

Financial Position

as of September 30,

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

(dollars in thousands)

	1996	1995
ASSETS		
Entity Assets:		
Fund Balance with Treasury (Note 2)	\$56,240	\$55,679
Cash (Imprest)	9	21
Investments (Note 3):		
Intra governmental	1,400,574	1,292,066
With the Public		
Receivables:		
Intra governmental (Note 4-A)	12,148	10,841
With the Public (Note 4-B)	14,244	12,675
Advances and Prepayments, with the Public	42	54
Physical Assets (Note 5)	5,394	5,610
Total Entity Assets (Note 23)	1,488,651	1,376,946
Non-Entity Assets:		
Receivables:		
With the Public (Note 4C)	54	123
Total Non - Entity Assets	54	123
Total Assets	1,488,705	1,377,069
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intra governmental:		
Payables	453	145
With the Public:		
Payables	9,617	10,083
Accrued Payroll and Benefits	1,775	2,050
Total Liabilities Covered by Budgetary Resources	11,845	12,278
Liabilities Not Covered by Budgetary Resources:		
Intra governmental:		
Payables (Note 4-C)	54	123
With the Public:		
Payables	4,444	4,944
Amounts Held for Others (Note 6)	1,506	1,188
Total Liabilities Not Covered by Budgetary Resources	6,004	6,255
Total Liabilities (Note 22)	17,849	18,533
NET POSITION		
Unexpended Appropriations	47,809	48,998
Cumulative Results of Operations (Note 7)	1,423,047	1,309,538
Total Net Position (Note 8)	1,470,856	1,358,536
Total Liabilities and Net Position	\$1,488,705	\$1,377,069

The accompanying notes are an integral part of these statements.

Net Cost

for the year ended September 30,

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement
(dollars in thousands)

	1996	1995
COSTS		
Reclamation Programs:		
Within the Government (Note 10)	\$7,884	\$8,523
With the Public	207,850	197,335
Total Costs	215,734	205,858
Less Earned Revenue:		
Within the Government	(39)	(266)
With the Public	(61)	(1,216)
Total Program Earned Revenue (Note 11)	(100)	(1,482)
Net Program Costs	215,634	204,376
Regulation and Technology:		
Within the Government (Note 10)	1,528	1,401
With the Public	92,800	102,052
Total Costs	94,328	103,453
Less Earned Revenue:		
Within the Government	(391)	(46)
With the Public	(1,188)	(1,791)
Total Program Earned Revenue (Note 11)	(1,579)	(1,837)
Net Program Costs	92,749	101,616
Costs not Allocated to Programs:		
Depreciation Expense	896	720
Future Funding Requirements (Note 12)	(500)	(89)
Miscellaneous Receipts Bad Debt Expense	2,463	7,057
Total Unallocated Costs	2,859	7,688
Less: Other Earned Revenue	(2,236)	(6,195)
NET COST OF OPERATIONS (Note 9)	\$309,006	\$307,485

The accompanying notes are an integral part of these statements.

Changes In Net Position

for the year ended September 30,

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

(dollars in thousands)

	1996	1995
Net Cost of Operations	\$309,006	\$307,485
Financing Sources:		
Appropriations Used	93,297	102,438
AML Interest, Non-Federal (Note 13)	3,323	3,007
Investment Interest Earned, Federal	70,688	69,291
Revenue from Fees Assessed	255,575	256,386
Other Revenues and Financing Sources (Note 14)	3,748	4,443
Less Offsetting Bad Debt Expense (Note 15)	(6,273)	(7,632)
Less Appropriation Transfer	0	(7,853)
Less Transfers - Out	(82)	(85)
Net Results of Operations	111,270	112,510
Invested Capital - Adjustments and Other Changes (Note 16)	(41)	(220)
Prior Period Adjustments (Note 17)	2,280	(1,232)
Net Change in Cumulative Results of Operations	113,509	111,058
Change in Unexpended Appropriations (Note 18)	(1,189)	4,339
Change in Net Position	112,320	115,397
Net Position-Beginning of Period	1,358,536	1,243,139
Net Position-End of Period	\$1,470,856	\$1,358,536

Net Results of Operations represents the balance of Financing Sources greater than the Net Cost of Operations. The accompanying notes are an integral part of these statements.

