Financial Management and Analysis


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

FINANCIAL MANAGEMENT AND ANALYSIS

In support of the President's Management Agenda (PMA) and under the Secretary's leadership, the Department is continuing to give the highest priority to providing accurate financial data to its internal and external customers, and to its accountability for all assets. Ensuring that there are strong internal controls throughout the Department remains a priority. The Department has created a financial management environment that complies with federal laws and regulations and that provides its executives with timely, accurate financial and performance information. This is evidenced with the achievement of a green status rating on the Financial Performance Scorecard under the PMA. In addition, the Department continued to receive unqualified opinions, maintains a single integrated financial system, and continued its compliance with the Federal Financial Management Improvement Act (FFMIA). Highlights of accomplishments for FY 2007 and future initiatives are discussed further below.

I. FINANCIAL MANAGEMENT SYSTEMS

The Department maintains a FFMIA compliant financial management system, the Commerce Business Systems (CBS). CBS replaced non-compliant legacy financial management systems within the Department. Three bureaus that were previously on compliant systems continue to use those systems with one bureau, whose present system is no longer supported, converting to CBS in early FY 2008. The financial information from these systems and CBS is integrated in the Corporate Database (as discussed further below) for consolidated financial reporting, resulting in a single integrated financial system.

CBS provides reliable and timely information within a sophisticated security infrastructure. The system is capable of producing both financial and budget reports from information generated within the financial management system. CBS consists of a Core Financial System (CFS) including the Commerce Purchase Card System (CPCS) and the Budget and Execution Data Warehouse. CBS is integrated with the Commerce Standard Acquisition and Reporting System (CSTARS), the National Finance Center Payroll System, and the Automated Standard Application for Payments (ASAP). As a result of the migration of CBS to Web-based technology, which will be promoted to production in FY 2008, the life expectancy of CBS is expected to be extended beyond 2012. The Department continued planning for the next stage of its financial management evolution in alignment with the PMA and the Financial Management Line of Business (FMLoB) goals of standardization, consolidation, and optimization.

The Corporate Database is a commercial off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database is an integrated solution that provides financial statements and Adjusted Trial Balances reported at the Department, bureau, and Treasury Appropriation/Fund Group level. It also provides the ability to perform data analysis and produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

During FY 2007, the Department accomplished the following initiatives:

- Completed the migration of CBS to Web-based technology that will be promoted to production during FY 2008, thus extending the life of CBS beyond 2012.
- Continued progress towards consolidation of the Department's financial management servers (hardware and software) at the Census Data Center in Bowie, MD. Developed a consolidated bureau application migration project plan for the server consolidation for business systems support and completed the server consolidation infrastructure migration planning across bureaus.

- Completed the Accounts Payable Business Process Re-engineering Review and developed recommendations for standardizing and optimizing the Department's Accounts Payable approach and processes.
- Continued the implementation of the conversion of the International Trade Administration (ITA) to the CBS, with conversion completion in October 2007. This will move ITA from its current system, which has become non-compliant, to a compliant system.
- Implemented the initial phase of the Blueprint Modernization initiative, focused on developing a comprehensive inventory of programs, initiatives, and systems across the Office of the Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA). The overall intent of this initiative is to document the as-is architecture and develop a target architecture with a consolidated transition plan (roadmap) for the administrative areas within the Department consistent with the Department Enterprise Architecture (EA) and the Office of Management and Budget (OMB) Federal Enterprise Architecture (FEA).
- Began planning for the next stage of the Department's financial management evolution in alignment with the PMA and OMB's FMLoB goals of standardization, consolidation, and optimization. Developed a timeline that included the required phases and activities for this transition, and participated in several FMLoB government-wide working groups aimed at standardizing financial management activities in the federal government.

In FY 2008 and beyond, the Department will continue its efforts to enhance its financial systems and to move toward a consolidated operating environment. The Department plans to accomplish the following:

- Continue progress towards consolidation of the Department's financial management servers (hardware and software) at the Census Data Center in Bowie, MD. Reduce the number of data centers running production, development, and testing of CBS business applications by four so that the applications are run at a single location.
- Begin detailed planning to ready the Department for competing the financial management system among identified shared service providers, in alignment with the PMA and OMB's FMLoB goals of standardization, consolidation, and optimization. Continue to participate in FMLoB government-wide working groups aimed at standardizing financial management activities in the federal government.
- Begin implementation of standardized processes for identified accounting events and track and measure the Department's bureau performance pursuant to defined performance metrics.
- Complete implementation of the conversion of ITA to the CBS.
- Finalize the initial phase of the Blueprint Modernization initiative by developing a comprehensive inventory of programs, initiatives, and systems across the CFO/ASA. Begin documentation of the as-is architecture and develop a target architecture with a consolidated transition plan (roadmap) for the administrative areas within the Department consistent with the Department EA and OMB FEA.

