Financial Section

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

This FY 2012 Performance and Accountability Report provides financial and program performance information to enable the Department's stakeholders to understand and evaluate the Department's achievements relative to its mission and resources. The report highlights the Department's performance, provides detailed financial information, and fulfills several statutory requirements, including the Reports Consolidation Act of 2000, the Chief Financial Officers Act, the Government Performance and Results Act, the Federal Managers' Financial Integrity Act (FMFIA), and the Government Management Reform Act.

For FY 2012, the Department achieved an unqualified audit opinion for the fourteenth consecutive year. The Department received a material weakness relating to the need for improved financial management oversight at the National Oceanic and Atmospheric Administration (NOAA) in the areas of budgetary controls and accounting for general property and satellites. We are aggressively strengthening controls and ensuring proper and accurate accounting. Our goal is to eliminate this material weakness by the close of FY 2013. In addition, the Department received a significant deficiency, citing the need to improve information technology security, access, and configuration management controls. With the Office of the Chief Information Officer, we will improve our information security program, with the aim of eliminating this deficiency, as we did in FY 2011.

The Department is enhancing financial and non-financial controls under FMFIA and Office of Management and Budget (OMB) Circular A-123. The Department has provided a qualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness. This material weakness is related to the budgetary control issues identified for the unauthorized reprogramming of funds at the National Weather Service and other potential matters under review by the Department, and accounting for satellites and property at NOAA. Other than this exception, internal controls operated effectively, and no other material weaknesses were found in the Department.

The Department is applying a "One-Commerce" vision to engage a broad range of leaders, and other employees, in how best to meet program goals, and implement the President's Campaign to Cut Waste and A Government for the 21st Century management initiatives. This engagement takes place through the Executive Management Team, the Department Management Council, and various other councils (e.g., chief financial officers, chief information officers, and acquisitions, human capital, security, facilities managers), in addition to the Labor Management Forum. Employees are also directly engaged through the Performance Excellence Program, corporate communications, and other channels (e.g., town hall discussions).

This "One-Commerce" vision has led to a new way to formulate the budget, aligning resources with priorities in an inclusive manner. The Department is committed to preserving resources for program delivery and stewardship by removing well over $100 million in administrative expenses, in such areas as acquisition, personnel, facility, travel, and related costs through its FY 2012 Administrative Savings Plan. For example, the Department launched a Department-wide strategic sourcing and cost reduction program built around personal computer and other specific commodity purchasing, saving $15 million in FY 2012.

The Department is focused on stewardship, controls, and transparency, and engaging and training employees in addition to reinforcing procedural, supervisory, and system improvements. The implementation of a new Enterprise Risk Management framework, which provides an interconnected system of people, processes, and tools, and an enhanced suspension and debarment program, are part of these efforts. The Department has implemented a new comprehensive Acquisition Improvement Policy, and Department-wide standards and training have been put in place for the Department's acquisition program and project managers.

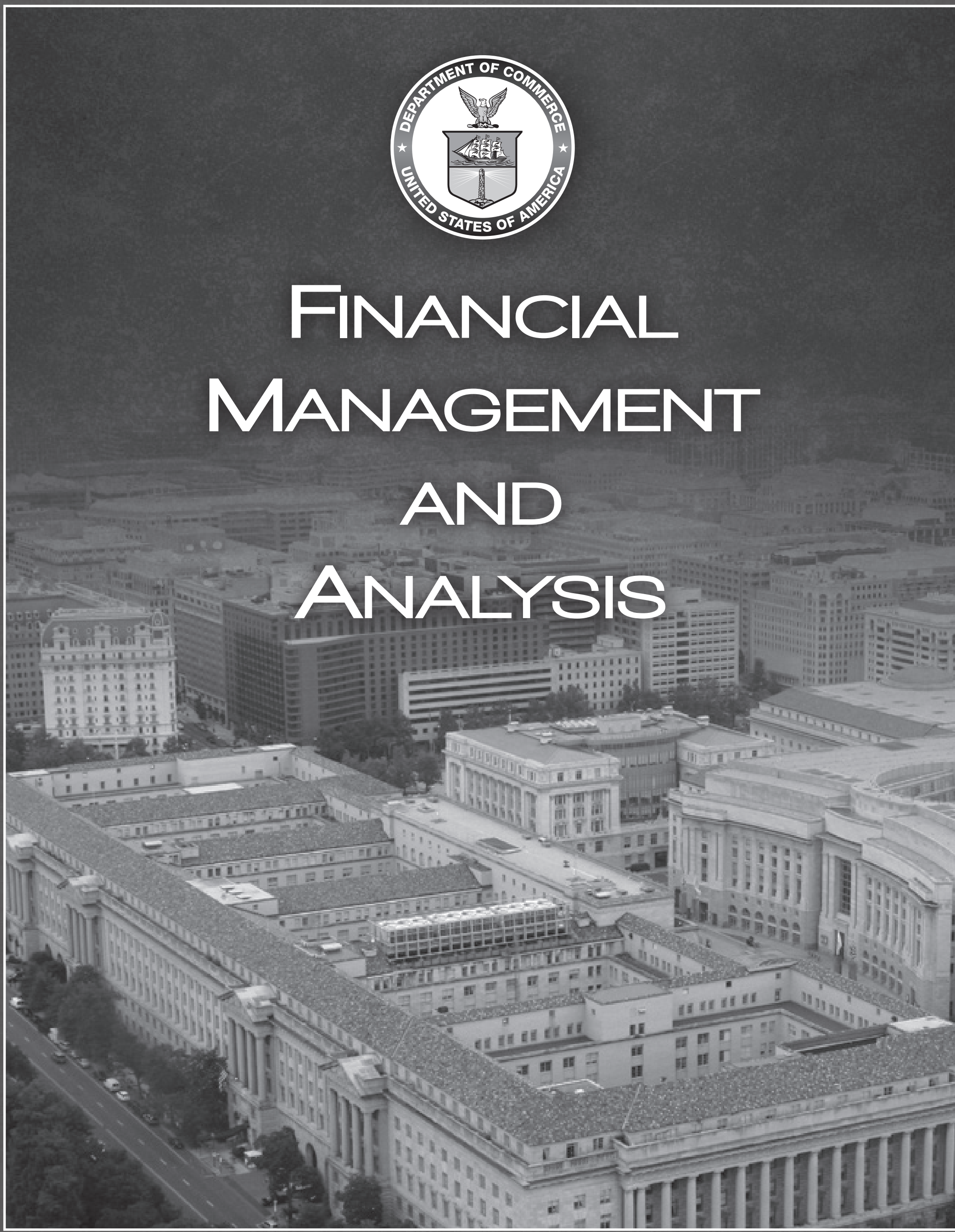
Another priority for the Department is human resource management. The Department has cut the time to hire new employees by nearly 20 percent since FY 2010. It completed the first implementation phase of a new Human Resource Management System, moving 24 disaggregated human resource systems into one, with full implementation expected by the end of FY 2014. The Department is also emphasizing training for both leadership and staff as critical for mission success.

The Department is improving its security, with a focus on enhancing its investigatory and mitigation efforts. It is implementing a Department-wide continuous monitoring capability that will enable enterprise-wide, real-time visibility into the Department's security status relating to a number of key cyber security controls.

The Department is also proud of its efforts in answering the President's call to make it easier for U.S. businesses to access the full range of government programs and services with the launch of BusinessUSA in FY 2012. Co-led by the Department of Commerce and the Small Business Administration, BusinessUSA released the first fully-integrated government online platform that provides information on hundreds of federal, state, and local resources and events aimed at the business community. BusinessUSA initiated a customer service line through 1-800-FED-INFO to field calls and provide program contact referrals. These tools are intended to create a "No Wrong Door" approach that uses technology to quickly connect businesses to services and information relevant to them. Through the Open Government Initiative, the Department has made over 300 thousand datasets available to the public, and has implemented an automated Freedom of Information Act (FOIA) system for the public (FOIAonline). This and BusinessUSA are part of the Department's efforts to make government services and programs easily accessible for taxpayers.

Moving forward, the Department will update its strategic plan, which will provide direction for new initiatives and priorities. Some critical efforts to help shape the Department of Commerce into a 21st century Department are already underway. For example, the Department has launched the "Commerce Way," a streamlined integrated cycle of planning, risk assessment, budgeting, acquisition, performance management and reporting. The goal is to improve decision-making and manage risk and performance at the appropriate level of organization structure, eliminating duplication and fragmentation, and critically, promoting a more integrated Department. The Department will continue to engage our employees, improve controls, drive effective and efficient program delivery, and position the Department for success in the years ahead.

Scott Quehl
Chief Financial Officer
and Assistant Secretary for Administration
November 15, 2012



Financial Management and Analysis

FINANCIAL MANAGEMENT AND ANALYSIS

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 Department continuing to receive unqualified audit opinions, maintaining a single integrated financial system, and continuing its compliance with the Federal Financial Management Improvement Act (FFMIA).

Highlights of accomplishments for FY 2012 and future initiatives are discussed further below.

FINANCIAL MANAGEMENT SYSTEMS

The Department maintains an FFMIA-compliant financial management system, the Commerce Business Systems (CBS). CBS provides reliable, 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 interfaced with the Commerce Standard Acquisition and Reporting System (CSTARS), the National Finance Center Payroll System, and the Automated Standard Application for Payments (ASAP).

The financial information from CBS is integrated in the Corporate Database for consolidated financial reporting, resulting in a single integrated financial management system. 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 2012, the Department accomplished the following initiatives:

- Continued Operations and Maintenance (O&M) activities for CBS;
- Continued definition and planning for the Business Application Solutions (BAS) project that will modernize the Department's financial and administrative business systems;
- Completed the C.Award migration—upgrading the Commerce Standard Acquisition and Reporting System (CSTARS) contract writing and management system—for NOAA, Office of the Secretary, NIST and Census;
- Began design and development of modifications to CBS to accommodate several new federal mandates, including the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS), Six-digit Standard General Ledger (SGL), and Automated Standard Application for Payments (ASAP), Central Contractor Registration – System for Award Management (CCR-SAM), and Accelerated Payments to Small Businesses;

- Completed several technical CBS upgrades, including Fusion Middleware/WebLogic to 11g, and the CBS development/test environment hardware and Operating System. Initiated the Oracle Database Migration to 11g and the upgrade of two of the three bureau production environment hardware and Operating Systems;
- Developed a prototype for the CFO Community Connector, a central location for the Department's financial and administrative management communities to share information about best practices, challenges and solutions, and deadlines;
- Deployed the beta version of the Process Toolbox that describes processes and provides the tools, templates, and samples to support the effective management of initiatives and provide guidance on how to perform project management and solution deployment activities;
- Developed the initial functional and technical design for the redesigned Project Dashboard that will provide project status and documentation information for CFO/ASA projects through a standard status reporting mechanism and document repository for all projects;
- Completed an Invoice Processing Platform (IPP) (formerly known as Internet Payment Platform) Pilot Proof of Concept; and
- Maintained and enhanced the Department's Executive Dashboard application (the DASHER). The DASHER provides a Department-wide, executive-level overview of the Department's highest priority and highest risk mission and administrative initiatives, including High-Priority Performance Goals, Risk Management, Financial Management, Customer Service, Human Capital and Administrative Metrics, as well as more Operational Initiatives such as Acquisition Metrics, Sustainability and Program Results.

In FY 2013 and beyond, the Department will continue its efforts to enhance its financial systems. The Department plans to accomplish the following:

- Continue Operations and Maintenance activities for CBS;
- Continue stakeholder outreach and incorporate feedback, include additional process guidance, and deploy production version of the Process;
- Deploy the redesigned Project Dashboard to the CFO/ASA;
- Complete the Oracle Database Migration to 11g and the upgrade of two of the three bureau production environment hardware and Operating Systems and initiate the upgrade of the third bureau production environment hardware and Operating System;
- Complete the design, development, and testing of the GTAS, Six-digit SGL, ASAP, and CCR-SAM modifications to CBS and deploy into production;
- Determine approach and next steps for IPP;
- Maintain and possibly enhance the OFM/CSC Portal that provides for a unified gateway for access to Department administrative applications, including self-service administration, as well as hosting the Project Dashboard, Project Toolbox, DASHER, and CFO Community Connector;
- Continue to maintain and enhance the DASHER; and
- Deploy and maintain the CFO Community Connector.

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 and met the financial statement submission deadlines for FY 2012. These achievements resulted from the Department's commitment to strong management controls and accountability for its resources. The Department received a material weakness relating to the need for improved financial management oversight at National Oceanic and Atmospheric Administration (NOAA) in the areas of budgetary controls, accounting for general property, and accounting for satellites and a significant deficiency relating to the Department's information technology security, access and configuration management controls. In FY 2012, the Department 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 adhering to the risk-based three-year rotational testing plan. 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. As a result of the assessment, the Department is able to provide a qualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness. The material weakness is related to the budgetary control issues identified for the unauthorized reprogramming of funds at the National Weather Service (NWS) and other potential matters under review by the Department, and accounting for satellites and property at NOAA. Other than this exception, internal controls were operating effectively and no other material weaknesses were found. In addition, the Department conducted an improper payments sample testing; the results revealed no significant improper payments 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 payments in the Department are immaterial, and the risk of improper payments is low. See Appendix E for reporting details of the Improper Payments Information Act (IPIA) of 2002, as amended.

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

- Effective 2012, expanded payment recapture audits of bureau-specific contracts/obligations and Department-wide grants/cooperative agreements to include items for which the period of performance has expired but for which the contract/obligation or grant/cooperative agreement has not yet been closed out. In 2012, the Department completed payment recapture audits of contracts/obligations for Census Bureau, Franchise Fund, MBDA, OIG, and USPTO, and of Department-wide grants/cooperative agreements;
- Each of the Department's bureaus/reporting entities continued to prepare or update improper payment risk assessments covering all programs/activities as required by OMB Circular A-123, Appendix C. These improper payment risk assessments of the entity's programs/activities also include assessments of the control, procurement, and grants management environments, and are now in the continuous process stage of being updated every three years, unless significant changes occur, in which case an assessment will be updated quicker;
- Submitted a draft and final plan to OMB to implement, in FY 2013, for applicable bureau payment offices, pre-payment eligibility reviews in Treasury's Do Not Pay portal solution;
- Completed an evaluation of options for data analytics of vendors and payments by bureau payment offices, including Treasury's Do Not Pay Data Analytic Services;
- Implemented, effective FY 2012, Technical Release 14, Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment;
- Worked with Treasury and the bureaus to implement Administrative Wage Garnishment to further facilitate collection of debts owed to Commerce.

- Facilitated intragovernmental transaction 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 partners' participation, continued improvement is needed in order to reconcile all differences;
- Quarterly financial metrics were compiled, analyzed, and reported to individual bureaus which also included a status report comparing bureau results with Departmental goals. The results of bureaus' metrics and any corrective actions needed were discussed at the bureau CFOs' individual monthly meetings;
- 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, accurate financial statements.
- Implemented, effective FY 2012, the Schedule of Spending by Major Budget Account in the Other Accompanying Information section of the PAR. The Schedule of Spending (SOS) presents an overview of how and where the Department is spending money.
- Continued preparation efforts towards the FY 2013 implementation of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, and Federal Financial Accounting Technical Release 10, Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment;

In FY 2013 and beyond, the Department plans to accomplish the following:

- Continue to monitor and minimize improper payments, including the performance of payment recapture audits, and carry out the FY 2013 implementation, for applicable bureau payment offices, of pre-payment eligibility reviews in Treasury's Do Not Pay portal solution;
- Implement, for applicable bureau payment offices, Treasury's Do Not Pay Data Analytics Services for data analytics of vendors and payments;
- Implement Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, and Federal Financial Accounting Technical Release 10, Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment;
- Continue to work with OMB, Treasury Department, and the government-wide Central Reporting Team to improve the intragovernmental transactions reconciliation process; and
- Continue to work with Treasury Department to implement Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) for production in December 2013.

GRANTS MANAGEMENT

Under the CFO/ASA, the Office of Acquisition Management (OAM) 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 toward a single automated grants management system, and enhance/formalize workforce education. Targeted efforts continue 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.

An important feature of the Department's effort to move aggressively into the world of electronic 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 storefront. NOAA administers almost two-thirds of the Department's financial assistance programs. Grants OnLine is designed to facilitate efficiencies through standardized business processes and provide a direct interface to other Departmental systems and with grant recipients. It continues to demonstrate significant success in reducing paperwork, increasing accountability, and simplifying the post award process. The system has also been identified as a possible solution to standardizing grants procedures in the Department. Grants Online is a paperless electronic grants management system that has gained government-wide recognition for streamlining and accelerating the grants application process. In October 13, 2010, the Department CFO advised the grant making bureaus at the National Institute of Standards and Technology (NIST), NOAA, and the Economic Development Administration (EDA) that the Department had committed to OMB to consolidate all the bureau grant management systems within the Department to NOAA's Grants Online system if a planned analysis demonstrates that it makes good business sense. The current stove piped configuration of separate bureau grant management systems is not conducive to maximum efficiency in resource and time management. The Department secured the services of a contractor to complete a gap analysis between Grants Online, employed by NOAA, and the grants systems employed by NIST, known as Grants Management Information System (GMIS), and the system employed by the EDA, known as the Operations Planning and Control System (OPCS).

The gap analysis was completed in January, 2012 and in summary it:

- Identified and documented almost 100 gaps in functionality between Grants Online and the other two systems
- Provided potential options to remedy the gaps:
    - Workarounds and modifications to GMIS, OPCS, and Grants OnLine are necessary to make the systems functionally compatible
    - Minimally compatible solution – $1.5M and $0.7M for EDA and NIST, respectively. The minimally compliant solution focuses on critical gaps to enable the processing of grants through Grants OnLine. It maximizes the use of process changes and work arounds and minimizes additional cost for resources not presently available. It does not address EDA/NIST processing efficiency.
    - Fully compatible solution – $3.9M and $1.9M for EDA and NIST, respectively. This comprehensive approach addresses closing all gaps to enable the management of a grant through Grants OnLine. It uses changes and workarounds wherever appropriate. It further uses systems changes and interface development where best suited to continue fully automated functionality typically incorporated into Grants OnLine. This solution does not attempt to minimize resource requirements to transition and includes planning, business process engineering, implementation, and operations.
    - Costs of system integration are expressed in rough order of magnitude and subject to change.

Next steps currently under consideration would include the performance of a Business Case analysis which would involve the following steps:

- Baseline the current cost of doing business for EDA, NIST, and NOAA systems
- Identify alternatives to be evaluated to include other Grants Line of Business systems
- Price inclusion of possible ARRA-type reporting of base programs as proposed in draft legislation

    - Conduct the business case analysis with contractors or knowledgeable government personnel
- Make decision on course of action based on the conclusions of the fit gap analysis and business case
- If in-house consolidation is recommended, begin the planning effort
    - Overall acquisition strategy
    - Project management plan, schedules, cost estimate, and procurement

The conclusions and recommendations of the gap analysis present formidable challenges in terms of potential costs as well as system changes and business process reengineering in the bureaus. Consequently, Department of Commerce (DOC) bureaus and collateral support organizations including the Office of Financial Management (OFM) continue to study other potential solutions to consolidate the Department's three grants management systems. The objective is to identify the most effective solution to utilized limited budgetary resources to consolidate the department-wide grants management portfolio into a single system that can meet all the requirements of the 75 DOC financial assistance programs.

OFM's actions to consolidate the Department's grants management systems continued a process already set in motion by the migration of the grant management functions of the International Trade Administration (ITA), the Minority Business Development Administration (MBDA), and the Office of the Secretary (OS) from OAM to NOAA Grants Online. OAM coordinates regular Departmental Grants Council meetings and works closely with the OIG and the Office of General Counsel (OGC) 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.

The Department has incorporated the challenge of consolidating grant management systems into a department-wide review of business application solutions (BAS) which address the full scope of DOC functions and systems. The BAS approach will consider commercial off-the shelf (COTS) solutions in addition to Grants OnLine as a department wide grants management solution.

The Department has revised its Grants and Cooperative Agreements Manual and Standard Grants Terms and Conditions to recognize the emerging growth of electronic government. During FY 2012, a multi-bureau task force chaired by Grants Management Division (GMD) reviewed the 21 chapter grants manual and made extensive revisions to ensure that the manual is consistent with updates in government-wide financial assistance policy directives. Additionally, the Department of Commerce Financial Assistance Standard Terms and Conditions have been significantly updated to align the document with the rapid growth and changes in government wide guidance. Continued review and updating of the DOC policy guidance will occur to keep pace with the new requirements engendered by the transition to Grants.gov as the business process model for federal financial assistance programs.

In FY 2012, OAM/GMD began a new initiative to strengthen oversight and create a broader understanding of the dynamics and impact of DOC financial assistance awards. The focus of this Grants Overview is to provide a perspective on the amount and type of awards made by DOC as well as insight into the extent to which the DOC grants management process functions efficiently and effectively. The format of the Grants Overview is a PowerPoint presenting breakdowns of various elements of the award structure in snapshots of activities such as new awards and cost amendments obligated by bureau. Charts were created to display the rate and status of funds disbursed at various award stages for both Recovery Act and base programs. The study examined the status of awards by dollars in various phases of the grants management process. Risk factors were identified and shared with the DOC grants community.

The Grants Overview includes tracking of pre-award and post award requirements such as audit resolution and the negotiation of indirect cost rates. It charts single audit reports with findings/no findings by bureau during the period FY 2009-2011. The Overview also analyzes the status of compliance with closeout requirements and deobligation of undisbursed funds. Additionally, GMD is providing bureaus with monthly reports intended to prompt closer monitoring of the grant audit resolution process and compliance with negotiated indirect cost rate requirements. These are just some of the examples of key activities of the grants life cycle addressed by the Grants Overview.

The Grants Overview is regularly updated and serves as a framework for OAM/GMD's effort to reach out to the DOC grant making bureaus to energize the oversight relationship. It has served as the basis for meetings and ongoing dialogue with each DOC bureau to create a path forward for the development of more efficient business practices and tighter internal controls in the administration of DOC financial assistance awards.

The Department made significant progress in meeting the data-reporting requirements of the Federal Funding Accountability and Transparency Act of 2006 (PL 109-282). Significant technical requirements were presented by this act. As of FY 2012, the Department continues to be up to date with its three grant-making bureaus in providing accepted data to the universal Web site, USAspending.gov, consistent with the goal established in the FY 2008 PAR.

OAM GMD is the point of contact for Catalogue of Federal Domestic Assistance (CFDA) updates and represents the Department at CFDA User Group meetings. GMD coordinates the response to annual CFDA data calls. OAM GMD continues to hold the responsibility for coordinating and processing Individual Background Screenings utilizing form CD-346 (Applicant for Funding Assistance) which passed from the OIG to OAM/GMD in FY 2010. GMD processed approximately 480 Individual Background screenings in FY 2012, through the Federal Bureau of Investigation database operated by the Census Bureau. OAM continues to support accuracy in data quality for all Department financial assistance programs. Grants officers and subordinate supervisors along with program offices are required to verify quarterly that data reported to USASpending.gov is accurate and consistent. This element will be a performance metric in grants management reviews conducted by GMD.

The three major grant making bureaus—NIST, NOAA, and EDA upload grant award data monthly to USASpending.gov through the Data System Validation Tool Web site. In addition to their own grant awards, these bureaus serve as grants offices for the programs of smaller Department grant making bureaus including NTIA, ITA, and OS.

The Department's bureaus have made progress in reducing the backlog of expired awards and deobligating unexpired balances of funds from these awards during FY 2012. The following table illustrates the number of awards closed and amount deobligated by each bureau from October 1, 2011 through July 31, 2012, as well as the expired awards remaining to be closed and funds pending deobligation. NTIA, ITA and OS are included in the NOAA data below as NOAA is their servicing bureau.

Bureau	Awards Closed	Funds Deobligated	Awards Pending Closure	Funds Pending Deobligation
NOAA	648	$ 9,152,528	131	$ 1,153,895
NIST	364	$ 6,556,661	705	$ 31,381,764
EDA	179	$ 25,639,503	105	$ 19,081,020

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 (IDC) submitted by assigned grantee organizations and, based on those reviews, negotiates appropriate indirect cost rates. OAM'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 that resulted in financial savings to the Department through indirect cost rate adjustments from grantees' proposed rates. Program focus for the coming year will include continued implementation of stronger internal controls.

OAM will continue to actively seek opportunities to support government-wide goals of transparency and data quality management.

HUMAN CAPITAL

Both the President and Congress recognize that the federal workforce is central to the delivery of services to the U.S. public. Acknowledging that people are the key to mission accomplishment, Departmental leadership continues to implement and evaluate programs to ensure that there is succession planning in the area of financial management. Internship and leadership development programs are used as vehicles for making progress in the recruitment and retention of a highly-skilled and diverse workforce. Internship programs are implemented through a variety of sources to provide finance and accounting majors an opportunity to gain hands-on experience, while introducing potential future employees to the opportunities that exist at the Department. Ongoing training and development opportunities are offered as a component of continuous learning in the area of financial management.

The Department continued its recruitment efforts in the area of financial management by maintaining its partnership with the National Academy Foundation (NAF) Academy of Finance (AOF) and reducing the average time to hire accounting and budgeting professionals. The NAF AOF students have been hired through the Student Temporary Employment Program to enhance their individual and collective learning experiences in the finance and accounting fields. At the completion of the eight weeks of the NAF program, students make presentations to Department leaders to demonstrate newly acquired skills in their respective areas. Departmental supervisors monitor the performance of the interns throughout their appointment, and after successful completion, many supervisors have extended the temporary appointment or utilized other programs (i.e., Student Career Experience Program) to bring in entry-level talent. In FY 2012, the Department recruited seven AOF high school students for the summer who were placed across finance offices in bureaus and organizational units including, EDA, ITA, NOAA, and OFM. Additionally, one previous NAF intern was asked to return as a temporary appointment to the Census Bureau. Going forward for future years, the Student Pathways program will be the primary appointing authority for hiring students under the NAF program. For selections made through USAJobs, the time to hire employees within the professional and administrative 0500 Accounting and Budgeting series was reduced from 70 calendar day in second quarter FY 2012 to 47 calendar days in fourth quarter FY 2012.

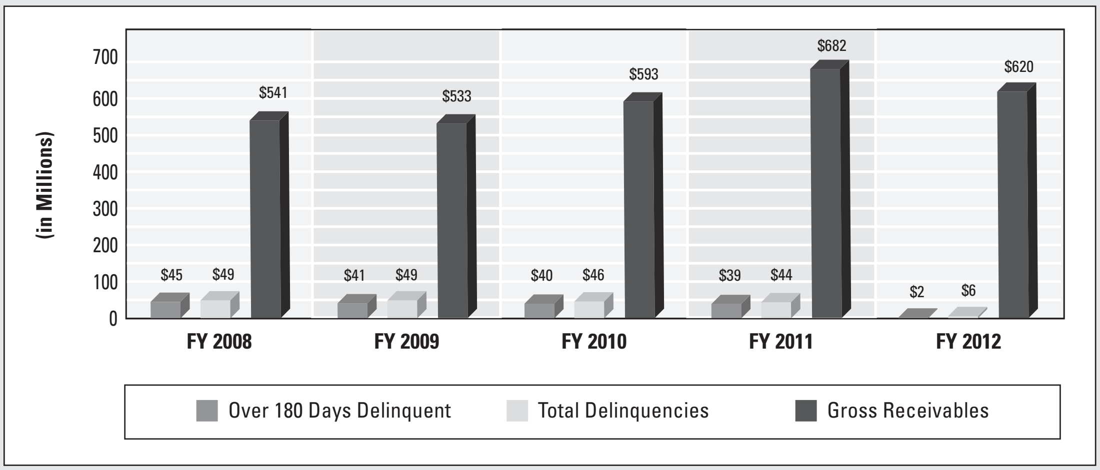
In addition to the recruitment efforts being implemented to attain a highly-skilled workforce in the area of financial management, the Department has succession planning and retention strategies in place, including the development of competencies within the current workforce and use of telework. As one of the Department's recognized mission-critical occupations, accounting and budgeting series employees at the GS-7 through GS-15 and equivalent levels are eligible to apply for the following major leadership development programs: Executive Leadership Development Program, and Senior Executive Service Candidate Development Program. These program activities include competency assessments, formal classroom training, developmental assignments, seminars, action learning task team projects, and mentoring sessions. The Commerce Learning Center (CLC), the Department's Learning Management System, offers 60 Commerce-wide and bureau-specific online financial management courses that were completed by 185 employees in the 0500 accounting and budgeting occupational group and by an additional 100 employees in other occupations, during FY12. The CLC also recorded 472 employees in the 0500 occupational group attending 435 financial management classroom courses. Additionally, approximately 24% of accounting and budgeting employees engaged in telework, which is used by the Department to position itself as an "employer of choice" in attracting qualified employees, facilitating employee work/life balance, increasing employee satisfaction and engagement, and ultimately increasing employee productivity.

DEBT MANAGEMENT

RECEIVABLES AND DEBT MANAGEMENT

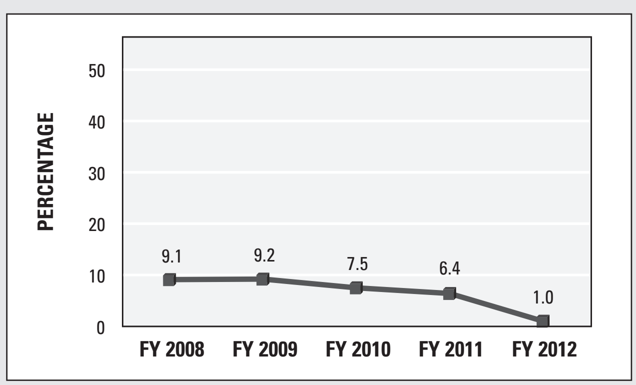
The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to diminish 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.

GROSS RECEIVABLES



The Department's gross receivables decreased 9.0 percent, from $682 million at September 30, 2011 to $620 million at September 30, 2012, 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 from just under $ 39 million at September 30, 2011 to $2 million at September 30, 2012. Total delinquencies as a percentage of gross receivables decreased from 6.4 percent at September 30, 2011 to 1.0 percent at September 30, 2012. The decreases resulted from NOAA moving a large portion of its delinquent debts which are currently in forbearance, litigation, and bankruptcy, to Currently Not Collectible on the TROR.

TOTAL DELINQUENCIES AS A PERCENTAGE OF GROSS RECEIVABLES



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. Nearly $43 million in delinquent debt has been referred to Treasury for cross-servicing since FY 2002. Currently, over 51 percent of the Department's overall delinquent debt that is eligible for referral to Treasury is in litigation with the Department of Justice for enforced collection.

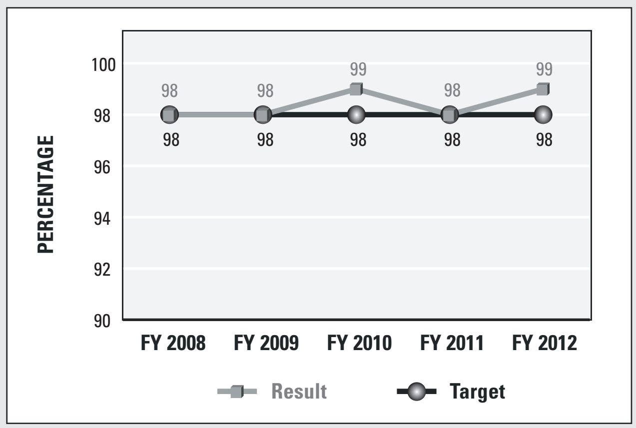
During FY 2001, the issuance of the revised *Federal Claims Collection Standards* and the revised OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, provided agencies greater latitude to maximize the effectiveness of federal debt collection procedures. Since then, the Department has utilized all the tools available to improve the management of its debt.

PAYMENT PRACTICES

Prompt Payment

The Prompt Payment Act of 1982 generally requires agencies to pay their bills to vendors on a timely basis (within 30 days of receipt of relevant documents), and to pay interest penalties when payments are made late. The Department closely monitors its prompt payment performance, and the bureaus submit quarterly reports of prompt payment performance to the Deputy Chief Financial Officer.

TIMELY VENDOR PAYMENT



The Department has increased slightly its prompt payment performance to 99 percent in FY 2012 from 98 percent in FY 2011. The number of invoices with late-payment interest penalties decreased significantly to 2,562 in FY 2012 from 5,108 in FY 2011. 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. For example, the Department completed a pilot proof of concept in May 2012 for the Department of the Treasury's Invoice Processing Platform (IPP) and is now working to remove obstacles to possible implementation. IPP is an internet-based invoice processing system that can efficiently manage vendor invoicing from purchase order through payment notification.

A July 2012 OMB memorandum, *Providing Prompt Payment to Small Business Subcontractors*, establishes the Executive Branch policy, that, to the full extent permitted by law, agencies shall take steps to ensure that prime contractors are able to pay their small business subcontractors in a prompt fashion. In particular, agencies should, to the full extent permitted by law, temporarily for one year accelerate payments to all prime contractors, in order to allow them to provide prompt payments to small business subcontractors. Agencies shall make payments to all prime contractors as soon as practicable, with a goal of paying all prime contractors within 15 days of receiving proper documentation. The Department implemented, in July 2012, this new payment policy for all prime contractors, and is monitoring bureaus' monthly performance. The Department's acquisition offices are also taking appropriate actions with prime contractors regarding new and existing contracts to help maximize accelerated payments to small business subcontractors.

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. The Department has incorporated more effective oversight and risk management reviews relative to purchase card accounts that are inactive over an 18-month period. For inactive accounts, the Department determines if there is a need for the card; if it is determined that there is not a sufficient need for the card, the account is subsequently closed. Additionally, more stringent training requirements are required for employees with purchase cards, which has contributed to the decrease over the years in the number of bankcards issued and in use by the Department.

The Department has incorporated the use of the purchase card for existing Departmental payment vehicles, when possible, to enhance Departmental efficiency for disbursements and increase purchase card refunds.

The Purchase Card sub-process is normally tested under the OMB Circular A-123, Appendix A process on a three-year rotational basis; however, was tested in FY 2012 due to the risks and weaknesses associated with findings identified in FY 2010. Due to the results of FY 2012 testing, with similar findings across all bureaus, the Purchase Card sub-process continued to present a significant deficiency for the Department. The Department will work towards implementing appropriate corrective actions to address the FY 2012 findings. The Department will reevaluate the controls around the Purchase Card sub-process at the completion of the corrective actions.

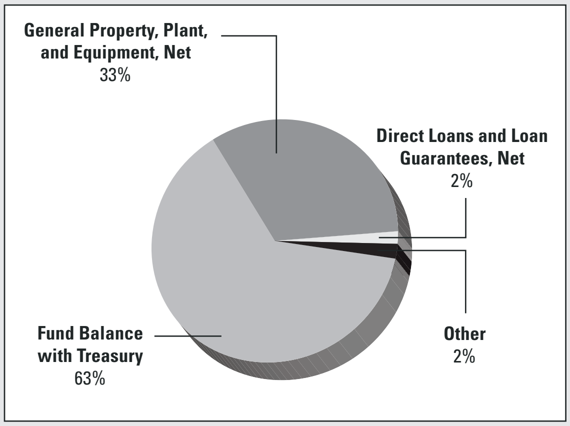
ANALYSIS OF FY 2012 FINANCIAL CONDITION AND RESULTS

Composition of Assets and Assets by Responsibility Segment

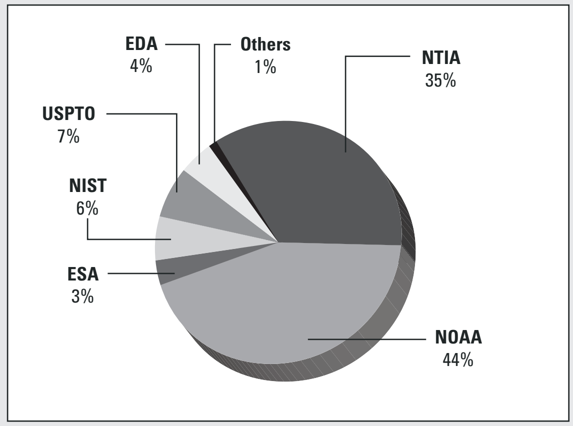
The composition (by percentage) and distribution (by responsibility segment) of the Department's assets changed somewhat from September 30, 2011 to September 30, 2012. Fund Balance with Treasury decreased from 69 percent of total assets at September 30, 2011 to 63 percent of total assets at September 30, 2012. General Property Plant and Equipment, Net increased from 27 percent of total assets at September 30, 2011 to 33 percent of total assets at September 30, 2012. NOAA's assets increased from 38 percent of total assets at September 30, 2011 to 44 percent of total assets at September 30, 2012, and NTIA's assets decreased from 41 percent of total assets at September 30, 2011 to 35 percent of total assets at September 30, 2012.