Budgetary Resources

for the year ending September 30,

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement
(dollars in thousands)

	1996	1995
Budgetary Resources Made Available:		
Budget Authority	\$316,748	\$293,108
Appropriations Available for Investment but not Obligation (Note 23)	1,082,350	977,587
Transfer of Appropriations (Note 19)	0	(7,853)
Unobligated Balances Available: (Note 20) Beginning of Period (includes expired)	62,449	70,660
Reimbursements and Other Income	2,187	1,997
Adjustments	47,482	24,219
Total Budgetary Resources Made Available	1,511,216	1,359,718
Status of Budgetary Resources:		
Obligations Incurred, Gross	359,823	317,586
Unobligated Balances Available - End of Period	52,896	47,566
Available for Investments/Net Obligations (Note 23)	1,082,350	977,587
Unobligated Balances not Available - End of Period	16,147	16,979
Total Status of Budgetary Resources	1,511,216	1,359,718
Outlays:		
Obligations Incurred, Net	306,937	290,673
Obligated Balance Transferred		
Obligated Balance - Beginning of Period	306,543	318,423
Less: Obligated Balance - End of Period	(303,924)	(306,543)
Total Outlays (Note 21)	\$309,556	\$302,553

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

For the Fiscal Years (FY) ending September 30, 1995 and 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

Note 1 Summary of Significant Accounting Policies:

A. Basis of Presentation

These financial statements have been prepared to report the financial position, the net cost of operations, the changes in net position, and the budgetary resources of the Office of Surface Mining Reclamation and Enforcement (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 guidance issued by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB).

The accounting structure of OSM is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

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

- Statements of Federal Financial Accounting Standards (SFFAS) and Statements of Federal Financial Accounting Concepts (SFFAC). These statements reflect the accounting principles, standards, and requirements recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Comptroller General of the United States, the Director of the Office of Management and Budget (OMB) and the Secretary of the Treasury.
- Form and content requirements for financial statements, as presented in OMB Bulletin No. 94-01 (Form and Content of Agency Financial Statements); and
- The accounting principles and standards contained in departmental and bureau accounting policy and procedures manuals, and/or related guidance.

B. Reporting Entity

OSM was established as a regulatory agency in the 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, the 1992 revision extended this authority through the year 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 to 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 OMB to report on the accounting of SMCRA funds. The Treasury acts as custodian over all monies appropriated and collected by OSM, except for imprest funds.

C. Business Segments

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

1. 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 administrative grants, research and development facilitating the transfer of reclamation expertise to India, and the partial financing of all OSM operations and maintenance costs. Funding is appropriated on an annual basis.

2. Reclamation Programs -- Funds for these programs come from revenues collected from excise taxes (Trust Fund) and civil penalty assessments for the purpose of reclamation projects.

Trust 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.

Investment Fund -- Available Trust Fund balances, in excess of current cash requirements, are regularly invested in non-marketable federal securities as authorized under Public Law 101-508.

3. Other -- These are temporary holding accounts for resources pending distribution. Also included in this category are OSM's unfunded contingencies and capitalized assets.

Deposit Funds -- These funds account for receipts awaiting proper classification, amounts held in escrow, and proceeds from the sale of vehicles. Vehicle proceeds, which are reserved exclusively for the purchase of replacement vehicles, are not treated as earned until replacement vehicles are acquired.

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.

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 receives appropriated 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.

Notes to Consolidated Financial Statements

For the Fiscal Years (FY) ending September 30, 1995 and 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

3. Abandoned Mine Land Fees (AML)

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 trust 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. Transfers In/Transfers Out

Prior to 1996, OSM annually transferred a portion of its AML appropriations to the Department of Agriculture's Soil Conservation Service for administering the Rural Abandoned Mine Program. There was no such transfer in 1996.

The Office of Surface Mining also administers and accounts for financial activity affecting no-year funds which, 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 whole federal government. These activities include public debt and employee retirement, life insurance, and health benefit programs. Accordingly, OSM's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the whole government.

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 and the specific analysis method. The net of the allowance method, which was revised effective the fourth quarter of FY 1992, is used for trust fund and civil penalty accounts receivable. Under this method, an allowance for doubtful accounts is calculated quarterly based upon OSM's past experience in successfully collecting delinquent accounts receivable by aging category. OSM's allowance methodology is representative of the collectibility of delinquent debt. For all other types, the allowance is based on an analysis of each accounts 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 which are disbursed through an automated payment system. OSM accrues these draw-downs as expenditures. All 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. Since there is no reasonable means to directly charge shared expenses, Regulation, Technology, and AML receive an equitable reallocation of indirect costs through a budget-based formula.

I. Distribution of AML Appropriation for Reclamation Grants

OSM distributes the Congressional appropriation through grants to state and tribes from the collections of AML fees. 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. OSM distributes at least \$1.5 million to states or tribes with qualifying reclamation projects. OSM also distributes monies to be used only for qualifying emergency programs from the federal-share portion of the appropriation.