II. FINANCIAL REPORTING

The Department is committed to making financial management a priority and significant efforts are being made to further improve the management of its financial resources. The Department has received unqualified opinions on its consolidated financial statements since 1999. In addition, one bureau subject to individual audit has maintained unqualified opinions on its principal financial statements. The Department met the accelerated financial statement submission deadlines for FY 2007. These achievements resulted from the Department's commitment to strong management controls and accountability for its resources. One significant deficiency cited relating to deficiencies in general information technology (IT) controls remained from the prior years. The Department has corrective action plans (CAP) in progress to address these deficiencies. In FY 2007, the Department conducted an improper payment sample testing; the results revealed no significant improper payment or internal control deficiencies. Overall, the Department's assessments demonstrate that the Department has strong internal controls over the disbursement processes, the amounts of improper payment in the Department are immaterial, and the risk of improper payment is low. The Performance and Accountability Report (PAR) section, Improper Payments Information Act of 2002 (IPIA), and the Appendix D on the IPIA reporting details describe the Department's efforts in complying with this act along with the results of the Department's reviews.

The Department accomplished the following initiatives that resulted in meeting the aforementioned goals:

- Conducted an assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control, Appendix A*, including developing a three-year rotational testing plan based on a risk assessment of the 12 key processes. A Senior Management Council (SMC) and a Senior Assessment Team (SAT) worked together to provide oversight guidance and decision-making for the A-123 implementation process. The final report which reported no material weaknesses was incorporated into management's overall assurance statement provided under the requirements of the FMFIA.
- Prepared and monitored CAPs for the significant deficiency and management letter comments and monitored progress towards their completion throughout the year.
- Published guidance on the preparation and submission of financial statements, including a calendar of milestone dates. Each quarter, with the participation of all bureaus, guidance was reviewed and updated to reflect lessons learned and to identify best practices among the bureaus. When necessary, task forces were formed to resolve issues that could have impeded the Department's ability to produce timely and accurate financial statements.
- Held meetings throughout the fiscal year with the Office of Inspector General (OIG) and independent auditors to ensure timely completion of the audit and issuance of the financial statements.
- Held monthly meetings led by the Department's Deputy CFO with individual bureau CFOs to discuss financial management issues, including financial statements, OMB Circular A-123, and financial performance metrics. These meetings were in addition to the Department's monthly CFO Council meetings led by the Department's CFO and the monthly Finance Officer meetings led by the Deputy CFO.
- Monthly financial metrics were compiled, analyzed, and reported in the government-wide consolidated CFO measurement tracking system. Individual bureaus were provided with a monthly status report comparing and analyzing their results with the Department's goals, and the Department and government-wide results. The results of bureaus metrics and any corrective actions needed were discussed at the bureau CFOs' individual monthly meetings.
- Facilitated intragovernmental reconciliations using the Department's Corporate Database application to collect, extract, and report on a quarterly basis its intragovernmental account balances, by trading partner, to the Treasury Department. The Department took a proactive approach of initiating contact with all trading partner agencies to reconcile large differences.

Although the Department has seen an improvement in trading partner's participation, continued improvement is needed in order to reconcile all differences.

Although the Department has accomplished much in the area of financial management, there is still a need to improve upon these accomplishments to ensure that the Department continues to produce and report accurate, reliable, and timely financial information. In FY 2008 and beyond, the Department plans to accomplish the following:

- Continue to enhance OMB Circular A-123, *Management's Responsibility for Internal Controls*, process and monitor the implementation of the CAPs for any identified deficiencies as a result of the A-123 and financial statement audit process.
- Continue to identify areas that will facilitate the acceleration of providing accurate and reliable financial information to Department managers and central agencies. This will be achieved through ongoing meetings and workgroups amongst the Department's financial managers and participation in government-wide financial management committees and workgroups.
- Continue to monitor and perform reviews of the Department's progress in preventing improper payments.
- Continue to work with OMB, Treasury Department, and the Government-wide Intragovernmental Subcommittee to improve the intragovernmental reconciliation process.

III. GRANTS MANAGEMENT

Under the CFO/ASA, the Office of Acquisition Management and Financial Assistance (OAMFA) is responsible for the Department's enterprise-wide grants management policy, projects, and oversight.

The Department's focus is to standardize policy and procedures for its grant and cooperative agreement programs in order to strengthen compliance, work towards a single automated grants management system, and enhance/formalize workforce education. Targeted efforts are underway to transform the decentralized Department grants management community into an effective and efficient partnership. The sharing of resources and responsibilities to accomplish enterprise goals is a recurring theme throughout the partnership effort.