The Department's total assets amounted to $30.42 billion at September 30, 2012. Fund Balance with Treasury of $19.26 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 $10.00 billion includes $7.13 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems; $1.16 billion of Structures, Facilities, and Leasehold Improvements; $762 million of Satellites/Weather Systems; and $947 million of other General PP&E. Direct Loans and Loan Guarantees, Net of $570 million primarily relates to NOAA's direct loan programs, including Fisheries Finance Traditional Loans and Crab Buyback Loans. Other Assets of $587 million primarily includes Accounts Receivable, Net of $221 million, Advances and Prepayments of $208 million; and Inventory, Materials, and Supplies, Net of $105 million.

COMPOSITION OF THE DEPARTMENT'S FY 2012 ASSETS



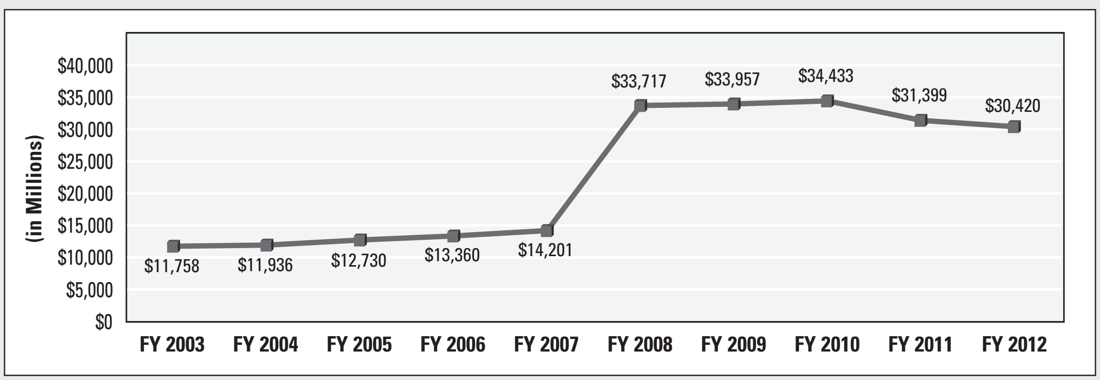
FY 2012 ASSETS BY RESPONSIBILITY SEGMENT



Trends in Assets

The Department's total Assets decreased $979 million or 3 percent, from $31.40 billion at September 30, 2011 to $30.42 billion at September 30, 2012. Fund Balance with Treasury decreased $2.40 billion or 11 percent, from $21.66 billion to $19.26 billion, primarily due to a $1.68 billion decrease in Fund Balance with Treasury for NTIA's Broadband Technology Opportunities Program under the Recovery Act mainly due to a significant decrease in payments to grantees, and also due to a $215 million decrease in Fund Balance with Treasury for NIST's Recovery Act Funds for construction of research facilities, and for scientific and technical research and services. General PP&E, Net increased $1.64 billion or 20 percent, from $8.36 billion to $10.00 billion, mainly due to an increase in NOAA Construction-in-progress of $1.65 billion, primarily for satellite programs. Other Assets decreased by $222 million or 27 percent, from $809 million to $587 million, primarily due to a decrease of $109 million in Advances to the Federal Emergency Management Agency related to the Public Safety Interoperable Communications Program and a $93 million decrease in Advances for NOAA's Pacific Region Center construction project.

TRENDS IN TOTAL ASSETS

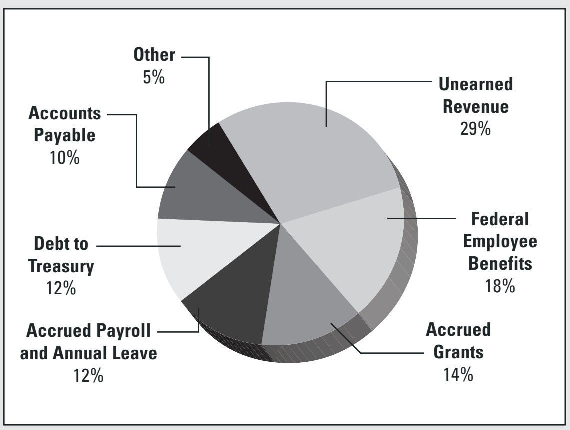


NOTE: *The significant fluctuation between FY 2007 and FY 2008 assets is primarily due to NTIA proceeds of $18.96 billion from the Federal Communications Commission auction of licenses for recovered analog spectrum in FY 2008.*

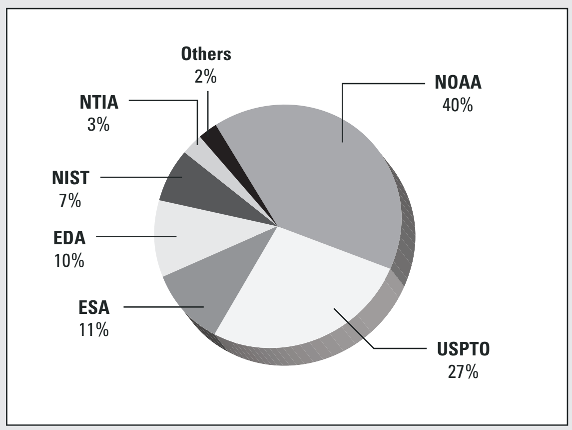
Composition of Liabilities and Liabilities by Responsibility Segment

The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities remained consistent from September 30, 2011 to September 30, 2012. The Department's total liabilities amounted to $4.70 billion at September 30, 2012. Unearned Revenue of $1.39 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 Liability of $851 million is composed of the actuarial present value of projected benefits for the NOAA Corps Retirement System ($578 million) and the NOAA Corps Post-retirement Health Benefits ($45 million), and Actuarial Federal Employees Compensation Act (FECA) Liability ($228 million), which represents the actuarial liability for future workers' compensation benefits. Accrued Grants of $636 million, which relates to a diverse array of financial assistance programs and projects, includes EDA's accrued grants of $421 million for its economic development assistance funding to state and local governments. Accrued Payroll and Annual Leave of $581 million includes salaries and wages earned by employees, but not disbursed as of September 30, 2012. Debt to Treasury of $554 million consists of monies borrowed primarily for NOAA's direct loan programs. Accounts Payable of $453 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Other Liabilities of $242 million primarily includes Environmental and Disposal Liabilities of $60 million, Accrued Benefits of $53 million, Accrued FECA Liability of $36 million, Resources Payable to Treasury of $13 million, ITA Foreign Service Nationals' Voluntary Separation Pay Liability of $12 million, and Capital Lease Liabilities of $8 million.

COMPOSITION OF THE DEPARTMENT'S FY 2012 LIABILITIES



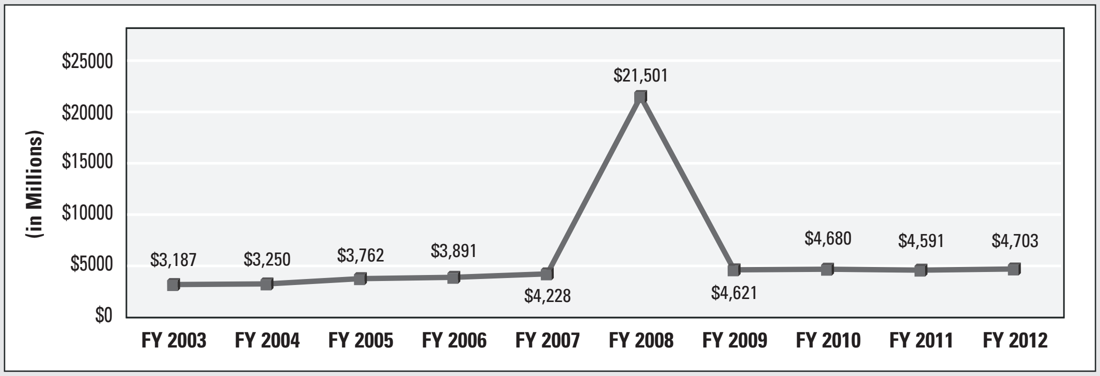
FY 2012 LIABILITIES BY RESPONSIBILITY SEGMENT



Trends in Liabilities

The Department's total Liabilities increased $112 million or 2 percent, from $4.59 billion at September 30, 2011 to $4.70 billion at September 30, 2012. Federal Employee Benefits Liability increased $43 million or 5 percent, from $808 million to $851 million, primarily due to an increase of $54 million in the NOAA Corps Retirement System Liability. Accrued Grants increased by $40 million or 7 percent, from $596 million to $636 million, primarily due to an increase for EDA of $36 million for economic development grants.

TRENDS IN TOTAL LIABILITIES



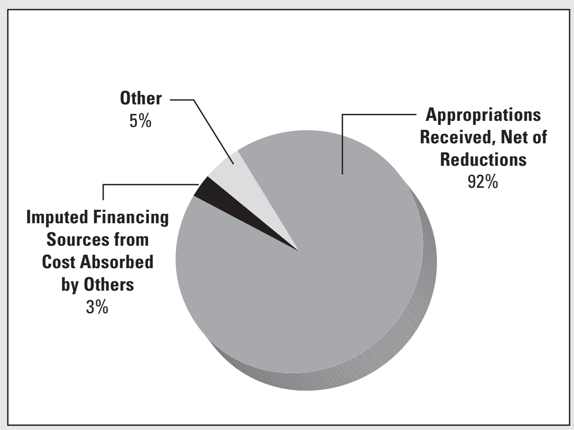
NOTE: *The significant fluctuation between FY 2007 and FY 2008 liabilities is primarily due to NTIA's Spectrum Auction Proceeds Liability to FCC for auction proceeds for which licenses had not yet been granted by FCC as of September 30, 2008. During FY 2009, this liability was significantly reduced as a significant amount of licenses were granted by FCC.*

Accounts Payable increased by $21 million or 5 percent, from $432 million to $453 million, primarily due to an increase in NOAA's Accounts Payable of $40 million mainly related to NOAA's satellites and weather systems. Debt to Treasury increased by $14 million or 3 percent, from $540 million to $554 million, mainly due to new borrowings in FY 2012 for NOAA's direct loan programs.

Composition of and Trends in Financing Sources

The composition by percentage of the Department's financing sources remained somewhat consistent from FY 2011 to FY 2012. The Department's Financing Sources, shown on the Consolidated Statement of Changes in Net Position, are traditionally obtained primarily from Appropriations Received, Net of Reductions. The dollar amount of Appropriations Received, Net of Reductions, however, increased significantly by $2.05 billion or 35 percent, from $5.81 billion for FY 2011 to $7.86 billion for FY 2012, mainly due to $1.74 billion of rescissions in FY 2011 for Census Bureau's Periodic Censuses and Programs fund group as a result of the completion of the 2010 Decennial Census, with no Census Bureau rescissions in FY 2012. Other typical Financing Sources include net transfers to and from other federal agencies without reimbursement, and imputed financing sources from cost absorbed by other federal agencies. The Department's total Financing Sources increased $2.30 billion or 37 percent, from $6.29 billion for FY 2011 to $8.59 billion for FY 2012, primarily due to the $1.74 billion of rescissions in FY 2011 for Census Bureau's Periodic Censuses and Programs fund group, whereas there were no Census Bureau rescissions in FY 2012.

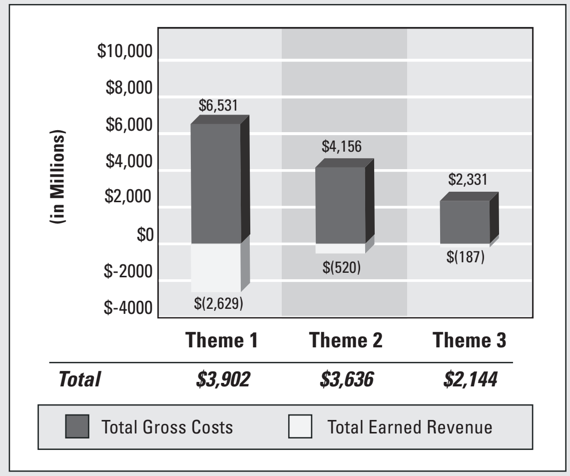
COMPOSITION OF THE DEPARTMENT'S FY 2012 FINANCING SOURCES



FY 2012 Net Cost of Operations by Theme

In FY 2012, the Department's Net Cost of Operations amounted to $9.68 billion, which consists of Gross Costs of $13.02 billion less Earned Revenue of $3.34 billion.

FY 2012 NET PROGRAM COSTS BY THEME



Theme 1, Economic Growth, with Net Program Costs of $3.90 billion for the Department, is related to enabling economic growth through innovation and entrepreneurship, market development and commercialization, and trade promotion and compliance. Theme 1 includes Net Program Costs of $(106) million (Gross Costs of $2.32 billion less Earned Revenue of $2.43 billion) for the U.S. Patent and Trademark Office's (USPTO) patents and trademark programs. The issuance of patents provides incentives to invent and invest in new technology by allowing innovators the opportunity to benefit from their discoveries. Registration of trademarks assists businesses in protecting their investments and safeguards consumers against confusion and deception in the marketplace by providing notice of trademarks in use. Through dissemination of patent and trademark information, the Department promotes a global understanding of intellectual property protection and facilitates the development and sharing of new technologies worldwide. Theme 1 also includes Net Program Costs of $687 million (Gross Costs of $812 million less Earned Revenue of $125 million) for NIST's Measurement and Standards Laboratories major program. 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. NTIA's programs and activities also support Theme 1, with Net Program Costs of $1.99 billion (Gross Costs of $2.02 billion less Earned Revenue of $26 million). NTIA serves as the principal adviser to the President on domestic and international communications and information policy-making, promotes access to telecommunications services for all Americans and competition in domestic and international markets, manages all federal use of the electromagnetic spectrum and generally promotes efficient use of spectrum, and conducts telecommunications technology research, including standards-setting in partnership with business and other federal agencies. ITA's programs and activities also support Theme 1, with Net Program Costs of $458 million (Gross Costs of $478 million less Earned Revenue of $20 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. Theme 1 also includes Net Program Costs of $466 million (Gross Costs of $473 million less Earned Revenue of $7 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.

Theme 2, Science and Information, with Net Program Costs of $3.64 billion for the Department, is related to promoting science and information by generating and communicating new cutting-edge scientific understanding of technical, economic, social, and environmental systems. Theme 2 includes Net Program Costs of $2.34 billion (Gross Costs of $2.47 billion less Earned Revenue of $135 million) for NOAA's programs and activities related to improving weather, water, and climate reporting and forecasting, which assist the Nation to prepare and respond to environmental events that affect safety, health, the environment, the economy, and homeland security. NOAA develops and procures satellite systems, aircraft, and ships to examine oceanic and atmospheric patterns worldwide and to provide information on weather patterns and forecasts. The Census Bureau also supports Theme 2, with Net Program Costs of $1.15 billion (Gross Costs of $1.46 billion less Earned Revenue of $311 million). 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.

Theme 3, Environmental Stewardship, with Net Program Costs of $2.14 billion for the Department, is related to promoting economically-sound environmental stewardship and science. Theme 3 includes Net Program Costs of $2.11 billion (Gross Costs of $2.31 billion less Earned Revenue of $204 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, 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.

FINANCIAL SECTION

Principal Financial Statements

United States Department of Commerce Consolidated Balance Sheets
As of September 30, 2012 and 2011 *(In Thousands)*

	FY 2012	FY 2011
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Notes 2 and 18)	$ 19,261,281	$ 21,661,030
Accounts Receivable (Note 3)	116,009	98,360
Advances and Prepayments	208,368	415,683
Total Intragovernmental	**19,585,658**	**22,175,073**
Cash (Note 4)	4,834	3,466
Accounts Receivable, Net (Note 3)	104,941	140,846
Direct Loans and Loan Guarantees, Net (Note 5)	570,348	566,250
Inventory, Materials, and Supplies, Net (Note 6)	104,978	97,823
General Property, Plant, and Equipment, Net (Note 7)	10,000,512	8,362,263
Other (Note 8)	48,276	53,320
TOTAL ASSETS	**$ 30,419,547**	**$ 31,399,041**
Stewardship Property, Plant, and Equipment (Note 23)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 156,032	$ 88,455
Debt to Treasury (Note 10)	554,281	540,001
Other		
Resources Payable to Treasury	12,862	21,448
Unearned Revenue	332,923	338,657
Other (Note 11)	102,412	93,104
Total Intragovernmental	**1,158,510**	**1,081,665**
Accounts Payable	296,869	343,280
Loan Guarantee Liabilities (Notes 5 and 16)	518	563
Federal Employee Benefits (Note 12)	851,211	808,482
Environmental and Disposal Liabilities (Note 13)	59,945	63,377
Other		
Accrued Payroll and Annual Leave	580,715	578,952
Accrued Grants	635,856	595,721
Capital Lease Liabilities (Note 14)	8,377	10,068
Unearned Revenue	1,053,580	1,035,867
Other (Note 11)	57,732	73,153
TOTAL LIABILITIES	**$ 4,703,313**	**$ 4,591,128**
Commitments and Contingencies (Notes 5,14, and 16)		
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations - Earmarked Funds (Note 21)	$ 1,660,141	$ 3,390,451
Unexpended Appropriations - All Other Funds	5,056,293	5,829,206
Cumulative Results of Operations		
Cumulative Results of Operations - Earmarked Funds (Note 21)	9,939,669	10,073,516
Cumulative Results of Operations - All Other Funds	9,060,131	7,514,740
TOTAL NET POSITION	**$ 25,716,234**	**$ 26,807,913**
TOTAL LIABILITIES AND NET POSITION	**$ 30,419,547**	**$ 31,399,041**

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

United States Department of Commerce Consolidated Statements of Net Cost

For the Years Ended September 30, 2012 and 2011 (Note 17) *(In Thousands)*

	FY 2012	FY 2011
Theme 1: Economic Growth		
Gross Costs	$ 6,531,035	$ 5,315,520
Less: Earned Revenue	(2,628,952)	(2,450,163)
Net Program Costs	**3,902,083**	**2,865,357**
Theme 2: Science and Information		
Gross Costs	4,156,232	4,436,424
Less: Earned Revenue	(520,569)	(481,062)
Net Program Costs	**3,635,663**	**3,955,362**
Theme 3: Environmental Stewardship		
Gross Costs	2,331,038	2,667,910
Less: Earned Revenue	(186,763)	(254,829)
Net Program Costs	**2,144,275**	**2,413,081**
NET COST OF OPERATIONS	**$ 9,682,021**	**$ 9,233,800**

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

United States Department of Commerce Consolidated Statements of Changes in Net Position For the Years Ended September 30, 2012 and 2011 *(In Thousands)*

	FY 2012			FY 2011		
	Earmarked Funds (Note 21)	All Other Funds	Consolidated Total	Earmarked Funds (Note 21)	All Other Funds	Consolidated Total
Cumulative Results Of Operations:						
Beginning Balance	$ 10,073,516	$ 7,514,740	$ 17,588,256	$ 10,189,816	$ 6,680,597	$ 16,870,413
Budgetary Financing Sources:						
Appropriations Used	1,638,458	8,631,942	10,270,400	665,766	8,776,595	9,442,361
Non-exchange Revenue	222,494	12,539	235,033	95,804	15,379	111,183
Donations and Forfeitures of Cash and Cash Equivalents	-	5,303	5,303	-	1,651	1,651
Transfers In/(Out) Without Reimbursement, Net	18,390	104,419	122,809	25,795	93,378	119,173
Rescissions (Note 18)	(18,198)	-	(18,198)	-	(54,800)	(54,800)
Other Budgetary Financing Sources/(Uses), Net	-	6,208	6,208	-	(4,000)	(4,000)
Other Financing Sources (Non-exchange):						
Donations and Forfeitures of Property	-	579	579	-	458	458
Transfers In/(Out) Without Reimbursement, Net	-	182,220	182,220	-	(4,062)	(4,062)
Imputed Financing Sources from Cost Absorbed by Others	20,415	277,279	297,694	22,797	325,128	347,925
Other Financing Sources/(Uses), Net	-	(8,483)	(8,483)	-	(8,246)	(8,246)
Total Financing Sources	**1,881,559**	**9,212,006**	**11,093,565**	**810,162**	**9,141,481**	**9,951,643**
Net Cost of Operations	**(2,015,406)**	**(7,666,615)**	**(9,682,021)**	**(926,462)**	**(8,307,338)**	**(9,233,800)**
Net Change	**(133,847)**	**1,545,391**	**1,411,544**	**(116,300)**	**834,143**	**717,843**
Cumulative Results of Operations – Ending Balance	**9,939,669**	**9,060,131**	**18,999,800**	**10,073,516**	**7,514,740**	**17,588,256**
Unexpended Appropriations:						
Beginning Balance	3,390,451	5,829,206	9,219,657	4,099,319	8,782,873	12,882,192
Budgetary Financing Sources:						
Appropriations Received (Note 18)	-	7,884,258	7,884,258	-	7,669,352	7,669,352
Appropriations Transferred In/(Out), Net	-	23,223	23,223	-	11,239	11,239
Rescissions of Appropriations (Note 18)	-	(5,450)	(5,450)	-	(1,803,198)	(1,803,198)
Other Adjustments	(91,852)	(43,002)	(134,854)	(43,102)	(54,465)	(97,567)
Appropriations Used	(1,638,458)	(8,631,942)	(10,270,400)	(665,766)	(8,776,595)	(9,442,361)
Total Budgetary Financing Sources	**(1,730,310)**	**(772,913)**	**(2,503,223)**	**(708,868)**	**(2,953,667)**	**(3,662,535)**
Unexpended Appropriations – Ending Balance	**1,660,141**	**5,056,293**	**6,716,434**	**3,390,451**	**5,829,206**	**9,219,657**
NET POSITION	**$ 11,599,810**	**$ 14,116,424**	**$ 25,716,234**	**$ 13,463,967**	**$ 13,343,946**	**$ 26,807,913**

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

United States Department of Commerce Combined Statements of Budgetary Resources For the Years Ended September 30, 2012 and 2011 (Note 18) *(In Thousands)*

	FY 2012		FY 2011	
	Budgetary	Non-budgetary Credit Program Financing Accounts	Budgetary	Non-budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ 9,995,115	$ 86	$ 12,155,652	$ 873
Adjustments to Unobligated Balance, Brought Forward	3	(1)	2	(1)
Unobligated Balance Brought Forward, October 1, as Adjusted	9,995,118	85	12,155,654	872
Actual Recoveries of Prior-years Unpaid Obligations	298,066	4,561	323,886	98,196
Actual Nonexpenditure Transfers of Unobligated Balance, Net	17,329	-	21,056	-
Borrowing Authority Withdrawn	-	(4,561)	-	(97,570)
Other Changes in Unobligated Balance, Net	(134,689)	-	(97,678)	-
Unobligated Balance From Prior-years Budget Authority, Net	**10,175,824**	**85**	**12,402,918**	**1,498**
Appropriations	8,035,812	-	5,939,022	-
Borrowing Authority	2,538	71,668	-	77,597
Spending Authority From Offsetting Collections	4,270,868	33,701	3,947,942	30,057
TOTAL BUDGETARY RESOURCES	**$ 22,485,042**	**$ 105,454**	**$ 22,289,882**	**$ 109,152**
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred	$ 12,132,645	$ 105,452	$ 12,294,767	$ 109,066
Unobligated Balance, End of Year				
Apportioned	1,157,028	-	581,374	-
Exempt From Apportionment	136,995	-	392,735	-
Unapportioned	9,058,374	2	9,021,006	86
Total Unobligated Balance, End of Year	**10,352,397**	**2**	**9,995,115**	**86**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 22,485,042**	**$ 105,454**	**$ 22,289,882**	**$ 109,152**
CHANGE IN UNPAID OBLIGATED BALANCE, NET:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 11,152,608	$ 145,079	$ 13,171,979	$ 229,115
Adjustments to Unpaid Obligations, Brought Forward	153	4	-	-
Obligations Incurred	12,132,645	105,452	12,294,767	109,066
Outlays, Gross	(14,638,956)	(115,838)	(13,990,252)	(94,906)
Actual Recoveries of Prior-years Unpaid Obligations	(298,066)	(4,561)	(323,886)	(98,196)
UNPAID OBLIGATIONS, END OF YEAR	**$ 8,348,384**	**$ 130,136**	**$ 11,152,608**	**$ 145,079**
Uncollected Customer Payments:				
Uncollected Customer Payments, Brought Forward, October 1	$ (646,248)	$ (390)	$ (523,383)	$ (735)
Adjustments to Uncollected Customer Payments, Brought Forward	(158)	(1)	-	-
Change in Uncollected Customer Payments	38,076	(103)	(122,865)	345
UNCOLLECTED CUSTOMER PAYMENTS, END OF YEAR	**$ (608,330)**	**$ (494)**	**$ (646,248)**	**$ (390)**
Unpaid Obligated Balance, Net, Brought Forward, October 1	**10,506,360**	**144,689**	**12,648,596**	**228,380**
Unpaid Obligated Balance, Net, End of Year	**7,740,054**	**129,642**	**10,506,360**	**144,689**
BUDGET AUTHORITY, NET:				
Budget Authority, Gross	$ 12,309,218	$ 105,369	$ 9,886,964	$ 107,654
Actual Offsetting Collections	(4,304,870)	(104,012)	(4,026,213)	(72,048)
Change in Uncollected Customer Payments	38,076	(103)	(122,865)	345
BUDGET AUTHORITY, NET	**$ 8,042,424**	**$ 1,254**	**$ 5,737,886**	**$ 35,951**
OUTLAYS, NET:				
Outlays, Gross	$ 14,638,956	$ 115,838	$ 13,990,252	$ 94,906
Actual Offsetting Collections	(4,304,870)	(104,012)	(4,026,213)	(72,048)
Outlays, Net	10,334,086	11,826	9,964,039	22,858
Distributed Offsetting (Receipts)/Outlays, Net	(62,667)	-	(33,570)	-
AGENCY OUTLAYS, NET	**$ 10,271,419**	**$ 11,826**	**$ 9,930,469**	**$ 22,858**

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

Notes to the Financial Statements

(All Tables are Presented in Thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Reporting Entity

The Department of Commerce (the Department) is a cabinet-level agency of the Executive Branch of the U.S. government. Established in 1903 to promote U.S. business and trade, the Department's broad range of responsibilities includes predicting the weather, granting patents and registering trademarks, measuring economic growth, gathering and disseminating statistical data, expanding U.S. exports, developing innovative technologies, helping local communities improve their economic development capabilities, promoting minority entrepreneurial activities, and monitoring the stewardship of national assets. The Department is composed of 12 bureaus, the Emergency Oil and Gas and Steel Loan Guarantee Programs, and Departmental Management.

For the *Consolidating Statements of Net Cost* (see Note 17), the Department's entities have been grouped together as follows:

- National Oceanic and Atmospheric Administration (NOAA)
- U.S. Patent and Trademark Office (USPTO)
- Economics and Statistics Administration (ESA) — based on organizational structure
    - Bureau of Economic Analysis (BEA)
    - Census Bureau
- National Institute of Standards and Technology (NIST)
- National Telecommunications and Information Administration (NTIA)
- Others
    - Bureau of Industry and Security (BIS)
    - Economic Development Administration (EDA)
    - Emergency Oil and Gas and Steel Loan Guarantee Programs (ELGP)
    - International Trade Administration (ITA)
    - Minority Business Development Agency (MBDA)
    - National Technical Information Service (NTIS)

- Departmental Management (DM)
    - Franchise Fund
    - Gifts and Bequests (G&B)
    - Herbert C. Hoover Building Renovation Project (HCHB)
    - Office of Inspector General (OIG)
    - Salaries and Expenses (S&E)
    - Working Capital Fund (WCF)

B Basis of Accounting and Presentation

The Department's fiscal year ends September 30. These financial statements 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 the receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

These financial statements have been prepared from the accounting records of the Department in conformance with U.S. generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Revised Circular No. A-136, *Financial Reporting Requirements*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. government.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenue, and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities.

The Department has allocation transfer transactions with other federal agencies as both a transferring (parent) entity and as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, and outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. EDA allocates funds, as the parent, to the U.S. Department of Agriculture's Rural Development Administration. Therefore, all financial activity related to these EDA funds are reported in the Department's financial statements. NOAA, EDA, Census Bureau, and BEA have received allocation transfers, as the child, from the General Services Administration (GSA), Environmental Protection Agency, Delta Regional Authority, Appalachian Regional Commission, and Northern Border Regional Commission. Activity relating to these child allocation transfers is not reported in the Department's financial statements, except that the Department has recognized Imputed Costs and Imputed Financing Sources From Cost Absorbed by Others for expenses, as the child, under GSA's Federal Buildings Funds.

C Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. Earmarked funds include general funds, public enterprise revolving funds (not including credit reform financing funds), special funds, and a trust fund. (See Note 21, *Earmarked Funds*.)

D Elimination of Intra-entity and Intra-Departmental Transactions and Balances

Transactions and balances within a reporting entity (intra-entity) have been eliminated from the financial statements, except as noted below. Transactions and balances among the Department's entities (intra-Departmental) have been eliminated from the *Consolidated Balance Sheets,* the *Consolidated Statements of Net Cost*, and the *Consolidated Statements of Changes in Net Position.* The *Statements of Budgetary Resources* are presented on a combined basis; therefore, intra-Departmental and intra-entity transactions and balances have not been eliminated from these statements.

E Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of funds in the Department's accounts with the U.S. Department of the Treasury (Treasury). Deposit Funds include amounts held in customer deposit accounts.

Treasury processes cash receipts and disbursements for the Department's domestic operations. Cash receipts and disbursements for the Department's overseas operations are primarily processed by the U.S. Department of State's financial service centers.

F Accounts Receivable, Net

Accounts Receivable are recognized primarily when the Department performs reimbursable services or sells goods. Accounts Receivable are reduced to net realizable value by an Allowance for Uncollectible Accounts. This allowance is estimated periodically using methods such as the identification of specific delinquent receivables, and the analysis of aging schedules and historical trends adjusted for current market conditions.

G Advances and Prepayments

Advances are payments the Department has made to cover a part or all of a grant recipient's anticipated expenses, or are advance payments for the cost of goods and services to be acquired. For grant awards, the recipient is required to periodically (monthly or quarterly) report the amount of costs incurred. Prepayments are payments the Department has made to cover certain periodic expenses before those expenses are incurred, such as subscriptions and rent. Advances and Prepayments are included in Other Assets.

H Direct Loans and Loan Guarantees, Net

A direct loan is recorded as a receivable after the Department disburses funds to a borrower. The Department also makes loan guarantees with respect to the payment of all or part of the principal or interest on debt obligations of non-federal borrowers to non-federal lenders. A borrower-defaulted loan guaranteed by the Department is recorded as a receivable from the borrower after the Department disburses funds to the lender.

Interest Receivable generally represents uncollected interest income earned on loans. For past-due loans, only up to 180 days of interest income is generally recorded.

Foreclosed Property is acquired primarily through foreclosure and voluntary conveyance, and is recorded at the fair market value at the time of acquisition. Foreclosed Property is adjusted to the current fair market value each fiscal year-end.

Direct Loans and Loan Guarantees Obligated before October 1, 1991 (pre-FY 1992): Loans Receivable are reduced by an Allowance for Loan Losses, which is based on an analysis of each loan's outstanding balance. The value of each receivable, net of any Allowance for Loan Losses, is supported by the values of pledged collateral and other assets available for liquidation, and by the Department's analysis of financial information of parties against whom the Department has recourse for the collection of these receivables.

The Economic Development Revolving Fund is required to make annual interest payments to Treasury after each fiscal year-end, based on its outstanding receivables as of September 30.

Direct Loans and Loan Guarantees Obligated after September 30, 1991 (post-FY 1991): Post-FY 1991 obligated direct loans and loan guarantees and the resulting receivables are governed by the Federal Credit Reform Act of 1990.

For a direct or guaranteed loan disbursed during a fiscal year, a subsidy cost is initially recognized. Subsidy costs are intended to estimate the long-term cost to the U.S. government of its loan programs. The subsidy cost equals the present value of estimated cash outflows over the life of the loan, minus the present value of estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries are not included in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, loan origination and other fees, and other cash flows. The Department calculates its subsidy costs based on a model created and provided by OMB.

A Loan Receivable is recorded at the present value of the estimated cash inflows less cash outflows. The difference between the outstanding principal of the loan and the present value of its net cash inflows is recorded as the Allowance for Subsidy Cost. A subsidy reestimate is normally performed annually, as of September 30. The subsidy reestimate takes into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the reestimate is recognized as a subsidy expense (or a reduction in subsidy expense). The portion of the Allowance for Subsidy Cost related to subsidy modifications and reestimates is calculated annually, as of September 30.

The amount of any downward subsidy reestimates as of September 30 must be disbursed to Treasury in the subsequent fiscal year. Appropriations are normally obtained in the following fiscal year for any upward subsidy reestimates.

I Inventory, Materials, and Supplies, Net

Inventory, Materials, and Supplies, Net are stated at the lower of cost or net realizable value primarily under the average, weighted-average, and first-in, first-out methods, and are adjusted for the results of physical inventories. Inventory, Materials, and Supplies are expensed when consumed. There are no restrictions on their sale, use, or disposition.

J General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment, Net (General PP&E) is composed of capital assets used in providing goods or services. General PP&E is stated at full cost, including all costs related to acquisition, delivery, and installation, less Accumulated Depreciation. General PP&E also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception.

Capitalization Threshold: The Department's general policy is to capitalize General PP&E if the initial acquisition price is $25 thousand or more and the useful life is two years or more. NOAA, NIST and USPTO are an exception to this policy, based on a cost vs. benefits and materiality analysis given the size of these bureaus, having a capitalization threshold of $200 thousand and $50 thousand for NOAA, and NIST and USPTO respectively. General PP&E with an acquisition cost less than the capitalization threshold is expensed when purchased. All bureaus other than NOAA have a personal property bulk purchase capitalization threshold of $250 thousand, and NOAA has a personal property bulk purchase capitalization threshold of $1 million.

Depreciation: Depreciation is recognized on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements, which are depreciated over the remaining life of the lease or over the useful life of the improvement, whichever is shorter. Land and Construction-in-progress are not depreciated.

Real Property: GSA provides most of the facilities in which the Department operates, and generally charges rent based on comparable commercial rental rates. Accordingly, GSA-owned properties are not included in the Department's General PP&E. The Department's real property primarily consists of facilities for NIST and NOAA. Land Improvements consist of a retaining wall to protect against shoreline erosion.

Construction-in-progress: Costs for the construction, modification, or modernization of General PP&E are initially recorded as Construction-in-progress. The Department's construction-in-progress consists primarily of satellites under development for NOAA, and major laboratory renovations and construction projects under development for NIST. Upon completion of the work, the costs are transferred to the appropriate General PP&E account.

K Notes Receivable

Notes Receivable, included in Other Assets, arise through the NOAA sale of foreclosed property to non-federal parties. The property is used as collateral, and an Allowance for Uncollectible Amounts is established if the net realizable value of the collateral is less than the outstanding balance of the Notes Receivable. An analysis of the collectability of receivables is performed periodically. Any gains realized through the sale of foreclosed property are initially deferred and recognized in proportion to the percentage of principal repaid.

L Non-entity Assets

Non-entity assets are assets held by the Department that are not available for use in its operations. Non-entity Fund Balance with Treasury includes customer deposits held by the Department until customer orders are received, and monies payable to the Treasury General Fund for custodial activity and for loan programs. Non-entity Direct Loans and Loan Guarantees, Net includes EDA's Drought Loan Portfolio. The Portfolio collections are submitted to Treasury monthly.

M Liabilities

A liability for federal accounting purposes is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events.

Accounts Payable: Accounts Payable are amounts primarily owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due.

