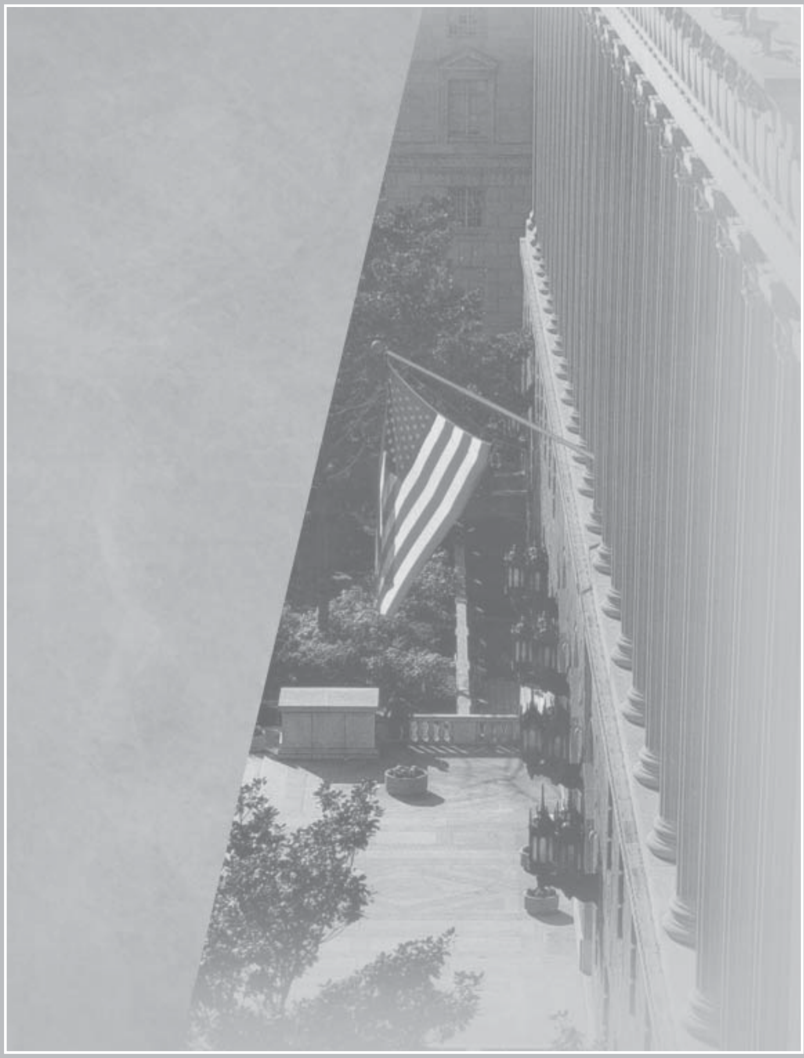
Financial Management and Analysis



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. 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, successfully implemented a single integrated financial system, and continued its compliance with the Federal Financial Management Improvement Act (FFMIA). Highlights of accomplishments for fiscal year (FY) 2005 and future initiatives are discussed further below.

I. FINANCIAL MANAGEMENT SYSTEMS

In October 2003, the Department completed the implementation of its financial management system, the Commerce Business System (CBS), formerly known as the Commerce Administrative Management System (CAMS). CBS replaced non-compliant legacy financial systems within the Department. Bureaus that were previously on compliant systems continue to use those systems with some entities potentially converting to CBS at a future date. 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. A Consolidated Reporting System (CRS) integrates existing management data from financial, human resource, acquisition, and federal assistance enterprise databases, and provides senior management with online desktop access to information about bureau programs and resources that is critical to strategic decision-making.

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 includes a Core Financial System (CFS) interfaced with administrative systems for small purchases, bankcards, grants (Automated Standard Application for Payments [ASAP]), a data warehouse, and time reporting/labor cost distribution module, collectively called Core CBS. Planned is an obligation and requisition interface between CBS and the Commerce Standard Acquisition and Reporting System (CSTARS), the Department's acquisition system.

The Corporate Database is a commercial off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database provides an integrated solution to financial statements and Federal Agencies Centralized Trial Balance System (FACTS I) Adjusted Trial Balances reporting at the Department, bureau, and Treasury Appropriation/Fund Group level, and also provides the ability to perform data analysis. The database was updated in FY 2004 to produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

During FY 2005, the Department accomplished the following initiatives:

- Completed the business case on the review of information technology and system support activities associated with CBS and the financial feeder systems. The business case identified opportunities within the existing financial systems environment to consolidate hardware and software and reduce redundant responsibilities. The Department will benefit from this consolidation by reducing the systems infrastructure and reducing overall financial systems costs, and positioning the Department for the replacement of CBS in FY 2012.

