

**FINANCIAL STATEMENTS,  
NOTES TO FINANCIAL STATEMENTS,  
AND OTHER REQUIRED  
ACCOUNTABILITY REPORT  
INFORMATION**

# COMPLIANCE WITH LEGAL AND FINANCIAL REQUIREMENTS

The following provides information on OSM's compliance with:

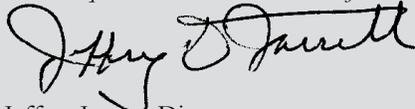
- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Other key legal and regulatory requirements

## 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 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 2002, we conducted assessments of selected programs and administrative functions sufficient to ensure 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.

Review	Scope	2002 Management Control Reviews	Results
<b>Acquisition Management</b>	Included Performance Based Service Contracting training, compliance, and reporting; and OSM's purchase card and convenience check program.		Adjustments have been made in the number of cardholders with purchase authority and 36% of purchase cardholders are being moved to an option set with lower credit limits.
<b>Personal Property Management</b>	Included Reports of Survey (ROS) completed, dollars associated with surveys, overturned decisions on ROS, Internet sales of surplus, and exchange/sales of personal property reporting procedures.		No Findings
<b>Improper Payments</b>	In order to comply with statutory requirements and OMB Directives, the Office of Information Management (PIR) and the Office of Acquisition and Property Management (PAM) conducted a Departmental Functional Review of Improper Payments.		No Findings
<b>Sensitive Automated Information System</b> [General Support Systems]	To determine if adequate general support system controls for the HQ Local Area Network and HQ Wide Area Network are in place to prevent waste, fraud, abuse, and mismanagement of Federal funds; and to determine if they are being operated in an effective, efficient and secure manner.		Non-material weaknesses found and corrective action items identified.
<b>Abandoned Mine Land Inventory System (AMLIS)</b> [Mission Critical System]	Ensure adequate security and safeguards are contained in the AMLIS system.		Non-material weaknesses found and corrective action items identified.
<b>Equal Employment Opportunity</b>	Ensure that the EEO Program in the ARCC Regional Coordination Center and Knoxville Field Office were in compliance with EEO laws and regulations, and to assess the effectiveness of the EEO program in achieving EEO goals and objectives. It also provided a mechanism by which programmatic actions could be initiated to improve the quality and effectiveness of the EEO program.		Non-material weaknesses found and corrective action items identified.
<b>Small Operators Assistance Program (SOAP)</b>	Focus was on assessing the effects of recent changes on the management controls of the program, and determining whether any changes to the controls are needed.		Non-material weaknesses found and corrective action items identified.

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

This law requires agencies to report on their substantial compliance with federal financial management system 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 substantially complies with the FFMIA.

OSM received an unqualified opinion on the financial statements, no material weaknesses in the report on internal controls and were in compliance with laws and regulations that could have a direct and material effect on the determination of financial statement amounts.

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

### ***Prompt Payment Act***

OSM substantially complies with the Prompt Payment Act as evidenced by the fact that 99 percent of its payments are made on time. OSM took the following steps to ensure that this continues:

- Charge cards were used to cut through red tape and expedite payment. Almost 95 percent of purchase transactions were made with charge cards in FY 2002, and the agency continues to promote their increased use, and
- Electronic funds transfer (EFT) was used to make 98.4 percent of the agency's vendor payments covering 99.9 percent of the dollar amount paid.

### ***Debt Collection Improvement Act***

OSM collected over 99.8 percent of the Abandoned Mine Land Reclamation Fees due this year, for a total of \$287 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 an active follow-up through audits and several other compliance activities. The current uncollected outstanding accounts receivable balance is \$3 million, comprised of \$2.8 million in AML Fees and Audit debt, and \$0.2 million in civil penalties. The \$3.0 million balance includes accounts that may not be collectible. After deducting a \$1.8 million estimate for uncollectible receivables, we estimate that \$1.2 million of this amount should be collectible.

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

### ***Civil Monetary Penalty Act***

OSM has increased the assessment amounts of civil monetary penalties in accordance with the Act, and is in compliance. The agency issues civil monetary penalties for violations of the Surface Mining Control and Reclamation Act.

# CONSOLIDATED BALANCE SHEET

**Department of the Interior  
Office of Surface Mining**

As of September 30, 2002 and 2001  
(dollars in thousands)

	2002	2001
<b>ASSETS</b>		
Intragovernmental Assets:		
Fund Balance with Treasury (Notes 2 and 20)	\$47,653	\$49,008
Investments, Net, Non-Marketable (Notes 3 and 20)	1,895,100	1,863,582
Accounts Receivable, Net (Note 4)	17	2
Total Intragovernmental Assets	1,942,770	1,912,592
Accounts and Interest Receivable, Net (Notes 5 and 20)	1,235	26,152
General Property, Plant and Equipment, Net (Note 6)	2,682	2,576
<b>TOTAL ASSETS</b>	<b>\$1,946,687</b>	<b>\$1,941,320</b>
<b>LIABILITIES (Note 7)</b>		
Intragovernmental Liabilities:		
Accounts Payable (Note 20)	\$220	\$50
Accrued Payroll and Benefits (Note 20)	570	490
Unfunded Payroll Costs	894	679
Other Liabilities (Note 8)	243	802
Total Intragovernmental Liabilities	1,927	2,021
Accounts Payable (Note 20)	8,023	11,158
Accrued Payroll and Benefits (Note 20)	2,694	2,405
Contingent Liabilities (Note 9)	25,049	80,100
Federal Employees Compensation Act Liability	3,460	4,929
Unfunded Payroll Costs	4,307	3,996
Benefits Due and Payable (Notes 10 and 20)	7,909	43,606
Deferred Credits and Other Liabilities (Note 8)	462	528
<b>Total Liabilities</b>	53,831	148,743
Commitments and Contingencies (Note 11)		
<b>NET POSITION</b>		
Unexpended Appropriations	36,038	40,319
Cumulative Results of Operations	1,856,818	1,752,258
<b>Total Net Position (Note 20)</b>	<b>\$1,892,856</b>	<b>\$1,792,577</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$1,946,687</b>	<b>\$1,941,320</b>