Debt to Treasury: The Department has borrowed funds from Treasury through the Fisheries Finance Financing Account for various NOAA direct loan programs, through the Fishing Vessel Obligation Guarantee (FVOG) loan guarantee program, and through NTIA's Public Safety Trust Fund, and State and Local Implementation Fund. To simplify interest calculations, the Fisheries Finance Financing Account and FVOG borrowings are dated October 1. Interest rates are based on a weighted average of rates during the term of the borrowed funds. The weighted average rate for each cohort's borrowing is recalculated at the end of each fiscal year during which disbursements are made. Annual interest payments on unpaid principal balances as of September 30 are required. Principal repayments are required only at maturity, but are permitted at any time during the term of the loan. The Department's primary financing source for repayments of Debt to Treasury is the collection of principal on the associated Loans Receivable, and deposits from public safety communications and electromagnetic spectrum auction proceeds. Balances of any borrowed but undisbursed Fisheries Finance Financing Account and FVOG funds will earn interest at the same rate used in calculating interest expense. The amount borrowed by NTIA are interest-free. The amount, reported for Debt to Treasury includes accrued interest payable.

Resources Payable to Treasury: Resources Payable to Treasury includes liquidating fund assets in excess of liabilities that are being held as working capital for the Economic Development Revolving Fund loan programs and the FVOG loan guarantee program. EDA's Drought Loan Portfolio is a non-entity asset; therefore, the amount of the Portfolio is also recorded as a liability to the Treasury General Fund. The Portfolio collections are returned to the Treasury General Fund annually, and the liability is reduced accordingly.

Unearned Revenue: Unearned Revenue is the portion of monies received for which goods and services have not yet been provided or rendered by the Department. Revenue is recognized as reimbursable costs are incurred, and the Unearned Revenue balance is reduced accordingly. Unearned Revenue also includes the balances of customer deposit accounts held by the Department. The intragovernmental Unearned Revenue primarily relates to monies collected in advance under reimbursable agreements. The majority of the Unearned Revenue with the public represents patent and trademark application and user fees that are pending action.

Accrued FECA Liability: The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the Department and subsequently seeks reimbursement from the Department for these paid claims. Accrued FECA Liability, included in Intragovernmental Other Liabilities, represents amounts due to DOL for claims paid on behalf of the Department.

Loan Guarantee Liabilities: Post-FY 1991 obligated loan guarantees are governed by the Federal Credit Reform Act of 1990. For a guaranteed loan disbursed during a fiscal year, a subsidy cost is initially recognized. Subsidy costs are intended to estimate the long-term cost to the U.S. government of its loan programs. The subsidy cost equals the present value of estimated cash outflows over the lives of the loans, minus the present value of estimated cash inflows, discounted at the applicable Treasury interest rate.

Administrative costs such as salaries are not included in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, loan origination and other fees, and other cash flows. The Department calculates its subsidy costs based on a model created and provided by OMB.

For a non-acquired guaranteed loan outstanding, the present value of the estimated cash inflows less cash outflows of the loan guarantee is recognized as a Loan Guarantee Liability. The Loan Guarantee Liability is normally reestimated annually each year, as of September 30. The subsidy reestimate takes into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the reestimate is recognized as a subsidy expense (or a reduction in subsidy expense).

Federal Employee Benefits:

Actuarial FECA Liability: Actuarial FECA Liability represents the liability for future workers' compensation (FWC) benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. To provide more specifically for the effects of inflation on the liability for FWC benefits, wage inflation factors (Cost of Living Allowance) and medical inflation factors (Consumer Price Index - Medical) are applied to the calculation of projected future benefits. These factors are also used to adjust historical payments of benefits by the Department to current-year constant dollars.

The model's resulting projections are analyzed by DOL to ensure that the amounts are reliable. The analysis is based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments; and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

NOAA Corps Retirement System Liability and NOAA Corps Post-retirement Health Benefits Liability: These liabilities are recorded at the actuarial present value of projected benefits, calculated annually, as of September 30. The actuarial cost method used to determine these liabilities is the aggregate entry age normal method. Under this method, the actuarial present value of projected benefits is allocated on a level basis over the earnings or the service of the group between entry age and assumed exit ages. The portion of this actuarial present value allocated to the valuation year is called the normal cost. For purposes of calculating the normal cost, certain actuarial assumptions utilized for the actual valuation of U.S. Military Retirement System are used. Actuarial gains and losses, and prior and past service costs, if any, are recognized immediately in the year they occur, without amortization. The medical claim rates used for the NOAA Corps Post-retirement Health Benefits Liability actuarial calculations are based on the claim rates used for the U.S. Department of Defense Medicare-Eligible Retiree Health Care Fund actuarial valuations. Demographic assumptions appropriate to covered personnel are also used. For background information about these plans, see Note 1.Q, *Employee Retirement Benefits*.

Environmental and Disposal Liabilities: NIST operates a nuclear reactor licensed by the U.S. Nuclear Regulatory Commission, in accordance with NIST's mission of setting standards and examining new technologies. The Department currently estimates the cost of decommissioning this facility to be $75.3 million. The NIST decommissioning estimate includes an assumption that an offsite waste disposal facility will become available, when needed, estimated in 2029. Currently, an offsite disposal location has not been identified, and the NIST environmental liability cost estimate includes an amount approved by the Nuclear Regulatory Commission for offsite waste disposal. The total estimated decommissioning cost is being accrued on a straight-line basis over the expected life of the facility. Under current legislation, funds to cover the expense of decommissioning the facility's nuclear reactor should be requested in a separate appropriation when the decommissioning date becomes relatively certain.

The Department has incurred cleanup costs related to the costs of removing, containing, and/or disposing of hazardous waste from facilities used by NOAA. The Department has estimated its liabilities for environmental cleanup costs at all NOAA-used facilities, including the decommissioning of ships. The largest of NOAA's environmental liabilities relates to the clean-up of the Pribilof Islands in Alaska, which contains waste from the U.S. Department of Defense's use during World War II. The Department does not recognize a liability for environmental cleanup costs for NOAA-used facilities that are less than $25 thousand per project. When an estimate of cleanup costs includes a range of possible costs, the most likely cost is reported. When no cost is more likely than another, the lowest estimated cost in the range is reported. The liability is reduced as progress payments are made.

The Department may have liabilities associated with asbestos-containing materials (ACM) and lead-based paints (LBP) at certain NOAA facilities. The Department has scheduled surveys to assess the potential for liabilities for ACM and LBP contamination. All known issues, however, are contained, and NOAA facilities meet current environmental standards. No cost estimates are presently available for facilities that have not yet been assessed for ACM or LBP issues.

Accrued Payroll and Annual Leave: These categories include salaries, wages, and other compensation earned by employees, but not disbursed as of September 30. Annually, as of September 30, the balances of Accrued Annual Leave are adjusted to reflect current pay rates. Sick leave and other types of non-vested leave are expensed as taken.

Accrued Grants: The Department administers a diverse array of financial assistance programs and projects concerned with the entire spectrum of business and economic development efforts that promote activities such as expanding U.S. exports, creating jobs, contributing to economic growth, developing innovative technologies, promoting minority entrepreneurship, protecting coastal oceans, providing weather services, managing worldwide environmental data, and using telecommunications and information technologies to better provide public services. Disbursements of funds under the Department's grant programs are generally made when requested by grantees. These drawdown requests may be received and fulfilled before grantees make the program expenditures. When the Department has disbursed funds but the grant recipient has not yet reported expenditures, these disbursements are recorded as advances. If a recipient, however, reports program expenditures that have not been advanced by the Department by September 30, such amounts are recorded as grant expenses and grants payable as of September 30.

Capital Lease Liabilities: Capital leases are leases for property, plant, and equipment that transfer substantially all the benefits and risks of ownership to the Department.

ITA Foreign Service Nationals' Voluntary Separation Pay: This liability, included in Other Liabilities, is based on the salaries and benefit statuses of employees in countries where governing laws require a provision for separation pay.

Contingent Liabilities and Contingencies: A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A contingent liability (included in Other Liabilities) and an expense are recognized when a past event has occurred, and a future outflow or other sacrifice of resources is measurable and probable. A contingency is considered probable when the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur. A contingency is disclosed in the Notes to the Financial Statements if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred. A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable. A contingency is not recognized as a contingent liability and an expense nor disclosed in the Notes to the Financial Statements when the chance of the future event or events occurring is remote. A contingency is considered remote when the chance of the future event or events occurring is slight.

Liabilities Not Covered by Budgetary Resources: These are liabilities for which congressional actions are needed before budgetary resources can be provided. The Department anticipates that liabilities not covered by budgetary resources will be funded from future budgetary resources when required. These amounts are detailed in Note 15.

Under accrual accounting, the expense for annual leave is recognized when the leave is earned. However, for most of the Department's fund groups, appropriations are provided to pay for the leave when it is taken. As a result, budgetary resources do not cover a large portion of Accrued Annual Leave.

The Department generally receives budgetary resources for Federal Employee Benefits when they are needed for disbursements.

N Commitments

Commitments are preliminary actions that will ultimately result in an obligation to the U.S. government if carried through, such as purchase requisitions, estimated travel orders, or unsigned contracts/grants. Major long-term commitments are disclosed in Note 16, *Commitments and Contingencies*.

O Net Position

Net Position is the residual difference between assets and liabilities, and is composed of Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations represent the total amount of unexpended budget authority that is classified as appropriations, both obligated and unobligated. Unexpended Appropriations is increased for Appropriations Received, is reduced for Appropriations Used, and is adjusted for other changes in appropriations, such as transfers and rescissions. Cumulative Results of Operations is the net result of the Department's operations since inception.

P Revenues and Other Financing Sources

Appropriations Used: Most of the Department's operating funds are provided by congressional appropriations of budget authority. The Department receives appropriations on annual, multiple-year, and no-year bases. Upon expiration of an annual or multiple-year appropriation, the obligated and unobligated balances retain their fiscal year identity, and are maintained separately within an expired account. The unobligated balances can be used to make legitimate obligation adjustments, but are otherwise not available for expenditures. Annual and multiple-year appropriations are canceled at the end of the fifth year after expiration. No-year appropriations do not expire. Appropriations of budget authority are recognized as used when costs are incurred, for example, when goods and services are received or benefits and grants are provided.

Exchange and Non-exchange Revenue: The Department classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the government and the other party receive value, including processing patents and registering trademarks, the sale of weather data, nautical charts, and navigation information, and other sales of goods and services. This revenue is presented on the Department's *Consolidated Statements of Net Cost*, and serves to reduce the reported cost of operations borne by the taxpayer. Non-exchange revenue is derived from the government's sovereign right to demand payment, including fines for violations of fisheries and marine protection laws. Non-exchange revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, and to the extent that collection is probable and the amount is reasonably estimable. This revenue is not considered to reduce the cost of the Department's operations and is therefore reported on the *Consolidated Statements of Changes in Net Position*.

In certain cases, law or regulation sets the prices charged by the Department, and, for program and other reasons, the Department may not receive full cost (e.g., the processing of patents and registering of trademarks, and the sale of weather data, nautical charts, and navigation information). Prices set for products and services offered through the Department's working capital funds are intended to recover the full costs incurred by these activities.

Imputed Financing Sources from Cost Absorbed by Others (and Related Imputed Costs): In certain cases, operating costs of the Department are paid for in full or in part by funds appropriated to other federal entities. For example, Civil Service Retirement System pension benefits for applicable Departmental employees are paid for in part by the U.S. Office of Personnel Management (OPM), and certain legal judgments against the Department are paid for in full from the Judgment Fund maintained by Treasury. The Department includes applicable Imputed Costs on the *Consolidated Statements of Net Cost*. In addition, an Imputed Financing Source from Cost Absorbed by Others is recognized on the *Consolidated Statements of Changes in Net Position*.

Transfers In/(Out): Intragovernmental transfers of budget authority (i.e., appropriated funds) or of assets without reimbursement are recorded at book value.

Q Employee Retirement Benefits

Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS): Most employees of the Department participate in either the CSRS or FERS defined-benefit pension plans. FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security, or remain in CSRS.

The Department is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. OPM, which administers the plans, is responsible for and reports these amounts.

For CSRS-covered regular employees, the Department was required to make contributions to the plan equal to 7 percent of an employee's basic pay. Employees contributed 7 percent of basic pay. For each fiscal year, OPM calculates the U.S. government's service cost for covered employees, which is an estimate of the amount of funds, that, if accumulated annually and invested over an employee's career, would be enough to pay that employee's future benefits. Since the U.S. government's estimated service cost exceeds contributions made by employer agencies and covered employees, this plan is not fully funded by the Department and its employees. The Department has recognized an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

For FERS-covered regular employees, the Department was required to make contributions of 11.9 percent and 11.7 percent of basic pay for FY 2012 and FY 2011, respectively. Employees contributed 0.8 percent of basic pay. For each fiscal year, OPM calculates the U.S. government's service cost for covered employees. Since the U.S. government's estimated service cost exceeds contributions made by employer agencies and covered employees, this plan was not fully funded by the Department and its employees. The Department has recognized an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA), for which the Department contributes a matching amount to the Social Security Administration.

NOAA Corps Retirement System: Active-duty officers of the NOAA Corps are covered by the NOAA Corps Retirement System, an unfunded, pay-as-you-go, defined-benefit plan administered by the Department. Participants do not contribute to this plan. Plan benefits are based primarily on years of service and compensation. Participants, as of September 30, 2012, included 311 active duty officers, 364 nondisability retiree annuitants, 17 disability retiree annuitants, and 50 surviving families. Key provisions include voluntary nondisability retirement after 20 years of active service, disability retirement, optional survivor benefits, Consumer Price Index (CPI) optional survivor benefits, and CPI adjustments for benefits.

Foreign Service Retirement and Disability System, and the Foreign Service Pension System: Foreign Commercial Officers are covered by the Foreign Service Retirement and Disability System and the Foreign Service Pension System. ITA makes contributions to the systems based on a percentage of an employee's pay. Both systems are multi-employer plans administered by the U.S. Department of State. The Department is not responsible for and does not report plan assets, accumulated plan benefits, or liabilities applicable to its employees. The U.S. Department of State, which administers the plan, is responsible for and reports these amounts.

Thrift Savings Plan (TSP): Employees covered by CSRS and FERS are eligible to contribute to the U.S. government's TSP, administered by the Federal Retirement Thrift Investment Board. A TSP account is automatically established for FERS-covered employees, and the Department makes a mandatory contribution of one percent of basic pay. The Department also makes matching contributions of up to four percent of basic pay for FERS-covered employees. FERS and CSRS-covered employees have no limit on the percentage of pay contributed to their TSP account. However, the total contribution for 2012 may not exceed the IRS limit of $17 thousand. The Department makes no matching contributions for CSRS-covered employees. TSP participants age 50 or older who are already contributing the maximum amount of contributions for which they are eligible may also make catch-up contributions, subject to the IRS dollar limit for catch-up contributions.

Federal Employees Health Benefit (FEHB) Program: Most Departmental employees are enrolled in the FEHB Program, which provides post-retirement health benefits. OPM administers this program and is responsible for the reporting of liabilities. Employer agencies and covered employees are not required to make any contributions for post-retirement health benefits. OPM calculates the U.S. government's service cost for covered employees each fiscal year. The Department has recognized the entire service cost of these post-retirement health benefits for covered employees as an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others.

NOAA Corps Post-retirement Health Benefits: Active-duty officers of the NOAA Corps are covered by the health benefits program for the NOAA Corps, which provides post-retirement health benefits. This is a pay-as-you-go plan administered by the Department. Participants do not make any contributions to this plan.

Federal Employees Group Life Insurance (FEGLI) Program: Most Department employees are entitled to participate in the FEGLI Program. Participating employees can obtain basic term life insurance, with the employee paying two-thirds of the cost and the Department paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. government's service cost for the post-retirement portion of basic life coverage. Because the Department's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, the Department has recognized the entire service cost of the post-retirement portion of basic life coverage as an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others.

R Use of Estimates

The preparation of financial statements requires the Department to make estimates and assumptions that affect these financial statements. Actual results may differ from those estimates.

S Tax Status

The Department is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded.

T Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, and disposition by the U.S. government of cash or other assets in which non-federal individuals or entities have an ownership interest that the U.S. government must uphold. Fiduciary cash and other assets are not assets of the U.S. government, and, accordingly, are not recognized in the accompanying consolidated financial statements.

The Department's fiduciary activities consist of the following:

The Patent Cooperation Treaty authorizes USPTO to collect patent filing and search fees on behalf of the World Intellectual Property Organization (WIPO), European Patent Office, Korean Intellectual Property Office, and the Australian Patent Office, from U.S. citizens requesting an international patent. The Madrid Protocol Implementation Act authorizes USPTO to collect trademark application fees on behalf of the International Bureau of WIPO from U.S. citizens requesting an international trademark. These fiduciary activities are reported in Note 20.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury, by type, is as follows:

	FY 2012	FY 2011
General Funds	$ 8,987,526	$ 11,214,030
Revolving Funds	970,075	957,367
Special Funds		
Digital Television Transition and Public Safety Fund	8,842,490	9,062,212
Patent and Trademark Surcharge Fund	233,529	233,529
Others	83,948	76,244
Deposit Funds	138,405	126,983
Trust Funds	4,611	1,407
Other Fund Types	697	(10,742)
Total	$ 19,261,281	$ 21,661,030

Status of Fund Balance with Treasury is as follows:

	FY 2012	FY 2011
Temporarily Precluded From Obligation	$ 796,526	$ 810,049
Unobligated Balance		
Available	1,293,699	973,765
Unavailable	9,058,369	9,021,092
Obligated Balance Not Yet Disbursed	7,740,057	10,506,354
Non-budgetary	372,630	349,770
Total	$ 19,261,281	$ 21,661,030

See Note 18, *Combined Statements of Budgetary Resources*, for legal arrangements affecting the Department's use of Fund Balance with Treasury for FY 2012 and FY 2011.

NOTE 3. ACCOUNTS RECEIVABLE, NET

FY 2012

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 116,009	$ -	$ 116,009
With the Public	$ 116,327	$ (11,386)	$ 104,941

FY 2011

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 98,360	$ -	$ 98,360
With the Public	$ 152,642	$ (11,796)	$ 140,846

As a major partner in the federal response to the 2010 Deepwater Horizon oil spill, NOAA has incurred certain costs for providing coordinated scientific weather and biological response services to that region, for which it expects to be reimbursed. NOAA has receivables from the Coast Guard (Intragovernmental) totaling $11.5 million and $33.5 million for response and removal activities as of September 30, 2012 and 2011, respectively. NOAA also has receivables from an oil company (With the Public) for restoration activities totaling $66.0 million and $94.8 million as of September 30, 2012 and 2011, respectively. NOAA believes these receivables are fully collectible, based on costs submitted to date, and reimbursements received. Therefore, no allowance for uncollectible accounts has been established for these receivables.

NOTE 4. CASH

	FY 2012	FY 2011
Cash Not Yet Deposited with Treasury	$ 4,463	$ 3,120
Imprest Funds	371	346
Total	$ 4,834	$ 3,466

Cash Not Yet Deposited with Treasury primarily represents patent and trademark fees that were not processed as of September 30, due to the lag time between receipt and initial review. Certain bureaus maintain imprest funds for operational necessity, such as law enforcement activities, and for environments that do not permit the use of electronic payments.

NOTE 5. DIRECT LOANS AND LOAN GUARANTEES, NET

The Department operates the following direct loan and loan guarantee programs:

Direct Loan Programs:

EDA	Drought Loan Portfolio
EDA	Economic Development Revolving Fund
NOAA	Alaska Purse Seine Fishery Buyback Loans
NOAA	Bering Sea and Aleutian Islands Non-Pollock Buyback Loans
NOAA	Bering Sea Pollock Fishery Buyback
NOAA	Coastal Energy Impact Program (CEIP)
NOAA	Crab Buyback Loans
NOAA	Federal Gulf of Mexico Reef Fish Buyback Loans[1]
NOAA	Fisheries Finance Individual Fishing Quota (IFQ) Loans
NOAA	Fisheries Finance Traditional Loans
NOAA	Fisheries Finance Tuna Fleet Loans
NOAA	Fisheries Loan Fund
NOAA	New England Groundfish Buyback Loans[1]
NOAA	New England Lobster Buyback Loans[1]
NOAA	Pacific Groundfish Buyback Loans

[1] No loans have been issued under these programs as of September 30, 2012.

Loan Guarantee Programs:

EDA	Economic Development Revolving Fund
ELGP-Steel	Emergency Steel Loan Guarantee Program
NOAA	Fishing Vessel Obligation Guarantee Program (FVOG Program)

The net assets for the Department's loan programs consist of:

	FY 2012	FY 2011
Direct Loans Obligated Prior to FY 1992	$ 17,062	$ 20,910
Direct Loans Obligated After FY 1991	552,764	544,773
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees	4	4
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees	518	563
Total	$ 570,348	$ 566,250

Direct Loans Obligated Prior to FY 1992 consist of:

FY 2012

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 20,124	$ 5,065	$ (19,404)	$ 5,785
Drought Loan Portfolio	7,207	95	(73)	7,229
Fisheries Loan Fund	148	16	(164)	-
Economic Development Revolving Fund	4,066	22	(40)	4,048
Total	$ 31,545	$ 5,198	$ (19,681)	$ 17,062

FY 2011

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 20,223	$ 4,965	$ (18,974)	$ 6,214
Drought Loan Portfolio	9,926	141	(104)	9,963
Fisheries Loan Fund	244	39	(283)	-
Economic Development Revolving Fund	4,756	25	(48)	4,733
Total	$ 35,149	$ 5,170	$ (19,409)	$ 20,910

Direct Loans Obligated After FY 1991 consist of:

FY 2012

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ 32,122	$ 72	$ 6,425	$ 38,619
Bering Sea Pollock Fishery Buyback	42,695	75	2,817	45,587
Crab Buyback Loans	89,533	2,786	24,424	116,743
Fisheries Finance IFQ Loans	24,803	240	4,054	29,097
Fisheries Finance Traditional Loans	240,004	1,964	29,876	271,844
Pacific Groundfish Buyback Loans	30,040	989	7,724	38,753
Alaska Purse Seine Fishery Buyback Loans	11,861	13	247	12,121
Total	$ 471,058	$ 6,139	$ 75,567	$ 552,764

FY 2011

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ 33,458	$ 274	$ 7,304	$ 41,036
Bering Sea Pollock Fishery Buyback	46,499	63	4,190	50,752
Crab Buyback Loans	91,609	2,798	22,098	116,505
Fisheries Finance IFQ Loans	24,362	214	4,561	29,137
Fisheries Finance Traditional Loans	229,847	2,129	33,189	265,165
Pacific Groundfish Buyback Loans	31,662	1,021	9,495	42,178
Total	$ 457,437	$ 6,499	$ 80,837	$ 544,773

New Disbursements of Direct Loans (Post-FY 1991):

Direct Loan Program	FY 2012	FY 2011
Fisheries Finance IFQ Loans	$ 5,595	$ 5,132
Fisheries Finance Traditional Loans	56,734	50,811
Alaska Purse Seine Fishery Buyback Loans	13,133	-
Total	$ 75,462	$ 55,943

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Disbursements of Direct Loans:

FY 2012

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	$ (1,205)	$ 11	$ (35)	$ 472	$ (757)
Fisheries Finance Traditional Loans	(8,017)	60	(194)	2,763	(5,388)
Total	$ (9,222)	$ 71	$ (229)	$ 3,235	$ (6,145)

FY 2011

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	$ (1,064)	$ 19	$ (29)	$ 444	$ (630)
Fisheries Finance Traditional Loans	(8,018)	158	(236)	3,805	(4,291)
Total	$ (9,082)	$ 177	$ (265)	$ 4,249	$ (4,921)

Modifications and Reestimates:

FY 2012

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ -	$ 523	$ 523
Bering Sea Pollock Fishery Buyback	-	-	911	911
Crab Buyback Loans	-	-	(7,434)	(7,434)
Fisheries Finance IFQ Loans	-	-	1,045	1,045
Fisheries Finance Traditional Loans	-	-	7,481	7,481
Pacific Groundfish Buyback Loans	-	-	552	552
Total	$ -	$ -	$ 3,078	$ 3,078

FY 2011

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ -	$ 187	$ 187
Bering Sea Pollock Fishery Buyback	-	-	1,605	1,605
Crab Buyback Loans	-	-	(3,823)	(3,823)
Fisheries Finance IFQ Loans	-	-	(781)	(781)
Fisheries Finance Traditional Loans	-	-	(2,008)	(2,008)
Fisheries Finance Tuna Fleet Loans	-	-	(3)	(3)
Pacific Groundfish Buyback Loans	-	-	(196)	(196)
Total	$ -	$ -	$ (5,019)	$ (5,019)

Total Direct Loan Subsidy Expense:

Direct Loan Program	FY 2012	FY 2011
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ 523	$ 187
Bering Sea Pollock Fishery Buyback	911	1,605
Crab Buyback Loans	(7,434)	(3,823)
Fisheries Finance IFQ Loans	288	(1,411)
Fisheries Finance Traditional Loans	2,093	(6,299)
Fisheries Finance Tuna Fleet Loans	-	(3)
Pacific Groundfish Buyback Loans	552	(196)
Total	$ (3,067)	$ (9,940)

Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans for the Current Fiscal-year's Cohorts:

FY 2012

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(23.54) %	0.19 %	(0.79) %	11.34 %	(12.80) %
Fisheries Finance Traditional Loans	(18.46) %	0.06 %	(0.53) %	5.16 %	(13.77) %
Alaska Purse Seine Fishery Buyback Loans	(3.24) %	4.24 %	0.00 %	0.00 %	1.00 %

FY 2011

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(18.51) %	0.14 %	(0.38) %	3.50 %	(15.25) %
Fisheries Finance Traditional Loans	(13.28) %	0.06 %	(0.17) %	2.93 %	(10.46) %

The budget subsidy rates disclosed pertain only to the reporting period's cohorts. These rates cannot be applied to the new disbursements of direct loans during the reporting period to yield the subsidy expense. The subsidy expense for new disbursements of direct loans for the reporting period could result from disbursements of loans from both the reporting period's cohorts and prior fiscal-year(s) cohorts. The subsidy expense for the reporting period may also include modifications and reestimates.

Schedule for Reconciling Allowance for Subsidy Cost (Post-FY 1991 Direct Loans):

	FY 2012	FY 2011
Beginning Balance of the Allowance for Subsidy Cost	$ 80,837	$ 76,655
Add Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	9,222	9,082
Default Costs (Net of Recoveries)	(71)	(177)
Fees and Other Collections	229	265
Other Subsidy Costs	(3,235)	(4,249)
Total of the above Subsidy Expense Components	6,145	4,921
Adjustments:		
Loan Modifications	(131)	-
Fees Received	(305)	(378)
Subsidy Allowance Amortization	(7,901)	(5,380)
Total of Adjustments	(8,337)	(5,758)
Ending Balance of the Allowance for Subsidy Cost Before Reestimates	78,645	75,818
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimates	(3,078)	5,019
Ending Balance of the Allowance for Subsidy Cost	$ 75,567	$ 80,837

Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees:

FY 2012

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 7,318	$ 1	$ (7,315)	$ 4

FY 2011

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 7,785	$ 2	$ (7,783)	$ 4

Defaulted Guaranteed Loans from Post-FY 1991 Guarantees:

FY 2012

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 14,128	$ 1,254	$ (14,864)	$ 518

FY 2011

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 14,128	$ 1,254	$ (14,819)	$ 563

Loan Guarantees:

Guaranteed Loans Outstanding:

Outstanding non-acquired guaranteed loans as of September 30, 2012 and 2011, which are not reflected in the financial statements, are as follows:

	FY 2012		FY 2011	
Loan Guarantee Program	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FVOG Program	$ 1,613	$ 1,613	$ 2,467	$ 2,467

New Guaranteed Loans Disbursed:

There were no new guaranteed loans disbursed during FY 2012 and FY 2011.

Loan Guarantee Liabilities:

Loan Guarantee Program	FY 2012 Loan Guarantee Liabilities for Post-FY 1991 Guarantees, Present Value	FY 2011 Loan Guarantee Liabilities for Post-FY 1991 Guarantees, Present Value
FVOG Program	$ 518	$ 563

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees Disbursed:

As there were no new loan guarantees disbursed during FY 2012 and FY 2011, there is not any related subsidy expense.

Modifications and Reestimates:

FY 2012 Loan Guarantee Program	Total Modifications
FVOG Program	$ -

FY 2012 Interest Rate Reestimates	Technical Reestimates	Total Reestimates
$ -	$ (1)	$ (1)

FY 2011 Loan Guarantee Program	Total Modifications
FVOG Program	$ -

FY 2011 Interest Rate Reestimates	Technical Reestimates	Total Reestimates
$ -	$ 614	$ 614

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Program	FY 2012	FY 2011
FVOG Program	$ (1)	$ 614

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Fiscal-year's Cohorts:

There were no new cohorts of guaranteed loans during FY 2012 and FY 2011.

Schedule for Reconciling Loan Guarantee Liabilities (Post-FY 1991 Loan Guarantees):

	FY 2012	FY 2011
Beginning Balance of Loan Guarantee Liabilities	$ 563	$ 565
Adjustments:		
Fees Received	-	1
Interest Accumulation on the Liabilities Balance	(45)	(3)
Ending Balance of Loan Guarantee Liabilities	$ 518	$ 563

Administrative Expenses:

Administrative expenses in support of the Department's direct loan and loan guarantee programs consist of:

Direct Loan Program	FY 2012	FY 2011
Drought Loan Portfolio and Economic Development Revolving Fund	$ 696	$ 1,206
NOAA Direct Loan Programs	2,780	3,368
Total	$ 3,476	$ 4,574

Loan Guarantee Program	FY 2012	FY 2011
FVOG Program	$ 141	$ 189
Total	$ 141	$ 189

NOTE 6. INVENTORY, MATERIALS, AND SUPPLIES, NET

Category	Cost Flow Assumption	FY 2012	FY 2011
Inventory			
Items Held for Current Sale			
NIST Standard Reference Materials	Average	$ 21,612	$ 22,414
Other	Various	923	449
Allowance for Excess, Obsolete, and Unserviceable Items		(93)	(97)
Total Inventory, Net		22,442	22,766
Materials and Supplies			
Items Held for Use			
NOAA's National Logistics Support Center	Weighted-average	46,700	44,279
Other	Various	4,902	4,971
Items Held for Repair			
NOAA's National Reconditioning Center	Weighted-average	41,576	42,607
Allowance for Excess, Obsolete, and Unserviceable Items		(10,642)	(16,800)
Total Materials and Supplies, Net		82,536	75,057
Total		$ 104,978	$ 97,823

NIST's Standard Reference Materials Program provides reference materials for quality assurance of measurements, while NOAA's Materials and Supplies are primarily repair parts for weather forecasting equipment.

NOTE 7. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

FY 2012

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 16,733	$ -	$ 16,733
Land Improvements	30-40	2,996	(1,471)	1,525
Structures, Facilities, and Leasehold Improvements	2-50	1,778,876	(616,975)	1,161,901
Satellites/Weather Systems Personal Property	3-20	4,734,829	(3,973,204)	761,625
Other Personal Property	2-30	2,697,484	(1,772,375)	925,109
Assets Under Capital Lease	3-40	23,182	(19,203)	3,979
Construction-in-progress	N/A	7,129,640	-	7,129,640
Total		$ 16,383,740	$ (6,383,228)	$ 10,000,512

FY 2011

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 16,749	$ -	$ 16,749
Land Improvements	30-40	2,996	(1,378)	1,618
Structures, Facilities, and Leasehold Improvements	2-50	1,543,671	(571,303)	972,368
Satellites/Weather Systems Personal Property	3-20	5,137,980	(4,091,908)	1,046,072
Other Personal Property	2-30	2,499,056	(1,656,622)	842,434
Assets Under Capital Lease	3-40	23,067	(18,274)	4,793
Construction-in-progress	N/A	5,478,229	-	5,478,229
Total		$ 14,701,748	$ (6,339,485)	$ 8,362,263

NOTE 8. OTHER ASSETS

		FY 2012		FY 2011
With the Public				
Advances and Prepayments	$	40,220	$	45,448
Note Receivable		1,567		1,601
Bibliographic Database, Net		6,114		6,267
Other		375		4
Total	$	48,276	$	53,320

As of September 30, 2012 and 2011, there is one Note Receivable with a maturity date of July 2024 and an interest rate of 7.0 percent. The balance includes accrued interest.

The bibliographic database relates to NTIS's scientific and technical information used to prepare products and services for sale. The database is stated at capitalized costs of $67.8 million and $65.3 million, less accumulated amortization of $61.7 million and $59.0 million, at September 30, 2012 and 2011, respectively.

NOTE 9. NON-ENTITY ASSETS

The assets that are not available for use in the Department's operations are summarized below:

		FY 2012		FY 2011
Intragovernmental				
Fund Balance with Treasury	$	124,296	$	121,036
Accounts Receivable		10,496		-
Total Intragovernmental		134,792		121,036
With the Public				
Cash		1,133		756
Accounts Receivable, Net		490		2,187
Direct Loans and Loan Guarantees, Net		7,229		13,693
Other		-		1,604
Total	$	143,644	$	139,276

NOTE 10. DEBT TO TREASURY

FY 2012

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 539,302	$ 12,440	$ 551,742
Loan Guarantee Program			
FVOG Program	699	(698)	1
NTIA's Public Safety Trust Fund, and State and Local Implementation Fund	-	2,538	2,538
Total	$ 540,001	$ 14,280	$ 554,281

For the Direct Loan and Loan Guarantee programs, maturity dates range from September 2012 to September 2052, and interest rates range from 2.59 to 6.81 percent.

FY 2011

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 514,841	$ 24,461	$ 539,302
Loan Guarantee Program			
FVOG Program	3,089	(2,390)	699
Total	$ 517,930	$ 22,071	$ 540,001

NOTE 11. OTHER LIABILITIES

	FY 2012			FY 2011
	Current Portion	Non-current Portion	Total	Total
Intragovernmental				
Accrued FECA Liability	$ 27,480	$ 8,717	$ 36,197	$ 30,405
Accrued Benefits	53,117	-	53,117	47,907
Custodial Activity	490	-	490	1,769
Downward Subsidy Reestimates Payable to Treasury	10,496	-	10,496	9,135
Other	2,112	-	2,112	3,888
Total	$ 93,695	$ 8,717	$ 102,412	$ 93,104
With the Public				
ITA Foreign Service Nationals' Voluntary Separation Pay	$ 2,674	$ 9,071	$ 11,745	$ 12,393
Contingent Liabilities (Note 16)	502	-	502	3,402
Employment-related	4,295	-	4,295	8,000
Other	41,190	-	41,190	49,358
Total	$ 48,661	$ 9,071	$ 57,732	$ 73,153

The Current Portion represents liabilities expected to be paid by September 30, 2013, while the Non-current Portion represents liabilities expected to be paid after September 30, 2013.