- Successfully completed the Next Generation Financial Management Solicitation process for replacing the current Corporate Database with upgraded technology and expanded capabilities.
- The Department's executive information system, CRS, for the first time included performance data in addition to financial, procurement, human resources, and grants information. The performance data provides Department executives and managers with easy access to bureaus' performance against established GPRA goals.
- Completed the CBS Web Migration Business case and had an independent company perform an independent technology assessment of the Web Migration Business Case to validate the assumptions, proposed options, proposed architecture, and approach presented in the business case.
- Had an independent company perform and complete an Independent Verification and Validation (IV&V) of the Oracle code and database design for usability and sustainability through the CBS life expectancy of 2012 and beyond.
- Conducted a deconstruction of six common business systems other than CBS for FYs 2005-2008 in which the bureaus and the Office of Financial Management (OFM) (1) developed a common basis for reporting costs by standard cost categories, activities, and functions using commonly agreed-upon definitions; and (2) reviewed bureau spending by cost categories to ensure consistent spending across those categories.

Although the Department has an integrated financial system with the implementation of CBS and the Corporate Database, there is still a need to look forward to ensure that it continues to provide reliable, timely, and accurate financial data to management. In FY 2006, the Department plans to accomplish the following:

- Implement recommendations from the CBS business case study by beginning the process of consolidating financial system applications from the existing locations to one data center.
- Conduct a Web migration pilot project to refine the approach and cost of migrating CBS to the current version of its software. In addition, Commerce will implement best practices identified in the Web Migration IV&V for maintaining CBS software.
- Complete the implementation process of replacing the current Corporate Database with upgraded technology and expanded capabilities.
- Continue to identify and employ controls necessary to provide, improve, and maintain general controls, specifically security of financial management systems.
- Implement the interface between the CBS and procurement system in production throughout Commerce. This interface will permit the procurement system to send requisition and obligation documents to the CBS for processing.

The Department is already looking beyond FY 2006 in an effort to plan improvements to its financial management systems and operations, including:

- Conversion of the International Trade Administration (ITA) to the CBS. This effort will continue to expand the benefits of CBS in standardizing financial management activities across the Department and in providing a centralized financial system for financial management and reporting. In addition, ITA's existing system supporting its core business functions is technologically out-of-date and is no longer being supported by the software vendor.
- Planning for the transition to a Financial Management Line of Business Center of Excellence by 2012. The Department has begun mapping out a timeline that includes the required phases and activities for this transition, including beginning planning activities in FY 2008; identification of the Center of Excellence by FY 2010; and implementation/deployment occurring between FY 2010 and FY 2012.

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 or exceeded the accelerated financial statement submission deadlines for FY 2005. These achievements resulted from the Department's commitment to strong management controls and accountability for its resources. Two reportable conditions were cited relating to some identified deficiencies in general information technology (IT) controls remaining from the prior years and one bureau's controls over reporting Construction-Work-in-Progress. Although the Department did not identify any significant problems with erroneous payments, it recognized the importance of maintaining adequate internal controls. The Performance and Accountability Report (PAR) section, Improper Payments Information Act of 2002 (IPIA), and the Appendix on the IPIA reporting details describe the Department's implementation efforts of this Act along with the results of Commerce's reviews.

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

- Implemented Section 831 of the Defense Authorization Act of 2002 (P.L. 107-107, Title VIII, Subtitle D, Sec. 831; 31 USC 3561-3567) by contracting with a private vendor to perform recovery auditing. The audit included thorough reviews of sample invoices from two of the Department's largest payment offices, and an independent confirmation of open items with key vendors. Also, as a separate effort, the Department performed disbursement sampling to identify improper payments. Results of the audit, confirmation efforts, and disbursement sampling revealed no significant improper payments or internal control deficiencies.
- Completed a business case that studied the structure of, and processes and business practices followed by, the Accounts Payable function across the bureaus. The business case made several recommendations to streamline financial management within the Department, including implementing best practices and researching the feasibility of a Web invoicing system.
- Participated in the government-wide Chief Financial Officer (CFO) Council, Financial Management Policies and Practices Committee and led the development of the revised Internal Controls Assessment (Office of Management and Budget (OMB) Circular A-123) Implementation guidance that was issued by the OMB in July 2005.
- Actively participated in the government-wide development of the revised Form and Content of Agency Financial Statements (OMB Circular A-136) that was issued by OMB in July 2005.
- 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 impeded the Department's ability to produce timely and accurate financial statements.
- Prepared Corrective Action Plans for the reportable condition and management letter comments, and progress was monitored throughout the year.
- 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 the bureaus' CFOs to discuss financial management issues, including financial statements, the CRS, 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.