The Department is an active participant in the government-wide implementation of Public Law (PL) 106-107 (The Federal Financial Assistance Improvement Act of 1999) to simplify and automate the grants process, including participation on several related interagency workgroups. OAMFA oversees development of the Department's PL 106-107 annual report to Congress which details progress in achieving the objectives of the act. The act sunsets in 2007 and the final report will be transmitted to Congress in January 2008. Thereafter, the OAMFA Grants Management Division will continue to steer the Department's grants process streamlining efforts in accordance with guidance issued by OMB in collaboration with the government-wide Grants Policy Committee (GPC). Key to that effort will be the creation of a Department-wide training and certification program for grants staff that will align over time with that being developed by the GPC work group on training and certification.

OAMFA coordinates quarterly Departmental Grants Council meetings and works closely with the OIG and General Counsel to implement sound policy and ensure consistency for the Department's financial assistance programs. The Department is committed to the goal of strengthening its grant operations and improving its business processes to provide better services to its customers in the federal grant recipient community. An active partner in e-grants initiatives, OAMFA serves on the Grants Executive Board and the Grants Line of Business Taskforce, participating in workgroups and pilot activities. The Department is now fully compliant with Grants.gov, and has revised its Grants and Cooperative Agreements Manual and Standard Grants Terms and Conditions to recognize the emerging growth of electronic government. Continued review and updating of the manual will occur in recognition of the rapidly

changing environment engendered by the transition to Grants.gov as the business processing model for federal financial assistance programs.

Integral to the Department's effort to move aggressively into the world of e-grants is the continued utilization of the National Oceanic and Atmospheric Administration's (NOAA) Grants Online system, a back-office solution to the Grants.gov's storefront. The system, which went live in January 2005, was designed to facilitate efficiencies through standardized business processes and provide a direct interface to other Departmental systems. It has demonstrated significant success in reducing paperwork, increasing accountability, and simplifying the post award process. The Grants Online system has also been identified as the solution to standardizing grants procedures. This standardization effort would align internal processes/procedures for federal Grants Management Line of Business system consolidation efforts.

Under OMB circulars, organizations receiving federal awards are assigned to a single federal agency (cognizant agency) which acts on behalf of all federal agencies in approving indirect cost and other rates for that organization. The Department is responsible for reviewing indirect cost proposals submitted by assigned grantee organizations and, based on those reviews, negotiates appropriate indirect cost rates. OAMFA's responsibility for the management of this program continued throughout the fiscal year. New rate review procedures that were implemented during FY 2007 produced greater levels of financial analysis which resulted in financial savings to the Department through indirect cost rate adjustments from grantee's proposed rate. Program focus for the coming year will include implementation of stronger internal controls, creation of a new tracking database, and documenting/communicating new program procedures.

IV. HUMAN CAPITAL

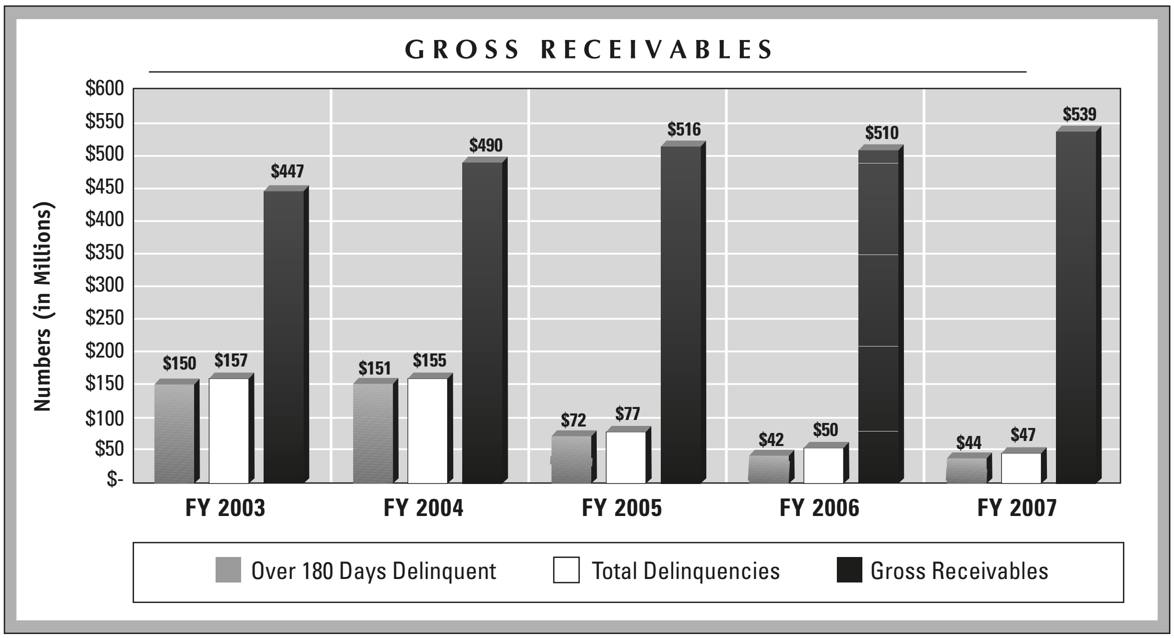
The Department's leadership recognizes the need to ensure succession planning in the area of financial management and to enhance the current workforce development initiatives. Therefore, internship programs are implemented through a variety of sources to give finance and accounting majors an opportunity to gain hands-on accounting experience, while introducing potential future employees to the opportunities that exist at the Department. In 2007, the Department continued a two-year career internship program for college-level graduates interested in pursuing a career in federal accounting. Candidates participated in finance-related training courses and rotational assignments throughout the Department. Department leadership continued its partnership with the National Academy Foundation (NAF) by employing finance interns from local high schools and participating in NAF-sponsored events.