NOTE 12. FEDERAL EMPLOYEE BENEFITS

These liabilities consist of:

	FY 2012	FY 2011
Actuarial FECA Liability	$ 228,211	$ 235,982
NOAA Corps Retirement System Liability	577,900	524,100
NOAA Corps Post-retirement Health Benefits Liability	45,100	48,400
Total	$ 851,211	$ 808,482

Actuarial FECA Liability:

Actuarial FECA liability is calculated annually, as of September 30. For discounting projected annual future benefit payments to present value, the interest rate assumptions used by DOL were as follows:

	FY 2012	FY 2011
Year 1	2.29%	3.54%
Year 2 and Thereafter	3.14%	4.03%

The wage inflation factors (Cost of Living Allowance) and medical inflation factors (Consumer Price Index - Medical) applied to the calculation of projected future benefits, and also used to adjust the methodology's historical payments to current year constant dollars, were as follows:

FY 2012

Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2013	2.83 %	3.65 %
2014	2.03 %	3.66 %
2015	1.93 %	3.72 %
2016	2.00 %	3.73 %
2017	2.03 %	3.80 %

FY 2011

Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2012	2.10 %	3.07 %
2013	2.53 %	3.62 %
2014	1.83 %	3.66 %
2015	1.93 %	3.73 %
2016	2.00 %	3.73 %

NOAA Corps Retirement System Liability:

This liability represents the unfunded actuarial present value of projected plan benefits. The actuarial calculation is performed annually, as of September 30. The September 30, 2012 and 2011 actuarial calculations used the following economic assumptions:

	FY 2012	FY 2011
Discount Rate	4.43%	4.73%
Annual Basic Pay Scale Increases	2.96%	3.15%
Annual Inflation	2.46%	2.40%

Schedule for Reconciling NOAA Corps Retirement System Liability:

A reconciliation of the NOAA Corps Retirement System Liability from the beginning balance to the ending balance, including the components of the related pension costs included in the *Consolidated Statements of Net Costs*, follows:

	FY 2012	FY 2011
Beginning Balance - NOAA Corps Retirement System Liability	$ 524,100	$ 502,800
Add Pension Costs:		
Normal Cost	10,600	9,800
Interest on the Unfunded Liability	24,300	24,100
Actuarial (Gains)/Losses, Net		
From Experience	3,700	(6,500)
From Discount Rate Assumption Change	24,100	11,000
From Long-term Assumption Changes		
Annual Inflation	4,600	1,500
Annual Basic Pay Scale Increases	(800)	600
Demographic	9,800	1,800
Total Pension Costs	76,300	42,300
Subtract Benefit Payments	(22,500)	(21,000)
Ending Balance - NOAA Corps Retirement System Liability	$ 577,900	$ 524,100

NOAA Corps Post-retirement Health Benefits Liability:

This liability represents the unfunded actuarial present value of projected post-retirement plan benefits. The actuarial calculation is performed annually, as of September 30. The actuarial calculations used the following economic assumptions:

	FY 2012	FY 2011
Discount Rate	4.42%	4.74%
Ultimate Medical Trend Rate	5.25%	5.65%

Schedule for Reconciling NOAA Corps Post-retirement Health Benefits Liability:

A reconciliation of the NOAA Corps Post-retirement Health Benefits Liability from the beginning balance to the ending balance, including the components of the related post-retirement health benefits costs included in the *Consolidated Statements of Net Costs*, follows:

	FY 2012	FY 2011
Beginning Balance - NOAA Corps Post-retirement Health Benefits Liability	$ 48,400	$ 56,000
Add Health Benefits Costs:		
Normal Cost	1,400	1,500
Interest on the Unfunded Liability	2,000	2,600
Actuarial (Gains)/Losses, Net		
From Experience	700	(100)
From Discount Rate Assumption Change	1,200	100
From Long-term Assumption Changes		
Medical Claims Costs	(6,300)	(9,200)
Other	200	100
Total Health Benefits Costs	(800)	(5,000)
Subtract Benefit Payments	(2,500)	(2,600)
Ending Balance - NOAA Corps Post-retirement Health Benefits Liability	$ 45,100	$ 48,400

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

	FY 2012	FY 2011
Nuclear Reactor	$ 55,036	$ 57,362
Pribilof Islands Cleanup	2,352	2,569
Other	2,557	3,446
Total	$ 59,945	$ 63,377

NOTE 14. LEASES

Capital Leases:

Assets under capital leases are as follows:

	FY 2012	FY 2011
Structures, Facilities, and Leasehold Improvements	$ 22,902	$ 23,043
Equipment	280	24
Less: Accumulated Depreciation	(19,203)	(18,274)
Net Assets Under Capital Leases	$ 3,979	$ 4,793

Capital Lease Liabilities are primarily related to NOAA. NOAA has real property capital leases covering both land and buildings. The majority of these leases are for weather forecasting offices, but the leases are also for radar system sites, river forecasting centers, and National Weather Service enforcement centers. NOAA's real property capital leases range from 10 to 40 years.

Capital Lease Liabilities:

Future payments due under capital leases are as follows:

FY 2012			
	General PP&E Category		
Fiscal Year	Real Property	Personal Property	Total
2013	$ 3,674	$ 95	$ 3,769
2014	2,985	-	2,985
2015	1,870	-	1,870
2016	874	-	874
2017	809	-	809
Thereafter	9,141	-	9,141
Total Future Lease Payments	19,353	95	19,448
Less: Imputed Interest	(7,932)	(6)	(7,938)
Less: Executory Costs	(3,127)	(6)	(3,133)
Net Capital Lease Liabilities	$ 8,294	$ 83	$ 8,377

FY 2011

Fiscal Year	General PP&E Category Real Property
2012	$ 3,877
2013	3,723
2014	3,041
2015	1,903
2016	873
Thereafter	9,929
Total Future Lease Payments	23,346
Less: Imputed Interest	(9,303)
Less: Executory Costs	(3,975)
Net Capital Lease Liabilities	$ 10,068

Operating Leases:

Most of the Department's facilities are rented from GSA, which generally charges rent that is intended to approximate commercial rental rates. For federally owned property rented from GSA, the Department generally does not execute an agreement with GSA; the Department, however, is normally required to give 120 to 180 days notice to vacate. For non-federally owned property rented from GSA, an occupancy agreement is generally executed, and the Department may normally cancel these agreements with 120 days notice.

The Department's (1) estimated real property rent payments to GSA for FY 2013 through FY 2017; and (2) future payments due under noncancellable operating leases (non-GSA real property) are as follows:

FY 2012

	General PP&E Category	
Fiscal Year	GSA Real Property	Non-GSA Real Property
2013	$ 236,732	$ 17,923
2014	236,798	13,616
2015	235,142	11,849
2016	230,824	11,192
2017	231,078	11,193
Thereafter	[1]	97,969
Total Future Lease Payments		$ 163,742

[1] *Not estimated.*

NOTE 15. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2012	FY 2011
Intragovernmental		
Accrued FECA Liability	$ 36,097	$ 30,307
Total Intragovernmental	36,097	30,307
Accrued Payroll	39,450	41,003
Accrued Annual Leave	270,955	270,561
Federal Employee Benefits	851,211	808,482
Environmental and Disposal Liabilities	59,945	63,377
Contingent Liabilities	502	3,402
Unearned Revenue	592,829	667,775
ITA Foreign Service Nationals' Voluntary Separation Pay	11,745	12,393
Other	3	89
Total	$ 1,862,737	$ 1,897,389

Due to USPTO's funding structure, budgetary resources do not cover a portion of its Unearned Revenue. The Unearned Revenue reported above is the portion of USPTO's Unearned Revenue that is considered not covered by budgetary resources. USPTO's Unearned Revenue is a liability for revenue received before the patent or trademark work has been completed. Budgetary resources derived from the current reporting period's revenue have been partially used to cover the current reporting period's costs associated with unearned revenue from a prior reporting period. In addition, the current patent fee structure sets low initial application fees that are followed by income from maintenance fees as a supplement in later years to cover the full cost of the patent examination and issuance processes. The combination of these funding circumstances requires USPTO to obtain additional budgetary resources to cover its liability for unearned revenue.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Commitments:

The Department has entered into long-term contracts for the purchase, construction, and modernization of environmental satellites and weather measuring and monitoring systems. A summary of major long-term commitments as of September 30, 2012 is shown below.

Major Long-term Commitments:

			FY 2012				
Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Thereafter	Total
Geostationary Operational Environmental Satellites	$ 831,900	$ 977,700	$ 874,600	$ 810,700	$ 731,300	$ 3,432,400	$ 7,658,600
Convergence Satellites	916,400	916,000	958,600	943,600	921,100	3,889,900	8,545,600
Polar Operational Environmental Satellites	32,200	29,400	32,200	28,100	5,700	-	127,600
Ocean Surface Topography	30,000	37,000	9,000	6,000	6,000	11,300	99,300
Deep Space Climate Observatory	22,900	19,300	3,200	3,200	2,400	2,300	53,300
Weather Service	96,538	122,067	106,405	106,877	76,369	88,830	597,086
Total	$ 1,929,938	$ 2,101,467	$ 1,984,005	$ 1,898,477	$ 1,742,869	$ 7,424,730	$ 17,081,486

Legal Contingencies:

The Department is subject to potential liabilities in various administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of the Department's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or net costs of the Department.

Probable Likelihood of an Adverse Outcome:

The Department is subject to potential liabilities where adverse outcomes are probable, and claims are approximately $502 thousand and $3.4 million as of September 30, 2012 and 2011, respectively. Accordingly, these contingent liabilities were included in Other Liabilities on the *Consolidated Balance Sheets* as of September 30, 2012 and 2011, respectively. For a majority of these claims, any amounts ultimately due will be paid out of Treasury's Judgment Fund. For the claims to be paid by Treasury's Judgment Fund, once the claims are settled or court judgments are assessed relative to the Department, the liability will be removed and an Imputed Financing Source From Cost Absorbed by Others will be recognized.

Reasonably Possible Likelihood of an Adverse Outcome:

The Department and other federal agencies are subject to potential liabilities for a variety of environmental cleanup costs, many of which are associated with the Second World War, at various sites within the U.S. Since some of the potential liabilities represent claims with no stated amount, the exact amount of total potential liabilities is unknown, but may exceed $234.5 million as of September 30, 2012. For these potential liabilities, it is reasonably possible that an adverse outcome will result. It is not possible, however, to speculate as to a range of loss. In the absence of a settlement agreement, decree, or judgment, there is neither an allocation of response costs between the U.S. government and other potentially responsible parties, nor is there an attribution of such costs to or among the federal agencies implicated in the claims. Although the Department has been implicated as a responsible party, the U.S. Department of Justice was unable to provide an amount for these potential liabilities that is attributable to the Department. Of these potential liabilities, all will be funded by Treasury's Judgment Fund, if any amounts are ultimately due.

The Department and other federal agencies are subject to other potential liabilities. Since some of the potential liabilities represent claims with no stated amount, the exact amount of total potential liabilities is unknown, but may exceed $450.6 million as of September 30, 2012. For these potential liabilities, it is reasonably possible that an adverse outcome will result. It is not possible, however, to speculate as to a range of loss. Of these potential liabilities, most will be funded by Treasury's Judgment Fund, if any amounts are ultimately due.

Guaranteed Loan Contingencies

Fishing Vessels Obligation Guarantee Program: This loan guarantee program has outstanding non-acquired guaranteed loans (fully guaranteed by the Department) as of September 30, 2012 and 2011, with outstanding principal balances totaling $1.6 million and $2.5 million, respectively. A loan guarantee liability of $518 thousand and $563 thousand is recorded for the outstanding guarantees at September 30, 2012 and 2011, respectively.

Restructuring the National Polar-orbiting Operational Environmental Satellite System (NPOESS) to the Joint Polar Satellite System (JPSS)

In 2010, the Executive Office of the President (EOP) directed the restructure of the government's approach to meeting its polar-orbiting environmental data collection needs, to put the critical program on a more sustainable path towards success and announced NOAA and the Air Force will cease the joint procurement of NPOESS.

NOAA, with the National Aeronautics and Space Administration (NASA) as its acquisition agent, is responsible for JPSS, which will fly in the afternoon orbit. DoD is responsible for the early morning orbit, and will continue to provide observations in the mid-morning. The agencies will continue to partner in those areas that have been successful in the past, such as sharing a common ground system NOAA and NASA will continue to partner to ensure a successful way forward for the respective programs, while utilizing international partnerships to sustain and enhance weather and climate observation from space.

The restructuring effort primarily occured in FY 2011. During this time, NOAA and the Air Force continued to work together to decide which program components will transfer to NOAA to become part of JPSS. During FY 2011, the following equipment and instruments were transferred to NOAA under the NASA/NOAA Memorandum of Understanding and NASA contracts: 1) Ground Systems equipment; 2) Ozone Mapping and Profiler Suite (OMPS-Nadir); 3) Cross-track Infrared Sounder (CrIS); and 4) Visible Infrared Imaging Radiometer Suite (VIIRS) Flight Model 2 (F2) for JPSS-1. Advanced Technology Microwave Sounder (ATMS) was transferred to NOAA. The material for VIIRS F3 and the Charlie 1 (C1) bus remained under the Air Force contract.

NOAA/NASA will develop the JPSS-1 spacecraft based on the design used for the NPOESS Preparatory Project (NPP) satellite, and NOAA is planning a request for proposal to compete contract construction for the spacecraft for JPSS-2 in 2014. The NPP satellite was successfully launched on October 28, 2011, and was renamed Suomi National Polar-orbiting Partnership, or Suomi NPP.

Since the Air Force terminated the original development contract under the NPOESS program, administrative and termination activities have continued. As a result of additional analysis into the detailed NPOESS costs incurred by NOAA, including per–instrument analysis, NOAA recorded additional impairment costs totaling $98.3 million in FY 2012.

NOTE 17. CONSOLIDATED STATEMENTS OF NET COST (NOTE 1)

FY 2012 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	NIST	NTIA	Others	Departmental Management	Combining Total	Intra-Departmental Eliminations	Consolidating Total
Theme 1: Economic Growth										
Intragovernmental Gross Costs	$ -	$ 483,396	$ -	$ 125,745	$ 345,827	$ 272,589	$ 79,800	$ 1,307,357	$ (95,034)	$ 1,212,323
Gross Costs With the Public	-	1,837,551	-	972,610	1,674,127	807,458	26,966	5,318,712	-	5,318,712
Total Gross Costs	-	2,320,947	-	1,098,355	2,019,954	1,080,047	106,766	6,626,069	(95,034)	6,531,035
Intragovernmental Earned Revenue	-	(7,823)	-	(118,029)	(26,001)	(18,635)	(71,877)	$ (242,365)	95,034	(147,331)
Earned Revenue From the Public	-	(2,419,259)	-	(51,128)	(11)	(11,217)	(6)	(2,481,621)	-	(2,481,621)
Total Earned Revenue	-	(2,427,082)	-	(169,157)	(26,012)	(29,852)	(71,883)	(2,723,986)	95,034	(2,628,952)
Net Program Costs	**-**	**(106,135)**	**-**	**929,198**	**1,993,942**	**1,050,195**	**34,883**	**3,902,083**	**-**	**3,902,083**
Theme 2: Science and Information										
Intragovernmental Gross Costs	503,442	-	430,834	-	9,267	7,549	79,800	1,030,892	(87,433)	943,459
Gross Costs With the Public	1,971,193	-	1,142,989	-	13,120	58,505	26,966	3,212,773	-	3,212,773
Total Gross Costs	2,474,635	-	1,573,823	-	22,387	66,054	106,766	4,243,665	(87,433)	4,156,232
Intragovernmental Earned Revenue	(121,911)	-	(311,753)	-	(15,641)	(57,841)	(71,877)	(579,023)	87,433	(491,590)
Earned Revenue From the Public	(13,415)	-	(4,863)	-	(215)	(10,480)	(6)	(28,979)	-	(28,979)
Total Earned Revenue	(135,326)	-	(316,616)	-	(15,856)	(68,321)	(71,883)	(608,002)	87,433	(520,569)
Net Program Costs	**2,339,309**	**-**	**1,257,207**	**-**	**6,531**	**(2,267)**	**34,883**	**3,635,663**	**-**	**3,635,663**
Theme 3: Environmental Stewardship										
Intragovernmental Gross Costs	336,681	-	-	-	-	-	79,823	416,504	(89,071)	327,433
Gross Costs With the Public	1,976,631	-	-	-	-	-	26,974	2,003,605	-	2,003,605
Total Gross Costs	2,313,312	-	-	-	-	-	106,797	2,420,109	(89,071)	2,331,038
Intragovernmental Earned Revenue	(106,167)	-	-	-	-	-	(71,898)	(178,065)	89,071	(88,994)
Earned Revenue From the Public	(97,763)	-	-	-	-	-	(6)	(97,769)	-	(97,769)
Total Earned Revenue	(203,930)	-	-	-	-	-	(71,904)	(275,834)	89,071	(186,763)
Net Program Costs	**2,109,382**	**-**	**-**	**-**	**-**	**-**	**34,893**	**2,144,275**	**-**	**2,144,275**
NET COST OF OPERATIONS	**$ 4,448,691**	**$ (106,135)**	**$ 1,257,207**	**$ 929,198**	**$ 2,000,473**	**$ 1,047,928**	**$ 104,659**	**$ 9,682,021**	**$ -**	**$ 9,682,021**

FY 2011 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	NIST	NTIA	Others	Departmental Management	Combining Total	Intra-Departmental Eliminations	Consolidating Total
Theme 1: Economic Growth										
Intragovernmental Gross Costs	$ -	$ 456,141	$ -	$ 143,462	$ 312,972	$ 271,871	$ 82,225	$ 1,266,671	$ (101,299)	$ 1,165,372
Gross Costs With the Public	-	1,691,956	-	994,864	713,608	718,578	31,142	4,150,148	-	4,150,148
Total Gross Costs	-	2,148,097	-	1,138,326	1,026,580	990,449	113,367	5,416,819	(101,299)	5,315,520
Intragovernmental Earned Revenue	-	(8,060)	-	(122,955)	(24,757)	(21,177)	(77,851)	(254,800)	101,299	(153,501)
Earned Revenue From the Public	-	(2,228,314)	-	(53,618)	(7)	(14,720)	(3)	(2,296,662)	-	(2,296,662)
Total Earned Revenue	-	(2,236,374)	-	(176,573)	(24,764)	(35,897)	(77,854)	(2,551,462)	101,299	(2,450,163)
Net Program Costs	**-**	**(88,277)**	**-**	**961,753**	**1,001,816**	**954,552**	**35,513**	**2,865,357**	**-**	**2,865,357**
Theme 2: Science and Information										
Intragovernmental Gross Costs	523,874	-	466,185	-	8,067	7,811	82,224	1,088,161	(96,834)	991,327
Gross Costs With the Public	1,876,549	-	1,477,867	-	15,376	44,163	31,142	3,445,097	-	3,445,097
Total Gross Costs	2,400,423	-	1,944,052	-	23,443	51,974	113,366	4,533,258	(96,834)	4,436,424
Intragovernmental Earned Revenue	(121,539)	-	(287,288)	-	(17,480)	(41,846)	(77,851)	(546,004)	96,834	(449,170)
Earned Revenue From the Public	(10,396)	-	(10,855)	-	(137)	(10,501)	(3)	(31,892)	-	(31,892)
Total Earned Revenue	(131,935)	-	(298,143)	-	(17,617)	(52,347)	(77,854)	(577,896)	96,834	(481,062)
Net Program Costs	**2,268,488**	**-**	**1,645,909**	**-**	**5,826**	**(373)**	**35,512**	**3,955,362**	**-**	**3,955,362**
Theme 3: Environmental Stewardship										
Intragovernmental Gross Costs	311,824	-	-	-	-	-	82,249	394,073	(100,998)	293,075
Gross Costs With the Public	2,343,684	-	-	-	-	-	31,151	2,374,835	-	2,374,835
Total Gross Costs	2,655,508	-	-	-	-	-	113,400	2,768,908	(100,998)	2,667,910
Intragovernmental Earned Revenue	(95,827)	-	-	-	-	-	(77,874)	(173,701)	100,998	(72,703)
Earned Revenue From the Public	(182,123)	-	-	-	-	-	(3)	(182,126)	-	(182,126)
Total Earned Revenue	(277,950)	-	-	-	-	-	(77,877)	(355,827)	100,998	(254,829)
Net Program Costs	**2,377,558**	**-**	**-**	**-**	**-**	**-**	**35,523**	**2,413,081**	**-**	**2,413,081**
NET COST OF OPERATIONS	**$ 4,646,046**	**$ (88,277)**	**$ 1,645,909**	**$ 961,753**	**$ 1,007,642**	**$ 954,179**	**$ 106,548**	**$ 9,233,800**	**$ -**	**$ 9,233,800**

Major Programs: The following tables illustrate major programs of the Department. "Other Programs" refers to the other programs within each theme. The "Others" column refers to the Department's reporting entities that are not listed. The Others column data and the Other Programs data are presented solely to reconcile these tables to the Combining Total columns on the *Consolidating Statements of Net Cost.*

FY 2012 Statement of Net Cost by Major Program (Combining Basis):

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Total
Theme 1: Economic Growth						
Measurements and Standards Laboratories						
Gross Costs	$ -	$ -	$ 811,695	$ -	$ -	$ 811,695
Less: Earned Revenue	-	-	(125,094)	-	-	(125,094)
Net Program Costs	**-**	**-**	**686,601**	**-**	**-**	**686,601**
Patents						
Gross Costs	-	-	-	2,079,357	-	2,079,357
Less: Earned Revenue	-	-	-	(2,180,532)	-	(2,180,532)
Net Program Costs	**-**	**-**	**-**	**(101,175)**	**-**	**(101,175)**
Trademarks						
Gross Costs	-	-	-	201,307	-	201,307
Less: Earned Revenue	-	-	-	(246,550)	-	(246,550)
Net Program Costs	**-**	**-**	**-**	**(45,243)**	**-**	**(45,243)**
Other Programs						
Gross Costs	-	-	286,660	40,283	3,206,767	3,533,710
Less: Earned Revenue	-	-	(44,063)	-	(127,747)	(171,810)
Net Program Costs	**-**	**-**	**242,597**	**40,283**	**3,079,020**	**3,361,900**
Net Program Costs for Theme 1	**-**	**-**	**929,198**	**(106,135)**	**3,079,020**	**3,902,083**
Theme 2: Science and Information						
Decennial and Periodic Censuses						
Gross Costs	-	325,354	-	-	-	325,354
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**325,354**	**-**	**-**	**-**	**325,354**
Weather, Water, and Climate						
Gross Costs	1,186,688	-	-	-	-	1,186,688
Less: Earned Revenue	(67,816)	-	-	-	-	(67,816)
Net Program Costs	**1,118,872**	**-**	**-**	**-**	**-**	**1,118,872**
Other Programs						
Gross Costs	1,287,947	1,134,931	-	-	308,745	2,731,623
Less: Earned Revenue	(67,510)	(311,497)	-	-	(161,179)	(540,186)
Net Program Costs	**1,220,437**	**823,434**	**-**	**-**	**147,566**	**2,191,437**
Net Program Costs for Theme 2	**2,339,309**	**1,148,788**	**-**	**-**	**147,566**	**3,635,663**
Theme 3: Environmental Stewardship						
Sustainable Fisheries						
Gross Costs	1,262,385	-	-	-	-	1,262,385
Less: Earned Revenue	(126,357)	-	-	-	-	(126,357)
Net Program Costs	**1,136,028**	**-**	**-**	**-**	**-**	**1,136,028**
Other Programs						
Gross Costs	1,050,927	-	-	-	106,797	1,157,724
Less: Earned Revenue	(77,573)	-	-	-	(71,904)	(149,477)
Net Program Costs	**973,354**	**-**	**-**	**-**	**34,893**	**1,008,247**
Net Program Costs for Theme 3	**2,109,382**		**-**	**-**	**34,893**	**2,144,275**
NET COST OF OPERATIONS	**$ 4,448,691**	**$ 1,148,788**	**$ 929,198**	**$ (106,135)**	**$ 3,261,479**	**$ 9,682,021**

FY 2011 Statement of Net Cost by Major Program (Combining Basis):

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Total
Theme 1: Economic Growth						
Measurements and Standards Laboratories						
Gross Costs	$ -	$ -	$ 845,241	$ -	$ -	$ 845,241
Less: Earned Revenue	-	-	(131,317)	-	-	(131,317)
Net Program Costs	**-**	**-**	**713,924**	**-**	**-**	**713,924**
Patents						
Gross Costs	-	-	-	1,913,354	-	1,913,354
Less: Earned Revenue	-	-	-	(2,005,269)	-	(2,005,269)
Net Program Costs	**-**	**-**	**-**	**(91,915)**	**-**	**(91,915)**
Trademarks						
Gross Costs	-	-	-	191,760	-	191,760
Less: Earned Revenue	-	-	-	(231,105)		(231,105)
Net Program Costs	**-**	**-**	**-**	**(39,345)**	**-**	**(39,345)**
Other Programs						
Gross Costs	-	-	293,085	42,983	2,130,396	2,466,464
Less: Earned Revenue	-	-	(45,256)	-	(138,515)	(183,771)
Net Program Costs	**-**	**-**	**247,829**	**42,983**	**1,991,881**	**2,282,693**
Net Program Costs for Theme 1	**-**	**-**	**961,753**	**(88,277)**	**1,991,881**	**2,865,357**
Theme 2: Science and Information						
Decennial and Periodic Censuses						
Gross Costs	-	656,684	-	-	-	656,684
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**656,684**	**-**	**-**	**-**	**656,684**
Weather, Water, and Climate						
Gross Costs	1,457,847	-	-	-	-	1,457,847
Less: Earned Revenue	(76,349)	-	-	-	-	(76,349)
Net Program Costs	**1,381,498**	**-**	**-**	**-**	**-**	**1,381,498**
Other Programs						
Gross Costs	942,576	1,177,607	-	-	298,544	2,418,727
Less: Earned Revenue	(55,586)	(292,298)	-	-	(153,663)	(501,547)
Net Program Costs	**886,990**	**885,309**	**-**	**-**	**144,881**	**1,917,180**
Net Program Costs for Theme 2	**2,268,488**	**1,541,993**	**-**	**-**	**144,881**	**3,955,362**
Theme 3: Environmental Stewardship						
Sustainable Fisheries						
Gross Costs	1,410,297	-	-	-	-	1,410,297
Less: Earned Revenue	(87,112)	-	-	-	-	(87,112)
Net Program Costs	**1,323,185**	**-**	**-**	**-**	**-**	**1,323,185**
Other Programs						
Gross Costs	1,245,211	-	-	-	113,400	1,358,611
Less: Earned Revenue	(190,838)	-	-	-	(77,877)	(268,715)
Net Program Costs	**1,054,373**	**-**	**-**	**-**	**35,523**	**1,089,896**
Net Program Costs for Theme 3	**2,377,558**		**-**	**-**	**35,523**	**2,413,081**
NET COST OF OPERATIONS	**$ 4,646,046**	**$ 1,541,993**	**$ 961,753**	**$ (88,277)**	**$ 2,172,285**	**$ 9,233,800**

NOTE 18. COMBINED STATEMENTS OF BUDGETARY RESOURCES

The *Combined Statement of Budgetary Resources* (SBR) for FY 2012 is presented in a new format required by OMB's Revised Circular No. A-136, *Financial Reporting Requirements*. The FY 2011 SBR presentation has been restated to conform to the FY 2012 SBR presentation.

The amount of Budget Authority, *Appropriations*, on the SBR reconciles to the amount of Budgetary Financing Sources, *Appropriations Received*, reported on the *Consolidated Statements of Changes in Net Position* (SCNP), as follows:

	FY 2012	FY 2011
Budget Authority, Appropriations (SBR)	$ 8,035,812	$ 5,939,022
Negative Appropriations for Temporarily Precluded From Obligation on SBR; $0 on SCNP	4,302	2
Negative Appropriations for Permanent Reductions on SBR; $0 on SCNP as Classified as Rescissions	5,450	1,857,998
Appropriations Transfers In/Out, Net on SBR; $0 on SCNP as Classified as Transfers	(124,628)	(103,046)
Appropriated Receipts for NOAA and DM/G&B on SBR; $0 on SCNP as Classified as Exchange Revenue	(36,678)	(24,624)
Budgetary Financing Sources, Appropriations Received (SCNP)	$ 7,884,258	$ 7,669,352

Total borrowing authority available for NOAA's loan programs amounted to $129.6 million and $144.7 million at September 30, 2012 and 2011, respectively. The Borrowing Authority amounts reported in the SBR Budgetary Resources section represent only borrowing authority realized during the fiscal year being reported. See Note 1M, *Debt to Treasury*, for debt repayment requirements, financing sources for repayments, and other terms of borrowing authority used.

Ninety five percent of the Department's reporting entities have one or more permanent no-year appropriations to finance operations.

Reductions to the Department's budgetary resources under Public Law 112-55 amounted to $23.6 million for FY 2012, while reductions for FY 2011 under Public Laws 112-6 and 112-10 amounted to $1.86 billion. These reductions are included in the SBR Budgetary Resources section. These reductions are also reported on the Rescissions lines of the SCNP.

Legal arrangements affecting the Department's use of Unobligated Balances of Budget Authority and/or Fund Balance with Treasury during FY 2012 and FY 2011 include the following:

- The Department's Deposit Funds, reported in Note 2, *Fund Balance with Treasury*, are not available to finance operating activities. These funds are also included in Note 2 on the line Non-budgetary (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2012 and 2011 includes $790.1 million of USPTO offsetting collections exceeding the current year and prior years' appropriations. USPTO may use these funds only as authorized by the U.S. Congress, and only as made available by the issuance of a Treasury warrant. These funds are included in Note 2 on the lines *General Funds* (breakdown by type), and *Temporarily Precluded From Obligation* (breakdown by status).

- The Omnibus Budget Reconciliation Act of 1990 established surcharges on certain statutory patent fees collected by USPTO. Subsequent legislation extended the surcharges through the end of FY 1998. These surcharges were deposited into the Patent and Trademark Surcharge Fund, a Special Fund Receipt Account at Treasury. USPTO may use monies from this account only as authorized by Congress and made available by the issuance of a Treasury warrant. At September 30, 2012 and 2011, $233.5 million is held in the Patent and Trademark Surcharge Fund. These funds are included in Note 2 on the lines *Patent and Trademark Surcharge Fund* - Special Funds section (breakdown by type), and *Non-budgetary* (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2012 and 2011 includes funds temporarily precluded from obligation for the *Digital Television and Transition Public Safety Fund* of $8.74 billion. These funds are included in Note 2 on the lines *Digital Television and Transition Public Safety Fund* - Special Funds section (breakdown by type), and *Unobligated Balance - Unavailable* (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2012 and 2011 includes $17.8 million of funds temporarily not available for the Coastal Zone Management Fund, which accounts for the Coastal Energy Impact Program direct loans. These funds are included in Note 2 on the lines *Revolving Funds* (breakdown by type), and *Temporarily Precluded From Obligation* (breakdown by status).
- For loan programs prior to the Federal Credit Reform Act of 1990 (pre-FY 1992 loans), most or all liquidating fund unobligated balances in excess of working capital needs are required to be transferred to Treasury as soon as practicable during the following fiscal year.
- For direct loan programs under the Federal Credit Reform Act of 1990 (post-FY 1991 loans) that have outstanding debt to Treasury, regulations require that most unobligated balances be returned to Treasury on September 30, or require that the borrowing authority be cancelled on September 30.
- For loan guarantee programs under the Federal Credit Reform Act of 1990 that have outstanding debt to Treasury, regulations require that unobligated balances in excess of the outstanding guaranteed loans' principal and interest be returned to Treasury on September 30.

There are no material differences between the amounts reported in the FY 2011 and FY 2010 *Combined Statements of Budgetary Resources* and the actual FY 2011 and FY 2010 amounts reported in the FY 2013 and FY 2012 budgets of the U.S. government, respectively. The President's Budget that will report actual amounts for FY 2012 has not yet been published.

Apportionment Categories of Obligations Incurred:

The amounts of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from Apportionment are as follows:

	FY 2012		
	Direct	Reimbursable	Total
Category A	$ 2,878,116	$ 2,818,764	$ 5,696,880
Category B	5,397,788	968,668	6,366,456
Exempt from Apportionment	174,761	-	174,761
Total	$ 8,450,665	$ 3,787,432	$ 12,238,097

	FY 2011		
	Direct	Reimbursable	Total
Category A	$ 3,146,550	$ 2,837,935	$ 5,984,485
Category B	5,195,930	965	5,196,895
Exempt from Apportionment	169,083	1,053,370	1,222,453
Total	$ 8,511,563	$ 3,892,270	$ 12,403,833

Category A apportionments distribute budgetary resources by fiscal quarters, whereas Category B apportionments typically distribute budgetary resources by activities, projects, objects, or a combination of these categories.

Undelivered Orders:

Undelivered orders were $7.35 billion and $10.44 billion at September 30, 2012 and 2011, respectively.

Digital Television Transition and Public Safety Fund:

The Digital Television Transition and Public Safety Fund (Fund) was created by the Digital Television Transition and Public Safety Act of 2005. This NTIA fund received proceeds from the auction of licenses for recovered analog spectrum from discontinued analog television signals, and provides funding for several programs from these receipts.

The Federal Communications Commission (FCC) completed the auction of licenses for recovered analog spectrum in March 2008. The auction resulted in proceeds of $18.96 billion, which were deposited to the Fund by FCC on June 30, 2008.

As of September 30, 2012, payments for the programs under the Fund may not exceed $2.81 billion. In September 2009, the Fund transferred $7.36 billion to the General Fund of the Treasury. The Department understands that Congress' intent is for the Fund to further transfer funds beyond the needs of its programs to the General Fund of the Treasury. At September 30, 2012, the Fund has a Net Position, Cumulative Results of Operations balance of $8.91 billion.

Below is a brief summary of the two largest active programs under this Fund, and significant financial activity recorded for the FY 2012 and FY 2011 SBR under this Fund for each program:

Public Safety Interoperable Communications (PSIC): This is a grant program to assist public safety agencies in the acquisition of, deployment of, or training for the use of interoperable communications systems that can utilize reallocated public safety spectrum for radio communication. The Fund may make payments not to exceed $998.0 million for this program. The Department has in place a Memorandum of Understanding with the Federal Emergency Management Agency (FEMA), in which FEMA administers the PSIC grant program. NTIA provides FEMA with funds for the grants under the program, and for the charges for FEMA's management and administrative services. NTIA records budgetary obligations with FEMA, while FEMA records the grants activity under the program. Budgetary obligations for FY 2012 and FY 2011 under the PSIC program amounted to $495 thousand and $2.6 million, respectively. Budgetary obligations through September 30, 2010 under the PSIC program amounted to $995.8 million.

National Alert and Tsunami Warning Program: This program is to implement a unified national alert system capable of alerting the public, on a national, regional, or local basis to emergency situations by using a variety of communications technologies. The Fund may make payments not exceeding $151.7 million for this program. The Department shall use $50.0 million of such amounts to implement a tsunami warning and coastal vulnerability program. Budgetary obligations for FY 2012 and FY 2011 amounted to $237 thousand and $47.6 million, respectively.

NOTE 19. CUSTODIAL NONEXCHANGE ACTIVITY

NOAA receives interest, penalties, and fines primarily related to its past due Accounts Receivable, while BIS receives civil monetary penalties from private entities that violate the Export Administration Act. These collections are required to be transferred to Treasury. For FY 2012, the Department had custodial nonexchange revenue of $8.8 million; custodial nonexchange revenue of $490 thousand was payable to Treasury at September 30, 2012. For FY 2011, the Department had custodial nonexchange revenue of $6.7 million; custodial nonexchange revenue of $1.8 million was payable to Treasury at September 30, 2011.

NOTE 20. FIDUCIARY ACTIVITIES

Schedule of Fiduciary Activities for the Year Ended September 30, 2012

	FY 2012		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fiduciary Net Assets, Beginning Balance	$ 12,864	$ 338	$ 13,202
Contributions	153,716	14,361	168,077
Disbursements to and on Behalf of Beneficiaries	(153,960)	(14,299)	(168,259)
Increase/(Decrease) in Fiduciary Net Assets	(244)	62	(182)
Fiduciary Net Assets, Ending Balance	$ 12,620	$ 400	$ 13,020

Fiduciary Net Assets as of September 30, 2012

	FY 2012		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fund Balance with Treasury	$ 12,620	$ 400	$ 13,020

Schedule of Fiduciary Activities for the Year Ended September 30, 2011

	FY 2011		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fiduciary Net Assets, Beginning Balance	$ 9,452	$ 576	$ 10,028
Contributions	131,755	14,551	146,306
Disbursements to and on Behalf of Beneficiaries	(128,343)	(14,789)	(143,132)
Increase/(Decrease) in Fiduciary Net Assets	3,412	(238)	3,174
Fiduciary Net Assets, Ending Balance	$ 12,864	$ 338	$ 13,202

Fiduciary Net Assets as of September 30, 2011

	FY 2011		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fund Balance with Treasury	$ 12,864	$ 338	$ 13,202

NOTE 21. EARMARKED FUNDS

The following tables depict major earmarked funds separately chosen based on their significant financial activity and importance to taxpayers. All other earmarked funds not shown are aggregated as "Other Earmarked Funds."