- Participated in the Financial Metrics Workgroup led by the CFO Council Committee. Monthly financial metrics were compiled, analyzed, and reported in the government-wide consolidated CFO measurement tracking system. This information is also included in Commerce's CRS for senior management's review. 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.
- 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. However, despite its considerable effort, the Department has been unsuccessful in its attempts to reconcile all differences primarily due to a lack of participation by its trading partners.

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 produces and reports accurate, reliable, and timely financial information. In FY 2006, the Department plans to accomplish the following:

- Implement the requirements of OMB Circular A-123, *Management Accountability and Control*, and OMB Circular A-136, *Financial Reporting Requirements*.
- Implement recommendations from the CBS business case study to streamline business processes throughout the Department. As a first step, the Department will implement best practices identified in the business case to improve financial operations and examine the cost and feasibility of Web invoicing.
- Continue to identify areas that will facilitate the acceleration of providing accurate and reliable financial information to Commerce 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.
- Develop corrective actions to resolve outstanding internal control deficiencies and monitor their implementation.
- Continue to monitor and perform reviews of the Department's progress in preventing improper payments.
- Continue to work with OMB, Treasury, and the Government-wide Intragovernmental Subcommittee to improve the intragovernmental reconciliation process.

GRANTS MANAGEMENT

The Department is an active participant with the government-wide implementation of Public Law (PL) 106-107 (The Grants Streamlining Initiative) to simplify and automate the grants process, including participation on various interagency workgroups. The Department's Office of Acquisition Management (OAM) 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, OAM serves on the Grants.gov Executive Board and the Grants Line of Business Taskforce and participates on 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.

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 potential for reducing paperwork, increasing accountability, simplifying the application process, and is being considered for enterprise-wide implementation.

The Department has taken additional steps to adapt its operational structure and business processes to the streamlined vision of federal grants operation expressed in PL 106-107. During FY 2005, OAM has undertaken a high-level reengineering survey of the Department's grant operations in an effort to develop a more interactive, synergistic enterprise-wide model for federal assistance programs in the emerging electronic environment. The goal is to create a performance-based culture utilizing value-added business processes with maximum use of automation for improved timeliness and quality of service delivery.

OAM's efforts to facilitate the approval of indirect cost rates for award recipients continued throughout FY 2005. OAM continued working with a contractor in reviewing applications submitted to the Department for indirect cost rate determinations, and made significant progress in facilitating the approval of indirect cost rates for award recipients throughout the fiscal year. In addition, OAM incorporated new audit and risk management features into the program and looks forward to reaping the benefits of these efforts in FY 2006 and beyond.