Additionally, the Department's senior executives reviewed and approved the business case analysis to add the accounting and budgeting series to the list of Department-wide mission-critical occupations. Employees at the GS-7 through GS-15 and equivalent levels in the accounting and budgeting series are eligible to apply for the Senior Executive Service Candidate Development Program, the Executive Leadership Development Program, and the Aspiring Leaders Development Program. These programs include competency assessment, formal classroom training, developmental assignments, seminars, action learning task teams, and mentors for the participants to enhance the succession planning opportunities.

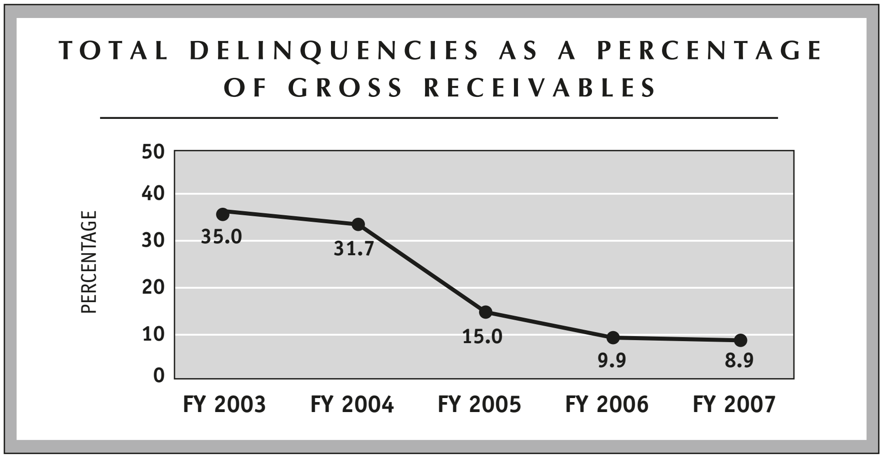
DEBT MANAGEMENT

RECEIVABLES AND DEBT MANAGEMENT

The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to diminish significantly the amount of risk inherent in credit programs. These procedures were established to ensure that credit costs are properly identified and controlled, that borrowers' needs are met, and that costs to the taxpayers are minimized.



The Department's gross receivables increased 5.7 percent, from $510 million at September 30, 2006 to $539 million at September 30, 2007, as reported on the Department's Treasury Report on Receivables (TROR). The TROR is the primary means for the Department to provide comprehensive information on its gross receivables and delinquent debt due from the public. Debt over 180 days delinquent increased minimally from $42 million at September 30, 2006 to $44 million at September 30, 2007, representing a 4.8 percent increase. Total delinquencies as a percentage of gross receivables also decreased minimally, from 9.9 percent at September 30, 2006 to 9.0 percent at September 30, 2007.



The Debt Collection Improvement Act of 1996 established the Treasury Department as the collection agency for eligible federal agency debts that are more than 180 days delinquent. It also established Treasury's Financial Management Service as the federal government's debt collection center. Over $15 million in delinquent debt has been referred to Treasury for cross-servicing since FY 2002. Currently, over 83 percent of the Department's overall delinquent debt that has not been referred to Treasury is in litigation with the Department of Justice for enforced collection.

During During FY 2001, the issuance of the revised *Federal Claims Collection Standards* and the revised OMB Circular A-129, P*olicies for Federal Credit Programs and Non-Tax Receivables*, provided agencies greater latitude to maximize the effectiveness of federal debt collection procedures. Since then, the Department has utilized all the tools available to improve the management of its debt.

PAYMENT PRACTICES

Electronic Funds Transfer (EFT)

The Debt Collection Improvement Act of 1996 requires the use of EFT for most federal payments, with the exception of tax refunds. The Department closely monitors its monthly EFT performance, and submits consolidated monthly EFT activity reports to OMB, as part of the Department's Performance Metrics data.

