Financial Section

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

This FY 2008 Performance and Accountability Report provides financial and program performance information to enable the Department's stakeholders to understand and evaluate what we have achieved relative to the missions and the resources entrusted to us. The report summarizes highlights of the Department's performance, provides detailed financial information, and fulfills the requirements of the Reports Consolidation Act of 2000, the Chief Financial Officers Act, the Government Performance and Results Act, the Federal Managers' Financial Integrity Act, and the Government Management Reform Act.

We are proud to report that in FY 2008 the Department of Commerce again maintained a green status rating on the Financial Management Scorecard of the President's Management Agenda and, for the tenth consecutive year, achieved an unqualified audit opinion. We also completed all testing of key internal controls for financial reporting and identified no material internal control weaknesses. These accomplishments reflect our commitment to excellence in improving financial systems and managing financial resources.

The Department's FY 2008 achievements include completion of the conversion of the International Trade Administration (ITA) to the Commerce Business System (CBS)/Core Financial System (CFS), thereby reducing the number of payment processing locations from six to five. The Department also made significant progress towards standardization, as identified through Accounts Payable Business Process Re-engineering, by implementing approximately 36 percent of standard processes for identified accounting activities. In addition, we continue to plan for the next stage of the Department's financial management evolution in alignment with the principles of standardization, consolidation, and optimization.

Through the Modernization Blueprint Initiative, we developed a comprehensive inventory of administrative programs, initiatives, and systems capturing key information (i.e., schedule and estimated cost) and consolidated it into a single database. This enables the Department's managers to perform better analyses of programs and initiatives that are underway or planned through FY 2012.

The Department was unable to eliminate a significant deficiency concerning consolidated information technology (IT) controls. However, we have made progress towards eliminating this problem, and the dedicated Chief Financial Officer-Chief Information Officer (CFO-CIO) team has been actively monitoring IT security issues. There was also a significant deficiency identified over accounting for personal property at the National Oceanic and Atmospheric Administration (NOAA). NOAA has taken corrective actions and compensating controls have been implemented.

In FY 2009, the Department's missions will continue to be supported by strong and effective financial management and internal controls. The Department remains firmly committed to maximizing the effectiveness of its programs and ensuring their efficient delivery to the American people.

Otto J. Wolff
Chief Financial Officer
and Assistant Secretary for Administration
November 15, 2008

Financial Management and Analysis


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

FINANCIAL MANAGEMENT AND ANALYSIS

In support of the President's Management Agenda (PMA) and under the Secretary's leadership, the Department is continuing to give the highest priority to providing accurate financial data to its internal and external customers, and to its accountability for all assets. Ensuring that there are strong internal controls throughout the Department remains a priority. The Department has created a financial management environment that complies with federal laws and regulations and that provides its executives with timely, accurate financial and performance information. This is evidenced with the achievement of a green status rating on the Financial Performance Scorecard under the PMA. In addition, the Department continued to receive unqualified audit opinions, maintains a single integrated financial system, and continued its compliance with the Federal Financial Management Improvement Act (FFMIA). Highlights of accomplishments for FY 2008 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 replaced non-compliant legacy financial management systems within the Department. Two bureaus that were previously on compliant systems continue to use those systems; a third whose system was no longer supported converted to CBS in the first quarter of FY 2008. The financial information from these systems and CBS is integrated in the Corporate Database (as discussed further below) for consolidated financial reporting, resulting in a single integrated financial management system.

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 integrated with the Commerce Standard Acquisition and Reporting System (CSTARS), the National Finance Center Payroll System, and the Automated Standard Application for Payments (ASAP). As a result of the migration of CBS to Web-based technology, which will be promoted to production in FY 2009, the life expectancy of CBS is expected to be extended beyond 2012. The Department continued planning for the next stage of its financial management evolution in alignment with the PMA and the Financial Management Line of Business (FMLoB) goals of standardization, consolidation, and optimization.

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

During FY 2008, the Department accomplished the following initiatives:

- Redirected the CBS Consolidation Project—consolidation of the Department's financial management servers (hardware and software) at the Census Data Center (CDC) in Bowie, MD—due to the change in the Census Bureau's priorities because of unforeseen issues with the Decennial Census. Several decennial systems were moved to the CDC resulting in a power supply issue that forced the CBS Consolidation servers to move out of the CDC. As a result, the Department developed and reviewed options; identified benefits, risks, and impacts; and made the decision to distribute equipment back to the bureaus and the Office of Financial Management (OFM)/CBS Solutions Center (CSC) in order to achieve the technical migration to Oracle 10g before co-locating or consolidating hosting infrastructures.