United States Department of Commerce Consolidated Balance Sheet
As of September 30, 2012

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Broadband Technology Opportunities Program - Recovery Act	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	NTIS Revolving Fund	Coastal Zone Management Fund	Other Earmarked Funds	Total Earmarked Funds
ASSETS									
Fund Balance with Treasury	$ 1,606,244	$ 8,842,490	$ 1,712,621	$ 229,485	$ 36,197	$ 27,262	$ 250	$ 40,769	$ 12,495,318
Cash	3,330	-	-	-	-	-	-	-	3,330
Accounts Receivable, Net	751	-	-	1,468	-	6,024	-	182	8,425
Direct Loans and Loan Guarantees, Net	-	-	-	-	-	-	5,784	-	5,784
Inventory, Materials, and Supplies, Net	-	-	-	-	-	120	-	-	120
General Property, Plant, and Equipment, Net	236,979	-	-	-	-	1,899	-	-	238,878
Other	13,106	74,523	2,658	1	42	6,701	-	43	97,074
TOTAL ASSETS	**$ 1,860,410**	**$ 8,917,013**	**$ 1,715,279**	**$ 230,954**	**$ 36,239**	**$ 42,006**	**$ 6,034**	**$ 40,994**	**$ 12,848,929**
LIABILITIES									
Accounts Payable	$ 75,186	$ 1,346	$ -	$ 17,278	$ -	$ 11,244	$ -	$ 200	$ 105,254
Debt to Treasury	-	-	-	-	-	-	-	2,538	2,538
Federal Employee Benefits	8,209	-	-	-	-	844	-	-	9,053
Other									
Accrued Payroll and Annual Leave	200,395	10	-	379	-	1,492	-	243	202,519
Accrued Grants	-	7,093	61,449	586	1,172	-	-	864	71,164
Unearned Revenue	830,954	-	-	-	-	8,071	-	-	839,025
Other	18,792	-	1	115	-	236	-	422	19,566
TOTAL LIABILITIES	**$ 1,133,536**	**$ 8,449**	**$ 61,450**	**$ 18,358**	**$ 1,172**	**$ 21,887**	**$ -**	**$ 4,267**	**$ 1,249,119**
NET POSITION									
Unexpended Appropriations	$ -	$ -	$ 1,653,829	$ -	$ -	$ -	$ -	$ 6,312	$ 1,660,141
Cumulative Results of Operations	726,874	8,908,564	-	212,596	35,067	20,119	6,034	30,415	9,939,669
TOTAL NET POSITION	**$ 726,874**	**$ 8,908,564**	**$ 1,653,829**	**$ 212,596**	**$ 35,067**	**$ 20,119**	**$ 6,034**	**$ 36,727**	**$ 11,599,810**
TOTAL LIABILITIES AND NET POSITION	**$ 1,860,410**	**$ 8,917,013**	**$ 1,715,279**	**$ 230,954**	**$ 36,239**	**$ 42,006**	**$ 6,034**	**$ 40,994**	**$ 12,848,929**

United States Department of Commerce Consolidated Balance Sheet
As of September 30, 2011

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Broadband Technology Opportunities Program - Recovery Act	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	NTIS Revolving Fund	Coastal Zone Management Fund	Other Earmarked Funds	Total Earmarked Funds
ASSETS									
Fund Balance with Treasury	$ 1,526,349	$ 9,062,212	$ 3,389,425	$ 124,660	$ 36,350	$ 27,231	$ 17,848	$ 43,979	$ 14,228,054
Cash	2,364	-	-	-	-	-	-	-	2,364
Accounts Receivable, Net	433	-	-	164	-	3,180	-	193	3,970
Direct Loans and Loan Guarantees, Net	-	-	-	-	-	-	6,213	-	6,213
Inventory, Materials, and Supplies, Net	-	-	-	-	-	48	-	-	48
General Property, Plant, and Equipment, Net	206,628	-	-	-	-	1,882	-	-	208,510
Other	12,137	175,620	18,767	-	53	6,736	-	56	213,369
TOTAL ASSETS	**$ 1,747,911**	**$ 9,237,832**	**$ 3,408,192**	**$ 124,824**	**$ 36,403**	**$ 39,077**	**$ 24,061**	**$ 44,228**	**$ 14,662,528**
LIABILITIES									
Accounts Payable	$ 85,554	$ 1,557	$ -	$ 693	$ -	$ 10,839	$ -	$ 127	$ 98,770
Federal Employee Benefits	8,406	-	-	-	-	1,176	-	-	9,582
Other									
Accrued Payroll and Annual Leave	188,709	11	-	460	-	1,644	-	198	191,022
Accrued Grants	-	301	24,183	-	1,327	-	-	1,677	27,488
Unearned Revenue	845,782	-	-	-	-	8,277	-	-	854,059
Other	17,200	-	-	149	-	225	-	66	17,640
TOTAL LIABILITIES	**$ 1,145,651**	**$ 1,869**	**$ 24,183**	**$ 1,302**	**$ 1,327**	**$ 22,161**	**$ -**	**$ 2,068**	**$ 1,198,561**
NET POSITION									
Unexpended Appropriations	$ -	$ -	$ 3,384,009	$ -	$	$ -	$ -	$ 6,442	$ 3,390,451
Cumulative Results of Operations	602,260	9,235,963	-	123,522	35,076	16,916	24,061	35,718	10,073,516
TOTAL NET POSITION	**$ 602,260**	**$ 9,235,963**	**$ 3,384,009**	**$ 123,522**	**$ 35,076**	**$ 16,916**	**$ 24,061**	**$ 42,160**	**$ 13,463,967**
TOTAL LIABILITIES AND NET POSITION	**$ 1,747,911**	**$ 9,237,832**	**$ 3,408,192**	**$ 124,824**	**$ 36,403**	**$ 39,077**	**$ 24,061**	**$ 44,228**	**$ 14,662,528**

United States Department of Commerce Consolidated Statement of Net Cost
For the Year Ended September 30, 2012

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Broadband Technology Opportunities Program - Recovery Act	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	NTIS Revolving Fund	Coastal Zone Management Fund	Other Earmarked Funds	Total Earmarked Funds
Theme 1: Economic Growth									
Gross Costs	$ 2,320,947	$ 327,399	$ 1,638,553	$ -	$ -	$ -	$ -	$ 5,478	$ 4,292,377
Less: Earned Revenue	(2,427,082)	-	-	-	-	-	-	-	(2,427,082)
Net Program Costs	**(106,135)**	**327,399**	**1,638,553**	**-**	**-**	**-**	**-**	**5,478**	**1,865,295**
Theme 2: Science and Information									
Gross Costs	-	-	-	-	-	66,056	-	-	66,056
Less: Earned Revenue	-	-	-	-	-	(68,324)	-	-	(68,324)
Net Program Costs	**-**	**-**	**-**	**-**	**-**	**(2,268)**	**-**	**-**	**(2,268)**
Theme 3: Environmental Stewardship									
Gross Costs	-	-	-	127,756	9,746	-	430	14,698	152,630
Less: Earned Revenue	-	-	-	-	-	-	(251)	-	(251)
Net Program Costs	**-**	**-**	**-**	**127,756**	**9,746**	**-**	**179**	**14,698**	**152,379**
NET COST OF OPERATIONS	**$ (106,135)**	**$ 327,399**	**$ 1,638,553**	**$ 127,756**	**$ 9,746**	**$ (2,268)**	**$ 179**	**$ 20,176**	**$ 2,015,406**

United States Department of Commerce Consolidated Statement of Net Cost
For the Year Ended September 30, 2011

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Broadband Technology Opportunities Program - Recovery Act	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	NTIS Revolving Fund	Coastal Zone Management Fund	Other Earmarked Funds	Total Earmarked Funds
Theme 1: Economic Growth									
Gross Costs	$ 2,148,097	$ 297,884	$ 665,937	$ -	$ -	$ -	$ -	$ 5,050	$ 3,116,968
Less: Earned Revenue	(2,236,374)	-	-	-	-	-	-	-	(2,236,374)
Net Program Costs	**(88,277)**	**297,884**	**665,937**	**-**	**-**	**-**	**-**	**5,050**	**880,594**
Theme 2: Science and Information									
Gross Costs	-	-	-	-	-	51,976	-	-	51,976
Less: Earned Revenue	-	-	-	-	-	(52,349)	-	-	(52,349)
Net Program Costs	**-**	**-**	**-**	**-**	**-**	**(373)**	**-**	**-**	**(373)**
Theme 3: Environmental Stewardship									
Gross Costs	-	-	-	16,207	8,823	-	338	21,117	46,485
Less: Earned Revenue	-	-	-	-	-	-	(244)	-	(244)
Net Program Costs	**-**	**-**	**-**	**16,207**	**8,823**	**-**	**94**	**21,117**	**46,241**
NET COST OF OPERATIONS	**$ (88,277)**	**$ 297,884**	**$ 665,937**	**$ 16,207**	**$ 8,823**	**$ (373)**	**$ 94**	**$ 26,167**	**$ 926,462**

United States Department of Commerce Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2012

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Broadband Technology Opportunities Program - Recovery Act	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	NTIS Revolving Fund	Coastal Zone Management Fund	Other Earmarked Funds	Total Earmarked Funds
Cumulative Results of Operations:									
Beginning Balance	$ 602,260	$ 9,235,963	$ -	$ 123,522	$ 35,076	$ 16,916	$ 24,061	$ 35,718	$ 10,073,516
Budgetary Financing Sources:									
Appropriations Used	-	-	1,638,553	-	-	-	-	(95)	1,638,458
Non-exchange Revenue	-	-	-	202,772	9,736	-	-	9,986	222,494
Transfers In/(Out) Without Reimbursement, Net	(1,000)	-	-	14,058	-	-	-	5,332	18,390
Rescissions	-	-	-	-	-	-	(17,848)	(350)	(18,198)
Other Financing Sources (Non-exchange):									
Imputed Financing Sources from Cost Absorbed by Others	19,479	-	-	-	1	935	-	-	20,415
Total Financing Sources	**18,479**	**-**	**1,638,553**	**216,830**	**9,737**	**935**	**(17,848)**	**14,873**	**1,881,559**
Net Cost of Operations	**106,135**	**(327,399)**	**(1,638,553)**	**(127,756)**	**(9,746)**	**2,268**	**(179)**	**(20,176)**	**(2,015,406)**
Net Change	**124,614**	**(327,399)**	**-**	**89,074**	**(9)**	**3,203**	**(18,027)**	**(5,303)**	**(133,847)**
Cumulative Results of Operations - Ending Balance	**726,874**	**8,908,564**	**-**	**212,596**	**35,067**	**20,119**	**6,034**	**30,415**	**9,939,669**
Unexpended Appropriations:									
Beginning Balance	-	-	3,384,009	-	-	-	-	6,442	3,390,451
Budgetary Financing Sources:									
Other Adjustments	-	-	(91,627)	-	-	-	-	(225)	(91,852)
Appropriations Used	-	-	(1,638,553)	-	-	-	-	95	(1,638,458)
Total Budgetary Financing Sources	**-**	**-**	**(1,730,180)**	**-**	**-**	**-**	**-**	**(130)**	**(1,730,310)**
Unexpended Appropriations - Ending Balance	**-**	**-**	**1,653,829**	**-**	**-**	**-**	**-**	**6,312**	**1,660,141**
NET POSITION	**$ 726,874**	**$ 8,908,564**	**$ 1,653,829**	**$ 212,596**	**$ 35,067**	**$ 20,119**	**$ 6,034**	**$ 36,727**	**$ 11,599,810**

United States Department of Commerce Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2011

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Broadband Technology Opportunities Program - Recovery Act	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	NTIS Revolving Fund	Coastal Zone Management Fund	Other Earmarked Funds	Total Earmarked Funds
Cumulative Results of Operations:									
Beginning Balance	$ 492,305	$ 9,533,847	$ 49	$ 41,930	$ 34,004	$ 15,424	$ 27,156	$ 45,101	$ 10,189,816
Budgetary Financing Sources:									
Appropriations Used	-	-	665,888	-	-	-	-	(122)	665,766
Non-exchange Revenue	-	-	-	73,783	9,895	-	-	12,126	95,804
Transfers In/(Out) Without Reimbursement, Net	-	-	-	24,016	-	-	(3,001)	4,780	25,795
Other Financing Sources (Non-exchange):									
Imputed Financing Sources from Cost Absorbed by Others	21,678	-	-	-	-	1,119	-	-	22,797
Total Financing Sources	**21,678**	**-**	**665,888**	**97,799**	**9,895**	**1,119**	**(3,001)**	**16,784**	**810,162**
Net Cost of Operations	**88,277**	**(297,884)**	**(665,937)**	**(16,207)**	**(8,823)**	**373**	**(94)**	**(26,167)**	**(926,462)**
Net Change	**109,955**	**(297,884)**	**(49)**	**81,592**	**1,072**	**1,492**	**(3,095)**	**(9,383)**	**(116,300)**
Cumulative Results of Operations - Ending Balance	**602,260**	**9,235,963**	**-**	**123,522**	**35,076**	**16,916**	**24,061**	**35,718**	**10,073,516**
Unexpended Appropriations:									
Beginning Balance	-	-	4,092,999	-	-	-	-	6,320	4,099,319
Budgetary Financing Sources:									
Appropriations Received	-	-	-	-	-	-	-	-	-
Other Adjustments	-	-	(43,102)	-	-	-	-	-	(43,102)
Appropriations Used	-	-	(665,888)	-	-	-	-	122	(665,766)
Total Budgetary Financing Sources	**-**	**-**	**(708,990)**	**-**	**-**	**-**	**-**	**122**	**(708,868)**
Unexpended Appropriations - Ending Balance	**-**	**-**	**3,384,009**	**-**	**-**	**-**	**-**	**6,442**	**3,390,451**
NET POSITION	**$ 602,260**	**$ 9,235,963**	**$ 3,384,009**	**$ 123,522**	**$ 35,076**	**$ 16,916**	**$ 24,061**	**$ 42,160**	**$ 13,463,967**

Below is a description of major earmarked funds shown in the above tables.

The **USPTO Earmarked Funds** consist of its Salaries and Expenses Fund, and the Patent and Trademark Surcharge Fund.

The Salaries and Expenses Fund contains monies used for the administering of the laws relevant to patents and trademarks and advising the Secretary of Commerce, the President of the United States, and the Administration on patent, trademark, and copyright protection, and trade-related aspects of intellectual property. This fund is used for USPTO's three core business activities – granting patents; registering trademarks; and intellectual property policy, protection, and enforcement – that promote the use of intellectual property rights as a means of achieving economic prosperity. These activities give innovators, businesses, and entrepreneurs the protection and encouragement they need to turn their creative ideas into tangible products, and also provide protection for their inventions and trademarks. USPTO may use monies from this account only as authorized by Congress via appropriations.

The Patent and Trademark Surcharge Fund, a Special Fund Receipt Account at Treasury, is discussed in Note 18, *Combined Statements of Budgetary Resources*. USPTO may use monies from this account only as authorized by Congress and made available by the issuance of a Treasury warrant. As of September 30, 2012 and 2011, $233.5 million is held in this fund.

The **NTIA Digital Television Transition and Public Safety Fund** makes digital television available to every home in America, improves communications between local, state, and federal agencies, allows smaller television stations to broadcast digital television, and improves how warnings are received when disasters occur. NTIA received funding from borrowings from the Bureau of Public Debt, and repaid the Bureau of Public Debt from the proceeds of the auction of recovered analog spectrum which was completed in March 2008. The proceeds from the auction provide funding for several programs, and has been and is expected to be further used to reduce the National Deficit. The law establishing this program can be found in the Deficit Reduction Act of 2005, P.L. 109-171 Sections 3001-3014.

The **Broadband Technology Opportunities Program - Recovery Act** includes funds from the American Recovery and Reinvestment Act of 2009 (Recovery Act) that provides awards to eligible entities to develop and expand broadband services to rural and underserved areas and improve access to broadband by public safety agencies. Specifically, funds are used for innovative programs that encourage sustainable adoption of broadband services, to upgrade technology and capacity at public computing centers, including community colleges and public libraries, and for the development and maintenance of statewide broadband inventory maps.

The **Damage Assessment and Restoration Revolving Fund** receives monies for the reimbursement of expenses related to oil or hazardous substance spill response activities, or natural resource damages assessment, restoration, rehabilitation, replacement, or acquisition activities conducted by NOAA. The recovered sums by a federal, state, indian, or foreign trustee for natural resource damages is retained by the trustee and is only used to reimburse or pay costs incurred by the trustee for the damaged natural resources. The law establishing the Damage Assessment and Restoration Revolving Fund can be found in 33 USC Section 2706.

The **Environmental Improvement and Restoration Fund** makes available interest that was earned in the Fund in the previous fiscal year. 80 percent of such amounts shall be made available to be equally divided among the Directors of the National Park Service, the United States Fish and Wildlife Service, the Bureau of Land Management, and the Chief of the Forest Service for high-priority deferred maintenance and repairs and modernization of facilities that directly enhance the experience of visitors, including natural, cultural, recreational, and historic resources protection projects in National Parks, National Wildlife Refuges, and the public lands, and for payment to the State of Louisiana and its lessees for oil and gas drainage in the West Delta field. 20 percent of such amounts shall be made available to the Secretary of Commerce for the purpose of carrying out marine research activities in the North Pacific. The law establishing the Environmental Improvement and Restoration Fund can be found at 43 USC Section 147d.

The **NTIS Revolving Fund** is used to collect, process, market, and disseminate government-sponsored and foreign scientific, technical, and business information, and to assist other agencies with their information programs. Activities funded by the NTIS Revolving Fund allow customers, both public and private, access to scientific and technical information produced by and for the federal government. All receipts from the sale of products and services are deposited in this fund, and all expenses, including capital expenditures, are paid from it.

The **Coastal Zone Management Fund**, operated by NOAA, is primarily used for interstate projects, demonstration projects for improving coastal zone management, and emergency grants to state coastal zone management agencies to address unforeseen or disaster-related circumstances. The law establishing the Coastal Zone Management Fund can be found in 16 USC Section 1456a.

NOTE 22. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget reconciles the Department's *Resources Used to Finance Activities* (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of Operations. The second section, *Resources Used to Finance Items Not Part of Net Cost of Operations*, reverses out items included in the first section that are not included in Net Cost of Operations. The third section, *Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period*, adds items included in Net Cost of Operations that are not included in the first section.

The third section's subsection, Components Requiring or Generating Resources in Future Periods, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 15. This subsection does not include costs reported in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

The reconciliations of Net Cost of Operations to Budget for FY 2012 and FY 2011 are as follows:

	FY 2012	FY 2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 12,238,097	$ 12,403,833
Less: Spending Authority From Offsetting Collections and Actual Recoveries of Prior-years UnPaid Obligations	(4,607,196)	(4,400,081)
Obligations Net of Offsetting Collections and Actual Recoveries	7,630,901	8,003,752
Less: Distributed Offsetting (Receipts)/Outlays, Net	(62,667)	(33,570)
Net Obligations	7,568,234	7,970,182
Other Resources		
Donations and Forfeitures of Property	579	458
Transfers In/(Out) Without Reimbursement, Net	182,220	(4,062)
Imputed Financing Sources From Cost Absorbed by Others	297,694	347,925
Other Financing Sources/(Uses), Net	(8,483)	(8,246)
Net Other Resources Used to Finance Activities	472,010	336,075
Total Resources Used to Finance Activities	**8,040,244**	**8,306,257**

(continued on next page)

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	FY 2012	FY 2011
Resources Used to Finance Items Not Part of Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	3,088,147	1,920,989
Resources that Fund Expenses Recognized in Prior Periods	(5,718)	(12,253)
Budgetary Obligations for Downward Subsidy Reestimates Payable to Treasury	(6,375)	(8,087)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Distributed Offsetting (Receipts)/Outlays, Net (excludes Clearing Accounts' Gross Costs)	62,667	33,570
Credit Program Collections which Increase Loan Guarantee Liabilities or Allowance for Subsidy Cost	68,138	40,204
Budgetary Financing Sources/(Uses), Net	137,002	(138,801)
Resources that Finance the Acquisition of Assets	(2,231,293)	(1,743,564)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	(15,472)	82,970
Donations and Forfeitures of Property	(579)	(458)
Transfers In/(Out) Without Reimbursement, Net	(182,220)	4,062
Other Financing Sources/(Uses), Net	8,483	8,246
Other	(3,409)	(4,643)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**919,371**	**182,235**
Total Resources Used to Finance Net Cost of Operations	**8,959,615**	**8,488,492**
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Accrued Annual Leave Liability	394	5,841
Increase in Federal Employee Benefits	42,729	39,447
Increase (Decrease) in Contingent Liabilities	(2,900)	(8,753)
Reestimates of Credit Subsidy Expense	3,440	(4,921)
Other	5,545	7,391
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	49,208	39,005
Components Not Requiring or Generating Resources		
Depreciation and Amortization	551,210	687,009
NOAA Impairment of Construction-in-progress (Note 16)	98,260	-
NOAA Issuances of Materials and Supplies	21,581	30,247
Revaluation of Assets or Liabilities	20,728	(101)
Other	(18,581)	(10,852)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	673,198	706,303
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**722,406**	**745,308**
NET COST OF OPERATIONS	**$ 9,682,021**	**$ 9,233,800**

NOTE 23. STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT

This note provides information on certain resources entrusted to the Department and certain stewardship responsibilities assumed by the Department. The physical properties of Stewardship Property, Plant, and Equipment (Stewardship PP&E) resemble those of the General PP&E that is capitalized traditionally in the financial statements of federal entities. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Therefore, federal accounting standards require the disclosure of the nature and quantity of these assets. NOAA, NIST, and the Census Bureau are the only entities within the Department that have Stewardship PP&E. Additional information on Stewardship PP&E is presented in the Required Supplementary Information section.

Stewardship Marine Sanctuaries, Marine National Monuments, and Conservation Area:

NOAA maintains the following Stewardship PP&E, which are similar in nature to stewardship land:

National Marine Sanctuaries: In 1972, Congress passed the Marine Protection, Research, and Sanctuaries Act (Act) in response to a growing awareness of the intrinsic environmental and cultural value of coastal waters. The Act authorized the Secretary of Commerce to designate special nationally-significant areas of the marine environment as national marine sanctuaries. These protected waters provide a secure habitat for species close to extinction, and also protect historically significant shipwrecks and prehistoric artifacts. National marine sanctuaries are also used for recreation (e.g, boating, diving, and sport fishing), and support valuable commercial industries such as fishing and kelp harvesting. As of September 30, 2012, 13 National Marine Sanctuaries, which include both coastal and offshore areas, have been designated, covering a total area of nearly 19,000 square miles. Each individual sanctuary site (Monterey Bay, the Florida Keys, the Olympic Coast, and Channel Island are the largest four) conducts research and monitoring activities to characterize existing resources and document changes.

Papahãnaumokuãkea Marine National Monument: The majority of all coral reef habitats located in U.S. waters surround the Northwestern Hawaiian Islands (NWHI). Papahãnaumokuãkea Marine National Monument was designated by Presidential Proclamation in 2006 and overlays several previously designated protected areas and forges a co-management regime for the entire area. The overlayed protected areas comprising the monument are the NWHI Coral Reef Ecosystem Reserve (from 3 to 50 miles in federal waters from the corridor of islands of the NWHI); the National Wildlife Refuges (the islands, atolls and some federal waters; and the State of Hawaii Refuge and lands and waters. The Monument is co-managed by the Department of Commerce-NOAA with the Department of the Interior, and the state of Hawaii.

Rose Atoll Marine National Monument: On January 6, 2009, President Bush designated the Rose Atoll Marine National Monument in American Samoa. The monument includes the Rose Atoll National Wildlife Refuge. It also includes about 20 acres of land and 1,600 acres of lagoon and is one of the most pristine atolls in the world. The areas around the atoll support a dynamic reef ecosystem that is home to many land and marine species, many of which are threatened or endangered. The Department of the Interior has primary management responsibility of the atoll while NOAA has primary management responsibility for the marine areas of the monument seaward of mean low water, with respect to fishery-related activities regulated pursuant to the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1801 et seq.) and any other applicable authorities. An inter-governmental committee comprised of NOAA, Department of the Interior, and the American Samoa Government has been established to develop and coordinate management strategies. NOAA is progressing with fisheries management strategies, and has begun the process to consider incorporation of the area into the Fagatele Bay National Marine Sanctuary.

Marianas Trench Marine National Monument: On January 6, 2009, President Bush designated the Marianas Trench Marine National Monument. The Monument consists of approximately 96,000 square miles of submerged lands and waters of the Mariana Archipelago. It includes three units: the Islands Unit, the waters and submerged lands of the three northernmost Mariana Islands; the Volcanic Unit, the submerged lands within 1 nautical mile of 21 designated volcanic sites; and the Trench Unit, the submerged lands extending from the northern limit of the Exclusive Economic Zone of the United States in the Commonwealth of the Northern Mariana Islands (CNMI) to the southern limit of the Exclusive Economic Zone of the United States in the Territory of Guam. No waters are included in the Volcanic and Trench Units, and CNMI maintains all authority for managing the three islands within the Islands Unit (Farallon de Pajaros or Uracas, Maug, and Asuncion) above the mean low water line. The Department of the Interior, in consultation with NOAA, has management responsibility for the monument. With respect to fishery-regulated activities regulated pursuant to the Magnuson-Stevens Fishery Conservation and Management Act and any other applicable authorities, however, NOAA has primary management responsibility, and, when necessary, consults with the Department of the Interior. The inaugural Marianas Trench Monument Advisory Council (MTMAC) meeting took place on June 5 and 6, 2012, in Garapan, Saipan. NOAA is progressing with fisheries management strategies, and is scoping for management plan development, in cooperation with the Department of the Interior.

Pacific Remote Islands Marine National Monument: On January 6, 2009, President Bush designated the Pacific Remote Islands Marine National Monument. The Pacific Remote Islands area consists of Wake, Baker, Howland, and Jarvis Islands, Johnston Atoll, Kingman Reef, and Palmyra Atoll, which lie to the south and west of Hawaii. With the exception of Wake Island, these islands are administered as National Wildlife Refuges by the Department of the Interior. They sustain many endemic species, including corals, fish, shellfish, marine mammals, seabirds, water birds, land birds, insects, and vegetation not found elsewhere.

The Department of the Interior has responsibility for management of the Monument in consultation with NOAA, including out to 12 nautical miles from the mean low water lines of Wake, Baker, Howland, and Jarvis Islands, Johnston Atoll, Kingman Reef and Palmyra Atoll, pursuant to applicable legal authorities. NOAA is progressing with fisheries management strategies, and is scoping to develop a Monument Management Plan in cooperation with the Department of the Interior.

Aleutian Islands Habitat Conservation Area: On July 28, 2006, NOAA formally established the Aleutian Islands Habitat Conservation Area in Alaska, which covers nearly 370,000 square miles and may harbor among the highest diversity of deep-water corals in the world. The conservation area established a network of fishing closures in the Aleutian Islands and Gulf of Alaska, and protects habitat for deep water corals and other sensitive features that are slow to recover once disturbed by fishing gear or other activities. Six small areas that include fragile coral gardens discovered by NOAA Fisheries Service scientists are closed to all bottom-contact fishing gear. This effort is part of a network of new marine protected areas in Alaskan waters designed to protect essential fish habitat and prevent any further damage of the area.

Written policy statements or permit guidelines for the National Marine Sanctuaries and Monuments have been developed for the areas of acoustic impacts, artificial reefs, climate change, invasive species, and marine debris. Submarine cable policy was finalized in 2011. NOAA's Office of Marine National Sanctuaries may be updating artificial reefs policy to reflect recent information about the effects of artificial reefs on natural habitats. The Office of Marine National Sanctuaries answers the most frequently asked questions related to alternative energy and oil and gas policy decisions for national marine sanctuaries.

Heritage Assets:

Heritage assets are unique for their historical or natural significance, for their cultural, educational, or artistic importance, or for their significant architectural characteristics. The Department generally expects that these assets will be preserved indefinitely.

In cases where a heritage asset also has a practical and predominant use for general government operations, the asset is considered a multi-use heritage asset. The cost of a multi-use heritage asset is capitalized as General PP&E and is depreciated over the useful life of the asset.

NOAA has established policies for heritage assets to ensure the proper care and handling of these assets under its control or jurisdiction. The Deputy Under Secretary of NOAA established the Heritage Assets Working Committee to administer NOAA's stewardship policies and procedures. In carrying out these policies and procedures, the Working Committee:

- Maintains a nationwide inventory of heritage assets, ensuring that they are identified and recorded in the Personal Property Heritage Asset Accountability System;
- Establishes nationwide NOAA policies, procedures, and standards for the preservation, security, handling, storage, and display of NOAA heritage assets;
- Tracks and updates each loan of NOAA heritage assets, including assigning current values and inventory numbers, and reporting the current conditions of heritage assets;
- Determines the feasibility of new asset loans, such as meters, standard tide gauges, portraits, and books for exhibit loans; and
- Collects heritage assets and properties of historic, cultural, artistic, or educational significance to NOAA.

NOAA maintains the following Heritage Assets:

Galveston Laboratory: Galveston Laboratory is comprised of seven buildings that were originally part of Fort Crockett, Texas, an army coastal defense facility built shortly after 1900. These buildings are eligible for placement on the National Register. Due to their historic significance, exterior architectural features, and predominant use in government operations, the Galveston Laboratory is considered a multi-use heritage asset.

National Marine Fisheries Service (NMFS) St. George Sealing Plant: On St. George Island, in the Pribilof Islands group, Alaska, is the only remaining northern fur seal pelt processing building in the world. In 1986, the building was listed on the National Register of Historic Properties, within the Seal Islands National Historic Landmark. The Pribilof Islands commercial fur seal harvest was an extremely profitable business for the U.S. government, and, by the early 1900s, had covered the purchase price of Alaska. The building is the largest on the island, and is comprised of four distinct work areas from the seal pelt processing area. In 1950, the original wood-framed pelt processing plant was destroyed in a fire and rebuilt in 1951 with concrete walls on remnants of the original foundation. Harsh weather and a lack of maintenance funding after the expiration of the Northern Fur Seal Convention in 1985 resulted in significant deterioration of the building by the early 1990s.

In November 1999, after numerous site surveys and assessments, the building's crumbling foundation was stabilized and the building's exterior was painted. This effort allowed for NOAA's continued, but limited, use of the building by the NMFS Alaska Region and Alaska Fisheries Science Center to achieve NOAA's mission on St. George Island. In addition, the U.S. Fish and Wildlife Service (USFWS) Alaska Maritime National Wildlife Refuge used the building as a bunkhouse until 2006, when NOAA's Safety Officer and the USFWS Safety Officer both determined the bunkhouse portion of the building lacked sufficient means of egress in the event of fire and deemed it to be unsafe for habitation. It was determined by USFWS that the cost of making the necessary modifications to the space was not fiscally justifiable. NOAA's Preserve America program funded an interpretive display project in the Seal Plant to promote public outreach and education for the modest tourism program on St. George.

NMFS Cottage M, St. George: The last remnants of the U.S. commercial harvest of northern fur seals can be found on St. George Island, in the Pribilof Islands group, Alaska. In 1986, Cottage M (locally known as Cottage C), was listed on the National Register of Historic Places within the Seal Islands National Historic Landmark. This building was constructed in the 1930s and was the residence of the island doctor and hospital through 1955, when the current clinic/hospital was built. Later, the construction of a health clinic on St. George Cottage M provided housing for government scientists and managers. In recent years, USFWS Alaska Maritime National Wildlife Refuge staff have also used the building. NMFS Cottage M is considered a multi-use heritage asset because of the critical housing for NOAA's research and management staff, along with USFWS staff.

NMFS St. Paul Old Clinic/Hospital: On St. Paul Island, in the Pribilof Islands group, Alaska, fewer historic structures remain than on St. George Island. In 1986, the clinic/hospital was listed on the National Register of Historic Places within the Seal Islands National Historic Landmark. The old clinic/hospital is the combination of three historic buildings (physician's house, 1929; dispensary, 1929; and hospital, 1934) connected in 1974 with an addition. The building was used as a clinic/hospital through 2006 under a Memorandum of Agreement between NMFS and the Department of Health, Education and Welfare, and later, the Indian Health Service/Bureau of Indian Affairs. Since August 2007, NMFS has maintained the facility. The facility is vacant and in significant need for repair before it can be utilized. During the winter of 2010, there was a freeze resulting in broken plumbing pipes and substantial flooding and icing throughout the building. All surface finishes on walls and most floors and most wall insulation have been removed. The electrical, heating, plumbing supply, waste drain, and fire sprinkling systems are non-functional. An engineering assessment has been completed which indicates that the north and south sections of the structure (built in 1929 and 1934) are in poor condition. The assessment recommended demolition vice repair of these sections due to the extensive amount of work required to bring these oldest portions of the structure to meet modern code compliance. The report recommended temporary shoring of the north and south sections to reduce the possibility of collapse until a decision is made with respect to the future renovation of the facility. NMFS will evaluate the cost-benefit of renovation of the facility to accommodate future needs on St. Paul Island.

NMFS Aquarium: In Woods Hole, Massachusetts, this aquarium was established in 1875 by Spencer Baird, the originator of NMFS. In addition to being part of the first laboratory of today's NMFS, this aquarium is the oldest marine research display aquarium in the world. It is used to educate the public, raise public awareness of NMFS activities, and accommodate in-house research for the Northeast Fisheries Science Center. The aquarium houses 16 permanent exhibition tanks and approximately 12 freestanding aquaria and touch tanks holding more than 140 species of fish and invertebrates and, on occasion, sea turtles. The facility also has an exterior seal habitat that currently exhibits non-releasable harbor seals obtained through the NOAA marine mammal stranding network. The tanks range in size from 75 to 2,800 gallons. NMFS Aquarium is considered a multi-use heritage asset because it is also used for NOAA's scientific research, which is part of its mission.

Office of Atmospheric Research (OAR) Great Lakes Environmental Research Laboratory (GLERL), Lake Michigan Field Station (LMFS): In Muskegon, Michigan, the GLERL main building, constructed in 1904 by the U.S. Life Saving Service, is eligible for National Register designation and has been recognized by state and local historical societies for its maritime significance. With the creation of the U.S. Coast Guard in 1915, the facility was transferred and served as a base for search and rescue operations for 75 years. In 2004, a renovation project was completed that restored the exterior to its original architecture and color scheme - a style that is considered rare. Today, GLERL carries out research and provides scientific products, expertise, and services required for effective management and protection of Great Lakes and coastal ecosystems. GLERL/LMFS includes three buildings and a research vessel dockage. The function of the field station is to provide a base of operations for GLERL's primary research vessel, which is presently the Research Vessel Laurentian, and to provide a focal point for GLERL's research on Lake Michigan. Due to its historic significance, exterior architectural features, and predominant use in government operations, GLERL/LMFS is considered a multi-use heritage asset.

Collection-type Heritage Assets: NOAA's collection-type heritage assets are comprised primarily of books, journals, publications, photographs and motion pictures, manuscripts, records, nautical chart plates, and artifacts. Many of these heritage assets are maintained by the NOAA Central Library (Library). As evidenced by a search of international catalogs, 35 to 50 percent of the Library's collection is unique. Historically, 40 percent of the items catalogued are not found anywhere else. Many older books cannot be replaced. The works include 17th century works of Francis Bacon and Robert Boyle, 18th century works of Daniel Bernouilli, Daniel Defoe, and Pierre Bougher, and 19th and 20th century works of Benjamin Franklin and George Washington Carver. The Library has an extensive collection of historical Coast and Geodetic Survey materials (from 1807) and Weather Bureau materials (from the 1830s), including foreign and historical meteorological data, information on instruments, and metadata.

NOAA's collection-type heritage assets include items in the Thunder Bay Sanctuary Research Collection (Collection). In 2004, the Thunder Bay National Marine Sanctuary (jointly managed by NOAA and the State of Michigan to protect and interpret a nationally significant collection of shipwrecks and other maritime heritage resources) established an agreement with the Alpena County George N. Fletcher Public Library to jointly manage this Collection. Amassed over a period of more than 40 years by historian C. Patrick Labadie, the Collection includes information about such diverse subjects as Great Lakes ports and waterways, docks, cargoes, ships, shipbuilders, owners and fleets, machinery and rigging, notable maritime personalities, and shipwrecks. Special features of the Collection are extensive collections of a) data cards listing most of the ships on the Great Lakes before year 1900, a roster of some 15,000 vessels complete with descriptive data and highlights of the ships' careers and their ultimate losses; and b) ship photograph negatives of 19th and 20th century Great Lakes ships. Heritage assets also include copies of vessel ownership documents, contemporary ship photographs, books, and other items documenting the Great Lakes history.

NOAA's collection-type heritage assets also include items in the National Climatic Data Center Library. Heritage assets include a) books, manuals, and slides; b) thermometers, gauges, and radiosondes; and c) laboratory equipment.

