,937,975

FIGURE 1- 77

(dollars in thousands)		FY 2007		FY 2006
Resource Protection	$	3,666,109	$	2,810,075
Resource Use		2,144,299		2,615,472
Recreation		2,255,035		1,410,049
Serving Communities		4,636,522		5,614,166
Reimbursable Activity and Other		936,721		954,780
Net Cost of Operations	$	13,638,686	$	13,404,542

Interior's liabilities are primarily composed of Accounts Payable, Debt, Federal Employee and Veteran Benefits, and Other Liabilities. Other Liabilities is primarily composed of Resources Payable to Treasury, and Custodial Liablities.

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 amounts. These liabilities will be paid from funds made available to the Interior in future years. The associated expense is recognized in the period in which the liaiblity is established, regardless of budgetary funding considerations.

In FY 2007, the Department had several liability line items with variances meeting the threshold for analysis. Accounts Payable showed a change of approximately $513 million (44 percent) due, in most part, to FWS changing reporting to follow SFFAS 27. The FY 2007 statements reflect the portion of the SFRBTF due for distribution to the U.S. Coast Guard and U.S. Corps of Engineers as a payable. FY 2006 does not reflect the payable, as the OMB requirements were not in effect until FY 2007.

Total debt decreased for the year by $199 million (19 percent) due to repayments to BPD by IA, BOR, Departmental Offices and BLM. The bulk of the change was due to the BLM annual repayment of $150 million of Helium related debt.

The decrease of $51 million in Loan Guarantee liability is attributable to IA. In FY 2007, IA implemented the Balances Approach Reestimate Calculator spreadsheet tool to calculate the subsidy reestimate based on OMB's recommendation. IA booked changes to estimates in the Loan Guarantee liability account, at the end of the year.

The Other Liabilities line item, as presented in this summary statement, is a composite of all remaining liabilities in the Department not chosen for emphasis here. The large change (decrease) of $1.2 billion (15 percent) is, therefore, a result of many smaller changes to liability accounts in the fund. The most significant component causing the change is a decrease in the Departmental Offices' Advances and Deferred Revenue line of $500 million due to a new cap on DOD contracts and the subsequent return of funds from the Department's Interior Franchise Fund to DOD. MMS also contributed to the decrease in the overall other liabilities. MMS Contingent Liabilities decreased by $216 million due to a change in the estimate of loss. MMS Custodial Liabilities also decreased by $382 million due to the maturation of long-term coal lease deferred bonuses, a reduction in the number of new coal leases awarded, and an ongoing effort to match and liquidate royalty related receivables.

Net Position

Interior's Net Position at the end of 2007, disclosed in the Balance Sheet and the Statement of Changes in Net Position, was $56,005 million, an increase of about $2,510 million or 5 percent from the previous year.

Interior's Net Position consists of the sum of Unexpended Appropriations of $4,110 million and Cumulative Results of Operations of $51,895 million.

Results of Operations

Interior's net cost of operations for FY 2007 was $13,639 million. This is an increase of $234 million or 2 percent from the previous year's net cost of

$13,405 million. Interior's net cost of operations as reflected in the Statement of Net Cost is summarized in Figure 1- 77.

Most costs incurred by Interior are directly related to providing services to the public. The Consolidated Statement of Net Cost is divided into the following five major program segments: Resource Protection; Resource Use; Recreation; Serving Communities; and Reimbursable Activity and Other. Serving Communities represents 34 percent of the Department's net cost of operations.

Revenue

During FY 2007, Interior earned approximately $2,035 million in revenue from the public and approximately $2,536 million in revenue from other Federal entities, for a total of $4,571 million. This is a decrease of about $1,509 million from September 30, 2006. In FY 2006, approximately $2,911 million was earned in revenue from the public and approximately $3,169 million was earned in revenue from other Federal entities, for a total of $6,080 million.

Interior classifies revenue as exchange or non-exchange revenue. Exchange revenues are those that derive from transactions in which 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 Departmental 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 agencies is received 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 revenues. 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.

Overall Department revenues decreased for the year by $1.5 billion. The bulk of the decrease was in the BLM. The BLM had a decrease of $760 million due to fewer SNPLMA land sales in 2007. The remainder of the decrease was due to the change in several bureaus, significantly in IA, of parent/child reporting. IA had revenue in FY 2006 related to accounts where IA was the child of another agency; revenues for those accounts are not reported by DOI as revenue in FY 2007. The balance of the decrease is due to this reduced business activity in several FWS and IA funds.

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 the 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. 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 how budgetary resources and nonbudgetary credit program financing were made available to Interior for the year and their status at fiscal year-end. Obligations of $20,963 million and $21,447 million were incurred as of September 30, 2007, and 2006, respectively on total budgetary resources in FY 2007 of $26,799 million, and in FY 2006, of $27,741.

Custodial Activity

In accordance with Federal accounting standards, receipts from mineral leasing revenue are presented in Interior's Statement of Custodial Activity, since the collections are considered to be revenue of the Federal Government as a whole rather than Interior. Mineral leasing revenue was $10,984 million and $11,867 million as of September 30, 2007, and 2006, 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. The current Strategic Petroleum Reserve initiative began in July 2007. The current estimated value of this initiative is $306 million which was reported as custodial revenue.

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- 78

STEWARDSHIP LAND (FEDERAL UNITS)				
	Beginning Units	Additions	Withdrawals	Ending Units
BLM	126	0	0	126
NPS	390	1	0	391
FWS	670	2	0	672
BOR	145	0	0	145
BIA	221	0	3	218
Other	1	0	0	1
Total	1,553	3	3	1,553

FIGURE 1- 79

STEWARDSHIP INVESTMENTS (IN MILLIONS)				
	FY 2007	FY 2006	Change	% Change
Non-Federal Physical Property	$559.7	$664.5	$104.8	19%
Research and Development	866.0	857.0	9.0	1%
Human Capital	$565.1	$605.0	$39.9	7%

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 human capital, and the purchase or construction of assets for which State, local, or tribal governments and insular areas retain title.

Stewardship land and investments are summarized in the following tables: Figures 1- 78 and 1- 79.

In FY 2007, Interior made a change in accounting principle resulting in a decrease in FY 2007 stewardship investments in the Investment in Human Capital and the Non-Federal Physical Property lines. Job Corps and Highway/Road programs are no longer reported by Interior due to OMB Circular No. A-136 revisions which require parent agencies to report all activity for the funds they administer. Interior is a child to the Department of Labor and the Department of Transportation which administer these programs.

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 Notes to the Financial Statements Section and 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.