- Continued planning for the next stage of the Department's financial management evolution in alignment with the PMA and Office of Management and Budget's (OMB) FMLoB goals of standardization, consolidation, and optimization. Participated in several FMLoB government-wide working groups aimed at standardizing financial management activities in the federal government.
- Made progress towards standardizing business processes identified through Accounts Payable Business Process Re-engineering by implementing an average of 25 processes in all four bureaus out of 70 processes for identified accounting events. Completed programming for new performance metrics reporting.
- Completed the implementation of the conversion of the International Trade Administration (ITA) to the CBS.
- Initiated the Modernization Blueprint Project. Developed a comprehensive inventory of programs, initiatives, and systems across the Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA) that captured key information (schedule, cost, and confidence level associated with cost estimates) and facilitated the critical review, evaluation and update of program estimates and confidence levels resulting in an agreement of program prioritization for administrative business systems. Utilized the inventory to identify key areas of support for the effort—Information Management, Governance, and Delivery Management.
- Documented as-is architecture for use in potential future efforts to develop a target architecture and transition plan for administrative areas within the Department consistent with the Department's Enterprise Architecture (EA) and OMB Federal Enterprise Architecture (FEA).

In FY 2009 and beyond, the Department will continue its efforts to enhance its financial systems. The Department plans to accomplish the following:

- Complete bureau migration of production instances from Oracle 9i to Oracle 10g.
- Develop the Future Financial and Administrative Planning Business Case that will assist the Department in analyzing its current financial and administrative environment, determining the long-term viability of its CBS platform, and comparing to other potential options to support its financial management environment.
- Continue to monitor bureau efforts in implementing standardized processes for identified accounting events and track and measure the bureaus' performance through the performance metrics reports.
- Continue to support the key areas of the Modernization Blueprint effort (Information Management, Governance, and Delivery Management). Update and analyze the program inventory; implement a central Web site to house program inventory; evaluate and enhance review board processes, including proposal evaluation and program monitoring; and design and develop Project Management framework to standardize and improve delivery across the organization.

FINANCIAL REPORTING

The Department is committed to making financial management a priority, and significant efforts are being made to further improve the management of its financial resources. The Department has received unqualified opinions on its consolidated financial statements since 1999. In addition, one bureau subject to individual audit has maintained unqualified opinions on its principal financial statements. The Department met the financial statement submission deadlines for FY 2008. These achievements resulted from the Department's commitment to strong management controls and accountability for its resources. One significant deficiency cited relating to deficiencies in general information technology (IT) controls remained from prior years. The Department has corrective action plans (CAP) in progress to address these deficiencies. The Department conducted an assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular No. 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. The final report, which reported no material weaknesses, was incorporated into management's overall assurance statement provided under the requirements of the FMFIA. In FY 2008, the Department conducted an improper payment sample testing; the results revealed no significant improper payment or internal control deficiencies. Overall, the Department's assessments demonstrate that the Department has strong internal controls over the disbursement processes, the amounts of improper payment in the Department are immaterial, and the risk of improper payment is low. The Performance and Accountability Report (PAR) section and Appendix B on the Improper Payments Information Act of 2002 (IPIA) reporting details describe the Department's efforts in complying with this act along with the results of the Department's reviews.

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

- Prepared and monitored CAPs for the significant deficiency and management letter comments and monitored progress towards their completion throughout the year.
- Published guidance on the preparation and submission of financial statements, including a calendar of milestone dates. Each quarter, with the participation of all bureaus, guidance was reviewed and updated to reflect lessons learned and to identify best practices among the bureaus. When necessary, task forces were formed to resolve issues that could have impeded the Department's ability to produce timely, accurate financial statements.
- Each of the Department's bureaus/reporting entities have currently completed or will be performing over a one to three-year period (depending on the size of the entity) improper payment risk assessments covering all of its programs/activities as required by OMB Circular No. A-123, Appendix C. For many of the reporting entities, these risk assessments will be completed in 2008. These improper payment risk assessments of the entity's programs/activities will also include assessments of the corporate control, procurement, and grants management environments.
- Held meetings throughout the fiscal year with the Office of Inspector General (OIG) and independent auditors to ensure timely completion of the audit and issuance of the financial statements.
- Held monthly meetings led by the Department's Deputy CFO with individual bureau CFOs to discuss financial management issues, including financial statements, OMB Circular No. A-123, and financial performance metrics. These meetings were in addition to the Department's monthly CFO Council meetings led by the Department's CFO and the monthly Finance Officer meetings led by the Deputy CFO.
- Monthly financial metrics were compiled, analyzed, and reported in the government-wide consolidated CFO measurement tracking system. Individual bureaus were provided with a monthly status report comparing and analyzing their results with the Department's goals, and the Department and government-wide results. The results of bureaus metrics and any corrective actions needed were discussed at the bureau CFOs' individual monthly meetings.
- Facilitated intragovernmental reconciliations using the Department's Corporate Database application to collect, extract, and report on a quarterly basis its intragovernmental account balances, by trading partner, to the Treasury Department. The Department took a proactive approach of initiating contact with all trading partner agencies to reconcile large differences. Although the Department has seen an improvement in trading partners' participation, continued improvement is needed in order to reconcile all differences.
- Finalized the Accounting Principles and Standards Handbook updates, and updated/finalized the Cash Management Policies and Procedures Handbook, including updated policies and procedures as a result of the Accounts Payable Business Process Re-engineering project.