J. Fund Balance with Treasury and Cash

OSM maintains all cash accounts with the Treasury, except for imprest fund accounts. The account "Fund Balance with Treasury" represents appropriated and trust fund balances, both available and unavailable. Cash receipts and disbursements are processed by Treasury. OSM's records are reconciled with those of the Treasury on a monthly basis. Note 2 provides additional information concerning Fund Balances with Treasury.

K. Investments

OSM invests excess cash from AML fee collections in Treasury Bills. Beginning in fiscal year 1996, up to \$70 million of the earnings on these investments have been paid annually to the United Mine Workers Combined Benefit Fund to pay for health benefits of qualifying mine worker beneficiaries. Note 3 provides additional information concerning investments.

L. 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 is liable for unused annual leave which is considered unfunded. Sick leave and other types of nonvested leave are expensed as used.

Office of Worker's 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, may either join FERS and Social Security, or remain in CSRS.

OSM employees contribute seven percent of their gross pay to CSRS. OSM matches these 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 ten percent of their gross earnings to the plan. CSRS employees have the option of contributing to the thrift savings plan up to five percent of their gross salary with no additional government matching.

These statements do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any. The Office of Personnel Management includes these items on their financial statements.

Notes to Consolidated Financial Statements

For the Fiscal Years (FY) ending September 30, 1995 and 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

M. 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.

Note 2 Fund Balance with Treasury:

The Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury under Current Assets represent the right of OSM to draw on the Treasury for allowable expenditures. The Fund Balance with Treasury represent OSM's unexpended, uninvested account balances. Restricted amounts represent the AML fees collected but not yet made available by Congress.

Fund Balance with Treasury (dollars in thousands)

	Reclamation Programs	Regulation & Technology	Other	1996 Total	1995 Total
Available	\$ 319,966	\$36,990	\$ 0	\$ 356,956	\$ 354,087
Restricted	1,082,350	16,002	1,506	1,099,858	993,658
Subtotal Fund Balance	\$1,402,316	\$52,992	\$1,506	\$1,456,814	\$1,347,745
Less Invested Balance (See Note 3)	(1,400,574)	0	0	(1,400,574)	(1,292,066)
Total Fund Balance	\$ 1,742	\$52,992	\$1,506	\$ 56,240	\$ 55,679

Note 3 Investments:

Effective October 1, 1991, OSM assumed the authority to invest the balance of the AML trust funds 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, par value special issues, and one-day certificates. There are no restrictions on federal agencies as to the use or convertibility of Treasury non-marketable securities.

Presently, all earnings from AML investments are reinvested, thus providing a source of continuous funding to further enhance AML Trust Fund equity. However, with the enactment of Public Law 102-486 on October 24, 1992, and effective during FY 1996, OSM is required to transfer annually up to \$70 million of interest earned from the invested AML trust funds to the United Mine Workers of America Combined Benefit Fund (UMWCBF). These AML interest proceeds are available to provide health benefits for certain eligible retired coal miners and their dependents.

When previously issued Treasury bills are purchased by OSM, the unamortized (discount) or premium is calculated by the Treasury at the time of purchase.

Investments are entered at the market value, with the discount accrued as interest receivable. Please see note Four.

Investments Treasury Bills
(dollars in thousands)

	Reclamation Programs	Regulation & Technology	Other	1996 Total	1995 Total
Face Value	\$1,426,350	\$0	\$0	\$1,426,350	\$1,315,335
Unamortized Discount	(25,776)	0	0	(25,776)	(23,269)
Net Investments	\$1,400,574	\$0	\$0	\$1,400,574	\$1,292,066

Note 4 Accounts Receivable:

A.

Intragovernmental Receivables
Entity (OSM) Assets
(dollars in thousands)

	Reclamation Programs	Regulation & Technology	Other	1996 Total	1995 Total
Environmental Protection Agency	\$ 1	\$0	\$0	\$ 1	\$ 0
General Services Administration	0	1	0	1	0
Treasury	12,146	0	0	12,146	10,841
Net Intragovernmental Receivables	\$12,147	\$ 1	\$ 0	\$ 12,148	\$10,841

B.

Receivables with the Public
Entity (OSM) Assets
(dollars in thousands)

	Reclamation Program	Regulation & Technology	Other	1996 Total	1995 Total
AML Fees Principal	\$ 1,169	\$ 0	\$ 0	\$ 1,169	\$ 984
AML Fees Other	186	0	0	186	612
AML Audit Principal	7,334	0	0	7,334	6,302
AML Audit Other	4,924	0	0	4,924	4,137
CP Principal	0	489	0	489	405
CP Other	0	13	0	13	42
Administrative Principal	0	129	0	129	193
Net Receivable with the Public	\$13,613	\$631	\$ 0	\$14,244	\$12,675

AML receivables will, upon collection, increase the state and federal share set-aside balances discussed in footnote 1D3. Civil Penalty receivables will be used to reclaim abandoned mining sites as referenced in footnote 1D2.