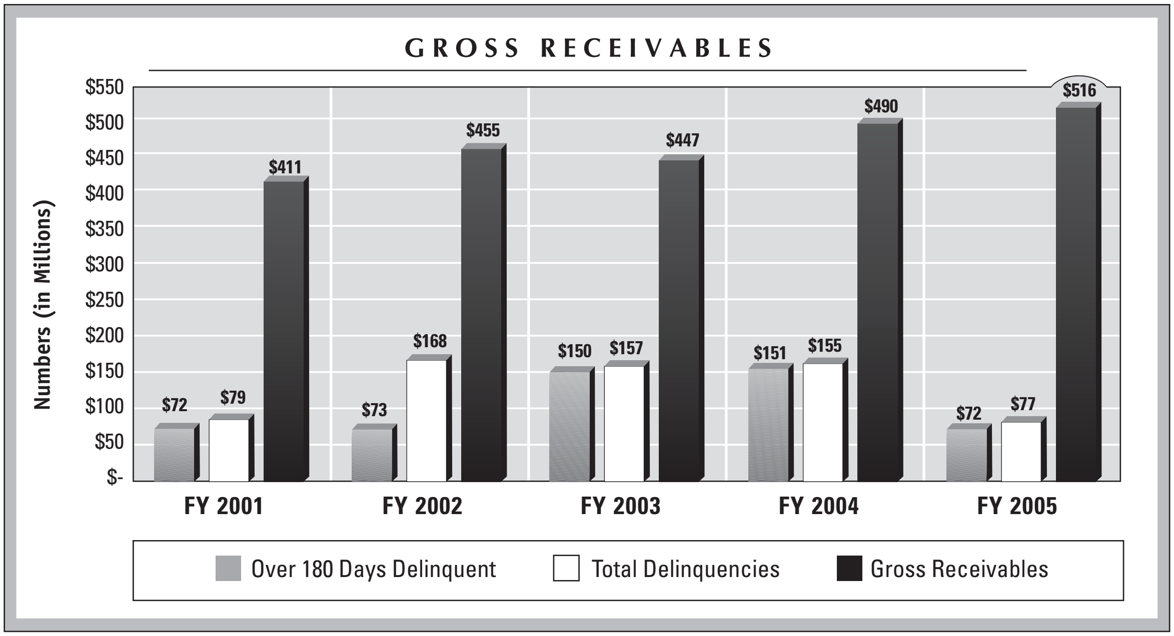
HUMAN CAPITAL

The Department recognizes the need to ensure succession planning in the area of financial management and to enhance the current workforce development. The Department provides internships 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 FY 2005, the Department initiated a two-year career internship program for college level graduates interested in pursuing a career in federal accounting. A total of 11 candidates are currently participating in finance related training courses and rotational assignments throughout the Department and its bureaus. The Department continued its partnership with the National Academy Foundation (NAF) by employing finance interns from local high schools and participating in NAF sponsored events. In addition, the Department initiated a panel of subject matter experts, consisting of representatives from the bureaus, to review the current accounting position descriptions, performance plans, and hiring criteria to ensure that the Department hires and retains high quality accountants.

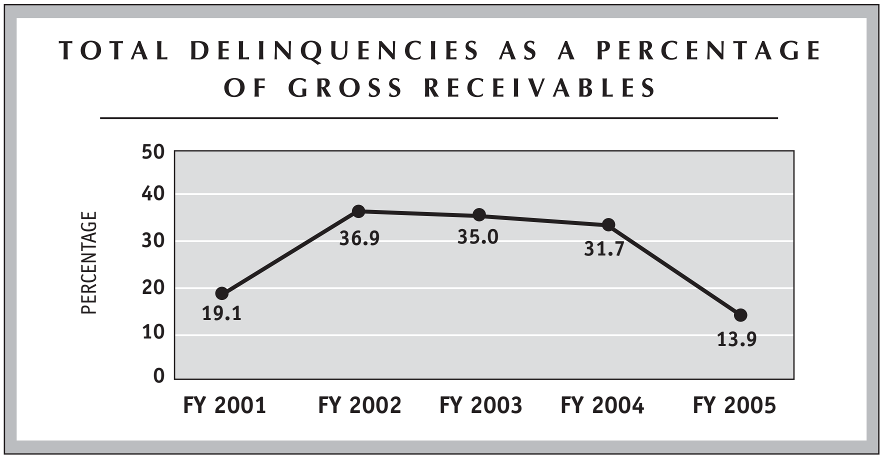
DEBT MANAGEMENT

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 minimally, from $490 million at September 30, 2004 to $516 million at September 30, 2005, 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 decreased significantly from $151 million at September 30, 2004 to $72 million at September 30, 2005. This decrease is mainly due to a large collection on a loan receivable, made possible by a liquidation, under bankruptcy, of the borrower's assets. As a result, total delinquencies, as a percentage of gross receivables, also decreased significantly, from 31.7 percent at September 30, 2004 to 13.9 percent at September 30, 2005.



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 $17 million in delinquent debt has been referred to Treasury for cross-servicing since FY 1998.

During FY 2001, the issuance of the revised *Federal Claims Collection Standards* and the revised OMB Circular No. A-129, *Policies 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 Omnibus Consolidated Rescissions and Appropriations Act of 1996 mandated the use of EFT. It requires all government payments, other than tax refunds, to be made electronically. 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.