The Department's vendor EFT percentage increased from 96 percent for FY 2006 to 97 percent for FY 2007. The Department accomplished this, in large part, by working closely with its bureaus to identify opportunities for new or improved business processes. This improved performance allowed the Department in FY 2007, on average, to meet OMB's vendor EFT performance goal of 96 percent. The Department's overall EFT percentage also increased, from 98 percent for FY 2006 to 99 percent for FY 2007. The Department believes its continued efforts to implement new or improved business processes will lead to further increases in vendor and overall EFT percentages.

The Department's achievements in this area are illustrated in the table below:

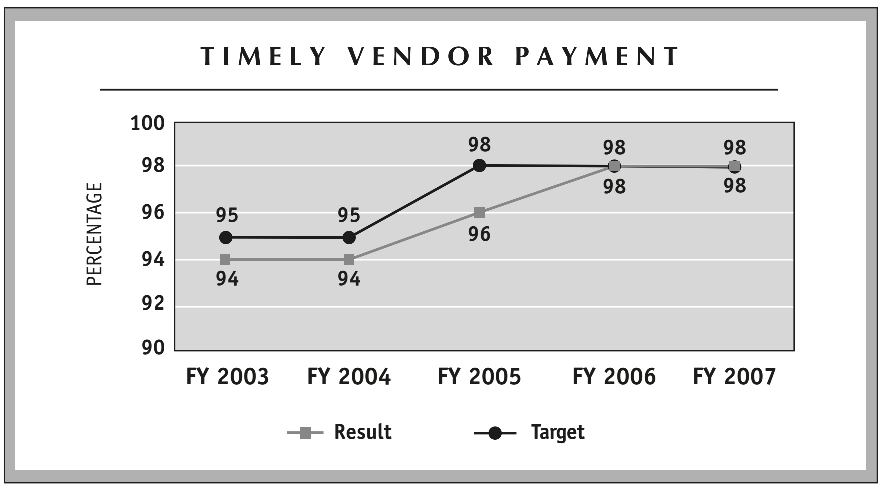
Payment Category	EFT Percentage		Total Volume (Actual Number of Transactions — EFT and Non-EFT)	
	FY 2007	FY 2006	FY 2007	FY 2006
Grants	100%	100%	25,815	23,913
Payroll	99%	99%	1,196,926	1,255,431
Retirement Benefits	100%	100%	4,527	4,529
Vendor	97%	96%	331,264	364,872
Overall	**99%**	**98%**	**1,558,532**	**1,648,745**

Bankcards

The Department is committed to the use of bankcards (purchase cards) as a means of streamlining Departmental procurements. Bankcard usage is closely monitored, and those that are no longer needed are promptly closed. This has resulted in an overall decrease, over the past six fiscal years, in the number of bankcards in use, from 6,405 at September 30, 2001 to 5,565 at September 30, 2007. The Department's emphasis on EFT-compliant payment methods has contributed to an overall increase, over the past six fiscal years, in bankcard purchases, from $131.6 million at September 30, 2001 to $158.4 million at September 30, 2007. The Department continues to monitor the internal controls surrounding bankcard purchases to ensure that all such purchases are legal and proper. As of September 30, 2007, the Department had an overall zero percent bankcard delinquency rate.

Prompt Payment

The Prompt Payment Act of 1982 requires agencies to pay their bills to vendors on a timely basis, and to pay interest penalties when payments are made late. The Department closely monitors its prompt payment performance, and submits consolidated monthly prompt payment activity reports to OMB, as part of the Department's Performance Metrics data.



The Department has maintained its prompt payment performance at 98 percent from FY 2006 to FY 2007. Furthermore, the number of invoices with late-payment interest penalties decreased, from 5,740 in FY 2006 to 5,551 in FY 2007. The Department continues to focus on improving its prompt payment percentage by working closely with its bureaus to identify opportunities for new or improved business processes.