Historical artifacts are designated collection-type heritage assets if they help illustrate the social, educational, and cultural heritage of NOAA and its predecessor agencies (Coast and Geodetic Survey, U.S. Fish Commission, the Weather Bureau, the Institutes for Environmental Research, the Environmental Science Services Administration, etc.). These include, but are not limited to, bells, gyrocompasses, brass citations, flags, pennants, chronometers, ship seals, clocks, compasses, fittings, miscellaneous ship fragments, lithographic plates, barometers, rain gauges, and any items that represent the uniqueness of the mission of NOAA and its predecessor agencies.

The NOAA Logistics Office continually conducts inventories of its collection-type heritage assets. Many items that were once classified as an individual collection are now included in existing collections. Other items are now deemed as not meeting the heritage asset criteria.

NIST currently maintains collection-type heritage assets under its Museum and History Program, which collects, conserves, and exhibits artifacts, such as scientific instruments, equipment, objects, and records of significance to NIST and predecessor agencies. This program provides institutional memory and demonstrates the contributions of NIST to the development of standards measurement, technology, and science. The Information Services Office (ISO) maintains the historical archives, rare book collection, and oversees the oral history program. The historical archives and rare book collection contain titles that are considered "classics" of historical scientific interest, books by prominent contemporary scientists, and books by NIST authors or about NIST work. Titles are recommended for inclusion by ISO staff and customers. Materials are not specifically purchased for the collection nor are funds specifically allocated for the collection. Photos and manuscripts include images of NIST staff, facilities, and artifacts that demonstrate NIST accomplishments.

NIST's Museum and History Program has policies in place for acquisitions and loans. Objects are either on display or in storage and are not used by visitors. Archives, including the historical book collection, are used according to established research library policies and procedures. When considering artifacts for accession, the following criteria are considered:

- Direct connection to NIST program activity
- Direct connection to a NIST prominent person
- Physical size
- Safety considerations

Archive material is not loaned. Artifacts are rarely loaned, but can be loaned within established policies and procedures for educational purposes, scholarly research, and limited public exhibition to qualified institutions. The loan policy packet for these artifacts includes an introduction to the NIST Loan Program, Borrower Checklist, Artifact Loan Request, NIST Loan Policy, Insurance Requirements, Facilities Report, Outgoing Loan Agreement, Condition Report Form, and Outgoing Loan Process.

ISO preserves and promotes the history of NIST through a program that collects, organizes, and preserves records of enduring value and encourages and supports their use by researchers. The policies and procedures cover such topics as submitting reference inquiries, regulations for use of the archives collection, scope of archives collection, criteria for accepting archival material, providing physical and bibliographic access, preservation, and reviewing the collection.

Collection-type heritage assets maintained by Census Bureau are items considered unique for their historical, cultural, educational, technological, methodological, or artistic importance. They help illustrate the social, educational, and cultural heritage of Census Bureau. Some items because of their age or obvious historical significance are inherently historical artifacts. Some examples of these historical artifacts include:

1900 Hollerith Key Punch: Census Bureau clerks used the key punch during the 1900s to punch round holes into cards for tabulation by electric tabulating machines housed at the Census Bureau. The key punch increased the speed with which clerks could transfer data entered on census schedules to the punch cards used to tabulate census results.

Hollerith Tabulator (Dial): The Hollerith Tabulator dial was manufactured by the Tabulating Machine Company for the Census Bureau. The Hollerith Tabulator dial mechanically illustrated the data being read from punched paper cards entered into the tabulator. The holes punched in cards were sensed by pins or pointers making contact through the holes to a drum. The completion of an electric circuit through a hole advanced the counter on this dial representing data tabulated for a specific population, economic, or agriculture inquiry on the census schedule.

Gang Punch: The Gang punch was manufactured by the Tabulating Machine Company for the Census Bureau. The gang punch was used for recording facts common to a number of punch cards, such as the month, day, year, etc. It is equipped with a number of moveable punches, which can easily be changed and set for any desired combination. Using the gang punch, clerks could punch a number of cards at once, thus speeding the transcription of data.

Pantograph: This item was manufactured by the Tabulating Machine Company for the Census Bureau. Census Bureau clerks used the pantograph, or keyboard punch, to transfer information on the census schedule to punch cards. To operate the pantograph, the clerk guided one end of the lever over a board showing the categories of information from the census (age, sex, place of birth, etc.) and depressed the lever at the appropriate position, punching a hole in the punch card. With the information found on the schedule translated into punch holes on cards, the data could then be read and the results tallied by tabulators designed to read the punch cards.

Census Bureau Enumerators Badge: The Census Bureau provided enumerators with badges during the 1900s and later censuses, and recipients were instructed to wear them when on duty. The 1900s instructions to enumerators noted that the badge offered additional evidence of the bearer's authority to ask the question required by law. Furthermore, enumerators were instructed to wear the badge attached to the vest under the coat, and to exhibit it only when it would aid the enumerator in obtaining the information. Upon completion of the census, the Census Bureau permitted enumerators to keep the badge as a souvenir of their service.

Data Stewardship Button: The data stewardship button served as a visible reminder to employees that the Census Bureau complies with all federal legal requirements affecting the collection, handling, and dissemination of personal and business information. In addition, the Census Bureau believes that individuals and businesses have fundamental rights to be treated fairly and ethically when asked to provide their personal information to the government for statistical purposes.

Steel Hand Bander: The steel hand bander is used to secure paper, boxes, and other goods to pallets, via ribbons of steel, for shipment. The Census Bureau has used similar banders since the early 20th century to secure boxes of questionnaires, publications, etc., for shipment to census offices throughout the United States, Puerto Rico, and the Island Areas.

Unisys Tape and Reel: It is assumed that Unisys Corporation manufactured this tape and reel in the 1980s. This tape technology, released in 1964, introduced what is now generally known as 9-track tape. The magnetic tape is ½ inch wide, with eight data tracks and one parity track for a total of nine parallel tracks. Data is stored as 8-bit characters, spanning the full width of the tape (including the parity bit). Various recording methods are used to place the data on tape, depending on the tape speed and data density, including PE (phase encoding), GCR (group code recording), and NRZI (non-return-to-zero, inverted).

Film Optical Sensing Device for Input to Computers (FOSDIC): This 1980s file cabinet-sized version of FOSDIC was manufactured by the Census Bureau for the 1990 census. During the 1950s, the Census Bureau and the National Bureau of Standards developed a system called Film Optical Sensing Device for Input to Computers (FOSDIC), which took census and survey questionnaires that had been photographed onto microfilm, read blackened dots opposite the appropriate answers, and transferred that data to magnetic tape. These tapes constituted the input for the Census Bureau's computers. One important result of this process was the elimination of most discrepancies in data records sent for processing. First used to process 1960 census results, FOSDIC played an integral part in the Census Bureau's data processing system into the mid-1990s.

Artwork and Gifts: Census Bureau's artwork and gifts include items bequeathed to, given to, or commissioned by the agency, such as posters, paintings, sculptures, postage stamps, photographs, antiques, memorial plaques, cultural artifacts from other statistical agencies and countries, awards, time capsules, buttons and badges, and more.

Census Bureau has developed a Project Charter for heritage assets which has developed policies and procedures for the acquisition and removal of Census Bureau heritage assets. If a Census Bureau employee receives a gift from a foreign government's statistical agency or any other agency while on official government travel, the Census Bureau employee will deliver the item to a member of Census Bureau's Heritage Assets Committee for review upon his or her return to Census Bureau, if the item is valued at more than $25 dollars. The Committee will decide if the item meets the criteria for a heritage asset based on the uniqueness, historical age, and/or if the item helps to illustrate Census Bureau's historic contributions to the nation's growth. If the item is deemed a heritage asset, the applicable property management office will ensure the heritage asset is catalogued and stored in a safe, secure environment, allowing for appropriate preservation and conservation. All necessary actions will be taken to reduce deterioration of heritage assets due to environmental conditions, and to limit damage, loss, and misuse of heritage assets. The Committee meets on a regular basis to determine if any heritage assets should be removed from the approved list, or if a newly arrived item should be classified as a heritage asset. Once a determination has been made to no longer classify an item as a heritage asset, Census Bureau will follow any applicable established policies and procedures for surplus property.

(In Actual Quantities)

Collection-type Heritage Assets					
Category	**Description of Assets**	**Quantity of Items Held September 30, 2011**	**FY 2012 Additions**	**FY 2012 Withdrawals**	**Quantity of Items Held September 30, 2012**
NOAA Central Library:					
Circulating Collection	Books, journals, and other publications	1	N/A	N/A	1
Rare Book Room Collection	Books and publications	1	N/A	N/A	1
Collection of Photographs and Motion Pictures	Photographs and motion pictures	1	N/A	N/A	1
Other	Artifacts, documents, and other items	56	-	-	56
National Ocean Service–Thunder Bay Sanctuary Research Collection	Data cards, photograph negatives, document copies, photographs, books, and other items	106,254	-	-	106,254
National Climatic Data Center Library	Artifacts, books, documents, and other items	325	-	-	325
NOAA Others	Artifacts, artwork, books, films, instruments, maps, and records	3,422	11	2	3,431
NIST Artifacts and Scientific Measures	National Bureau of Standards (NBS)/NIST scientific instruments, equipment, and objects	990	25	-	1,015
NIST Historical Books and Manuscripts	Books of historical scientific interest, books by prominent contemporary scientists, and books by NBS/NIST authors and manuscripts of NBS/NIST staff, facilities, and artifacts	61	-	-	61
Census Bureau Artwork and Gifts	Artifacts, artwork, books, films, instruments, and records	132	-	-	132
Census Bureau Collectable Assets	Publications, books, manuscripts, photographs, and maps	30	-	-	30
Total		**111,273**	**36**	**2**	**111,307**
N/A - Not applicable; this category is reported as one collection.					

Additional information on the condition of the above Heritage Assets is presented in the Required Supplementary Information section.

FINANCIAL SECTION

Consolidating Balance Sheet

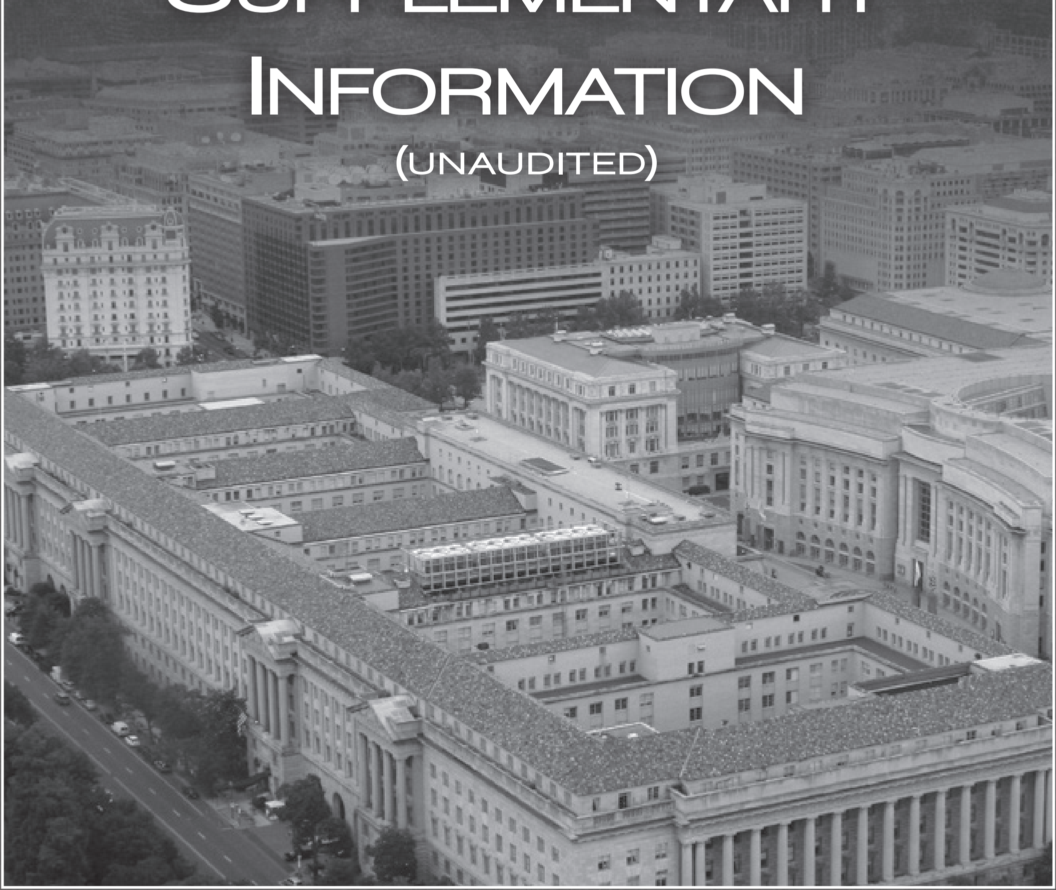
United States Department of Commerce Consolidating Balance Sheet
As of September 30, 2012 *(In Thousands)*

	Consolidating Total	Intra-Departmental Eliminations	BIS	Census Bureau	DM/G&B	DM/S&E	DM/WCF	EDA	ELGP	ESA/BEA	Franchise Fund	HCHB	ITA	MBDA	NIST	NOAA	NTIA	NTIS	OIG	USPTO
ASSETS																				
Intragovernmental:																				
Fund Balance with Treasury	$ 19,261,281	$ -	$ 34,717	$ 797,111	$ 2,587	$ 19,009	$ 61,003	$1,310,264	$ 291	$ 20,302	$ 2,909	$30,191	$123,301	$ 15,372	$ 841,418	$ 3,600,209	$10,630,668	$ 27,935	$ 17,038	$ 1,726,956
Accounts Receivable	116,009	(20,212)	679	11,877	-	13,955	242	135	-	-	-	-	3,293	-	5,378	93,304	1,072	5,748	502	36
Advances and Prepayments	208,368	(81,987)	2,503	30,680	-	6,815	642	1,796	-	713	164	-	10,592	893	7,886	135,276	88,398	332	1,215	2,450
Total Intragovernmental	19,585,658	(102,199)	37,899	839,668	2,587	39,779	61,887	1,312,195	291	21,015	3,073	30,191	137,186	16,265	854,682	3,828,789	10,720,138	34,015	18,755	1,729,442
Cash	4,834	-	-	-	-	-	-	-	-	-	-	-	-	-	-	370	-	133	-	4,331
Accounts Receivable, Net	104,941	-	3,896	2,630	-	2	18	6	-	3	-	-	202	121	5,694	91,377	1	276	-	715
Direct Loans and Loan Guarantees, Net	570,348	-	-	-	-	-	-	11,278	-	-	-	-	-	-	-	559,070	-	-	-	-
Inventory, Materials, and Supplies, Net	104,978	-	-	113	-	-	3	464	-	-	-	-	-	-	26,395	77,883	-	120	-	-
General Property, Plant, and Equipment, Net	10,000,512	-	14	146,380	7,335	1,959	379	697	-	549	-	16,701	3,553	-	943,399	8,623,801	16,867	1,899	-	236,979
Other	48,276	-	1,186	83	3	-	-	-	-	-	-	-	957	-	584	28,437	1	6,369	-	10,656
TOTAL ASSETS	**$ 30,419,547**	**$ (102,199)**	**$ 42,995**	**$ 988,874**	**$ 9,925**	**$ 41,740**	**$ 62,287**	**$1,324,640**	**$ 291**	**$ 21,567**	**$ 3,073**	**$46,892**	**$141,898**	**$ 16,386**	**$ 1,830,754**	**$13,209,727**	**$10,737,007**	**$ 42,812**	**$ 18,755**	**$ 1,982,123**
LIABILITIES																				
Intragovernmental:																				
Accounts Payable	$ 156,032	$ (19,914)	$ 1,210	$ 21,757	$ -	$ 5,058	$ 1,504	$ 340	$ -	$ 4,804	$ -	$ 1	$ 2,123	$ 332	$ 2,096	$ 120,360	$ 1,840	$ 8,575	$ 80	$ 5,866
Debt to Treasury	554,281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	551,743	2,538	-	-	-
Other																				
Resources Payable to Treasury	12,862	-	-	-	-	-	-	11,292	-	-	-	-	-	-	-	1,570	-	-	-	-
Unearned Revenue	332,923	(81,987)	173	176,154	-	4,020	43,076	47,834	-	-	164	-	842	34	66,120	28,038	35,399	4,292	2,787	5,977
Other	102,412	(298)	1,630	24,750	-	2,661	1,636	741	-	832	-	6	3,942	556	5,302	40,554	816	236	256	18,792
Total Intragovernmental	1,158,510	(102,199)	3,013	222,661	-	11,739	46,216	60,207	-	5,636	164	7	6,907	922	73,518	742,265	40,593	13,103	3,123	30,635
Accounts Payable	296,869	-	1,787	46,723	3	1,215	4,746	324	-	2,136	-	48	4,331	129	15,616	140,553	4,599	2,669	2,670	69,320
Loan Guarantee Liabilities	518	-	-	-	-	-	-	-	-	-	-	-	-	-	-	518	-	-	-	-
Federal Employee Benefits	851,211	-	2,926	130,887	-	1,904	4,536	1,193	-	430	-	38	7,524	2,165	9,104	679,612	1,768	844	71	8,209
Environmental and Disposal Liabilities	59,945	-	-	-	-	-	-	-	-	-	-	-	-	-	55,036	4,909	-	-	-	-
Other																				
Accrued Payroll and Annual Leave	580,715	-	6,454	78,863	159	4,597	9,477	3,053	-	7,523	-	77	28,355	941	47,872	183,688	4,802	1,492	2,967	200,395
Accrued Grants	635,856	-	-	-	-	-	-	420,910	-	-	-	-	1,909	1,484	80,396	59,664	71,493	-	-	-
Capital Lease Liabilities	8,377	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,377	-	-	-	-
Unearned Revenue	1,053,580	-	4,747	2,487	-	-	-	471	-	-	-	-	14,149	-	49,747	30,409	295	4,585	-	946,690
Other	57,732	-	94	2,032	-	-	-	-	-	-	-	-	11,745	-	33	43,828	-	-	-	-
TOTAL LIABILITIES	**$ 4,703,313**	**$ (102,199)**	**$ 19,021**	**$ 483,653**	**$ 162**	**$ 19,455**	**$ 64,975**	**$ 486,158**	**$ -**	**$ 15,725**	**$ 164**	**$ 170**	**$ 74,920**	**$ 5,641**	**$ 331,322**	**$ 1,893,823**	**$ 123,550**	**$ 22,693**	**$ 8,831**	**$ 1,255,249**
NET POSITION																				
Unexpended Appropriations																				
Unexpended Appropriations - Earmarked Funds	$ 1,660,141	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,660,141	$ -	$ -	$ -
Unexpended Appropriations - All Other Funds	5,056,293	-	30,544	295,203	-	23,760	-	842,226	291	9,909	-	30,106	94,222	13,981	539,823	3,134,777	33,019	-	8,432	-
Cumulative Results of Operations																				
Cumulative Results of Operations - Earmarked Funds	9,939,669	-	-	-	-	-	-	-	-	-	-	-	4,468	-	-	280,034	8,908,174	20,119	-	726,874
Cumulative Results of Operations - All Other Funds	9,060,131	-	(6,570)	210,018	9,763	(1,475)	(2,688)	(3,744)	-	(4,067)	2,909	16,616	(31,712)	(3,236)	959,609	7,901,093	12,123	-	1,492	-
TOTAL NET POSITION	**$ 25,716,234**	**$ -**	**$ 23,974**	**$ 505,221**	**$ 9,763**	**$ 22,285**	**$ (2,688)**	**$ 838,482**	**$ 291**	**$ 5,842**	**$ 2,909**	**$46,722**	**$ 66,978**	**$ 10,745**	**$ 1,499,432**	**$11,315,904**	**$10,613,457**	**$ 20,119**	**$ 9,924**	**$ 726,874**
TOTAL LIABILITIES AND NET POSITION	**$ 30,419,547**	**$ (102,199)**	**$ 42,995**	**$ 988,874**	**$ 9,925**	**$ 41,740**	**$ 62,287**	**$1,324,640**	**$ 291**	**$ 21,567**	**$ 3,073**	**$46,892**	**$141,898**	**$ 16,386**	**$ 1,830,754**	**$13,209,727**	**$10,737,007**	**$ 42,812**	**$ 18,755**	**$ 1,982,123**

See accompanying independent auditors' report.

Required Supplementary Information

(UNAUDITED)



Required Supplementary Information (unaudited)

A Deferred Maintenance and Repairs

Deferred maintenance and repairs are maintenance and repairs that were not performed when they should have been, that were scheduled and not performed, or that were delayed for a future period. Maintenance and repairs are activities directed towards keeping Property, Plant, and Equipment (PP&E) in acceptable operating condition. These activities include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance and repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended. Critical maintenance is defined as those projects where the required maintenance and repairs will have a critical impact on the public access, functionality and mission support, health and safety, and life cycle cost of a facility if the maintenance or repairs is not performed. The significant portions of Departmental deferred maintenance and repairs relate to PP&E of both NOAA and NIST (see below for abbreviations). These two entities represent 96 percent of the Department's General PP&E, Net balance as of September 30, 2012.

National Oceanic and Atmospheric Administration (NOAA):

NOAA uses the Condition Assessment Survey (CAS) method to identify and quantify deferred maintenance and repairs for assets meeting NOAA's $200 thousand capitalization threshold. The CAS method employs a periodic inspection of real property, heritage assets, ships, and other applicable assets to determine its current condition and to estimate costs to correct any deficiencies. Estimated costs reflect potential costs variance of +/- 10 percent.

The following shows NOAA's deferred maintenance and repairs for projects with estimated costs greater than $50 thousand (Buildings and Structures; Heritage Assets) and $25 thousand (Ships; Other), as of September 30, 2012:

(In Thousands)

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition		
Buildings and Structures	3	$ 62,960	to	$ 76,951
Heritage Assets	4, 3	11,756	to	14,369
Ships	2	31,191	to	38,122
Other	3	153	to	187
Total		**$ 106,060**	**to**	**$ 129,629**

The CAS method for all PP&E categories is based on a five-point scale, with 1 representing excellent condition; 2 – good condition; 3 – fair condition; 4 – poor condition; and 5 – very poor condition. NOAA has established a "facility condition code" to classify the conditions of Buildings and Structures. Each building or structure is assessed an individual "facility condition code." The average of the individual "facility condition codes" determines the CAS Asset Condition. The deferred maintenance and repairs amounts reported represent non-critical maintenance and repairs to bring the Buildings and Structures to good condition. Buildings and Structures deferred maintenance and repairs are comprised of projects submitted to the Capital Improvements Program. There is an annual call each year to the NOAA elements requesting their submission of new projects and updates to existing unfunded projects to reflect changes in requirements or costs. During FY 2012, NOAA implemented a new automated desktop survey to identify, quantify, and prioritize real property maintenance and repair projects. Buildings and Structures estimated cost increased as a result of the survey implementation. For Heritage Assets, the deferred maintenance and repairs amounts reported represent non-critical maintenance to bring each class of Heritage Assets to an acceptable condition through cleaning, restoration, and preservation. NOAA has established a "range of current asset condition code" to classify the conditions of Ships. The average of the individual "range of current asset condition codes" determines the CAS Asset Condition.

National Institute of Standards and Technology (NIST):

NIST also uses the CAS method to estimate deferred maintenance and repairs. NIST values the condition of assets using a five-point scale, with 1 representing excellent condition; 2 – good condition; 3 – acceptable condition; 4 – poor condition; and 5 – very poor condition. Assets that are assessed at 4 or 5 require repairs and maintenance to increase their value to 3, or acceptable condition. The following shows NIST's deferred maintenance and repairs as of September 30, 2012:

(In Thousands)

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition		
Mechanical and Electrical Devices	5	$ 330,269	to	$ 445,766
Buildings (Internal Structures)	4	22,093	to	29,888
Buildings (External Structures)	4	36,258	to	47,829
Total		**$ 388,620**	**to**	**$ 523,483**

B Stewardship Marine Sanctuaries, Marine National Monuments, and Conservation Area

NOAA maintains the following sanctuaries, marine national monuments, and conservation area, which are similar in nature to stewardship land and which are more fully described in Note 23, *Stewardship Property, Plant, and Equipment*, of the Notes to the Financial Statements.

National Marine Sanctuaries: Marine sanctuaries provide protection for nationally significant natural areas, including species close to extinction, and protect historically significant shipwrecks and prehistoric artifacts. Each of the 13 sanctuaries, which may include habitats as diverse as near-shore coral reefs and open ocean, conducts research and monitoring activities to characterize existing resources and document changes. Resource status in the marine sanctuaries varies from good to poor, depending on resource type. Where conditions are compromised, they appear to reflect historical levels of use and development, and in some cases recent disturbances (e.g. diseases that have caused mass mortality of critically important species). The effects of recent disturbance may have been exacerbated by impaired environmental conditions in some areas. Human activities related to each of these threats are the focus of current management efforts, and favorable trends in resource quality appear to be the result of active management.

Papahãnaumokuãkea Marine National Monument: The majority of all coral reef habitats located in U.S. waters surround the Northwestern Hawaiian Islands (NWHI). The Papahānaumokuākea Marine National Monument, located off the coast of the NWHI, encompasses nearly 140,000 square miles of U.S. waters, including approximately 5,200 square miles of relatively undisturbed coral reef habitat that is home to more than 7,000 species. The condition of the Papahānaumokuākea Marine

National Monument is good, but resources in the Monument are affected by an abundance of marine debris, and face emerging threats related to climate change (e.g. increasing temperature, acidification, and sea level).

Rose Atoll Marine National Monument: The atoll includes the Rose Atoll National Wildlife Refuge. It also includes about 20 acres of land and 1,600 acres of lagoon and is one of the most pristine atolls in the world. The areas around the atoll support a dynamic reef ecosystem that is home to many land and marine species, many of which are threatened or endangered. The condition of the Rose Atoll Marine National Monument is good, though it has apparently not recovered completely from the effects of a 1993 shipwreck and spill that altered community structure on a large portion of the reef.

Marianas Trench Marine National Monument: The Marianas Trench Marine National Monument consists of approximately 96,000 square miles of submerged lands and waters of the Mariana Archipelago. It includes three units: the Islands Unit, the waters and submerged lands of the three northernmost Mariana Islands; the Volcanic Unit, the submerged lands within 1 nautical mile of 21 designated volcanic sites; and the Trench Unit, the submerged lands extending from the northern limit of the Exclusive Economic Zone of the United States in the Commonwealth of the Northern Mariana Islands (CNMI) to the southern limit of the Exclusive Economic Zone of the United States in the Territory of Guam. The condition of the Marianas Trench Marine National Monument is good.

Pacific Remote Islands Marine National Monument: The Pacific Remote Islands area consists of Wake, Baker, Howland, and Jarvis Islands, Johnston Atoll, Kingman Reef, and Palmyra Atoll, which lie to the south and west of Hawaii. With the exception of Wake Island, these islands are administered as National Wildlife Refuges by the U.S. Fish and Wildlife Service of the Department of the Interior. They sustain many endemic species including corals, fish, shellfish, marine mammals, seabirds, water birds, land birds, insects, and vegetation not found elsewhere. The condition of the Pacific Remote Islands Marine National Monument is good.

Aleutian Islands Habitat Conservation Area: This conservation area in Alaska, which covers nearly 370,000 square miles, may harbor among the highest diversity of deep-water corals in the world, and protects habitat for deep water corals and other sensitive features that are slow to recover once disturbed by fishing gear or other activities. The condition of the Aleutian Islands Habitat Conservation Area is generally good, although some specific resources are threatened. For example, the conservation area contains six small areas of fragile coral gardens.

C Collection-type Heritage Assets

NOAA's collection-type heritage assets are comprised primarily of books, journals, publications, photographs and motion pictures, manuscripts, records, nautical chart plates, and artifacts. Many of these heritage assets are maintained by the NOAA Central Library (Library). As evidenced by a search of international catalogs, 35 to 50 percent of the Library's collection is unique. Historically, 40 percent of the items catalogued are not found anywhere else. The Library has an extensive collection of historical Coast and Geodetic Survey materials (from 1807) and Weather Bureau materials (from the 1830s), including foreign and historical meteorological data, information on instruments, and metadata.

NOAA's collection-type heritage assets include items in the Thunder Bay Sanctuary Research Collection, composed primarily of a) data cards listing most of the ships on the Great Lakes before 1900, a roster of some 15,000 vessels complete with descriptive data and highlights of the ships' careers and their ultimate losses; and b) ship photograph negatives of 19th and 20th century Great Lakes ships.

NOAA's collection-type heritage assets also include items in the National Climatic Data Center Library. Heritage assets include a) books, manuals, and slides; b) thermometers, gauges, and radiosondes; and c) laboratory equipment.

NOAA uses the Condition Assessment Survey (CAS) method to describe the condition of its assets. The CAS method is based on a five-point scale with 1 representing excellent condition; 2 – good condition; 3 – fair condition; 4 – poor condition; and 5 – very poor condition. Assets with the condition assessment level between 1 through 3 are defined as being suitable for public display. The books, journals, and other publications that make up the majority of the NOAA Central Library collection-type heritage assets are in 4 – poor condition, and 5 – very poor condition. The heritage assets of the Thunder Bay Sanctuary Research Collection are in 2 – good condition, and the heritage assets of the National Climatic Data Center Library are generally in 3 – fair condition.

NIST currently maintains the Museum and History Program, which collects, conserves, and exhibits artifacts such as scientific instruments, equipment, objects and records of significance to NIST and the National Bureau of Standards (NBS). This program provides institutional memory and demonstrates the contributions of NIST to the development of standards, measurement, technology, and science. Conditions of these artifacts are listed in the Registrar's database and are generally fair.

NIST Information Services Office (ISO) maintains the historical archives, a historical book collection, and oversees the oral history program. The book collection contains titles that are of historical scientific interest, rare titles, and books by NIST authors or about NIST work. Materials are not specifically purchased for the collection nor are funds specifically allocated for the collection. Conditions of the books are generally fair. The archives maintain photos of NIST staff, facilities, and artifacts that demonstrate NIST accomplishments. These images are in good condition.

Heritage assets at the Census Bureau are items considered unique for their historical, cultural, educational, technological, methodological, or artistic importance. These assets help illustrate the social, educational, and cultural heritage of the Census Bureau. Some items, because of their age or obvious historical significance, are inherently historical artifacts. These historical artifacts include but are not limited to: Hollerith Key Punch, Hollerith Tabulator, Gang Punch, Pantograph, Census Bureau Enumerators Badge, Unisys Tape and Reel, Film Optical Sensing Device, Artwork and Gifts, and any items which represent the uniqueness of the mission of the Census Bureau. The heritage assets at the Census Bureau are classified as generally being in good condition.

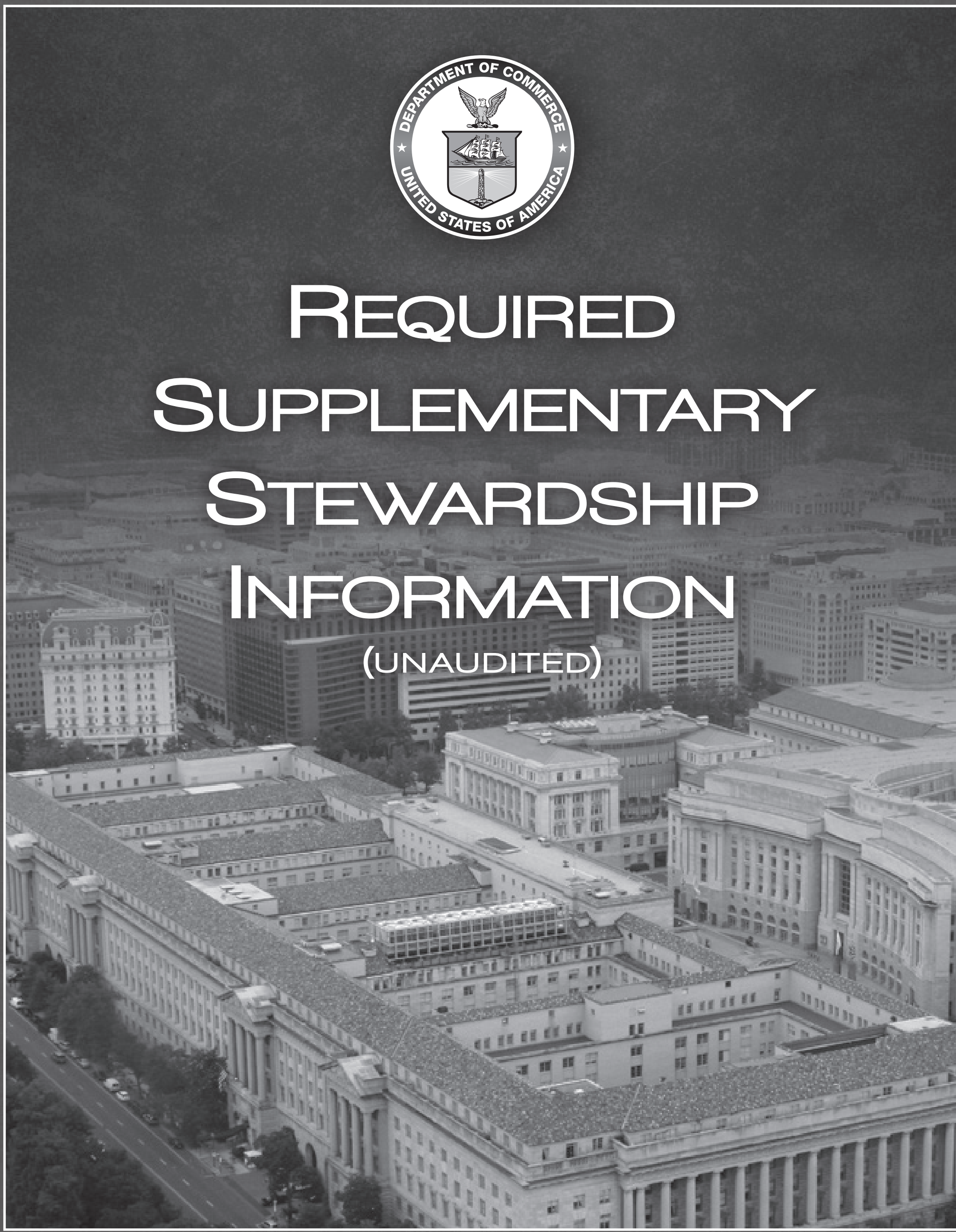
D Schedule of Budgetary Resources by Major Budget Account

The following table illustrates the Department's FY 2012 budgetary resources by major budget account. The "Other Programs" column refers to the Department's reporting entities and their budget accounts that are not listed.