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

# CONSOLIDATED STATEMENT OF NET COST

## Department of the Interior Office of Surface Mining

For the years ended September 30, 2002 and 2001  
(dollars in thousands)

	2002	2001
<b>Environmental Restoration</b>		
Gross Cost	\$194,401	\$162,399
Less: Earned Revenue	406	538
Net Cost (Note 20)	193,995	161,861
<b>Environmental Protection</b>		
Gross Cost	55,962	61,725
Less: Earned Revenue	947	1,636
Net Cost	55,015	60,089
<b>United Mine Workers CBF</b>		
Gross Cost	77,984	166,682
Less: Earned Revenue	0	0
Net Cost (Note 20)	77,984	166,682
<b>Totals</b>		
Gross Costs	328,347	390,806
Less: Earned Revenue	1,353	2,174
<b>Net Cost (Note 12)</b>	<b>\$326,994</b>	<b>\$388,632</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

**Department of the Interior  
Office of Surface Mining**

For the year ended September 30, 2002  
(dollars in thousands)

	<b>Cumulative Results Of Operations</b>	<b>Unexpended Appropriations</b>
<b>Beginning Balances</b>	\$1,752,258	\$40,319
<b>Budgetary Financing Sources</b>		
Appropriations Received, General Funds		102,800
Other Adjustments (rescissions, etc.)		(1,610)
Appropriations Used	105,471	(105,471)
Abandoned Mine Land Fees (Note 20)	285,580	
Other Non-Exchange Revenue (Note 20)	36,251	
Forfeitures of Cash	4	
<b>Other Financing Sources</b>		
Transfers In (Out) without Reimbursement	(37)	
Imputed Financing from Costs Absorbed by Others	4,285	
<b>Total Financing Sources</b>	431,554	(4,281)
<b>Net Cost of Operations</b>	(326,994)	
<b>Ending Balance</b>	\$1,856,818	\$36,038

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

# COMBINED STATEMENT OF BUDGETARY RESOURCES

**Department of the Interior  
Office of Surface Mining**

For the year ended September 30, 2002  
(dollars in thousands)

**Budgetary Resources**

Budget Authority -	
Appropriations Received (Note 13)	\$419,971
Unobligated Balance -	
Beginning of Fiscal Year, as Adjusted (Note 14)	54,265
Spending Authority From Offsetting Collections:	
Earned	
Collected	24,620
Receivable From Federal Sources	14
Change in Unfilled Customer Orders	
Without Advance From Federal Sources	(227)
Recoveries of Prior Year Obligations	34,711
Temporarily Not Available Pursuant to Public Law	(23,502)
Permanently Not Available	(1,628)
<b>Total Budgetary Resources</b>	<b>\$508,224</b>

**Status of Budgetary Resources**

Obligations Incurred (Note 15):	
Direct	
Reimbursable	1,160
Total Obligations Incurred	454,700
Unobligated Balance -	
Apportioned	50,337
Unobligated Balance not Available	3,187
<b>Total Status of Budgetary Resources</b>	<b>\$508,224</b>

**Relationship of Obligations to Outlays**

Obligations Incurred (Note 15)	\$454,700
Obligated Balance, Net, Beginning of Period, as Adjusted (Note 14)	352,355
Obligated Balance, Net, End of Period:	
Accounts Receivable	17
Unfilled Customer Orders From Federal Sources	254
Undelivered Orders	(342,733)
Accounts Payable	(11,500)
Less: Spending Authority Adjustments	(34,498)
Outlays:	
Disbursements	418,595
Collections	(24,620)
Net Outlays Before Offsetting Receipts	393,975
Less: Offsetting Receipts (Note 16)	(43,556)
<b>Net Outlays</b>	<b>\$350,419</b>

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

# CONSOLIDATED STATEMENT OF FINANCING

**Department of the Interior  
Office of Surface Mining**

For the year ended September 30, 2002  
(dollars in thousands)

**Resources Used to Finance Activities**

Budgetary Resources Obligated	
Obligations Incurred	\$454,700
Less: Spending Authority from Offsetting Collections and Recoveries	(59,118)
	<hr/>
Obligations Net of Offsetting Collections and Recoveries	395,582
Less: Offsetting Receipts (Note 16)	(43,556)
	<hr/>
Net Obligations	352,026
Other Resources	
Transfers In (Out) without Reimbursement	(37)
Imputed Financing From Costs Absorbed by Others	4,285
	<hr/>
Net Other Resources Used to Finance Activities	4,248
	<hr/>
<b>Total Resources Used to Finance Activities</b>	<b>356,274</b>