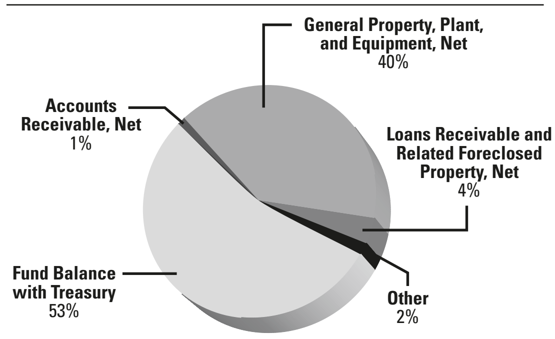
ANALYSIS OF FY 2007 FINANCIAL CONDITION AND RESULTS

Composition of Assets and Assets by Responsibility Segment

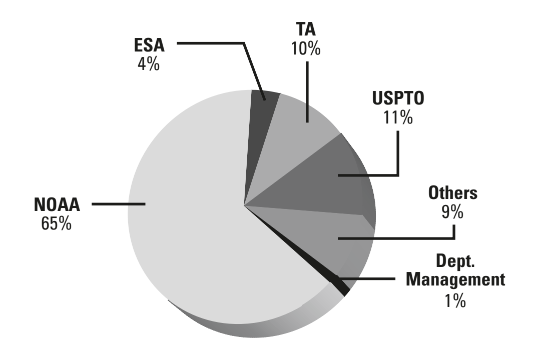
The composition (by percentage) and distribution (by responsibility segment) of the Department's assets remained consistent from FY 2006 to FY 2007.

Total assets amounted to $14.20 billion at September 30, 2007. Fund Balance with Treasury of $7.60 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment, Net of Accumulated Depreciation (General PP&E) of $5.73 billion includes $3.36 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems; $858 million of satellites and weather systems; $790 million of structures, facilities, and leasehold improvements; and $724 million of other General PP&E. Loans Receivable and Related Foreclosed Property, Net of $520 million primarily relates to NOAA's direct loan programs. Accounts Receivable, Net of $102 million resulted primarily when the Department performed reimbursable services or sold goods. Other Assets of $252 million primarily includes Inventory, Materials, and Supplies, Net of $107 million, and Advances and Prepayments of $130 million.

COMPOSITION OF THE DEPARTMENT'S ASSETS

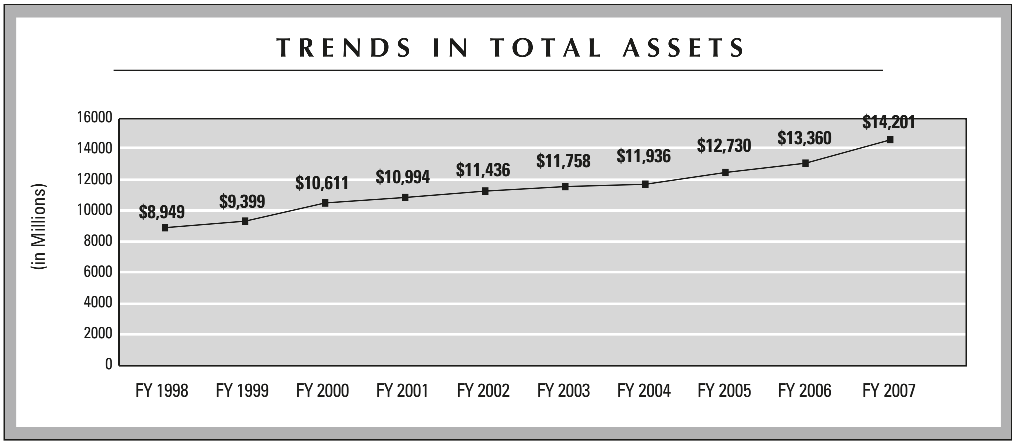


ASSETS BY RESPONSIBILITY SEGMENT



Trends in Assets

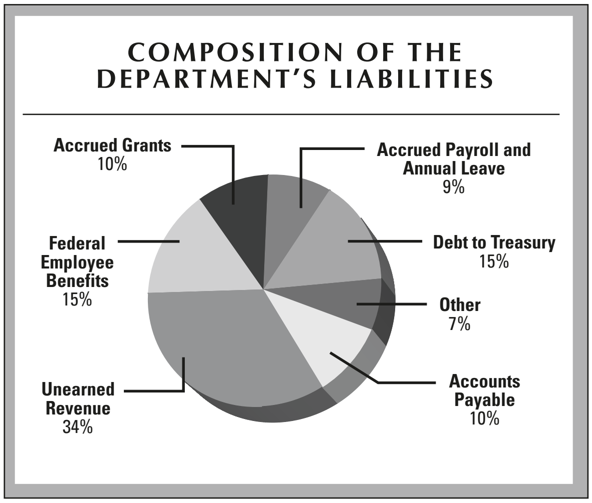
Total Assets increased $840 million or 6 percent, from $13.36 billion at September 30, 2006 to $14.20 billion at September 30, 2007. Fund Balance with Treasury increased $365 million or 5 percent, from $7.23 billion to $7.60 billion, which primarily resulted from an increase in obligated balances not yet disbursed of $368 million. General PP&E, Net increased $431 million or 8 percent, from $5.30 billion to $5.73 billion, mainly due to an increase of $302 million in NOAA's Satellites/Weather Systems Personal Property, Net. Loans Receivable and Related Foreclosed Property, Net increased $52 million or 11 percent, from $468 million to $520 million, primarily due to NOAA's Fisheries Finance Traditional Loans, and Bering Sea and Aleutian Islands Non-Pollock Buyback Loans.