United States Department of Commerce Schedule of Budgetary Resources by Major Budget Account
For the Year Ended September 30, 2012 *(In Thousands)*

	Combining Total	NOAA Operations, Research, and Facilities	USPTO Salaries and Expenses	NOAA Procurement, Acquisition, and Construction	NTIA Digital Television Transition and Public Safety Fund	ITA Operations and Administration	Census Bureau Periodic Censuses and Programs	EDA Grant Fund	NTIA Broadband Technology Opportunities Program - Recovery Act	Other Programs
BUDGETARY RESOURCES:										
Unobligated Balance, Brought Forward, October 1	$ 9,995,201	$ 188,297	$ 177,705	$ 24,357	$ 8,786,581	$ 21,831	$ 100,735	$ 30,602	$ 3,507	$ 661,586
Adjustments to Unobligated Balance, Brought Forward	2	-	-	-	(1)	-	(1)	2	-	2
Unobligated Balance Brought Forward, October 1, as Adjusted	9,995,203	188,297	177,705	24,357	8,786,580	21,831	100,734	30,604	3,507	661,588
Actual Recoveries of Prior-years Unpaid Obligations	302,627	30,506	23,027	9,756	368	13,559	37,831	33,659	87,520	66,401
Actual Nonexpenditure Transfers of Unobligated Balance, Net	17,329	(4,154)	-	-	-	10,528	-	-	-	10,955
Borrowing Authority Withdrawn	(4,561)	-	-	-	-	-	-	-	-	(4,561)
Other Changes in Unobligated Balance, Net	(134,689)	(23,046)	-	(4,325)	-	(5,961)	(946)	-	(91,628)	(8,783)
Unobligated Balance From Prior-years Budget Authority, Net	**10,175,909**	**191,603**	**200,732**	**29,788**	**8,786,948**	**39,957**	**137,619**	**64,263**	**(601)**	**725,600**
Appropriations	8,035,812	3,177,533		1,798,225	(4,300)	455,561	689,000	416,710	-	1,503,083
Borrowing Authority	74,206	-	-	-	-	-	-	-	-	74,206
Spending Authority From Offsetting Collections	4,304,569	270,452	2,411,896	2,272	47	21,110	4,028	372	3,577	1,590,815
TOTAL BUDGETARY RESOURCES	**$ 22,590,496**	**$ 3,639,588**	**$ 2,612,628**	**$ 1,830,285**	**$ 8,782,695**	**$ 516,628**	**$ 830,647**	**$ 481,345**	**$ 2,976**	**$ 3,893,704**
STATUS OF BUDGETARY RESOURCES:										
Obligations Incurred	$ 12,238,097	$ 3,396,441	$ 2,374,755	$ 1,788,053	$ 18,461	$ 486,996	$ 698,623	$ 297,033	$ -	$ 3,177,735
Unobligated Balance, End of Year										
Apportioned	1,157,028	176,593	237,873	23,226	19,038	19,888	13,456	178,237	-	488,717
Exempt From Apportionment	136,995	-	-	-	-	-	-	-	-	136,995
Unapportioned	9,058,376	66,554	-	19,006	8,745,196	9,744	118,568	6,075	2,976	90,257
Total Unobligated Balance, End of Year	**10,352,399**	**243,147**	**237,873**	**42,232**	**8,764,234**	**29,632**	**132,024**	**184,312**	**2,976**	**715,969**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 22,590,496**	**$ 3,639,588**	**$ 2,612,628**	**$ 1,830,285**	**$ 8,782,695**	**$ 516,628**	**$ 830,647**	**$ 481,345**	**$ 2,976**	**$ 3,893,704**
CHANGE IN UNPAID OBLIGATED BALANCE, NET:										
Unpaid Obligations:										
Unpaid Obligations, Brought Forward, October 1	$ 11,297,687	$ 2,224,426	$ 325,325	$ 1,171,443	$ 275,632	$ 86,651	$ 323,283	$ 1,206,871	$ 3,385,918	$ 2,298,138
Adjustments to Unpaid Obligations, Brought Forward	157	1	1	3	-	1	2	(1)	-	150
Obligations Incurred	12,238,097	3,396,441	2,374,755	1,788,053	18,461	486,996	698,623	297,033	-	3,177,735
Outlays, Gross	(14,754,794)	(3,642,457)	(2,332,262)	(1,740,833)	(219,769)	(468,737)	(768,683)	(370,247)	(1,588,754)	(3,623,052)
Actual Recoveries of Prior-years Unpaid Obligations	(302,627)	(30,506)	(23,027)	(9,756)	(368)	(13,559)	(37,831)	(33,659)	(87,520)	(66,401)
UNPAID OBLIGATIONS, END OF YEAR	**$ 8,478,520**	**$ 1,947,905**	**$ 344,792**	**$ 1,208,910**	**$ 73,956**	**$ 91,352**	**$ 215,394**	**$ 1,099,997**	**$ 1,709,644**	**$ 1,786,570**
Uncollected Customer Payments:										
Uncollected Customer Payments, Brought Forward, October 1	$ (646,638)	$ (504,020)	$ (298)	$ -	$ -	$ (16,431)	$ -	$ -	$ -	$ (125,889)
Adjustments to Uncollected Customer Payments, Brought Forward	(159)	(1)	2	-	-	(1)	-	-	-	(159)
Change in Uncollected Customer Payments	37,973	50,177	261	-	-	(693)	-	-	-	(11,772)
UNCOLLECTED CUSTOMER PAYMENTS, END OF YEAR	**$ (608,824)**	**$ (453,844)**	**$ (35)**	**$ -**	**$ -**	**$ (17,125)**	**$ -**	**$ -**	**$ -**	**$ (137,820)**
Unpaid Obligated Balance, Net, Brought Forward, October 1	**$ 10,651,049**	**$ 1,720,406**	**$ 325,027**	**$ 1,171,443**	**$ 275,632**	**$ 70,220**	**$ 323,283**	**$ 1,206,871**	**$ 3,385,918**	**$ 2,172,249**
Unpaid Obligated Balance, Net, End of Year	**$ 7,869,696**	**$ 1,494,061**	**$ 344,757**	**$ 1,208,910**	**$ 73,956**	**$ 74,227**	**$ 215,394**	**$ 1,099,997**	**$ 1,709,644**	**$ 1,648,750**
BUDGET AUTHORITY, NET:										
Budget Authority, Gross	$ 12,414,587	$ 3,447,985	$ 2,411,896	$ 1,800,497	$ (4,253)	$ 476,671	$ 693,028	$ 417,082	$ 3,577	$ 3,168,104
Actual Offsetting Collections	(4,408,882)	(320,630)	(2,413,157)	(2,272)	(47)	(20,417)	(4,028)	(372)	(3,577)	(1,644,382)
Change in Uncollected Customer Payments	37,973	50,177	261	-	-	(693)	-	-	-	(11,772)
BUDGET AUTHORITY, NET	**$ 8,043,678**	**$ 3,177,532**	**$ (1,000)**	**$ 1,798,225**	**$ (4,300)**	**$ 455,561**	**$ 689,000**	**$ 416,710**	**$ -**	**$ 1,511,950**
OUTLAYS, NET:										
Outlays, Gross	$ 14,754,794	$ 3,642,457	$ 2,332,262	$ 1,740,833	$ 219,769	$ 468,737	$ 768,683	$ 370,247	$ 1,588,754	$ 3,623,052
Actual Offsetting Collections	(4,408,882)	(320,630)	(2,413,157)	(2,272)	(47)	(20,417)	(4,028)	(372)	(3,577)	(1,644,382)
Outlays, Net	10,345,912	3,321,827	(80,895)	1,738,561	219,722	448,320	764,655	369,875	1,585,177	1,978,670
Distributed Offsetting (Receipts)/Outlays, Net	(62,667)	-	-	-	-	-	-	-	-	(62,667)
AGENCY OUTLAYS, NET	**$ 10,283,245**	**$ 3,321,827**	**$ (80,895)**	**$ 1,738,561**	**$ 219,722**	**$ 448,320**	**$ 764,655**	**$ 369,875**	**$ 1,585,177**	**$ 1,916,003**

FINANCIAL SECTION



Required Supplementary Stewardship Information

(UNAUDITED)

Required Supplementary Stewardship Information (unaudited)

Stewardship Investments

Stewardship investments are substantial investments made by the federal government for the benefit of the nation, but are not physical assets owned by the federal government. Though treated as expenses when incurred to determine the Department's Net Cost of Operations, these items merit special treatment so that users of federal financial reports know the extent of investments that are made for the long-term benefit of the nation.

Investments in Non-federal Physical Property:

Non-federal physical property investments are expenses included in the Department's Net Cost of Operations for the purchase, construction, or major renovation of physical property owned by state and local governments. Based on a review of the Department's programs, NOAA and EDA have significant investments in non-federal physical property.

NOAA:

National Estuarine Research Reserves (NERR): The NERR system consists of 28 estuarine reserves protected by federal, state, and local partnerships that work to preserve and protect the nation's estuaries. The NERR system helps to fulfill NOAA's stewardship mission to sustain healthy coasts by improving the nation's understanding and stewardship of estuaries. Estuarine reserves are the areas where freshwater from rivers meet the ocean. These areas are known as bays, swamps, sloughs, and sounds. These important coastal habitats are used as spawning grounds and nurseries for the nation's commercial fish and shellfish. Estuaries filter much of the polluted runoff from rivers and streams that would otherwise contaminate oceans. The reserves were created with the passage of the Coastal Zone Management Act of 1972, and, as of September 30, 2012, encompassed approximately 1.4 million acres of estuarine waters, wetlands, and uplands. The most recent reserve, Lake Superior, WI, was designated on October 26, 2010. NERRs are state-operated and managed in cooperation with NOAA. NOAA's investments in non-federal physical property are for the acquisition of lands and development or construction of facilities, auxiliary structures, and public access routes for any NERR site.

Coastal and Estuarine Land Conservation Program: This program was established under the Commerce, Justice, and State Appropriations Act of 2002, "for the purpose of protecting important coastal and estuarine areas that have significant conservation, recreation, ecological, historical, or aesthetic values, or that are threatened by conversion from their natural or recreational state to other uses." The investments in non-federal physical property include matching grants awarded to state and local governments for land acquisition in coastal and estuarine areas. Since FY 2002, matching grants have been directed to 210 such projects.

Coastal Zone Management Fund: The Coastal Zone Management Program is authorized by the Coastal Zone Management Act of 1972, and administered at the federal level by NOAA's Office of Ocean and Coastal Resource Management. The investments in non-federal physical property include incidental expenses of land acquisition, and low-cost construction on behalf of various state and local governments, for the purpose of preservation or restoration of coastal resources and habitats. NOAA's financing supports various coastal states in their redevelopment of deteriorating and urbanized waterfronts and ports, as well as providing for public access to beaches and coastal areas. The state and local governments receive funding for these investments through NOAA grant expenditures, and these grant expenditures also include funding for purposes other than the investments in non-federal physical property. There is currently not in place a mechanism for the state and local governments to determine and report to NOAA the amount of monies they expend for the investments in non-federal physical property. The Department, accordingly, cannot report the amount of investments in non-federal physical property for the Coastal Zone Management Fund.

NOAA's investments in non-federal physical property for FY 2008 through FY 2012 were as follows:

(In Millions)

Program	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
National Estuarine Research Reserves	$ 11.8	$ 11.7	$ 14.7	$ 5.5	$ 3.9	$ 47.6
Coastal and Estuarine Land Conservation Program	28.1	21.6	32.4	6.9	8.8	97.8
Total	**$ 39.9**	**$ 33.3**	**$ 47.1**	**$ 12.4**	**$ 12.7**	**$ 145.4**

EDA:

Public Works: The Public Works program promotes long-range economic development in distressed areas by providing investments for vital public infrastructure and development facilities. These critical investments enable communities to attract new, or support existing, businesses that will generate new jobs and income for unemployed and underemployed residents. Among the types of projects funded are water, sewer, fiber optics, access roads, and facilities such as industrial and business parks, business incubator and skill training facilities, and port improvements.

Economic and Defense Adjustments: The Economic and Defense Adjustments program provides flexible investments for communities facing sudden or severe economic distress to diversify and stabilize its economy. Factors that seriously threaten the economic survival of local communities include essential plant closures, military base closures or realignments, defense laboratory or contractor downsizings, natural resource depletion, out-migration, under-employment, and destructive impacts of foreign trade.

Global Climate Change Mitigation Incentive Fund (GCCMIF): The GCCMIF program was established to strengthen the linkage between economic development and environmental quality. The purpose and mission of the GCCMIF program is to finance projects that foster economic development by advancing the green economy in distressed communities. The GCCMIF program is the development and use of products and services that contribute to economic growth and alleviate economic distress by respecting and revitalizing the environment. The GCCMIF program supports projects that create jobs through, and increase private capital investment in, efforts to limit the nation's dependence on fossil fuels, enhance energy efficiency, curb greenhouse gas emissions, and protect natural systems.

Disaster Recovery: The Disaster Recovery program awards grants for the repair of infrastructure and economic development-related facilities damaged by floods and other natural disasters. Funding for the Disaster Recovery program is generally through supplemental funding from Congress for recovery efforts to save, sustain, and preserve private enterprise and job creation in economically distressed communities.

EDA's investments in non-federal physical property for FY 2008 through FY 2012 were as follows:

(In Millions)

Program	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Public Works	$ 133.5	$ 139.9	$ 175.8	$ 224.4	$ 160.7	$ 834.3
Economic and Defense Adjustments	60.0	68.6	61.4	47.6	49.5	287.1
Global Climate Change Mitigation Incentive Fund	-	0.2	5.5	6.8	12.8	25.3
Disaster Recovery	1.8	6.3	32.4	85.1	111.0	236.6
Total	**$ 195.3**	**$ 215.0**	**$ 275.1**	**$ 363.9**	**$ 334.0**	**$ 1,383.3**

The above investments require matching funds by state and local governments of 20 to 50 percent.

Investments in Human Capital:

Human capital investments are expenses, included in the Department's Net Cost of Operations, for education and training programs that are intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of the constant or increasing national productive capacity. These investments exclude education and training expenses for federal civilian and military personnel. Based on a review of the Department's programs, the most significant dollar investments in human capital are by NOAA.

NOAA:

National Sea Grant College Program: Sea Grant is a nationwide network, administered through NOAA, of 32 university-based programs that work with coastal communities. With the adoption in 1966 of the National Sea Grant College Act, Congress established an academic/industry/government partnership that would enhance the nation's education, economy, and environment into the 21st century. The program supports activities designed to increase public awareness of coastal, ocean, and Great Lakes issues, to provide information to improve management decisions in coastal, ocean, and Great Lakes policy, and to train graduate students in marine and Great Lakes science. The Knauss Fellowship Program offers qualified masters and doctoral students the opportunity to spend a year working on marine and Great Lakes policy issues with the Executive and Legislative branches of the federal government. The program currently has 43 fellowships awarded: 12 fellowships funded by the National Sea Grant College Program, and 31 fellowships funded by other NOAA offices and other federal agencies. There is also a Graduate Fellowship Program for Ph.D. candidates in the specialized areas of population dynamics and marine resource economics. The Graduate Fellowship Program currently has 17 fellowships awarded. Participants in this program can receive up to three years of funding.

National Estuarine Research Reserve Program: This program supports activities designed to increase public awareness of estuary issues, provide information to improve management decisions in estuarine areas, and train graduate students in estuarine science. The National Estuarine Research Reserve System's Graduate Research Fellowship (GRF) Program offers qualified masters and doctoral students the opportunity to address scientific questions of local, regional, and national significance. The result is high-quality research focused on improving coastal management issues. All GRF projects must be conducted in a National Estuarine Research Reserve and enhance the scientific understanding of the reserve's ecosystem. In FY 2012, 32 fellowships were awarded.

Educational Partnership Program: The NOAA **Educational Partnership Program (EPP)** with **Minority Serving Institutions (MSI)** provides financial assistance through competitive processes to minority serving institutions that support research and training of students in NOAA-related sciences. The program's goal is to increase the number of trained and graduated students from underrepresented communities in science and technology directly related to NOAA's mission. The EPP/MSI also seeks to increase collaborative research efforts between NOAA scientists and researchers at minority serving academic institutions. Financial assistance is provided through four competitive program components: the Cooperative Science Centers, the Environmental Entrepreneurship Program, the Graduate Sciences Program, and the Undergraduate Scholars Program.

NOAA provides funding to eligible MSIs on a competitive basis to educate, train, and graduate students in NOAA sciences, particularly atmospheric, oceanic, environmental, living marine resources, remote sensing, and scientific environmental technology. NOAA EPP Cooperative Science Centers' goals are to:

- Train and graduate students, particularly from underrepresented communities, in NOAA mission sciences;
- Develop expertise in a NOAA scientific area;
  - Strengthen and build capacity in a NOAA scientific and management area
  - Build research experience in a NOAA scientific and management area
- Increase graduation rates of students from underrepresented communities in NOAA mission sciences;
- Impact NOAA workforce statistics by increasing representation from underrepresented communities in NOAA mission sciences; and
- Leverage NOAA funds to build the education and research capacity at MSIs.

In FY 2012, the Cooperative Science Centers awarded 66 degrees to students, and continued to support 265 students in post-secondary NOAA mission-relevant science, technology, resource management, and policy degree programs.

The EPP/MSI Environmental Entrepreneurship Program (EEP) provides funding to eligible minority serving institutions on a competitive basis to engage students to pursue advanced academic study and entrepreneurship opportunities in the NOAA-related sciences. NOAA's EEP supports student training and experiential learning opportunities for the purpose of stimulating job creation and business development, and revitalizing local communities. EEP's objective is to increase the number of students at MSIs proficient in environmental business enterprises.

The Graduate Sciences Program (GSP) is aimed primarily at increasing opportunities for students in NOAA mission fields to pursue research and educational training in atmospheric, environmental, remote sensing, and oceanic sciences at MSIs when possible. GSP offers between two years (master's candidates) to four years (doctoral students) of NOAA-related research and training opportunities. GSP provides college graduates entry-level employment and hands-on research and work experience at NOAA. In FY 2012, 2 awards were made.

The Undergraduate Scholarship Program is designed to increase the number of students who undertake course work and graduate with degrees in the targeted areas integral to NOAA's mission. Appointments are for two years, and are made to students who have recently declared or are about to declare a major in atmospheric, oceanic, or environmental science. The students participate in research, training, and development activities at NOAA offices and facilities during two summer internships. In FY 2012, 11 students were selected for the program.

Ernest F. Hollings Undergraduate Scholarship Program: This program was established in 2005 to (1) increase undergraduate training in oceanic and atmospheric science, research, technology, and education, and foster multidisciplinary training opportunities; (2) increase public understanding and support for stewardship of the ocean and atmosphere and improve environmental literacy; (3) recruit and prepare students for public service careers with NOAA and other agencies at the federal, state, and local levels of government; and (4) recruit and prepare students for careers as teachers and educators in oceanic and atmospheric science and to improve scientific and environmental education in the U.S. In FY 2012, the program added 115 students.

Students live and attend universities across the U.S. They are majoring in the following science, technology, engineering, and mathematics fields: Mathematics; Meteorology; Engineering; Biology; Chemistry; Climatology; Computer Science; Earth Sciences; Economics; Science Teachers; Physical Sciences; and Science Policy.

Southeast Fisheries Science Center's Recruiting Training Research Program: This is a joint program between NMFS and the University of Florida. The program had resided at Virginia Tech before moving to the University of Florida in December 2011. The objectives of the program are the following: (1) to recruit top undergraduate and graduate students into the field of fisheries population dynamics and careers with NMFS; (2) to train graduate students; and (3) to conduct population dynamics and stock assessment research in support of the NMFS mission. The program also offers graduate courses and workshops in computer programming, simulation modeling, and fish population dynamics. In FY 2012, 15 outstanding undergraduate students from across the country participated in a week-long undergraduate workshop and the program supported three M.S. students. In the spring of 2012, two new graduate students (one M.S. and one Ph.D.) were recruited to begin their workshop in July 2012. In September 2012, an open house took place in Miami to enable the University of Florida community to meet the faculty, staff, students, and collaborators to visit the facility and learn about the work that the center does. Plans are moving forward for another undergraduate workshop in March 2013, and a newly designed summer program for Masters-level students from around the country is scheduled to take place in June 2013.

Northeast Fisheries Science Center (NEFSC) Partnership Education Program (PEP): The NEFSC of NOAA's National Marine Fisheries Service leads a consortium of six science institutions in Woods Hole, MA., offering a ten-week summer program that combines undergraduate course work with research in marine and environmental science. Launched in 2009, PEP is an ongoing diversity program designed to recruit talent from minority groups that are under-represented in marine and environmental sciences. PEP recruitment targets college students with priority given to entering juniors and seniors majoring in the natural sciences who have had some course work in marine and/or environmental science. The program includes a credit course taught in Woods Hole by research scientists from Woods Hole science institutions, student research projects, and presentation of research results in a one-day seminar. Participants receive financial support for tuition, travel, and room and board, as well as a stipend. In FY 2012, 16 students participated in the ten-week summer program.

Northeast Fisheries Science Center Bradford E. Brown Student Internship Program: The NEFSC has named its student intern program after Dr. Bradford Brown, a retired NOAA Fisheries Service scientist who was a leader in recruiting young people into fishery science. The program is open to active undergraduate and graduate students. Research topics include population biology and dynamics, resource assessment and environmental surveys, taxonomy, physical and biological oceanography, social sciences, data management, larval fish/plankton ecology, large marine ecosystems, aquaculture, biotechnology, remote sensing, protected species, and apex predators. Summer positions are offered throughout NEFSC laboratories, which are located in Woods Hole, MA; Narragansett, RI; Milford, CT; Highlands, NJ; Washington, DC; and Orono, ME. In FY 2012, 16 students participated in the student intern program.

Woods Hole Science Aquarium (WHSA) High School Intern Program: WHSA offers three summer programs for students who have completed grades 10, 11, or 12. The programs are run by WHSA staff, and are projects of the NEFSC of NOAA's National Marine Fisheries Service and the Marine Biological Laboratory. Interns selected for the five-week program work in the aquarium, help lead public collecting walks, and participate in the Careers in Marine Science seminars. The one and two-week Careers in Marine Science seminars consist of short presentations by marine scientists, activities, and field trips that introduce students to marine-related careers. All students learn basic animal husbandry and aquarist skills, visit the local Woods Hole research institutions, meet with working scientists in a variety of fields, and visit area aquariums, zoos, and waterfronts. In FY 2012, 16 students will participate in one of the three summer programs.

Pacific Islands Fisheries Science Center (PIFSC) Student Intern Program (PSIP): PSIP offers qualified college students professional work experience and formal training opportunities tailored to meet their educational and professional goals and interests. PSIP is a paid, summer-long (8-12 weeks) program that combines on-the-job training, formal training, one-to-one mentoring, and developmental assignments at PIFSC. Internship opportunities are established in specific PIFSC projects. Program components include:

- Performance Plans to establish goals and timelines for the intern's work assignments (established in meetings between intern and mentor)
- Periodic meetings between intern and mentor to check on progress (includes a mid-point review and final review)
- Inclusion of intern in PIFSC staff activities (division meetings, all-hands meetings, training, and other activities)
- Program wrap up: Interns and mentors hold a final meeting to review final products and discuss the internship experience
- Evaluations: Interns and mentors complete a program evaluation to provide feedback that will help PIFSC improve the structure of the internship program

In addition to the individual and group mentoring by PIFSC staff, PSIP interns are encouraged to synergize with each other and with other undergraduate and graduate interns at PIFSC. In FY 2012, PIFSC scientists hosted 3 undergraduate summer interns: 2 in PIFSC's Protected Species Division, and 1 in the Fisheries Research and Monitoring Division.

The following table summarizes NOAA's investments in human capital for FY 2008 through FY 2012:

(In Millions)

Program	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
National Sea Grant College Program	$ 0.5	$ 0.7	$ 0.9	$ 0.8	$ 0.7	$ 3.6
National Estuarine Research Reserve Program	0.8	1.0	1.3	1.5	1.5	6.1
Educational Partnership Program	12.8	15.0	14.3	14.3	12.5	68.9
Ernest F. Hollings Undergraduate Scholarship Program	3.6	3.6	4.6	4.5	4.9	21.2
Southeast Fisheries Science Center's Recruiting Training Research Program	N/A	0.4	0.5	0.5	0.5	1.9
Northeast Fisheries Science Center Partnership Education Program	N/A	-	-	0.2	0.2	0.4
Northeast Fisheries Science Center Bradford E. Brown Student Internship Program	N/A	N/A	N/A	0.2	0.2	0.4
Total	**$ 17.7**	**$ 20.7**	**$ 21.6**	**$ 22.0**	**$ 20.5**	**$ 102.5**

N/A = Not Applicable

The following table further summarizes NOAA's human capital investments for FY 2008 to FY 2012 by performance outcome:

(In Millions)

Performance Outcome	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 17.7	$ 20.7	$ 21.6	N/A	N/A
Increase Scientific Knowledge and Provide Information to Stakeholders to Support Economic Growth and to Improve Innovation, Technology, and Public Safety	N/A	N/A	N/A	$ 22.0	$ 20.5
N/A = Not Applicable					

Investments in Research and Development (R&D):

Investments in R&D are expenses that are included in the Department's Net Cost of Operations. The investments are divided into three categories: (1) basic research, the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind; (2) applied research, the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and (3) development, the systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes. The investments are made with the expectation of maintaining or increasing national economic productive capacity, or yielding other future economic or societal benefits. Based on a review of the Department's programs, the only significant investments in R&D are by NIST and NOAA.

NIST:

NIST Laboratories Program:

The NIST Laboratories work at the frontiers of measurement science to ensure that the U.S. system of measurements is firmly grounded on sound scientific and technical principles. Today, the NIST Laboratories address increasingly complex measurement challenges, ranging from the very small (e.g., nanoscale devices) to the very large (e.g., vehicles and buildings), and from the physical (e.g., renewable energy sources) to the virtual (e.g., cybersecurity and cloud computing). As new technologies develop and evolve, NIST's measurement research and services remain central to innovation, productivity, trade, and public safety.

The NIST Laboratories provide industry, academia, and other federal agencies with:

- Scientific underpinnings for basic and derived measurement units in the international standards community, measurement and calibration services, and certified reference materials;
- Impartial expertise and leadership in basic and applied research to enable development of test methods and verified data to support the efficient commercialization and exchange of goods and services in industry and commerce;
- Support for the development of open, consensus-based standards and specifications that define technical and performance requirements for goods and services, with associated measurements and test methods for conformity; and

- Unique cutting-edge user facilities that support innovation in materials science, nanotechnology discovery and fabrication, and other emerging technology areas through the NIST Center for Neutron Research, which provides world class neutron measurement capabilities to the U.S. research community, and through the NIST Center for Nanoscale Science and Technology, which supports nanotechnology development from discovery to production.

Technology Innovation Program (TIP):

NIST's FY 2012 appropriations did not provide funding for TIP and the program is currently implementing a closeout, expected to be completed by the end of FY 2014. Prior to its closeout, TIP awarded 38 projects advancing research in the areas of civil infrastructure (17 projects) and advanced manufacturing (21 projects). These awards leverage $136 million in TIP funding with an additional $144 million in industry cost-share. Two projects have successfully completed research and development (R&D) and the remaining projects will continue research using previously obligated funds. NIST technical experts will continue to monitor the technical progress and ensure the fidelity of the research during this time.

The following table summarizes NIST's R&D investments for FY 2008 through FY 2012 by R&D Category:

(In Millions)

	NIST Laboratories					Technology Innovation Program					Total				
R&D Category	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Basic Research	$ 132.8	$ 144.9	$ 162.0	$ 185.3	$ 198.9	$ -	$ -	$ -	$ -	$ -	$ 132.8	$ 144.9	$ 162.0	$ 185.3	$ 198.9
Applied Research	381.0	378.5	395.9	377.8	379.1	23.2	25.0	26.2	22.1	19.7	404.2	403.5	422.1	399.9	398.8
Development	14.4	15.4	15.3	19.4	12.7	23.2	25.1	26.2	22.1	19.7	37.6	40.5	41.5	41.5	32.4
Total	**$ 528.2**	**$ 538.8**	**$ 573.2**	**$ 582.5**	**$ 590.7**	**$ 46.4**	**$ 50.1**	**$ 52.4**	**$ 44.2**	**$ 39.4**	**$ 574.6**	**$ 588.9**	**$ 625.6**	**$ 626.7**	**$ 630.1**

The following tables further summarize NIST's R&D investments for FY 2008 through FY 2012 by performance outcome.

(In Millions)

FY 2012				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Provide Measurement Tools and Standards to Strengthen Manufacturing, Enable Innovation, and Increase Efficiency	$ 198.9	$ 379.1	$ 12.7	$ 590.7
Technology Innovation Program: Stimulate High-growth Business Formation and Entrepreneurship through Investing in High-risk, High-reward Technologies and by Removing Impediments to Accelerate Technology Commercialization	-	19.7	19.7	39.4
Total	**$ 198.9**	**$ 398.8**	**$ 32.4**	**$ 630.1**

In Millions)

FY 2011				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Provide Measurement Tools and Standards to Strengthen Manufacturing, Enable Innovation, and Increase Efficiency	$ 185.3	$ 377.8	$ 19.4	$ 582.5
Technology Innovation Program: Stimulate High-growth Business Formation and Entrepreneurship through Investing in High-risk, High-reward Technologies and by Removing Impediments to Accelerate Technology Commercialization	-	22.1	22.1	44.2
Total	**$ 185.3**	**$ 399.9**	**$ 41.5**	**$ 626.7**

(In Millions)

FY 2010				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Promote Innovation, Facilitate Trade, and Ensure Public Safety and Security by Strengthening the Nation's Measurements and Standards Infrastructure	$ 162.0	$ 395.9	$ 15.3	$ 573.2
Technology Innovation Program: Promote U.S. Competitiveness by Directing Federal Investment and R&D into Areas of Critical National Need that Support, Promote and Accelerate High-risk, High-reward Research in the United States	-	26.2	26.2	52.4
Total	**$ 162.0**	**$ 422.1**	**$ 41.5**	**$ 625.6**

(In Millions)

FY 2009				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Promote Innovation, Facilitate Trade, and Ensure Public Safety and Security by Strengthening the Nation's Measurements and Standards Infrastructure	$ 144.9	$ 378.5	$ 15.4	$ 538.8
Technology Innovation Program: Promote U.S. Competitiveness by Directing Federal Investment and R&D into Areas of Critical National Need that Support, Promote, and Accelerate High-risk, High-reward Research in the United States	-	25.0	25.1	50.1
Total	**$ 144.9**	**$ 403.5**	**$ 40.5**	**$ 588.9**

(In Millions)

FY 2008				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Promote Innovation, Facilitate Trade, and Ensure Public Safety and Security by Strengthening the Nation's Measurements and Standards Infrastructure	$ 132.8	$ 381.0	$ 14.4	$ 528.2
Advanced Technology Program: Accelerate Private Investment in and Development of High-risk, Broad-impact Technologies	-	23.2	23.2	46.4
Total	**$ 132.8**	**$ 404.2**	**$ 37.6**	**$ 574.6**

NOAA:

NOAA conducts a substantial program of environmental R&D in support of its mission, much of which is performed to improve the United States' understanding of and ability to predict environmental phenomena. The scope of research includes:

- Improving predictions and warnings associated with the weather, on timescales ranging from minutes to weeks;
- Improving predictions of climate, on timescales ranging from months to centuries; and
- Improving understanding of natural relationships to better predict and manage renewable marine resources and coastal and ocean ecosystems.

NOAA also conducts research that is intended to provide a solid scientific basis for environmental policy-making in government. Examples of this research include determining the stratospheric ozone-depleting potential of proposed substitutes for chlorofluorocarbons (CFCs), and identifying the causes of the episodic high rural ozone levels that significantly damage crops and forests.

NOAA conducts most R&D in-house; however, contractors to NOAA undertake most systems R&D. External R&D work supported by NOAA includes that undertaken through federal-academic partnerships such as the National Sea Grant College Program, the Cooperative Institutes of the Environmental Research Laboratories, the Climate and Global Change Program, and the Coastal Ocean Program.

Here is a brief description of the major R&D programs of NOAA:

Environmental and Climate: The Office of Oceanic and Atmospheric Research is NOAA's primary research and development office. This office conducts research in three major areas: climate research; weather and air quality research; and ocean, coastal, and Great Lakes research. NOAA's research laboratories, Climate Program Office, and research partners conduct a wide range of research into complex climate systems, including the exploration and investigation of ocean habitats and resources. NOAA's research organizations conduct applied research on the upper and lower atmosphere as well as the space environment.

Fisheries: NOAA's National Marine Fisheries Service (NMFS) is responsible for the conservation and management of living marine resources and their habitat within the Nation's Exclusive Economic Zone. NMFS manages these resources through science-based conservation and management to ensure their continuation as functioning components of productive ecosystems, while also affording economic opportunities and enhancing the quality of life for the American public. Fishery stocks and protected species are surveyed; catch, bycatch, incidental take, economic and social data are collected, and research is conducted to better understand the variables affecting the abundance and variety of marine fishes and protected species, their habitat, and the benefits they provide to society. Protection of endangered species, restoration of coastal and estuarine fishery habitats, and enforcement of fishery regulations are primary NOAA activities. The research and management of living marine resources is conducted in partnership with states, tribes, universities, other countries, international organizations, and a broad range of stakeholders who benefit from the use and existence of living marine resources and their habitat.

Marine Operations and Maintenance and Aircraft Services: These efforts support NOAA's programs requiring operating days and flight hours to collect data at sea and in the air. NOAA's Marine and Aviation Operations manage a wide variety of specialized aircraft and ships to complete NOAA's environmental and scientific missions. The aircraft collect the environmental and geographic data essential to NOAA hurricane and other weather and atmospheric research, conduct aerial surveys for hydrologic research to help predict flooding potential from snowmelt, and provide support to NOAA's fishery research and marine mammal assessment programs. NOAA's ship fleet provides oceanographic and atmospheric research and fisheries research vessels to support NOAA's strategic plan elements and mission.

Weather Service: The National Weather Service conducts applied research and development, building upon research conducted by NOAA laboratories and the academic community. Applied meteorological and hydrological research is integral to providing more timely and accurate weather, water, and climate services to the public.

Other Programs: As a national lead for coastal stewardship, National Ocean Service promotes a wide range of research activities to create the strong science foundation required to advance the sustainable use of precious coastal systems. Understanding of the coastal environment is enhanced through coastal ocean activities that support science and resource management programs. The National Environmental Satellite Data and Information Service, through its Office of Research and Applications, conducts atmospheric, climatological, and oceanic research into the use of satellite data for monitoring environmental characteristics and their changes. It also provides guidance for the development and evolution of spacecraft and sensors to meet future needs.