**Resources Used to Finance Items not Part of the Net Cost**

Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	(4,253)
Resources that Fund Expenses Recognized in Prior Periods	(68,911)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost	
Offsetting Receipts and Other	43,546
Resources that Finance the Acquisition of Assets	(637)
	<hr/>
Total Resources Used to Finance Items not Part of the Net Cost	(30,255)
	<hr/>
<b>Total Resources Used to Finance the Net Cost</b>	<b>326,019</b>

**Components of the Net Cost that will not Require  
or Generate Resources in the Current Period**

Components Requiring or Generating Resources in Future Periods:	
Increase in Annual Leave Liability	311
Change in Unfunded Liabilities and Other	215
Total Components of the Net Cost that will require or Generate Resources in Future Periods (Note 17)	526
Components Not Requiring or Generating Resources:	
Depreciation and Amortization	531
Other, Reconciling Item (Note 18)	(82)
	<hr/>
Total Components of the Net Cost that will not Require or Generate Resource	449
	<hr/>
<b>Total Components of the Net Cost that will not Require or Generate Resources in the Current Period</b>	<b>975</b>

<b>Net Cost of Operations</b>	<b>\$326,994</b>
	<hr/> <hr/>

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

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

## 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. 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 Accounting 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.

### 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.

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 basis 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:

- 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 Accounting Office (GAO), OMB and Treasury. Additionally, FASAB Interpretations provide further clarification to the approved standards.
- Form and content requirements for financial statements, as presented in OMB Bulletin No. 01-09 (Form and Content of Agency Financial Statements). Note that the provisions of published SFFAS and interpretations take precedence over OMB Form and Content Guidance.
- 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).
- The accounting principles and standards contained in departmental and bureau accounting policy and procedures manuals, and/or related guidance.
- 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. Responsibility

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

## 1. Fund Accounting

OSM is responsible for financial reporting by category of source or use, otherwise known as funds. For this purpose, OSM has consolidated accounting data into three types:

**Regulation and Technology** - These funds consist of expenditure accounts used to record financial transactions arising from congressional appropriations to spend general revenue. This category supports 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.

**Reclamation Programs** - Funds for these programs come from revenues collected from fees (AML Fund) and civil penalty assessments and are used for the purpose of reclamation projects.

- **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 Abandoned Mine Lands (AML) Reclamation program. However, before AML funds can be used, a Congressional appropriation is necessary to authorize yearly spending limits.
- **Civil Penalty Funds** - Penalties are assessed for violations and are used to reclaim mining sites.
- **Bond Forfeiture Funds** - Companies sometimes forfeit bonds and the money is used to reclaim the mine site.
- **Investment Fund** - Available Special Fund balances, in excess of current cash requirements, are regularly invested in non-marketable federal securities as authorized under Public Law 101-508.

**Other** - These are temporary holding accounts for resources pending distribution. These are allocated between the regulation and reclamation funds.

- **Deposit Funds** — These funds account for receipts awaiting proper classification, amounts held in escrow, and proceeds from the sale of vehicles.
- **Receipt Funds** — The Office of Surface Mining's financial statements include: (1) miscellaneous judicial service fees, (2) fines, (3) administrative fees, (4) miscellaneous receipts, (5) interest, and (6) unclaimed monies which are credited annually to the Treasury's general government fund. In the billing and collection of these funds, OSM is merely acting as a collection agent for the Treasury.

## 2. Government Performance and Results Act (GPRA) Program Activities

Beginning in Fiscal Year 1998, OSM is responsible for reporting costs by GPRA program activity. OSM's GPRA program activities are:

- **Environmental Restoration** - This program is responsible for the reclamation of abandoned mine land affected by mining that took place before the Surface Mining Law was passed in 1977. It includes grants to States and Indian Tribes, emergency projects, the Appalachian Clean Streams Initiatives, financial management of Abandoned Mine Land fees and investments, as well as funding of related OSM activities.
- **Environmental Protection** - 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.
- **United Mine Workers of America Combined Benefit Fund Transfer** – 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.

## D. Revenues and Financing Sources

### 1. Realized Operating Revenue

- **Appropriations** - The United States Constitution prescribes that funds must be made available by Congressional appropriation before they may be expended by a Federal agency.
- **Other Revenue** - Additional funds are obtained through various sources including reimbursements for services performed for other Federal agencies and the public as well as fees and miscellaneous receipts derived from other OSM programs.

## 2. Assessments

- The Bond Forfeiture Fund receives operating authority based on revenue provided from forfeited performance bonds. Regulations require that proceeds from this fund be used to reclaim lands that are specific to the forfeited bond.
- The Civil Penalty Fund collects revenue from assessments levied against permittees who violate any permit condition or any other provision of Title 30 U.S.C. 1268. Regulations require that proceeds from this fund be used to reclaim lands adversely affected by coal mining practices on or after August 3, 1977.

## 3. Abandoned Mine Land Fees

The Abandoned Mine Land (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.