OMB has increased its performance goal for vendor EFT payments from 90 percent in FY 2004 to 96 percent in FY 2005. Although the Department's FY 2005 EFT vendor payments of 93 percent was lower than OMB's goal, the Department achieved a green status in this category in September 2005. The Department also increased its overall EFT percentage to 98 percent in FY 2005. The Department is focusing on improving its EFT percentage for vendor payments by working closely with its bureaus to identify opportunities for new business processes. The Department believes this and other efforts will lead to increased EFT percentages in the future for vendor payments. The Department's achievements in this area are illustrated in the table below:

Payment Category	EFT Percentage		Total Volume (Actual Number of Transactions)	
	FY 2005	FY 2004	FY 2005	FY 2004
Retirement Benefits	100%	99%	4,518	4,392
Salary	99%	99%	1,166,610	1,119,187
Vendor	93%	94%	327,525	535,058
Overall	**98%**	**97%**	**1,498,653**	**1,658,637**

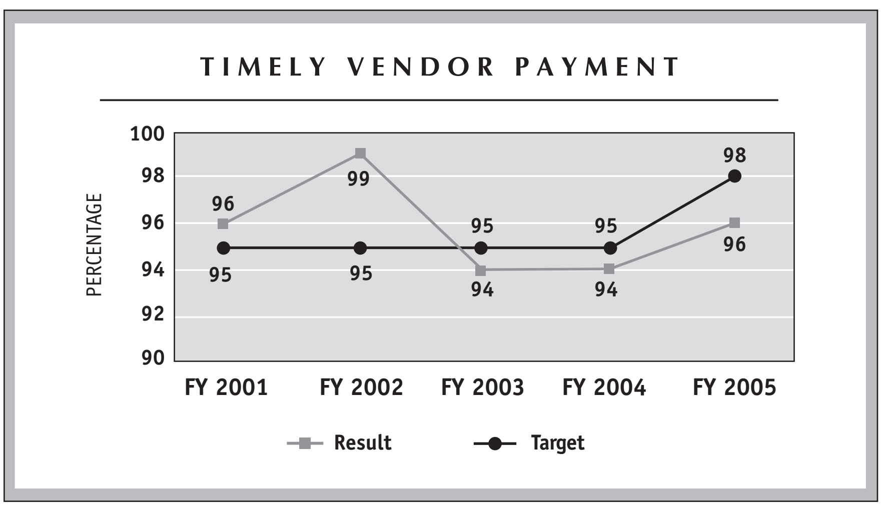
Bankcards

The Department is committed to the use of bankcards (purchase cards) as a means of streamlining Departmental procurements. However, 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 four fiscal years, in the number of bankcards in use, from 6,405 in FY 2001 to 6,028 in FY 2005. The Department's emphasis on EFT-compliant payment methods has contributed to an overall increase, over the past four fiscal years, in bankcard purchases, from $131.6 million in FY 2001 to $159.5 million in FY 2005. 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, 2005, 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 improved its prompt payment performance from 94 percent in FY 2004 to 96 percent in FY 2005. Furthermore, the number of invoices with late-payment interest penalties decreased significantly, from 15,631 in FY 2004 to 8,974 in FY 2005. At the same time, OMB has increased the government-wide prompt payment percentage goal from 95 percent in FY 2004 to 98 percent in FY 2005. The Department moved closer to OMB's new goal in September 2005, and continues to focus on improving the prompt payment percentage by working closely with its bureaus to identify opportunities for new business processes.

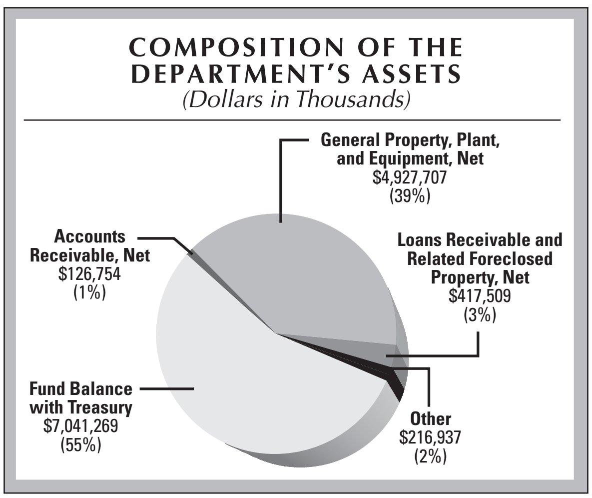


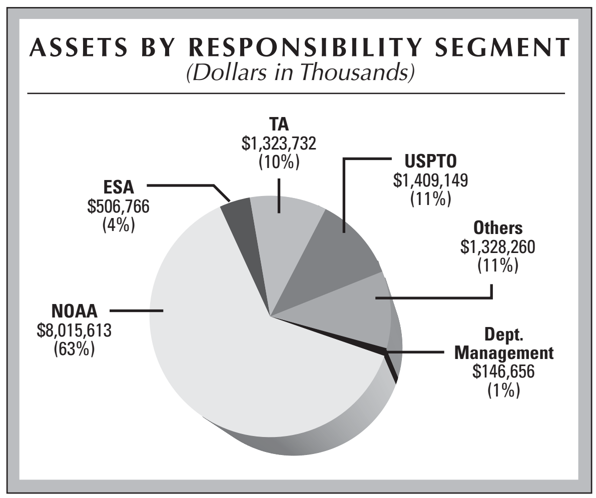
ANALYSIS OF FY 2005 FINANCIAL CONDITION AND RESULTS

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 2004 to FY 2005.