The Other category represents Accounts Receivable for interest, penalties, and administrative costs. Civil penalty interest is retained by OSM to reclaim mining sites. Civil penalty administrative and penalty charges are forwarded to the Treasury.

Notes to Consolidated Financial Statements

For the Fiscal Years (FY) ending September 30, 1995 and 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

Administrative receivables represent overpayments made during the business cycle. Costs reported by grant recipients which were disallowed upon audit are one example of administrative receivables. Interest, penalty, and administrative charges on administrative receivables are forwarded to the Treasury. In addition, certain administrative receivables such as receivables for damage to government property, *is not* retained by OSM but is also forwarded to the Treasury.

C. Non-entity receivables represent receivables which OSM has no statutory authority to retain. The collections on these receivables are transferred annually to Treasury. An intra-governmental payable is established at the same time as the receivable.

**Receivables with the Public
Non-Entity (OSM) Assets**
(dollars in thousands)

	Reclamation	Regulation & Technology	Other	1996 Total	1995 Total
Civil Penalty Other	\$ 0	\$ 0	\$ 32	\$ 32	\$107
Administrative Principal	0	0	0	0	1
Administrative Other	0	0	22	22	15
Net Receivables with the Public	\$ 0	\$ 0	\$ 54	\$ 54	\$ 123

Note 5 Physical Assets:

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 \$5 thousand or more and the estimated useful life is two years or longer. However, 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 useful life is determined using General Service Administration guidance. Property, Plant and Equipment is noted as "other" business segment.

Physical Assets
(dollars in thousands)

	Service	Acquisition	Accumulated	FY 1996	FY 1995
	Life	Value	Depreciation	Book Value	Book Value
ADP Equipment	15	\$ 5,347	(1,922)	\$ 3,425	\$ 3,542
Office Equipment	11-20	1,546	(514)	1,032	981
Vehicles	6-10	2,762	(1,825)	937	1,087
Total Physical Assets		\$ 9,655	(4,261)	\$ 5,394	\$ 5,610

Note: OSM maintains a photocopier under a capital lease in the Western Regional Coordinating Center. The value of this equipment is \$85,500. OSM management decided not to report this capital lease because of its immaterial impact on the financial statements.

Note 6 Amounts Held for Others:

Deposits received by OSM are held in suspense pending legal action, identification, or other further action. These deposits have been identified as (1) Reimbursable advances - receipts from recipients of services yet to be performed; (2) Other escrows - permit fees held by OSM until the permit is issued; (3) Civil Penalties Escrow - funds collected from civil penalties held in escrow pending any appeal processes which will determine whether OSM will refund the collections or transfer the collections to appropriate accounts for use by the federal government; (4) Bonds - cash held by OSM until the coal operator has fully reclaimed the specific bonded site; (5) Other - misapplied deposits pending correction and deposits not applied due to timing, also pending correction. Amounts held for others is classified as an "other" business segment.

Amounts Held for Others (dollars in thousands)

	1996	1995
Reimbursable Advance	\$ 960	\$652
Other Escrows	307	280
Civil Penalties Escrow	141	165
Bonds	22	79
Other Deposits	76	12
Total Amounts Held for Others	\$1,506	\$1,188

Note 7 Cumulative Results of Operations:

The Federal Accounting Standards Advisory Board (FASAB) Standard, "Accounting for Revenue and Other Financing Sources", combined Cumulative Results of Operations with Invested Capital and Future Funding Requirements. To provide a prior year comparison, fiscal year 1995 was restated using this methodology.

Cumulative Results of Operations (dollars in thousands)

	1996	1995
Invested Capital	\$ 5,394	\$ 5,610
Future Funding Requirements	(4,444)	(4,944)
Cumulative Results of Operations	1,422,097	1,308,872
Total Cumulative Results of Operations	\$1,423,047	\$1,309,538

Notes to Consolidated Financial Statements

For the Fiscal Years (FY) ending September 30, 1995 and 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

Note 8 Net Position:

Net Position (dollars in thousands)					
	Reclamation Programs	Regulation & Technology	Other	1996 Total	1995 Total
Unexpended Appropriations:					
Unobligated					
Available	\$ 0	\$ 1,126	\$ 0	\$ 1,126	\$ 0
Unavailable	0	16,002	0	16,002	15,947
Undelivered Orders	89	31,357	0	31,446	33,309
Unfilled Customer Orders	(89)	(676)	0	(765)	(258)
Total Unexpended Appropriations	\$ 0	\$ 47,809	\$ 0	\$ 47,809	\$ 48,998
Cumulative Results of Operations	1,422,097	0	950	1,423,047	1,309,538
Total Net Position	\$1,422,097	\$ 47,809	\$ 950	\$1,470,856	\$1,358,536

Note 9 Net Cost of Operations:

Net Cost of Operations (dollars in thousands)					
	Reclamation Programs	Regulation & Technology	Other	1996 Total	1995 Total
Net Program Costs	\$215,634	\$92,749	\$2,859	\$311,242	\$313,680
Less Miscellaneous Revenues	0	0	(2,236)	(2,236)	(6,195)
Total Net Cost of Operations	\$215,634	\$92,749	\$623	\$309,006	\$307,485

Note 10 Costs Within the Government:

Costs Within the Government (dollars in thousands)

	Reclamation Programs	Regulation & Technology	Other	1996 Total	1995 Total
Department of the Interior:					
Bureau of Reclamation	\$ 256	\$ 60	\$ 0	\$ 316	\$ 139
Bureau of Land Management	1	0	0	1	1
Minerals Management Service	11	37	0	48	10
National Park Service	0	15	0	15	33
Office of Aircraft Services	0	10	0	10	120
Office of the Secretary	2,722	169	0	2,891	779
United States Geological Survey (USGS)	58	401	0	459	120
Total, Department of Interior	\$ 3,048	\$ 692	\$ 0	\$ 3,740	\$1,202
Other Federal Agencies:					
General Services					
Administration	\$ 4,379	\$ 326	\$ 0	\$ 4,705	\$ 8,157
U.S. Treasury	0	318	0	318	33
Government Printing Office	233	10	0	243	193
Other	224	182	0	406	338
Total, Other Federal Agencies	\$ 4,836	\$ 836	\$ 0	\$ 5,672	\$8,721
Total Costs within the Government	\$ 7,884	\$ 1,528	\$ 0	\$ 9,412	\$9,923

Note 11 Earned Revenue:

There are some types of receipts (e.g., reimbursable agreements with states and other federal agencies) that are recognized as revenues when earned. These revenues may be used to offset the cost of producing the product or providing the service for which they are received.

Notes to Consolidated Financial Statements

For the Fiscal Years (FY) ending September 30, 1995 and 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

Earned Revenue
(dollars in thousands)

	Reclamation Program	Regulation & Technology	Total 1996	Total 1995
Within the Government:				0
Bureau of Indian Affairs	\$ 8	\$ 117	\$ 125	\$ 0
Bureau of Land Management	0	54	54	0
Environmental Protection Agency	18	1	19	27
General Services Administration -Other	0	1	1	0
General Services Administration -Vehicles	10	23	33	248
Internal Revenue Service	0	25	25	0
Minerals Management Service	3	23	26	21
National Park Service	0	0	0	10
Office of Navajo/Hopi Indian Relocation	0	124	124	0
Office of the Secretary	0	23	23	6
Total Within the Government	\$ 39	\$ 391	\$ 430	\$ 312
With the Public:				
Bond Forfeitures	\$ 0	\$ 61	\$ 61	\$1,438
California	0	1	1	0
Indonesia	0	1,121	1,121	349
Kentucky	5	0	5	1,213
Pennsylvania	53	0	53	0
Miscellaneous	3	5	8	7
Total With the Public	\$ 61	\$ 1,188	\$ 1,249	\$3,007
Total Earned Revenue	\$ 100	\$ 1,579	\$ 1,679	\$3,319

Note 12 Future Funding Requirements:

The Department of the Interior has provided OSM with its unfunded future liability for Workers Compensation benefits covered by the Federal Employees Compensation Act (FECA) and the Departmental Payroll operation has provided data for accrued unfunded leave. Accrued, unfunded leave has decreased significantly during 1996 due to employee resignations with leave payments collected

Future Funding Requirements
(dollars in thousands)

	1996 Amount	1995 Amount
FECA	\$(418)	\$(27)
Accrued Unfunded Leave	(82)	(62)
Total Future Funding Requirements	\$(500)	\$(89)

Note 13 AML Interest:

A financing source is recognized when interest is earned on delinquent AML fees. The interest is unavailable pending congressional action.