Since the inception of SMCRA, the Act requires that half of the AML reclamation fees be set aside for the state of origin. The remaining collections - half of the AML and all interest, late-payment penalties, and administrative charges - are set aside without regard to the state from which the fees were collected. Annually, Congress provides grant monies in the OSM appropriation, typically much less than the annual collections, which are distributed to those states and tribes that have a state or tribal run AML program. Fees collected, but not yet appropriated, are held in trust for future appropriations.

## 4. Interest Earnings

Beginning in FY 1996, OSM has annually transferred a portion of the interest it has earned through investment of the AML Funds unexpended balance to the United Mine Workers of America Combined Benefit Fund. See Notes 1K and 3 for additional information.

## 5. Transfers In/Transfers Out

The Office of Surface Mining also administers and accounts for financial activity affecting no-year funds that, in earlier years, had been transferred to OSM from the U.S. Department of State (India Fund). The purpose of the India transfer was to fund research and development of India's reclamation program within the framework of SMCRA.

## **E. Centralized Federal Financing Activities**

OSM's financial activities interact with and are dependent on the financial activities of the centralized management functions of the federal government that are undertaken for the benefit of the government as a whole. These activities include public debt and employee retirement and post-employment benefit programs. Employee retirement and post-employment benefit costs, along with an imputed financing source for these costs, are included in OSM's financial statements. Public debt activities that are performed for the benefit of the government as a whole are not included in these financial statements.

## **F. 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. However, the specific analysis method was used for one account because it represented 36% of the outstanding accounts receivable. OSM's allowance methodology is representative of the collectability of delinquent accounts. For all other types, the allowance is based on an analysis of each account receivable.

## **G. 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 accrues 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. Either semiannually or annually, grantees report costs incurred to OSM.

## **H. Administrative Expenses**

Executive and general administrative expenses incurred by OSM benefit both the Regulation and Technology and AML funds. Both funds receive an equitable reallocation of indirect costs through a budget-based formula.

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

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

OSM distributes the Congressional appropriation from the collections of AML fees through grants to states and tribes. The distribution contains three main components: 1) state share distribution 2) federal share distribution 3) emergency program distribution. The state-share portion is based on the percentage of each state's balance in the AML Trust 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 trust 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.

## **J. Asset Classification**

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. OSM's only non-entity assets include certain accounts and interest receivable that will be forwarded to the Treasury upon collection, see note 5 for additional information. 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 restricted assets.

## **K. 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 the Treasury. OSM reconciles its records with those of the Treasury on a monthly basis. Note 2 provides additional information on Fund Balances with the Treasury.

## **L. Investments**

OSM invests excess cash from AML fee collections in Treasury bills and certificates. Note 3 provides additional information concerning investments. Some of these investment earnings are transferred to the United Mine Workers of America Combined Benefit Fund.

## **M. 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.

Office of Workers Compensation Program chargeback 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.

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 contribute 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 twelve percent of their gross earnings to the plan. CSRS employees have the option of contributing to the thrift savings plan up to seven 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.

## **N. Income Taxes**

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

## **O. 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.

**Note 2. 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. 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.

(Dollars in thousands)

<b>Fund Balance by Fund Type</b>	<b>2002</b>	<b>2001</b>
General Funds	\$41,399	\$46,941
Special Funds	5,550	749
Other Fund Types	704	1,318
<b>Total</b>	<b>\$47,653</b>	<b>\$49,008</b>
<b>Status of Fund Balance with Treasury</b>		
Unobligated Balance:		
Available	\$1,815	\$1,590
Unavailable	3,891	4,988
Obligated Not Yet Disbursed	41,947	42,430
<b>Total</b>	<b>\$47,653</b>	<b>\$49,008</b>

**Analysis of Status of Fund Balance with Treasury**

	<b>SBR</b>	<b>Invested</b>	<b>Allocation Accounts</b>	<b>Fund Balance without Budgetary Authority</b>	<b>Net</b>
<b>2002</b>					
Unobligated Balance:					
Available	\$50,337	(\$48,685)	\$163	\$0	\$1,815
Unavailable	3,187	0	0	704	3,891
Obligated Not Yet Disbursed	353,962	(311,358)	(657)	0	41,947
<b>Total</b>	<b>\$407,486</b>	<b>(\$360,043)</b>	<b>(\$494)</b>	<b>\$704</b>	<b>\$47,653</b>
<b>2001</b>					
Unobligated Balance:					
Available	\$50,420	(\$48,830)	\$0	\$0	\$1,590
Unavailable	3,670	0	0	1,318	4,988
Obligated Not Yet Disbursed	351,915	(309,485)	0	0	42,430
<b>Total</b>	<b>\$406,005</b>	<b>(\$358,315)</b>	<b>\$0</b>	<b>\$1,318</b>	<b>\$49,008</b>

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

### Note 3. Net Investments, Non-Marketable:

Effective October 1, 1991, OSM was given authority to invest the balance of the AML Special 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. OSM uses the straight-line method for amortization as opposed to the effective interest method, which is required by generally accepted accounting principles; however, the effect of using the straight-line method is not significantly different from that of the effective interest method.

When Treasury bills are purchased by OSM, the unamortized discount or premium is calculated by the Treasury at the time of purchase. The unamortized discount represents the value of the discount carried until a security is redeemed or matures. Investments are entered at the fair recorded at cost, with amounts accrued for unamortized discounts.