NOAA's R&D investments by program for FY 2008 through FY 2012 were as follows:

(In Millions)

Program	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Environmental and Climate	$ 331.2	$ 337.0	$ 344.1	$ 395.3	$ 392.8	$ 1,800.4
Fisheries	53.6	55.7	59.9	65.7	64.9	299.8
Marine Operations and Maintenance and Aircraft Services	51.5	38.4	34.3	34.3	33.3	191.8
Weather Service	56.7	58.4	53.9	54.7	36.4	260.1
Others	111.1	103.8	102.0	98.0	90.6	505.5
Total	**$ 604.1**	**$ 593.3**	**$ 594.2**	**$ 648.0**	**$ 618.0**	**$ 3,057.6**

The following table summarizes NOAA's R&D investments for FY 2008 through FY 2012 by R&D category:

(In Millions)

R&D Category	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Applied Research	$ 517.6	$ 491.3	$ 452.4	$ 439.6	$ 426.5	$ 2,327.4
Development	86.5	102.0	141.8	208.4	191.5	730.2
Total	**$ 604.1**	**$ 593.3**	**$ 594.2**	**$ 648.0**	**$ 618.0**	**$ 3,057.6**

The following tables further summarize NOAA's R&D investments from FY 2012 back to FY 2008 by performance outcome:

(In Millions)

FY 2012			
Performance Outcome	**Applied Research**	**Development**	**Total**
Increase Scientific Knowledge and Provide Information to Stakeholders to Support Economic Growth and to Improve Innovation, Technology, and Public Safety	$ 148.1	$ 9.9	$ 158.0
Enable Informed Decision-making through an Expanded Understanding of the U.S. Economy, Society, and Environment by Providing Timely, Relevant, Trusted, and Accurate Data, Standards, and Services	45.2	12.6	57.8
Improve Weather, Water, and Climate Reporting and Forecasting	8.9	27.5	36.4
Support Climate Adaptation and Mitigation	104.4	127.5	231.9
Develop Sustainable and Resilient Fisheries, Habitats, and Species	56.1	8.8	64.9
Support Coastal Communities that are Environmentally and Economically Sustainable	63.8	5.2	69.0
Total	**$ 426.5**	**$ 191.5**	**$ 618.0**

(In Millions)

FY 2011			
Performance Outcome	**Applied Research**	**Development**	**Total**
Increase Scientific Knowledge and Provide Information to Stakeholders to Support Economic Growth and to Improve Innovation, Technology, and Public Safety	$ 149.5	$ 9.3	$ 158.8
Enable Informed Decision-making through an Expanded Understanding of the U.S. Economy, Society, and Environment by Providing Timely, Relevant, Trusted, and Accurate Data, Standards, and Services	48.0	12.6	60.6
Improve Weather, Water, and Climate Reporting and Forecasting	17.8	36.9	54.7
Support Climate Adaptation and Mitigation	101.2	141.4	242.6
Develop Sustainable and Resilient Fisheries, Habitats, and Species	59.1	6.7	65.8
Support Coastal Communities that are Environmentally and Economically Sustainable	64.0	1.5	65.5
Total	**$ 439.6**	**$ 208.4**	**$ 648.0**

(In Millions)

FY 2010			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 218.4	$ 6.8	$ 225.2
Advance Understanding of Climate Variability and Change	125.1	84.0	209.1
Provide Accurate and Timely Weather and Water Information	108.0	48.4	156.4
Support Safe, Efficient, and Environmentally Sound Commercial Navigation	0.9	2.6	3.5
Total	**$ 452.4**	**$ 141.8**	**$ 594.2**

(In Millions)

FY 2009			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 211.5	$ 8.1	$ 219.6
Advance Understanding of Climate Variability and Change	140.4	60.5	200.9
Provide Accurate and Timely Weather and Water Information	138.9	32.7	171.6
Support Safe, Efficient, and Environmentally Sound Commercial Navigation	0.5	0.7	1.2
Total	**$ 491.3**	**$ 102.0**	**$ 593.3**

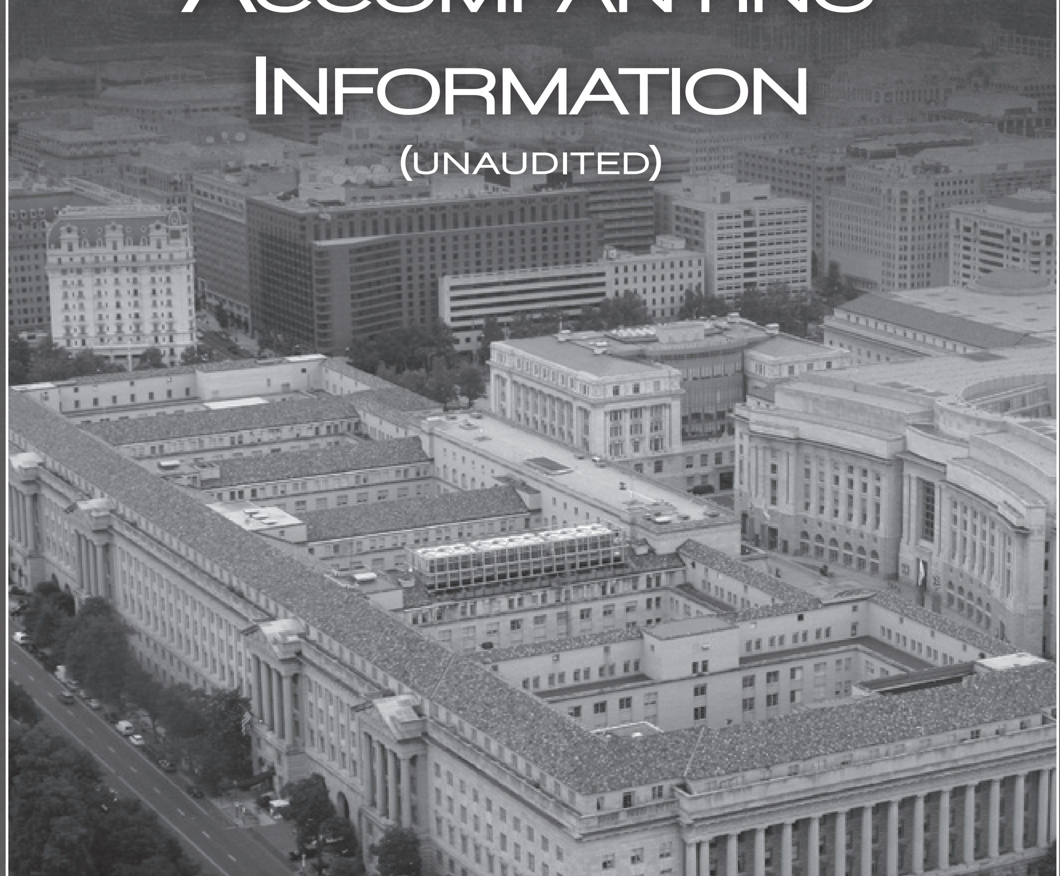
(In Millions)

FY 2008			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 229.8	$ 11.4	$ 241.2
Advance Understanding of Climate Variability and Change	145.9	35.7	181.6
Provide Accurate and Timely Weather and Water Information	140.3	39.2	179.5
Support Safe, Efficient, and Environmentally Sound Commercial Navigation	1.6	0.2	1.8
Total	**$ 517.6**	**$ 86.5**	**$ 604.1**

FINANCIAL SECTION

Other Accompanying Information

(UNAUDITED)

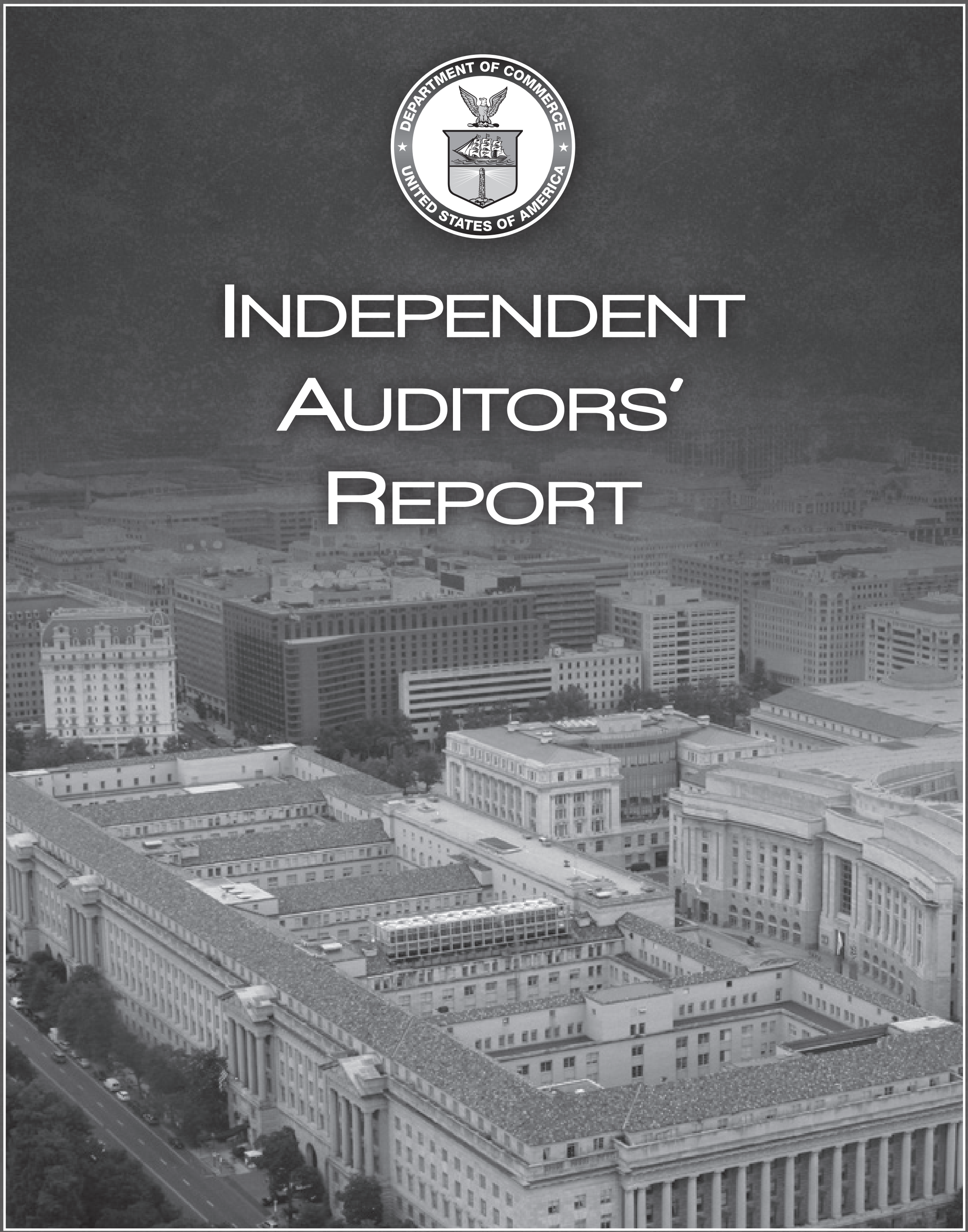


The Schedule of Spending by Major Budget Account presents amounts agreed to be spent for the current year, how the money was spent, and who received the money. The *Total Amounts Agreed to be Spent* line represents obligations incurred during the current year.

United States Department of Commerce Schedule of Spending by Major Budget Account
For the Year Ended September 30, 2012 *(In Thousands)*

	Combining Total	NOAA Operations, Research, and Facilities	USPTO Salaries and Expenses	NOAA Procurement, Acquisition, and Construction	NTIA Digital Television Transition and Public Safety Fund	ITA Operations and Administration	Census Bureau Periodic Censuses and Programs	EDA Grant Fund	NTIA Broadband Technology Opportunities Program - Recovery Act	Other Programs
WHAT MONEY IS AVAILABLE TO SPEND?										
Total Resources	$ 22,590,496	$ 3,639,588	$ 2,612,628	$ 1,830,285	$ 8,782,695	$ 516,628	$ 830,647	$ 481,345	$ 2,976	$ 3,893,704
Less: Amounts Available but Not Agreed to be Spent	(1,294,023)	(176,593)	(237,873)	(23,226)	(19,038)	(19,888)	(13,456)	(178,237)	-	(625,712)
Less: Amounts Not Available to be Spent	(9,058,376)	(66,554)	-	(19,006)	(8,745,196)	(9,744)	(118,568)	(6,075)	(2,976)	(90,257)
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**
HOW WAS THE MONEY SPENT?										
Payroll	$ 4,735,747	$ 1,556,546	$ 1,598,013	$ 50,122	$ 322	$ 264,441	$ 227,698	$ -	$ -	$ 1,038,605
Rent, Communications, and Utilities	548,590	212,849	119,925	9,240	41	19,763	19,337	-	-	167,435
Travel	138,287	51,217	3,209	2,266	15	18,152	17,436	-	-	45,992
Supplies	217,413	117,599	38,406	11,646	-	2,456	1,361	-	-	45,945
Equipment	474,568	38,041	105,069	252,151	-	6,050	9,681	-	-	63,576
Land, Buildings, and Structures	31,059	4,419	2,038	681	-	-	-	-	-	23,921
Contracts	4,674,706	909,632	362,229	1,358,562	200,826	78,625	143,857	-	(44)	1,621,019
Grants	3,033,356	731,628	-	54,314	17,355	1,662	-	370,247	1,588,798	269,352
Loans	103,273	-	-	-	-	-	-	-	-	103,273
Other	797,795	20,526	103,373	1,851	1,210	77,588	349,313	-	-	243,934
Total Spending	**14,754,794**	**3,642,457**	**2,332,262**	**1,740,833**	**219,769**	**468,737**	**768,683**	**370,247**	**1,588,754**	**3,623,052**
Amounts Remaining to be Spent/(Amounts Spent Related to Prior Years' Resources), Net	(2,516,697)	(246,016)	42,493	47,220	(201,308)	18,259	(70,060)	(73,214)	(1,588,754)	(445,317)
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**
WHO DID THE MONEY GO TO?										
Federal Government	$ 3,791,625	$ 613,745	$ 198,850	$ 1,260,248	$ 728	$ 79,377	$ 360,304	$ -	$ -	$ 1,278,373
Non-federal	8,446,472	2,782,696	2,175,905	527,805	17,733	407,619	338,319	297,033	-	1,899,362
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**
HOW WAS THE MONEY ISSUED?										
Contracts	$ 5,458,134	$ 1,203,642	$ 760,431	$ 1,693,842	$ 570	$ 116,795	$ 131,250	$ -	$ -	$ 1,551,604
Grants	1,187,218	591,328	-	42,075	16,346	2,556	-	297,033	-	237,880
Loans and Guarantees	65,497	-	-	-	-	-	-	-	-	65,497
Non-financial Assistance Direct Payments	4,919,799	1,603,805	1,613,088	52,021	337	287,263	241,915	-	-	1,121,370
Other	607,449	(2,334)	1,236	115	1,208	80,382	325,458	-	-	201,384
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**

FINANCIAL SECTION



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

November 15, 2012

MEMORANDUM FOR: The Honorable Dr. Rebecca Blank
Acting Secretary of Commerce

FROM: Todd J. Zinser

SUBJECT: FY 2012 Consolidated Financial Statements
Final Report No. OIG-13-006-A

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the Department's fiscal year 2012 consolidated financial statements. KPMG LLP, an independent public accounting firm, performed the audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

In its audit of the Department, KPMG found:

- the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles;
- one material weakness in internal control over financial reporting related to NOAA's financial management oversight of budgetary controls and accounting for general property and satellites;
- one significant deficiency related to controls over general information technology, which was not considered to be a material weakness;
- a reportable noncompliance with the Antideficiency Act; and
- no instances in which the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996.

My office oversaw the audit performance. We reviewed KPMG's report and related documentation and made inquiries of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards. However, our review cannot be construed as an audit in accordance with these standards; it was not intended to enable us to express—nor do we express—any opinion on the Department's consolidated financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws, regulations, contracts, and grant agreements. KPMG is solely responsible for the attached audit report, dated November 13, 2012, and the conclusions expressed in it.

In accordance with Department Administrative Order 213-5, please provide an action plan within 60 calendar days of the date of this memorandum addressing the material weakness in NOAA's financial management oversight. The plan should outline the actions that NOAA plans to take to address each recommendation.

If you wish to discuss the contents of this report, please call me at (202) 482-4661, or Ann C. Eilers, Principal Assistant Inspector General for Audit and Evaluation, at (202) 482-2754.

We appreciate the cooperation and courtesies the Department extended to both KPMG and my staff during the audit.

Attachment

cc: Scott B. Quehl, Chief Financial Officer and Assistant Secretary for Administration

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, U.S. Department of Commerce and
Secretary, U.S. Department of Commerce:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce (Department) as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as consolidated financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 18 to the consolidated financial statements, the Department changed its presentation for reporting the combined statement of budgetary resources in fiscal year 2012, in compliance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

Our consideration of internal control over financial reporting resulted in identifying one deficiency, related to weaknesses in financial management oversight at the National Oceanic and Atmospheric Administration (NOAA) that we consider to be a material weakness, and one deficiency, relating to the Department's information technology security, access and configuration management controls, that we consider to be a significant deficiency, as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed one matter of noncompliance, relating to the *Antideficiency Act*, that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the Department's consolidated financial statements; our consideration of the Department's internal control over financial reporting; our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Commerce as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 18 to the consolidated financial statements, the Department changed its presentation for reporting the combined statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136. As a result, the Department's combined statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (including the Financial Management Analysis on pages 157 - 172), Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The September 30, 2012 consolidating balance sheet on page 243 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The September 30, 2012 consolidating balance sheet on page 243 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the September 30, 2012 consolidating balance sheet on page 243 is fairly stated in all material respects in relation to the basic financial statements as a whole. The information in the FY 2012 Performance Section, Appendices, and the information on pages VI through XII are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Internal Control Over Financial Reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2012 audit, we identified one deficiency, that we consider to be a material weakness and one other deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, detected and corrected on a timely basis. We consider the following deficiency, described in more detail in Exhibit I, to be a material weakness.

- **NOAA's financial management oversight needs improvement**. During fiscal year 2012, we noted several control weaknesses at NOAA, in the areas of budgetary controls, accounting for general property, and accounting for satellites. The budgetary control issues relate to moving expenses between accounts to prevent exceeding budget authority, and using appropriations for program activities that may not meet the intended purpose. The property issues, including satellites, relate to proper and timely accounting for acquisitions, transfers, construction work-in-process, asset retirements, and impairment assessments. As a result of these matters, NOAA needs to make significant improvements in its financial management oversight of its budget execution processes, as well as the effective accounting for its property, including satellites.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency, described in more detail in Exhibit II, to be a significant deficiency:

- **Information technology security, access, and configuration management controls need improvement**. We identified new deficiencies in fiscal year 2012 relating to control weaknesses in IT security, access, and configuration management that require management's attention. Despite the positive efforts made by the Department, the Department needs to make continued improvements in its IT controls to fully ensure that

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financial data processed on the Department's systems has integrity, is securely maintained, and is available only to authorized users.

Exhibit III presents the status of the prior year significant deficiency.

We noted certain additional matters that we have reported to management of the Department in a separate letter dated November 13, 2012.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed the following matter of noncompliance that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

- ***Antideficiency Act*** – During fiscal year 2012, the Department determined that the National Weather Service, a component of NOAA, circumvented budgetary controls by moving expenses between accounts to prevent exceeding budget authority. Accordingly, the Department is in the process of reporting this violation of the *Antideficiency Act*, as required by Sections 1351 and 1517(b) of Title 31, of the United States Code. This matter relates to the discussion in Exhibit I, which includes our related recommendations.

The results of our other tests of compliance, as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances where the Department's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Other Matters: In fiscal year 2012, the Department informed us of potential *Antideficiency Act* compliance matters that are currently being reviewed for the following: NOAA - relating to adjusting expenses for reprogramming purposes without providing advanced notice to Congress, and the potential incorrect use of budgetary funding sources to support its programs (see related discussion in Exhibit I); U.S. Census Bureau - relating to the timing of potential obligations for an interagency agreement in advance of receiving appropriations; and the Department level – relating to accepting terms of agreement on purchases made through the internet. Because these reviews are not complete, the ultimate outcome of these matters is not presently known.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws, regulations, contracts, and grant agreements applicable to the Department.

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Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 and 2011 consolidated financial statements of the Department based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2012 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2012 consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

The Department's written responses to the findings identified in our audit and presented in Exhibits I and II were not subjected to the auditing procedures applied in the audit of the Department's consolidated financial statements and, accordingly, we express no opinion on those responses.

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

KPMG LLP

November 13, 2012

U.S. Department of Commerce
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Exhibit I – Material Weakness

The National Oceanic and Atmospheric Administration (NOAA)'s Financial Management Oversight Needs Improvement

NOAA is the Department's largest bureau, comprising 43 percent of the Department's total assets, and 46 percent of the Department's total net cost of operations. During fiscal year 2012, we noted several matters that highlighted the need for improved financial management oversight at NOAA, in the areas of budgetary controls, accounting for general property, and accounting for satellites, discussed below. Collectively, these matters are considered to be a material weakness in internal control.

Budgetary Controls. During fiscal year 2012, the Department conducted an internal inquiry into allegations that the National Weather Service (NWS), a component of NOAA, circumvented budgetary controls by moving expenses between accounts to prevent exceeding budget authority. As a result of the internal review, the Under Secretary of NOAA issued a Decision Memorandum dated May 24, 2012, to act on the NOAA-specific recommendations resulting from the internal review. The Deputy Secretary of Commerce also issued a Decision Memorandum on May 24, 2012, that expanded on the planned corrective actions at NOAA, to review budget formulation and execution processes throughout the Department to ensure transparency and accountability. The Department determined that the circumvention of budgetary controls resulted in an *Antideficiency Act* violation (see Compliance Section of our Independent Auditors' Report).

The internal review identified that the NWS was misusing Summary Level Transfers (SLTs), a type of journal entry that makes it difficult to detect the movement of funds between accounts and prevented the transactions from being flagged during program reviews and audits. We selected a sample of SLTs for audit test work at NOAA, and found that many of these journal entries lacked adequate supporting documentation to describe the purpose of the entries, and lacked evidence of adequate supervisory review. Our findings are consistent with the Department's Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Controls*, Appendix A, *Internal Control Over Financial Reporting* testing results relating to SLTs and other adjusting entries, that also indicated that there was a lack of Budget Analysts' knowledge with respect to appropriation laws. We also found one SLT dated June 14, 2012 (subsequent to the Decision Memorandums noted above), which was described as moving expenses between accounts to ensure that budget levels were not exceeded. Furthermore, we identified three transactions in which we questioned whether the appropriation used was proper. As a result of our audit, these additional matters are being reviewed by NOAA to determine if they violated the *Antideficiency Act*.

These findings indicate inadequate supervision of financial staff within the NWS, as well as a lack of oversight from the NOAA financial management personnel. We also note that as of September 30, 2012, the following important positions were vacant: NOAA Chief Financial Officer (CFO), and the NWS CFO. Although personnel have been assigned in "acting" positions for the NOAA CFO and NWS CFO for most of fiscal year 2012, a permanent appointment for

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Exhibit I – Material Weakness, Continued

the NWS CFO position has not been made and the NOAA CFO position was not filled until November 2012, which could hinder the ability to provide the necessary financial management oversight and implement corrective actions. Permanent positions should be filled by persons who meet the qualifications for agency CFOs as described in the *Chief Financial Officers' Act of 1990*, specifically, "(3) be appointed or designated, as applicable, from among individuals who possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities."

Accounting for Property Other Than Satellites. The Department has a substantial investment in general property, plant, and equipment (PP&E). NOAA accounts for 86 percent of the Department's net property PP&E of $10 billion. During our fiscal year 2012 audit, we identified issues relating to (1) untimely recording of capital assets, which were procured as far back as fiscal year 2010, (2) untimely transfers of completed projects from construction work-in-progress (CWIP) to completed personal property, for projects ready for their intended use as far back as fiscal year 2009, (3) property that was removed from service, but not properly adjusted in the accounting records, (4) failure to complete personal property inventories at certain locations, (5) property remaining in the Unreconciled Property Report for over a year that should have been capitalized, (6) a CWIP project with a negative account balance (indicating that the capitalization amount was incorrect), and (7) policies relating to CWIP that need clarification regarding whether certain costs should be capitalized.

Many of the accounting activities for real and personal property are decentralized at the line office level, and NOAA's Finance Office is reliant on those line offices to provide it with information regarding property acquisitions and disposals. NOAA has recognized the difficulties in accounting for its property and has implemented certain corrective actions in prior years. However, more improvements and additional oversight and training are needed to strengthen controls over the Department's significant property investment.

Accounting for Satellites. At September 30, 2012, NOAA has CWIP related to satellites of $6.1 billion and completed satellites and ground systems with a net book value of $0.6 billion. Accounting for satellites is highly complex; each satellite series/program is accounted for separately; and the construction spans many years, and involves significant contracts and arrangements with contractors and other Government agencies. We noted that proposed accounting for satellite transactions originate within NOAA's National Environmental Satellite, Data, and Information Service (NESDIS). Although NESDIS has a CFO and Deputy CFO, their office is not staffed with personnel that have significant financial accounting training and experience, and NOAA's Finance Office does not have sufficient oversight of the accounting for satellites. As a result, accounting issues related to satellites continue to surface. During our fiscal year 2012 audit, we identified the following issues relating to the accounting for satellites:

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Exhibit I – Material Weakness, Continued

- **Incorrect Classification of a Satellite Ground System**. The National Polar-orbiting Operational Environmental Satellite System (NPOESS) Preparatory Project (NPP) serves as a bridge between NOAA's current polar-orbiting operational environmental system of satellites and the planned Joint Polar Satellite System (JPSS). Although the underlying NPP satellite is owned by the National Aeronautics and Space Administration (NASA), NOAA owns certain sensors/instruments, and is also responsible for the ground system that will be used by both agencies for communications with the satellite, that was launched on October 28, 2011. The NPP satellite and NOAA's sensors/instruments are currently undergoing testing, and have not yet been declared fully "operational". However, NOAA classified the ground system as completed PP&E and began recording depreciation as of the launch date, rather than waiting until the satellite is declared operational. NOAA's NPP sensors/instruments remain in CWIP, and are not expected to be declared operational until fiscal year 2013. As a result, this $616 million ground system should also remain in CWIP as of September 30, 2012. We recommended, and NOAA posted, an audit adjustment to correct the $616 million property classification, and to reverse $115 million in depreciation expense that had been recorded in fiscal year 2012.

  Although NOAA ultimately reversed the proposed ground system transfer to completed PP&E, we noted that the $616 million amount did not agree to the CWIP records. Further, NOAA has not assessed the amount of costs incurred for this ground system that may no longer have future value, given the restructure of the JPSS program, nor the amount of costs incurred that may benefit the ground system that will ultimately be used with future JPSS satellites. These assessments, and a closer supervisory review of supporting documentation, must be made in order to determine the appropriate amount to transfer to completed PP&E, once the NPP satellite and NOAA's sensors/instruments are declared operational.

- **Unrecorded Transfer-In of Satellite**. In September 2011, NOAA received a transfer of the Deep Space Climate Observatory (DSCOVR) satellite from NASA, with an estimated original cost of $183 million. NOAA is in the process of refurbishing the DSCOVR satellite to provide solar wind data continuity for geomagnetic storm forecasting, and expects to complete the satellite in fiscal year 2014. However, NOAA did not recognize that this transfer should be recorded in the Department's financial statements or disclosed in the financial statement footnotes, until prompted to do so, as a result of our audit. Further, this transaction should have been recorded in September 2011, but NOAA's Finance Office did not recognize that this transaction had taken place, until late in fiscal year 2012. An audit adjustment for $183 million was recorded at September 30, 2012, to record this satellite and the related transfer-in.

- **Corrections to the JPSS Impairment Analysis.** The transition of the NPOESS program, which had been a joint effort primarily between NOAA and the U.S. Air Force, to the JPSS program, without US Air Force participation, necessitated significant changes in the scope

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Exhibit I – Material Weakness, Continued

and design of this satellite program, and resulted in the need to expense (or impair) certain NPOESS satellite components that would not be part of the ultimate JPSS design.

NOAA initially recorded impairment charges related to these components in fiscal year 2010. However, due to the complexity of the procurement arrangement between NOAA and U.S. Air Force, and as recommended in our prior year audit, a more detailed analysis of costs incurred for the satellite components was necessary to ensure that an accurate impairment charge was recorded, particularly focused on determining accurate component costs and ensuring that a proportional share of overhead/program costs incurred were allocated to all components. NOAA undertook this analysis in fiscal year 2012, engaging several contractors. Because this effort was started late in the year, a thorough supervisory review was not performed. Further, in reviewing the analysis in process, we noted additional program costs that should have been allocated to the satellite components, certain costs that were considered overhead costs that should have been assigned to specific components, and certain spreadsheet adjustments that were needed.

NOAA updated its analysis for some of our observations, and recorded $99 million in impairment costs in fiscal year 2012, related to the satellite components that were discontinued. We estimate that additional refinements to the calculation, that may be subsequently completed, will not result in a material change to the impairment amount.

- **Review and Approval of Intra-governmental Payments.** NOAA works with other Government agencies, primarily NASA, in procurements related to its satellites. During our internal control testing, NOAA could not provide us with sufficient documentation to evidence NOAA's Line Office's review and approval of 17 out of the 61 Intra-governmental Payment and Collection (IPAC) payments to other federal agencies. We identified this control issue in the prior year, and NOAA developed a formal procedure for documenting the review and approval of IPAC payments for one of its line office that was implemented in fiscal year 2012. However, 10 of the 17 IPAC payments we identified without sufficient documentation occurred after the implementation of the corrective actions. For example, we found that the IPAC documentation did not identify details of the nature of the charges or the period of performance. Inaccurate IPAC payments to NASA could result in misstatements to NOAA's satellite CWIP balances.

- **Uncapitalizable Costs in CWIP**. We noted that after NOAA's two most recently launched satellites (GOES-15 and NOAA-19) were declared operational, NOAA capitalized an additional $73 million of costs related to those satellites, in prior years. We understand that additional costs are often identified long after a satellite is launched, due to delays in billings by NASA and other contractors. In the prior year, NOAA developed an accrual at year-end to record expected additional costs incurred for completed satellites, based on the remaining amount of undelivered orders, to account for the time delay in receiving final billings. However, in early October 2012, as a part of working with NASA to try to understand the details behind the IPAC payments (see prior bullet), NOAA was informed that some of the IPAC billings from NASA were for non-capitalizable costs.

Because of the lack of necessary supporting documentation for many IPAC billings, as described above, NOAA is unable to determine whether certain costs (including accruals) recorded as additions to its satellites should have been capitalized or expensed. NOAA indicated that it would begin working with NASA to determine the details needed to resolve the accounting for the IPACS, but that this could not be completed before issuance of the September 30, 2012 financial statements.

While the ultimate effect of this matter is not yet known, we do not believe that there is a significant misstatement of the net book value of satellites at September 30, 2012, as a result of this matter, because depreciation expense would have offset the majority of any overstatement.

Recommendations

We recommend that NOAA:

Relating to Budgetary Controls:

- Implement the recommendations arising from the *Internal Inquiry into Alleged Mismanagement of Funds within the National Weather Service*, dated May 11, 2012.
- Implement the actions described in the Deputy Secretarial Decision Memorandum, dated May 24, 2012.
- Implement the recommendations resulting from the Department's OMB Circular A-123 review of SLTs and Other Adjusting Entries, described in a management report dated August 28, 2012.
- Complete the review of other transactions, such as those where expenses were moved between accounts, or where appropriations may not have been used for intended purposes, identified at the National Weather Services, to determine if additional *Antideficiency Act* violations have occurred, and make appropriate reports, if necessary.
- Fill the vacant NWS CFO position with personnel candidate experienced in both federal accounting and budgeting.

Relating to Accounting for Property Other Than Satellites:

- Complete a comprehensive review of all property accounting policies, to ensure clarity of procedures and compliance with generally accepted accounting principles.

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Exhibit I – Material Weakness, Continued

- Develop training on property policies and procedures for NOAA's Finance Office, as well as line office personnel.
- Evaluate staffing at line offices to ensure that personnel with appropriate accounting experience are responsible for property accounting.
- Implement greater Finance Office oversight for property accounting transactions.

Relating to Accounting for Satellites:

- Evaluate staffing at NESDIS to ensure that personnel with appropriate financial accounting training and experience are responsible for satellite accounting.
- Establish stronger CFO oversight of accounting for satellites and related areas.
- Ensure that the classification between CWIP and completed PP&E for satellites and satellites ground systems is based on generally accepted accounting principles.
- Analyze the components of the ground system costs, to segregate costs that are applicable to the future JPSS satellite ground system, and determine if any impairment exists with remaining ground system costs that may not benefit the NPP program.
- Improve the process to identify and determine the financial statement impact of significant events or transactions, particularly those related to satellite programs, and ensure that accounting positions are based on standards.
- Continue to review the JPSS component cost analysis, and the overall JPSS program, to ensure that the impairment analysis is accurate, and reviewed annually until the program's completion.
- Establish and implement stronger NOAA-wide policies and procedures for review and approval of IPAC payments, and work with NASA to ensure that sufficient documentation is received for all charges, to enable a determination of the nature of the charge and the period of performance.
- Work with NASA to analyze costs incurred subsequent to recent satellite additions, to determine if such costs should have been capitalized, rather than expensed.

Management's Response

The Department concurs. We will develop corrective action plans and ensure timely implementation to address KPMG's recommendations.

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Exhibit II – Significant Deficiency

Information Technology Security, Access, and Configuration Management Controls Need Improvement

Information security is recognized as a top management challenge for the U.S. Department of Commerce. For several years, the Department's Office of Inspector General (OIG), and departmental self-assessments have identified weaknesses in the Department's information technology (IT) and financial systems controls. We noted that over the past two years, the bureaus and the Department took steps to implement management, operational, and technical controls to help establish sound information security practices and address known weaknesses.

While we saw significant improvements in IT controls the prior year, new deficiencies were identified during fiscal year 2012 that require management's attention.

Our fiscal year 2012 IT assessment was focused on the IT general controls over the Department's major financial management systems and supporting network infrastructure, using the Government Accountability Office's (GAO's) *Federal Information System Controls Audit Manual* (FISCAM). The IT general controls that we consider to be, collectively, a significant deficiency under standards issued by the American Institute of Certified Public Accountants and *Government Auditing Standards*, and our related findings, are as follows:

- **Security management controls.** An information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security policies and procedures, establishing and monitoring security controls over activities performed by external third parties, remediating security weaknesses, and monitoring the effectiveness of the overall security management program.

  A cyber security incident affecting one bureau's systems was identified in December 2011 and confirmed in January 2012. The security incident, while ultimately determined to be isolated to that one bureau, nonetheless posed a security risk to the Department as a whole. Further, the deficiency caused all of the affected bureau's systems to be disconnected from the Department's network and required various accounting and mission activities to be performed manually for several months. We determined that the impact to financial systems was not substantial, because the affected bureau uses other Commerce bureaus to process the majority of its accounting transactions. Nevertheless, this matter was an interruption of service that will requires assessment to ensure that this matter is resolved and that similar issues do not occur at other Commerce bureaus.

  Additionally, during fiscal year 2012, we noted areas where security management controls should be improved at one of the bureaus tested, primarily in the areas of: (1) improving

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Exhibit II – Significant Deficiency, Continued

certification and accreditation as well as security plan documentation, and (2) ensuring compliance with annual role-based training.

- **Access controls.** In close concert with an organization's security management, access controls for general support systems and applications should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, loss, or impairment. Access controls are facilitated by an organization's entity-wide security program. Such controls include physical controls and logical controls, such as keeping computers in locked rooms to limit physical access, and logical controls, such as security software programs designed to prevent or detect unauthorized access to sensitive files. Inadequate access controls diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of information.

  The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to very sensitive resources, such as security software programs, is limited to few individuals; and that employees are restricted from performing incompatible functions or functions beyond their responsibility. This is reiterated by Federal guidelines. For example, OMB Circular A-130 and supporting the National Institute of Standards and Technology (NIST) Special Publications provide guidance related to the maintenance of technical access controls. In addition, the *Department of Commerce IT Security Program Policy* contains many requirements for operating Department IT devices in a secure manner.

  During fiscal year 2012, we noted that access controls should be improved at all of the bureaus tested, primarily in the areas of: (1) managing user accounts to appropriately disable and recertify network, financial system, database and operating system accounts, (2) improving logical controls over financial application, database, and operating system access, (3) strengthening password controls, (4) improving data center recertification procedures, (5) ensuring compliance with audit log review requirements, (6) enforcing multi-factor authentication, and (7) preventing the use of shared database and operating system accounts and passwords. We recognize that the Department and its bureaus have certain compensating controls in place to help reduce the risk of the identified weaknesses, and we considered those compensating controls as part of our overall consolidated financial statement audit.

- **Configuration management.** Configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls configuration changes throughout the system's life cycle. Establishing controls over modifications to information system components and related documentation helps to ensure that only authorized systems and related program modifications are implemented. This is accomplished by instituting policies, procedures, and techniques to help ensure that hardware, software and firmware

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Exhibit II – Significant Deficiency, Continued

programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or turned off, or that processing irregularities or malicious code could be introduced into the IT environment.

During fiscal year 2012, we noted that configuration management controls should be improved at all of the bureaus tested, primarily in the areas of: (1) addressing patch and configuration management vulnerabilities, (2) use of a non-vendor supported system, (3) improving configuration and change management procedures and approval documentation, (4) ensuring vulnerability scans are performed in accordance with Department policy, and (5) system baseline configurations are documented. We recognize that the Department and its bureaus have certain compensating controls in place to help reduce the risk of the identified weaknesses, and we considered those compensating controls as part of our overall consolidated financial statement audit.

Recommendations

Specific recommendations are included in a separate limited distribution IT general controls report, issued as part of the fiscal year 2012 consolidated financial statement audit. The Department should monitor bureau actions to ensure effective implementation of our recommendations and to ensure continued compliance with the *Federal Financial Management Improvement Act of 1996*.

Management's Response

The Department concurs. We will develop corrective action plans and ensure timely implementation of the recommendations presented in the separate limited distribution IT general controls report.

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Exhibit III – Status of Prior Year Significant Deficiency

Reported Issue	Prior Year Recommendation	Fiscal Year 2012 Status
Accounting for NOAA Satellites Construction Costs Needs Improvement		
Internal control deficiencies over the accounting for NOAA satellites construction costs.	• Clarify the CWIP guidance and procedures regarding the accrual of estimated costs for satellites declared operational, and ensure that completed CWIP projects are transferred into PP&E timely. • Ensure that CWIP activity managers receive appropriate training regarding NOAA's CWIP capitalization policies, to ensure that non-capitalizable costs, such as concept studies, designs, and other pre-acquisition costs, are not included in CWIP. • Ensure that a thorough review of CWIP reconciliations is performed. • Implement the planned procedures to ensure that the manager's review and approval of IPAC payments to NASA are documented properly. • Improve procedures for conducting a detailed review of recorded satellite CWIP balances, including analysis of components/costs, to determine if any costs incurred should be written off as impairment charges when components are not used in the final satellite configuration. • Improve the process to identify and determine the financial statement impact of significant events or transactions related to the satellite program.	Open – see Material Weakness in Exhibit I.