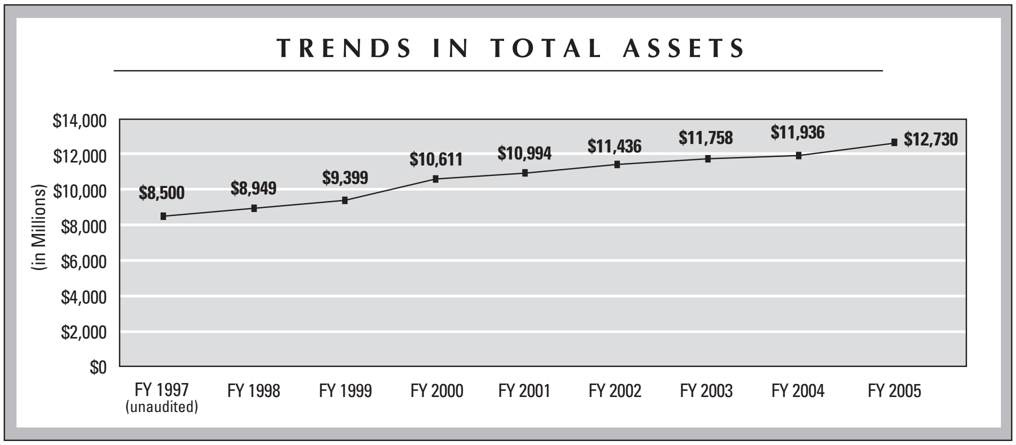
Total assets amounted to $12.73 billion at September 30, 2005. Fund Balance with Treasury of $7.04 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment, Net of Accumulated Depreciation (General PP&E) of $4.93 billion includes $2.83 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems, $842 million of satellites and weather systems, $711 million of structures, facilities, and leasehold improvements, and $547 million of other General PP&E. Loans Receivable and Related Foreclosed Property, Net of $418 million primarily relates to NOAA's direct loan programs. Accounts Receivable, Net of $127 million resulted primarily when the Department performed reimbursable services or sold goods. Other Assets of $217 million primarily includes Inventory, Materials, and Supplies, Net of $97 million, and Advances and Prepayments of $102 million.





Trends in Assets

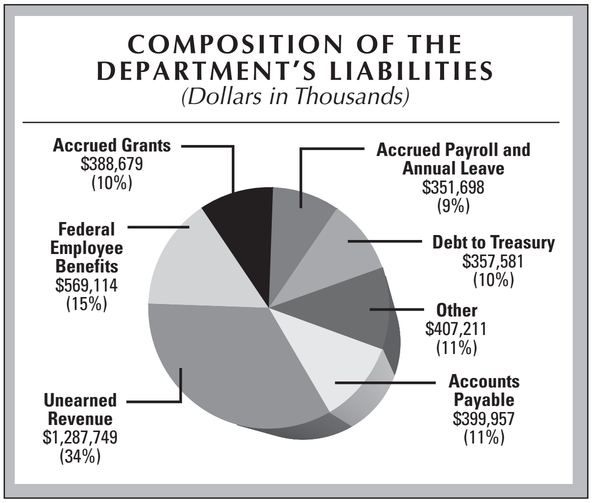
Total Assets increased $794 million or seven percent, from $11.94 billion at September 30, 2004 to $12.73 billion at September 30, 2005. Fund Balance with Treasury increased $389 million or six percent, from $6.65 billion to $7.04 billion, which primarily resulted from Appropriations Received, net of reductions, increasing by $444 million or eight percent. General PP&E increased $275 million or six percent, from $4.65 billion to $4.93 billion, mainly due to an increase of $270 million in NOAA's Construction-in-progress, primarily for satellites. Loans Receivable and Related Foreclosed Property, Net increased $101 million or 32 percent, from $317 million to $418 million, primarily due to NOAA's issuance of $97 million of Crab Buyback direct loans in FY 2005.