(Dollars in thousands)

Security Type	Cost	Unamortized Discount	Investments, Net	Market Value Disclosure
<b>2002</b>				
Non-Marketable:				
Market Based	\$1,895,000	\$0	\$1,895,000	\$1,895,000
Accrued Interest	100		100	100
Totals	\$1,895,100	\$0	\$1,895,100	\$1,895,100
<b>2001</b>				
Non-Marketable:				
Market Based	\$1,866,451	(\$3,063)	\$1,863,388	\$1,863,388
Accrued Interest	194		194	194
Totals	\$1,866,645	(\$3,063)	\$1,863,582	\$1,863,582

At the end of FY 2002, OSM was fully invested in one-day certificates. At the end of FY 2001, OSM's investments included a mix of one-day certificates and bills.

### Note 4. Intragovernmental Accounts Receivable, Net:

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

(Dollars in thousands)

	2002	2001
Unbilled Accounts Receivable	\$17	\$2

**Note 5. 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. The accounts receivable balance at September 30, 2001 included a refund receivable due from the United Mine Workers Combined Benefit Fund in the amount of \$23,328 thousand, which was accrued during FY 2001 and was collected in FY 2002. An aging of OSM's accounts receivable with the public is displayed below for both fiscal years.

(Dollars in thousands)

	Unbilled	Current	Past Due Accounts			Allowance for Doubtful Accounts	Net Receivables
			1-180 Days	181-365 Days	Over 1 Year		
<b>2002</b>							
Non-Entity	\$0	\$0	\$1	\$0	\$2	(\$3)	\$0
Entity	0	1,560	420	218	836	(1,799)	1,235
Total Receivables	\$0	\$1,560	\$421	\$218	\$838	(\$1,802)	\$1,235
<b>2001</b>							
Non-Entity	\$0	\$0	\$1	\$0	\$21	(\$19)	\$3
Entity	23,328	811	948	90	2,325	(1,353)	26,149
Total Receivables	\$23,328	\$811	\$949	\$90	\$2,346	(\$1,372)	\$26,152

Non-entity receivables represent receivables, which OSM has no statutory authority to retain. These are OSM's only non-entity assets. The collections on these receivables are transferred annually to the Treasury. An intragovernmental payable is established at the same time the receivable is established. An analysis of OSM's allowance for doubtful accounts is provided below.

(Dollars in thousands)

	Gross A/R	Allowance for Doubtful Accounts			Ending Balance	Net A/R
		Beginning Balance	Additions	Reductions/ Collections		
<b>2002</b>						
Total Receivables	\$3,037	\$1,372	\$2,762	(\$2,332)	\$1,802	\$1,235
<b>2001</b>						
Total Receivables	\$27,524	\$3,164	\$1,044	(\$2,836)	\$1,372	\$26,152

**Note 6. General Property, Plant and Equipment, Net:**

OSM does not own any real estate or buildings. All property and equipment are valued at historical cost. Property and equipment are capitalized whenever the initial acquisition cost is \$15 thousand or greater and the estimated useful life is two years or longer. Computer software is not capitalized unless the acquisition cost is \$25 thousand or more.

All property and equipment is depreciated using the straight-line method and the asset's useful life and is determined using OMB guidance.

(Dollars in thousands)

Equipment Type	Service Life in Years	Acquisition Value	Accumulated Depreciation	Net Book Value
<b>2002</b>				
ADP	15	\$1,930	(\$1,402)	\$528
Office	11-20	974	(261)	713
Vehicles	6-10	2,987	(1,546)	1,441
Total		\$5,891	(\$3,209)	\$2,682
<b>2001</b>				
ADP	15	\$2,066	(\$1,506)	\$560
Office	11-20	898	(232)	666
Vehicles	6-10	2,758	(1,408)	1,350
Total		\$5,722	(\$3,146)	\$2,576

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

**Note 7. 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.

(Dollars in thousands)

2002	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		Total
	Current Liabilities	Non-Current Liabilities	Current Liabilities	Non-Current Liabilities	
Intragovernmental:					
Accounts Payable	\$220	\$0	\$0	\$0	\$220
Other:					
Accrued Payroll and Benefits	570				570
Unfunded Payroll Costs			290	604	894
Other Liabilities	243				243
Total Other	813	0	290	604	1,707
Total Intragovernmental Liabilities	1,033	0	290	604	1,927
Accounts Payable	8,023				8,023
Federal Employee Compensation Act Liability				3,460	3,460
Benefits Due and Payable			7,909		7,909
Other:					
Accrued Payroll and Benefits	2,694				2,694
Contingent Liabilities			25,049		25,049
Unfunded Payroll Costs				4,307	4,307
Deferred Credits and Other Liabilities			462		462
Total Other	2,694	0	25,511	4,307	32,512
Total	10,717	0	33,420	7,767	51,904
Total Liabilities	\$11,750	\$0	\$33,710	\$8,371	\$53,831

(Dollars in thousands)