Note 14 Other Revenues and Financing Sources:

Accrual-based accounting includes both collected and uncollected revenue as a financing source:

Other Revenues and Financing Sources (dollars in thousands)

	1996	1995
Administrative Revenue from AML fees	1,444	2,431
Civil Penalty Revenue	2,304	2,012
Total Other Revenues and Financing Sources	\$ 3,748	\$ 4,443

Note 15 Offsetting Bad Debt Expense:

This bad debt expense is not attributable to an appropriated fund but instead offsets revenue created from accounts receivable in special accounts.

Note 16 Invested Capital Adjustments and Other Changes:

Invested Capital Adjustments and Other Changes (dollars in thousands)

	1996	1995
Restatement of Assets	58	(9)
Net Transfers Out	(158)	(276)
Net Transfers In	5	65
Loss on Disposal of Assets	(31)	0
Reclassification of Object Class Codes	85	0
Total Invested Capital Adjustments and Other Changes	\$ (41)	\$ (220)

Notes to Consolidated Financial Statements

For the Fiscal Years (FY) ending September 30, 1995 and 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement

Note 17 Prior Period Adjustments:

Prior Period Adjustments (dollars in thousands)		1996	1995
Reclassification of civil penalty debt as unterminated and decision that Notice of Proposed Assessments is not classified as Accounts Receivable.		\$2,762	\$ (458)
Determination that all interest, penalty, and administrative costs associated with bankruptcy should be waived.		(113)	0
Reversals of debt caused by new documentation produced by the debtor company.		(586)	(1,158)
Recognition of Federal Employee's Compensation Act charges which accrued in prior periods		0	(563)
Revenue from Fees Assessed was overstated due to a reporting problem corrected in 1996		(861)	0
Offsetting Bad Debt Expense was overstated due to a reporting problem corrected in 1996		861	0
Change in policy to report certain receipts as agency revenue that is available for use which had previously been recorded as Treasury revenue.		309	947
Changes in property due to data entry timing differences and transfer-out of equipment not previously recorded.		(92)	0
Total Prior Period Adjustment		\$2,280	\$(1,232)

Note 18 Change in Unexpended Appropriations:

Change in Unexpended Appropriation (dollars in thousands)		
	1996	1995
Unobligated Balance	\$1,181	\$3,546
Unliquidated Obligations:		
Undelivered Orders	(1,873)	481
Unfilled Customer Orders	(497)	312
Change in Unexpended Appropriations	\$ (1,189)	\$ 4,339

Note 19 Transfer of Appropriations:

The Office of Surface Mining's financial statements include expenses associated with transfer-in appropriations (Department of State-India Fund), but not expenses associated with transfer-out appropriations (Department of Agriculture's Soil Conservation Service) which are reported on the receiving agency's financial statements.

Note 20 Expired Unobligated Balances, Beginning of Year:

To properly report the financial position of the bureau, these financial statements include expired appropriated accounts which are unavailable for new obligations. All unavailable funds are canceled and returned to the Treasury five years after the appropriation was authorized.

Note 21 Total Outlays:

Total outlays agree with the Net Disbursements reported to and verified by the U.S. Treasury.

Note 22 Environmental Liability:

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 as the grantee incurs them.

Note 23 Abandoned Mine Land Fund Restricted Balance:

The Abandoned Mine Land Fund constitutes the largest portion of the Office of Surface Mining's assets. This fund consists of available and restricted balances as summarized in Note 2. Available balances are those which have been previously authorized by Congress to finance reclamation of abandoned mine lands. The restricted balance refers to the amount of fee collections and investment interest income which have not yet been authorized by Congress for use by the Office of Surface Mining or transferred to other agencies per the Abandoned Mine Land Reclamation Act of 1990 and the Energy Policy Act of 1992. The restricted balances for 1995 and 1996 are detailed below:

Abandoned Mine Land Restricted Balance
(dollars in thousands)

	1996	1995
Beginning Balance	\$ 977,587	\$ 842,809
Add: Fee Collections	256,451	255,454
Add: Investment Interest	69,383	61,747
Less: Appropriations	(173,887)	(174,570)
Less: Transfers Out	(47,184)	(7,853)
Ending Balance	\$ 1,082,350	\$ 977,587

Supplemental Statement of Financial Position

as of September 30, 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement
(dollars in thousands)