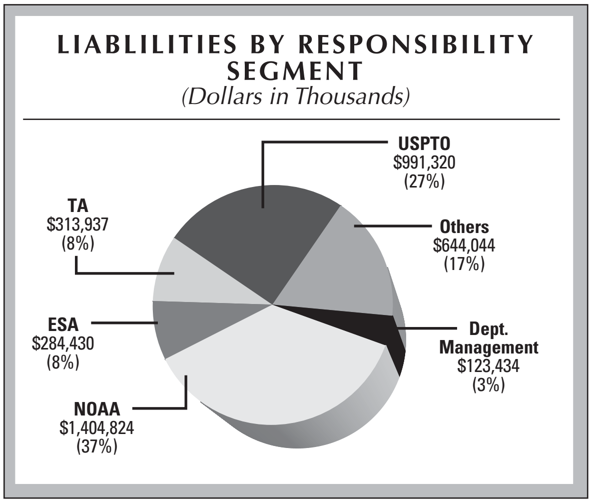


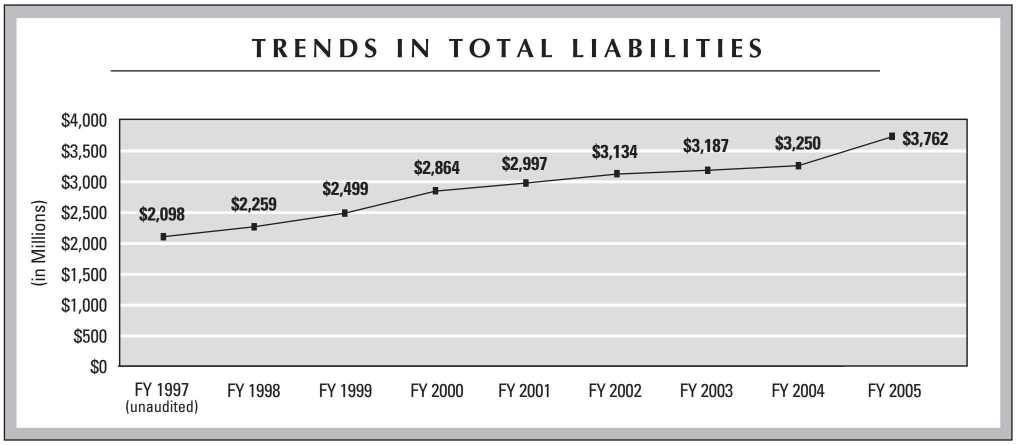
Composition of Liabilities and Liabilities by Responsibility Segment

The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities also remained consistent from FY 2004 to FY 2005.

Total liabilities amounted to $3.76 billion at September 30, 2005. Unearned Revenue of $1.29 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 $569 million is composed of the actuarial present value of projected benefits for the NOAA Corps Retirement System ($350 million) and the NOAA Corps Post-retirement Health Benefits ($45 million), and Actuarial FECA Liability ($174 million), which represents the liability for future workers' compensation benefits. Accounts Payable of $400 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 $389 million, which relates to a diverse array of financial assistance programs and projects, includes the Economic Development Administration's (EDA) accrued grants of $254 million for their economic development and assistance funding to state and local governments. Debt to Treasury of $358 million consists of monies borrowed primarily for NOAA's direct loan programs. Accrued Payroll and Annual Leave of $352 million includes salaries and wages earned by employees, but not disbursed as of September 30. Other Liabilities of $407 million primarily includes Downward Subsidy Reestimates Payable to Treasury of $108 million, Loan Guarantee Liabilities of $82 million, Environmental and Disposal Liabilities of $73 million, and Resources Payable to Treasury of $44 million.