2001	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources		Total
	Current Liabilities	Non-Current Liabilities	Current Liabilities	Non-Current Liabilities	
Intragovernmental:					
Accounts Payable	\$50	\$0	\$0	\$0	\$50
Other:					
Accrued Payroll and Benefits	490				490
Unfunded Payroll Costs			272	407	679
Other Liabilities	790			12	802
Total Other	1,280	0	272	419	1,971
Total Intragovernmental Liabilities	1,330	0	272	419	2,021
Accounts Payable	11,158				11,158
Federal Employee Compensation Act Liability				4,929	4,929
Benefits Due and Payable			43,606		43,606
Other:					
Accrued Payroll and Benefits	2,405				2,405
Contingent Liabilities				80,100	80,100
Unfunded Payroll Costs				3,996	3,996
Deferred Credits and Other Liabilities			528		528
Total Other	2,405	0	528	84,096	87,029
Total	13,563	0	44,134	89,025	146,722
Total Liabilities	\$14,893	\$0	\$44,406	\$89,444	\$148,743

**Note 8. Other Liabilities and Deferred Credits:**

Other liabilities and deferred credits consist of advances from others for reimbursable agreements, miscellaneous liabilities associated with non-entity receivables that will be transferred to the 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.

(Dollars in thousands)	2002	2001
Intragovernmental Other Liabilities:		
Advances from Others	\$243	\$790
Miscellaneous	0	12
Total Intragovernmental Other Liabilities	\$243	\$802
Deferred Credits and Other Liabilities:		
Deposit and Suspense Funds	\$462	\$528

**Note 9. Contingent Liabilities:**

Contingent Liabilities:

There have been claims filed against OSM with adjudications pending. As of September 30, 2002, a liability of \$25,049 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 or operations. The related liability at September 30, 2001 was \$80,100 thousand.

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 2002 ranges from \$560 to \$22,645 thousand and the FY 2001 amounts range from \$8,800 to \$31,614 thousand. However, no amounts have been accrued in the financial records for claims where the probability or amount of judgment is uncertain.

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 10. Benefits Due and Payable:**

OSM is required by law to annually transfer a portion of the interest earned from the Abandoned Mine Land Special Fund to the United Mine Workers Combined Benefit Fund to provide health benefits for certain eligible retired coal miners and their dependents. Payments 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.

The financial statements include accrued benefits due and payable to the UMWA-CBF in the amounts of \$7,909 and \$43,606 thousand for September 30, 2002 and 2001, respectively. These amounts reflect adjustments to actual costs of previous years estimated amounts.

**Note 11. Commitments and Contingencies:**

OSM does not have any loss contingencies other than those disclosed in Note 9 related to pending litigation. Additionally, OSM does not have contractual arrangements, which may require future financial obligations.

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

## 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. The negative net cost in the Operations segment and Environmental Protection program is attributable to a large downward re-estimate of a contingent legal liability, see Note 9 for additional information. Intragovernmental gross costs approximate intragovernmental revenues with the addition of a pro rata share of imputed costs.

2002 Supporting Schedule by Responsibility Segment  
(Dollars in thousands)

	Environmental Restoration	Environmental Protection	UMWA CBF Transfer	2002 Total
<b>Office of Surface Mining Operations</b>				
Gross Costs with the Public	\$37,477	(\$6,398)	\$0	\$31,079
Less: Earned Revenue from the Public	58	37		95
Net Cost with the Public	37,419	(6,435)		30,984
Intragovernmental Gross Costs	350	958		1,308
Less: Intragovernmental Earned Revenue	348	910		1,258
Intragovernmental Net Costs	2	48		50
Total Net Cost	37,421	(6,387)		31,034
<b>Grants to States and Tribes</b>				
Gross Costs with the Public	156,574	61,402		217,976
Less: Earned Revenue from the Public	0	0		0
Net Cost with the Public	156,574	61,402		217,976
<b>Authorized Special Payments</b>				
Gross Costs with the Public			77,984	77,984
Less: Earned Revenue from the Public			0	0
Net Cost with the Public			77,984	77,984
<b>Net Cost of Operations</b>	<b>\$193,995</b>	<b>\$55,015</b>	<b>\$77,984</b>	<b>\$326,994</b>

2001 Supporting Schedule by Responsibility Segment  
(Dollars in thousands)

	Environmental Restoration	Environmental Protection	UMWA CBF Transfer	2001 Total
<b>Office of Surface Mining Operations</b>				
Gross Costs with the Public	\$32,723	\$9,426	\$0	\$42,149
Less: Earned Revenue from the Public	300	91		391
Net Cost with the Public	32,423	9,335		41,758
Intragovernmental Gross Costs	240	1,608		1,848
Less: Intragovernmental Earned Revenue	238	1,545		1,783
Intragovernmental Net Costs	2	63		65
Total Net Cost	32,425	9,398		41,823
<b>Grants to States and Tribes</b>				
Gross Costs with the Public	129,436	50,691		180,127
Less: Earned Revenue from the Public	0	0		0
Net Cost with the Public	129,436	50,691		180,127
<b>Authorized Special Payments</b>				
Gross Costs with the Public			166,682	166,682
Less: Earned Revenue from the Public			0	0
Net Cost with the Public			166,682	166,682
<b>Net Cost</b>	<b>\$161,861</b>	<b>\$60,089</b>	<b>\$166,682</b>	<b>\$388,632</b>

## Note 13. Appropriations Received:

In addition to amounts annually appropriated by Congress, OSM appropriates a portion of the Abandoned Mine Land Special 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 budget authority is a permanent authorization in SMCRA and is of an indefinite amount determined on an annual basis of the law.