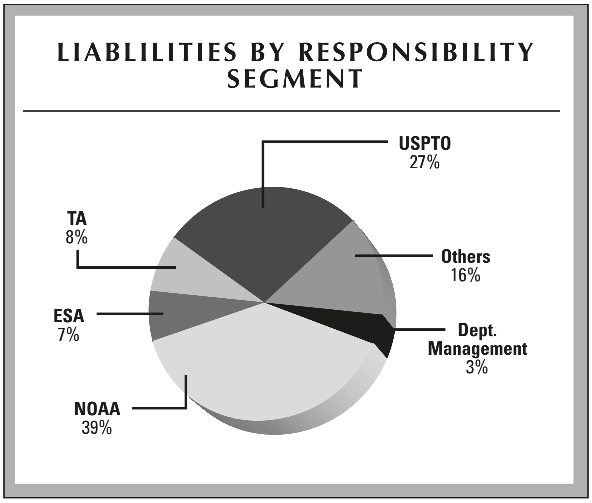


Composition of Liabilities and Liabilities by Responsibility Segment

The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities also remained consistent from FY 2006 to FY 2007.

Total liabilities amounted to $4.23 billion at September 30, 2007. Unearned Revenue of $1.43 billion represents the portion of monies received from customers for which goods and services have not been provided or rendered by the Department. Federal Employee Benefits of $626 million is composed of the actuarial present value of projected benefits for the NOAA Corps Retirement System ($416 million) and the NOAA Corps Post-retirement Health Benefits ($45 million), and Actuarial Federal Employees Compensation Act (FECA) Liability ($165 million), which represents the liability for future workers' compensation benefits. Accounts Payable of $432 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Accrued Grants of $405 million, which relates to a diverse array of financial assistance programs and projects, includes the Economic Development Administration's (EDA) accrued grants of $260 million for their economic development and assistance funding to state and local governments. Debt to Treasury of $646 million consists of monies borrowed primarily for NOAA's direct loan programs and the National Telecommunications and Information Administration's (NTIA) Digital Television Transition and Public Safety Fund. Accrued Payroll and Annual Leave of $396 million includes salaries and wages earned by employees, but not disbursed as of September 30. Other Liabilities of $296 million primarily includes Downward Subsidy Reestimates Payable to Treasury of $37 million, Loan Guarantee Liabilities of $56 million, Environmental and Disposal Liabilities of $67 million, and Resources Payable to Treasury of $30 million.



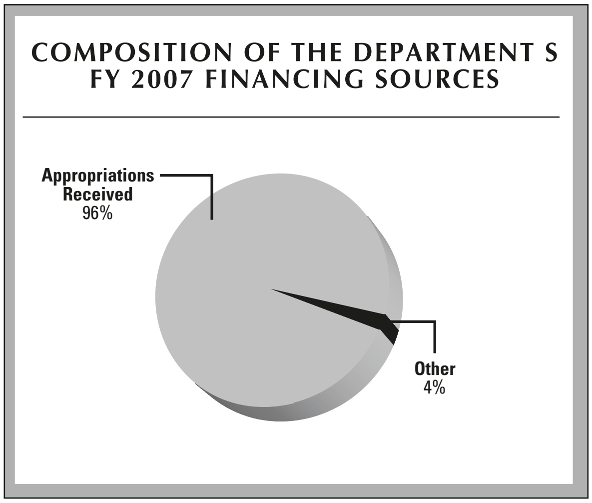


Trends in Liabilities

Total Liabilities increased $337 million or 9 percent, from $3.89 billion at September 30, 2006 to $4.23 billion at September 30, 2007. Unearned Revenue increased $37 million or 3 percent, from $1.39 billion to $1.43 billion, primarily due to increased unearned revenue from patent and trademark application and user fees that are pending action. Debt to Treasury increased $224 million or 53 percent, from $422 million to $646 million, mainly due to net borrowings in FY 2007 of $164 million for NTIA's Digital Television Transition and Public Safety Fund and $63 million for NOAA's direct loan programs. Accounts Payable increased $68 million or 19 percent, from $364 million to $432 million, primarily related to NOAA's program support activities and transactions with the National Aeronautics and Space Administration (NASA).

Composition of and Trends in Financing Sources

Most of the Department's Financing Sources, shown on the Consolidated Statements of Changes in Net Position, are obtained from Appropriations Received, net of reductions. Other typical Financing Sources include net transfers to and from other federal agencies without reimbursement, imputed financing sources from costs absorbed by other federal agencies, and Downward Subsidy Reestimates Payable to Treasury (a negative Financing Source).