Trends in Liabilities

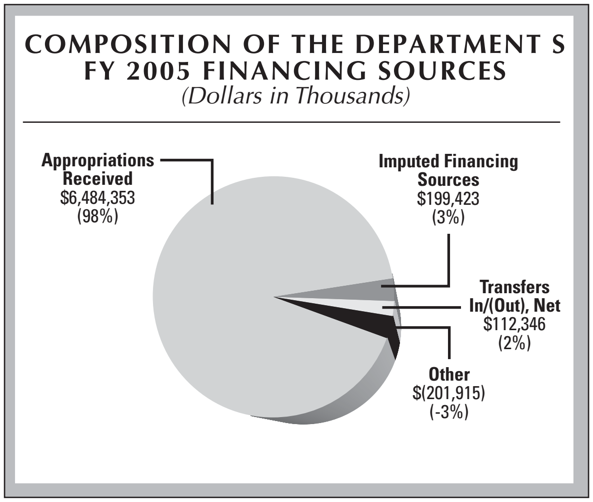
Total Liabilities increased $512 million or 16 percent, from $3.25 billion at September 30, 2004 to $3.76 billion at September 30, 2005. Unearned Revenue increased $200 million or 18 percent, from $1.09 billion to $1.29 billion, primarily due to increased unearned revenue from patent and trademark application and user fees that are pending action. Debt to Treasury increased $84 million or 30 percent, from $274 million to $358 million, mainly due to net borrowings in FY 2005 of $113 million for NOAA's direct loan programs, less the repayment to Treasury in FY 2005 of $29 million by the Emergency Steel Loan Guarantee Program. Accounts Payable increased $75 million or 23 percent, from $325 million to $400 million, primarily due to increased delivered orders in FY 2005 resulting from higher Appropriations Received, net of reductions. Downward Subsidy Reestimates Payable to Treasury increased $105 million, from $3 million to $108 million, primarily because of a downward subsidy reestimate of $85 million, as of September 30, 2005, on the defaulted guaranteed loan receivable of the Emergency Steel Loan Guarantee Program, made possible by better-than-expected actual and anticipated cash flows.

Composition of and Trends in Financing Sources

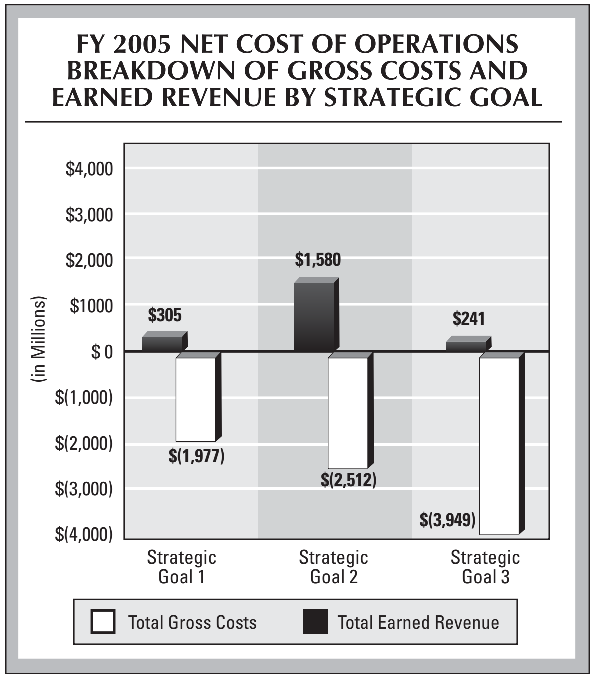
Most of the Department's Financing Sources, shown on the Consolidated Statements of Changes in Net Position, are obtained from Appropriations Received, net of reductions. Other typical Financing Sources include net transfers to and from other federal agencies without reimbursement, imputed financing 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 2004 to FY 2005.

Total Financing Sources increased $360 million or six percent, from $6.23 billion for FY 2004 to $6.59 billion for FY 2005. Appropriations Received, net of reductions, increased by $444 million or eight percent. Downward Subsidy Reestimates Payable to Treasury increased $(105) million, from $(3) million in FY 2004 to $(108) million in FY 2005, as previously discussed in the *Trends in Liabilities* section.



FY 2005 Net Cost of Operations by Strategic Goal



In FY 2005, Net Cost of Operations amounted to $6.31 billion, which consists of Gross Costs of $8.44 billion less Earned Revenue of $2.13 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 $764 million (Gross Costs of $1.01 billion less Earned Revenue of $248 million) for the Census Bureau. Census carries out the Decennial Census, periodic censuses, and demographic and other surveys, and prepares and releases targeted data products for economic and other programs. ITA's programs and activities also support Strategic Goal 1, with Net Program Costs of $410 million (Gross Costs of $422 million less Earned Revenue of $12 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 $389 million (Gross Costs of $407 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, Enhancing Technical Standards, and Advancing Measurement Science, includes Net Program Costs of $55 million (Gross Costs of $1.25 billion less Earned Revenue of $1.20 billion) for the U.S. Patent and Trademark Office's (USPTO) patents program, 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 $509 million (Gross Costs of $607 million less Earned Revenue of $98 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 $1.29 billion (Gross Costs of $1.37 billion less Earned Revenue of $86 million) related to NOAA's stewardship of ecosystems, which reflects NOAA's mission to conserve, protect, manage, and restore fisheries and 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 of Commerce, 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.