**Note 14. Change in Accounting Policy:**

During FY 2002, OSM implemented the requirements of OMB Bulletin No. 01-09, Form and Content of Agency Financial statements, related to the reporting of allocation transfer amounts in the Statement of Budgetary Resources. Allocation transfers are used for the transfer of budget authority between other Department of the Interior bureaus or other agencies. The effect of this change in accounting policy requires an adjustment to the beginning FY 2002 unobligated and obligated balances in the amounts of \$175 and \$440 thousand, respectively.

**Note 15. Obligations Incurred:**

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 as reported on the year-end SF-133, Report on Budget Execution.

**Note 16. 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 receipts types included for OSM are Intradudgetary 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 SMCRA to the United Mine Workers Combined Benefit Fund.

**Note 17. Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods:**

Increases in unfunded liabilities that are not covered by budgetary resources (see Note 7) are displayed in this section of the statement.

(Dollars in thousands) Liability	2002	2001	Increase
Increase in Annual Leave Liability: Unfunded Payroll Costs	\$4,307	\$3,996	\$311
Change in Unfunded Liabilities: Unfunded Payroll Costs	894	679	215
Total	\$5,201	\$4,675	\$526

**Note 18. 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 SMCRA 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 to promote 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.

# NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

**Note 19. 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 does not execute an agreement with GSA nor is there a formal expiration date. However, OSM is normally required to give 120 to 180 days notice to vacate the property and the amount of these leases remains fairly constant from year to year. These leases are included in the estimated future lease payments for FY 2003 through FY 2007 and beyond below. 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 does not have any capital or non-GSA equipment or other property leases. OSM's rental expense for 2002 and 2001 was \$2,905 and \$3,833 thousand, respectively.

(Dollars in thousands)

Fiscal Year	GSA Real Property
2003	\$2,487
2004	2,346
2005	1,227
2006	1,186
2007	1,211
After 5 Years	375
Total Future Lease Payments:	\$8,832

**Note 20. Dedicated Collections, AML Fund:**

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 tribes 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.

The following table provides condensed information on the AML Fund:

(dollars in thousands)	2002	2001
Fund Balance with Treasury	\$5,318	\$391
Investments, Net	1,895,100	1,863,582
Accounts and Interest Receivable, Net	1,214	2,703
Total Assets	\$1,901,632	\$1,866,676
Liabilities:		
Accounts Payable	\$6,644	\$8,130
Accrued Payroll and Benefits	925	856
Total Liabilities	\$7,569	\$8,986
Total Net Position	1,894,063	1,857,690
Total Liabilities and Net Position	\$1,901,632	\$1,866,676
Net Position, Beginning of Fiscal Year	\$1,857,690	\$1,827,250
Exchange Revenue - Services Provided and Other	356	320
Non-exchange Revenue:		
AML Fee Revenue	285,580	283,949
Investment Interest and Other	36,330	90,235
Other	(195,540)	(162,219)
Other	(90,353)	(181,845)
Total	\$1,894,063	\$1,857,690

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. In addition to the amounts above, the financial statements include accrued unfunded benefits due and payable to the UMWA CBF in the amounts of \$7,909 and \$43,606 thousand as of September 30, 2002 and 2001, respectively. These amounts reflect adjustments to actual costs of previous years estimated amounts.

AML program expenses approximate the net cost for the Environmental Restoration GPRA program activity with the addition (+/-) of a pro rata share of allocated costs. Net costs for the UMWA CBF program may differ from actual payments by changes in amounts for accrued unfunded liabilities or refund receivables due to OSM.

# SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES BY MAJOR BUDGET ACCOUNT

**Department of the Interior  
Office of Surface Mining**

For the year ended September 30, 2002  
(dollars in thousands)

	Abandoned Mine Lands	Regulation and Technology	Total
<b>Budgetary Resources</b>			
Budget Authority:			
Appropriations Received	\$317,136	\$102,835	\$419,971
Unobligated Balance:			
Beginning of Fiscal Year	49,005	5,260	54,265
Spending Authority From Offsetting Collections:			
Earned			
Collected	23,678	942	24,620
Receivable From Federal Sources	6	8	14
Change in Unfilled Customer Orders			
Without Advance From Federal Sources	(169)	(58)	(227)
Recoveries of Prior Year Obligations	32,451	2,260	34,711
Temporarily Not Available Pursuant to Public Law	(23,502)	0	(23,502)
Permanently Not Available	(18)	(1,610)	(1,628)
<b>Total Budgetary Resources</b>	<b>\$398,587</b>	<b>\$109,637</b>	<b>\$508,224</b>
<b>Status of Budgetary Resources</b>			
Obligations Incurred			
Direct	\$349,662	\$103,878	\$453,540
Reimbursable	132	1,028	1,160
Total Obligations Incurred	349,794	104,906	454,700
Unobligated Balance:			
Apportioned	48,793	1,544	50,337
Unobligated Balance not Available	0	3,187	3,187
<b>Total Status of Budgetary Resources</b>	<b>\$398,587</b>	<b>\$109,637</b>	<b>\$508,224</b>
<b>Relationship of Obligations to Outlays</b>			
Obligations Incurred	\$349,794	\$104,906	\$454,700
Obligated Balance, Net, Beginning of Period	310,587	41,768	352,355
Obligated Balance, Net, End of Period:			
Accounts Receivable	9	8	17
Unfilled Customer Orders From Federal Sources	60	194	254
Undelivered Orders	(309,840)	(32,893)	(342,733)
Accounts Payable	(7,562)	(3,938)	(11,500)
Less: Spending Authority Adjustments	(32,288)	(2,210)	(34,498)
Outlays:			
Disbursements	310,760	107,835	418,595
Collections	(23,678)	(942)	(24,620)
Net Outlays Before Offsetting Receipts	287,082	106,893	393,975
Less: Offsetting Receipts	(43,556)	0	(43,556)
<b>Net Outlays</b>	<b>\$243,526</b>	<b>\$106,893</b>	<b>\$350,419</b>