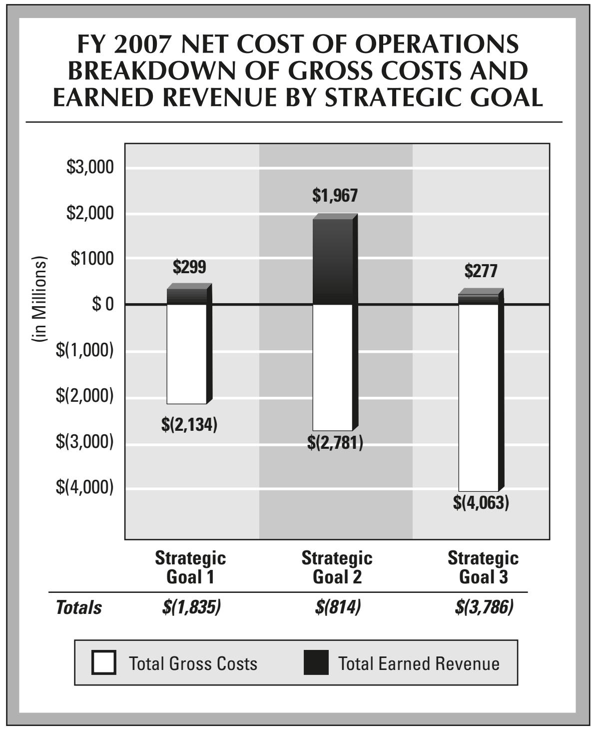


The composition (by percentage) of the Department's financing sources remained consistent from FY 2006 to FY 2007.

Total Financing Sources increased $20 million or 0.3 percent, from $6.92 billion for FY 2006 to $6.94 billion for FY 2007. Appropriations Received, net of reductions, decreased by $3 million or 0.1 percent. All other financing sources had a net increase of $23 million, from $263 million at September 30, 2006 to $286 million at September 30, 2007.

FY 2007 Net Cost of Operations by Strategic Goal

In FY 2007, Net Cost of Operations amounted to $6.44 billion, which consists of Gross Costs of $8.98 billion less Earned Revenue of $2.54 billion.



Strategic Goal 1, Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers, includes Net Program Costs of $948 million (Gross Costs of $1.20 billion less Earned Revenue of $250 million) for Census Bureau. The Census Bureau carries out the Decennial Census, periodic censuses, and demographic and other surveys, and prepares and releases targeted data products for economic and other programs. The ITA's programs and activities also support Strategic Goal 1, with Net Program Costs of $422 million (Gross Costs of $436 million less Earned Revenue of $14 million). ITA assists the export growth of small and medium-sized businesses, enforces U.S. trade laws and trade agreements, monitors and maintains trading relationships with established markets, promotes new business in emerging markets, and improves access to overseas markets by identifying and pressing for the removal of trade barriers. Strategic Goal 1 also includes Net Program Costs of $257 million (Gross Costs of $275 million less Earned Revenue of $18 million) for EDA. EDA helps distressed communities address problems associated with long-term economic distress, as well as sudden and severe economic dislocations including recovering from the economic impacts of natural disasters, the closure of military installations and other federal facilities changing trade patterns, and the depletion of natural resources.

Strategic Goal 2, Foster Science and Technological Leadership by Protecting Intellectual Property (IP), Enhancing Technical Standards, and Advancing Measurement Science, includes Net Program Costs of $34 million (Gross Costs of $1.77 billion less Earned Revenue of $1.74 billion) for the U.S. Patent and Trademark Office's (USPTO) patents and trademark programs, which includes processing patent applications and disseminating patent information. Through issuing patents, USPTO encourages technological advancement by providing incentives to invent, invest in, and disclose new technology. Strategic Goal 2 also includes Net Program Costs of $491 million (Gross Costs of $619 million less Earned Revenue of $128 million) for the National Institute of Standards and Technology's (NIST) Measurement and Standards Laboratories. These laboratories are the stewards of the Nation's measurement infrastructure, and provide measurement methods, reference materials, test procedures, instrument calibrations, fundamental data, and standards that comprise essential tools for research, production, and buyer-seller transactions.

Strategic Goal 3, Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship, includes Net Program Costs of $1.43 billion (Gross Costs of $1.53 billion less Earned Revenue of $101 million) related to NOAA's stewardship of ecosystems, which reflects NOAA's mission to conserve, protect, manage, and restore fisheries, coastal, and ocean resources. The Department has a responsibility for stewardship of the marine ecosystem and for setting standards to protect and manage the shared resources and harvests of the oceans. The Department strives to balance sustainable development and healthy functioning marine ecosystems, and to conserve, protect, restore, and better manage resources.

LIMITATIONS OF THE FINANCIAL STATEMENTS

These financial statements have been prepared to report the overall financial position and results of operations of the Department, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the form and content prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.