	Reclamation Programs	Regulation & Technology	Other	Combined
ASSETS				
Entity Assets:				
Fund Balance with Treasury (Note 2)	\$1,742	\$52,992	\$1,506	\$56,240
Cash (Imprest)	9	0	0	9
Investments (Note 3):				
Intragovernmental	1,400,574	0	0	1,400,574
With the Public				
Receivables:				
Intra governmental (Note 4-A)	12,147	1	0	12,148
With the Public (Note 4-B)	14,181	63	0	14,244
Advances and Prepayments, with the Public	0	42	0	42
Physical Assets (Note 5)	0	0	5,394	5,394
Total Entity Assets (Note 23)	1,428,653	53,098	6,900	1,488,651
Non-Entity Assets:				
Receivables:				
With the Public (Note 4-C)	0	0	54	54
Total Non-Entity Assets	0	0	54	54
Total Assets	1,428,653	53,098	6,954	1,488,705
LIABILITIES				
Liabilities Covered by Budgetary Resources:				
Intra governmental:				
Payables	262	191	0	453
With the Public:				
Payables	5,800	3,817	0	9,617
Accrued Payroll and Benefits	494	1,281	0	1,775
Total Liabilities Covered by Budgetary Resources	6,556	5,289	0	11,845
Liabilities Not Covered by Budgetary Resources:				
Intra governmental:				
Payables (Note 4-C)	0	0	54	54
With the Public:				
Payables	0	0	4,444	4,444
Amounts Held for Others (Note Six)	0	0	1,506	1,506
Total Liabilities Not Covered by Budgetary Resources	0	0	6,004	6,004
Total Liabilities (Note 22)	6,556	5,289	6,004	17,849
NET POSITION				
Unexpended Appropriations	0	47,809	0	47,809
Cumulative Results of Operations (Note 7)	1,422,097	0	950	1,423,047
Total Net Position (Note 8)	1,422,097	47,809	950	1,470,856
Total Liabilities and Net Position	\$1,428,653	\$53,098	\$6,954	\$1,488,705

The accompanying footnotes are an integral part of these statements.

Supplemental Statement of Changes In Net Position

for the year ended September 30, 1996

U.S. Department of the Interior
Office of Surface Mining Reclamation and Enforcement
(dollars in thousands)

	Reclamation Programs	Regulation & Technology	Other	Combined
Net Cost of Operations	\$215,634	\$92,749	\$623	\$309,006
Financing Sources:				
Appropriations Used	0	93,297	0	93,297
AML Interest, Non-Federal (Note 13)	3,323	0	0	3,323
Investment Interest Earned, Federal	70,688	0	0	70,688
Revenue from Fees Assessed	255,575	0	0	255,575
Other Revenues and Financing Sources (Note 14)	3,748	0	0	3,748
Less Offsetting Bad Debt Expense (Note 15)	(6,273)	0	0	(6,273)
Less Appropriation Transfer	0	0	0	0
Less Transfers - Out	0	0	(82)	(82)
Net Results of Operations	111,427	548	(705)	111,270
Invested Capital - Adjustments and Other Changes (Note 16)	(265)	(548)	772	(41)
Prior Period Adjustments (Note 17)	2,063	0	217	2,280
Net Change in Cumulative Results of Operations	113,225	0	284	113,509
Change in Unexpended Appropriations (Note 18)	0	(1,189)	0	(1,189)
Change in Net Position	113,225	(1,189)	284	112,320
Net Position - Beginning of Period	1,308,872	48,998	666	1,358,536
Net Position - End of Period	\$1,422,097	\$47,809	\$950	\$1,470,856

Net Results of Operations represents the balance of Financing Sources greater than the Net Cost of Operations.

The accompanying notes are an integral part of these statements.

Management Representation Letter

MEMORANDUM

December 20, 1996

To: Inspector General
United States Department of Interior
Office of the Inspector General

From: Ed Kay
Deputy Director 
Office of Surface Mining Reclamation and Enforcement

Subject: Management Representations for the Office of Surface Mining Reclamation and Enforcement - Fiscal Year 1996 Financial Statements

You have audited the Principal Statements and Consolidated Statements of the Office of Surface Mining Reclamation and Enforcement (OSM), for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position, results of operations and changes in net position, and budgetary resources of OSM in conformity with the accounting policies and principles of OSM. In connection with your audit of OSM's statements of financial position and the related statements of net costs, changes in net position, and budgetary resources as of September 30, 1996, we confirm to the best of our knowledge and belief, the following representations made to you during your audit:

1. We are responsible for the fair presentation in the financial statements of financial position, net costs, changes in net position, and budgetary resources in conformity with the accounting policies and principles of OSM. We are responsible for identification and compliance with pertinent laws and regulations, and establishing and maintaining an internal control structure.
2. We have made available to you all financial records for OSM prepared by OSM. Additionally, we have provided you all Treasury and Office of Management and Budget reports prepared by OSM, such as the I TFM 2-4000, Federal Agencies' Centralized Trial-Balance System (FACTS), TFS 2108, Year End Closing Statement, and SF 133, Report on Budget Execution.
3. There have been no:
 - a. Irregularities involving management or employees who have significant control over the system of internal accounting control.
 - b. Irregularities involving other employees that could have a material effect on the financial statements.
 - c. Communications from regulatory or oversight agencies - such as the Office of Management of Budget, the Department of the Treasury, and the U. S. General Accounting Office - concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
4. We have no plans or intentions that may materially affect the carrying value or classifications of assets and liabilities as reflected in the financial statements.
5. We have properly recorded or disclosed in the financial statements any interagency and interfund transactions and the related accounts receivable or payable, including appropriation reimbursements and transfers in and out.
6. Except for unresolved recommendations in prior Office of Inspector General and U.S. General Accounting Office audit reports - which have been considered in preparing these financial statements - and those items noted in the Inspector General's Report on Internal Control Structure and the Inspector General's Report on Compliance With Laws and Regulations, there are no:
 - a. Violations, or possible violations, of the laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other material liabilities or gain or loss contingencies that are required to be disclosed.
7. There are no material unasserted claims or assessments that the General Counsel has advised us are probable of assertion and must be disclosed.
8. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
9. Provision has been made to reduce the amounts receivable to the estimated net realizable value. The allowance for doubtful accounts is adequate.
10. OSM has satisfactory title to all the owned assets and there are no liens or encumbrances on such assets.
11. OSM has complied with all contractual agreements that would have a material effect on the financial statements.
12. No events have occurred subsequent to the date of the financial statements that would require adjustment to, or disclosure in, the financial statements.
13. OSM has performed an evaluation of internal control effectiveness by way of periodic reviews performed in compliance with the Federal Managers Financial Integrity Act of 1982 (FMFIA).

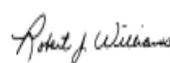
If you should have questions, please contact JoAnn F. Hagan, Chief, Division of Financial Management, at (303) 236-0330 x301.

Audit Opinion

United States Department of the Interior
OFFICE OF INSPECTOR GENERAL Washington, DC. 20240
DEC 3 0 1996

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

From: Robert J. Williams, Acting Assistant Inspector General for Audits 

Subject: Report on the Office of Surface Mining Reclamation and Enforcement Financial Statements for Fiscal Years 1995 and 1996

In accordance with the Chief Financial Officers Act of 1990, as amended, we audited the Office of Surface Mining Reclamation and Enforcement's financial statements for the fiscal years ended September 30, 1995, and 1996, as contained in the accompanying "1996 Annual Report." These financial statements are the responsibility of the Office of Surface Mining Reclamation and Enforcement, and our responsibility is to express an opinion, based on our audit, on these financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, "Audit Requirements for Federal Financial Statements," and was completed on December 20, 1996. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying 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 and notes. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

Based on our audit, we found that the financial statements and accompanying notes present fairly the Office of Surface Mining's assets, liabilities, and net position; cost and net costs; financing sources and changes in net position; and budget resources and outlays. We also found that these financial statements are presented in conformity with the accounting standards and policies described in the Notes to Financial Statements. Further, the supplemental financial statements were subjected to the auditing procedures applied in the audit of the financial statements and are fairly stated in relation to the financial statements taken as a whole.

As part of our audit, we evaluated the Office of Surface Mining's internal control structure, tested the Office of Surface Mining's compliance with selected provisions of laws and regulations, and reviewed the financial information presented in the Office of Surface Mining's overview. We also reviewed the Office of Surface Mining's most recent report, required by the Federal Managers' Financial Integrity Act of 1982, and compared it with the results of our evaluation of the Office of Surface Mining's internal control structure. However, because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may occur and not be detected. We also caution that projecting our evaluations to future periods is subject to the risk that controls or the degree of compliance with the controls may diminish.

We found that the Office of Surface Mining's internal control structure in effect on September 30, 1996, was sufficient to safeguard assets against loss from unauthorized use or disposition; ensure that transactions were executed in accordance with laws and regulations; ensure that transactions were properly recorded, processed, and summarized; and provide reasonable assurance that any losses, noncompliance, or misstatements that are material to the financial statements would be detected. In addition, we found that there were no material instances of noncompliance with selected provisions of laws and regulations for fiscal year 1996 that we tested, and nothing came to our attention during our other audit work to indicate that material noncompliance with such provisions occurred. Further, we found that the financial information in the Office of Surface Mining's overview relating to the financial statements is reliable and consistent with the information presented in the financial statements.

Our review of Office of Inspector General and General Accounting Office audit reports related to the scope of this audit disclosed that there were no significant unresolved and unimplemented recommendations that affected the financial statements.