# KPMG LLP AUDIT OPINION

C-IN-OSM-0095-2002



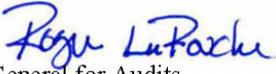
## United States Department of the Interior

Office of Inspector General  
Washington, D.C. 20240

February 28, 2003

### Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

From: Roger La Rouche   
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Office of Surface Mining Reclamation and Enforcement's Financial Statements for Fiscal Years 2002 and 2001  
(No. 2003-I- 0022)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Office of Surface Mining Reclamation and Enforcement's (OSM) financial statements as of September 30, 2002 and for the year then ended. The contract required that KPMG conduct its audit in accordance with the Comptroller General of the United States of America's *Government Auditing Standards*, the Office of Management and Budget's Bulletin 01-02 *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*.

In its Independent Auditor's Report dated November 15, 2002 (Attachment 1), KPMG issued an unqualified opinion on OSM's financial statements. KPMG did not note any reportable conditions related to internal controls over financial reporting. With regard to compliance with laws and regulations, KPMG disclosed no instances of noncompliance that are required to be reported or instances where OSM's financial management system did not substantially comply with the requirements of the *Federal Financial Management Improvement Act* (FFMIA).

In connection with the contract, we monitored the progress of the audit at key points, reviewed KPMG's report and selected related working papers, and inquired of its representatives. Our review, as differentiated from an audit in accordance with the *Government Audit Standards*, was not intended to enable us to express, and we do not express, an opinion on the OSM's financial statements, conclusions about the effectiveness of internal controls, conclusions on whether OSM's financial management systems substantially complied with the three requirements of FFMIA, or conclusions on compliance with laws and regulations. KPMG is responsible for the auditors' report and for the conclusions expressed in the report. Our review disclosed no instances where KPMG did not comply in all material respects with the *Government Auditing Standards*.

Section 5(a) of the *Inspector General Act* (5 U.S.C. App. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress.

Attachment

# KPMG LLP AUDIT OPINION

ATTACHMENT 1



Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

## INDEPENDENT AUDITORS' REPORT

The Director of the Office of Surface Mining Reclamation and Enforcement  
and the Inspector General of the Department of the Interior:

We have audited the accompanying consolidated balance sheets of the Office of Surface Mining Reclamation and Enforcement (OSM) as of September 30, 2002 and 2001, and the related consolidated statements of net cost for the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002 (hereinafter referred to as the financial statements). The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered the OSM's internal control over financial reporting and tested the OSM's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

### SUMMARY

As stated in our opinion on the financial statements, we concluded that the OSM's financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

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 as defined below in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance with laws and regulations that are required to be reported 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 the OSM's financial statements, our consideration of the OSM's internal control over financial reporting, our tests of the OSM's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

### OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the OSM as of September 30, 2002 and 2001, and the related consolidated statements of net cost for the years then ended, and the related

consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OSM as of September 30, 2002 and 2001, and its net costs for the years then ended, and its changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. 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. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above. However, we noted other matters involving internal control over financial reporting and its operation that that we have reported to the management of the OSM in a separate letter dated November 15, 2002.

#### **COMPLIANCE WITH LAWS AND REGULATIONS**

The results of our tests of compliance with certain provisions of laws and regulations described in the Responsibilities section of this report, exclusive of the FFMI A, 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 FFMI A disclosed no instances in which the 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) requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To assist the Department of the Interior in meeting the GMRA reporting requirements, the OSM prepares annual financial statements.

# KPMG LLP AUDIT OPINION

Management is responsible for the financial statements, which includes:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal control over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures) and required supplementary information; and
- Complying with laws and regulations, 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 financial statements of the OSM based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

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

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

In planning and performing our fiscal year 2002 audit, we considered the OSM's internal control over financial reporting by obtaining an understanding of the OSM's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal control 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 internal control over financial reporting. Consequently, we do not provide an opinion thereon.

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

As part of obtaining reasonable assurance about whether the OSM's fiscal year 2002 financial statements are free of material misstatement, we performed tests of the OSM's compliance with certain provisions of

laws and regulations, 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 FFMA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the OSM. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMA, we are required to report whether the 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 FFMA Section 803(a) requirements.

#### **DISTRIBUTION**

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

KPMG LLP

November 15, 2002



## **OFFICE OF SURFACE MINING**

---

**1951 CONSTITUTION AVE., N.W.  
WASHINGTON, DC 20240  
WWW.OSMRE.GOV  
202-208-2719  
GETINFO@OSMRE.GOV**