Although the Department has accomplished much in the area of financial management, there is still a need to improve upon these accomplishments to ensure that the Department continues to produce and report accurate, reliable, and timely financial information. In FY 2009 and beyond, the Department plans to accomplish the following:

- Continue to enhance OMB Circular No. A-123, *Management's Responsibility for Internal Controls*, process and monitor the implementation of the CAPs for any identified deficiencies as a result of the A-123 and financial statement audit process.
- Continue to identify areas that will facilitate the acceleration of providing accurate, reliable financial information to Department managers and central agencies. This will be achieved through ongoing meetings and workgroups among the Department's financial managers and participation in government-wide financial management committees and workgroups.
- Finalize proposals for revised capitalization thresholds and new bulk purchase thresholds for Property, Plant, and Equipment Acquisitions.
- Continue to monitor and perform reviews of the Department's progress in preventing improper payments.
- Continue to work with OMB, Treasury Department, and the Government-wide Intragovernmental Subcommittee to improve the intragovernmental reconciliation process.

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 towards a single automated grants management system, and enhance/formalize workforce education. Targeted efforts are underway to transform the decentralized Department grants management community into an effective and efficient partnership. The sharing of resources and responsibilities to accomplish enterprise goals is a recurring theme throughout the partnership effort.

Integral to 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. The system, which went live in January 2005, was designed to facilitate efficiencies through standardized business processes and provide a direct interface to other departmental systems and with grant recipients. It continues to demonstrate significant success in reducing paperwork, increasing accountability, and simplifying the post award process. The Grants Online system has also been identified as the solution to standardizing grants procedures 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. This standardization effort is successfully aligning internal processes for the Federal Grants Management Line of Business system consolidation efforts.

During FY 2008, operational grants management responsibilities for grant programs of ITA, Minority Business Development Administration (MBDA), and the Office of the Secretary were transferred from OAM to NOAA. This action was taken pursuant to the recommendation of the Optimal Services Delivery Initiative, a Department taskforce charged with streamlining departmental operations and introducing new efficiencies into the management of its programs. This reorganization moves the management of these programs from a manual, paper driven process to the automated environment of Grants Online. The Department Grants Management Line of Business Implementation Plan calls for the consolidation of all Department grants management operations to Grants Online by 2011.

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

In FY 2008, an intra-departmental project team acting under the authority of the Department Grants Council developed an interactive Web-based course on cost principles for grants and cooperative agreements in collaboration with the Department Office of Training and Knowledge Management. The course has been launched on the Commerce Learning Center Web site and is available to all Department personnel. For FY 2009, the project team will create a course on administrative requirements for grants and cooperative agreements that is expected to be completed in September 2009.

OAM coordinates quarterly Departmental Grants Council meetings and works closely with the OIG and the Office of General Counsel to implement sound policy and ensure consistency for the Department's financial assistance programs. The Department is committed to the goal of strengthening its grant operations and improving its business processes to provide better services to its customers in the federal grant recipient community.

The OAM Director and the Director of the Grants Management Division serve on the Grants Executive Board and the GPC, participating in workgroups and pilot activities. The Department is now fully compliant with Grants.gov milestones, and has revised its Grants and Cooperative Agreements Manual and Standard Grants Terms and Conditions to recognize the emerging growth of electronic government. Continued review and updating of the manual will occur to keep pace with the new requirements engendered by the transition to Grants.gov as the business process model for federal financial assistance programs. Over the past two fiscal years, 17 out of 21 chapters of the Grants Manual have been updated to align it with developments in the rapidly changing environment engendered by the streamlining objectives of PL 106-107. Additionally, an entirely new chapter providing guidance to departmental bureaus making construction awards has been written and added to the manual.

During FY 2008, 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 the Transparency Act. Notwithstanding these challenges, the Department is now up to date with two of its three grant-making bureaus in providing accepted data to the universal Web site, USAspending.gov. Efforts to bring the third bureau into compliance are gaining traction, and the Department expects all bureaus to be current in FY 2009.

Under OMB circulars, organizations receiving federal awards are assigned to a single federal agency (cognizant agency) which acts on behalf of all federal agencies in approving indirect cost and other rates for that organization. The Department is responsible for reviewing indirect cost proposals submitted by assigned grantee organizations and, based on those reviews, negotiates appropriate indirect cost rates. 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 implementation of stronger internal controls, creation of a new tracking database, and documenting/communicating new program procedures.

HUMAN CAPITAL

The Department's leadership continues to recognize the need to ensure succession planning in the area of financial management and to enhance the current workforce development initiatives. Therefore, internship programs are implemented through a variety of sources to give finance and accounting majors an opportunity to gain hands-on accounting experience, while introducing potential future employees to the opportunities that exist at the Department.

In 2008, the Department continued a two-year career internship program for college-level graduates interested in pursuing a career in federal accounting. The Federal Career Intern Program (FCIP) was established to assist federal agencies meet their workforce needs and to generate a steady stream of high-potential individuals for possible conversion to permanent appointment in the competitive service. The FCIP is a two-year program that consists of a one-year initial assignment and two six-months rotational assignments. The rotational assignments allow interns to experience various aspects of an agency as well as distinct specialties within an occupational field. Interns may be rotated within a division where three or more distinct specialties exist, or between bureaus within the Department. Arrangements for rotations must be established prior to the appointment of an intern to the program. In addition to rotational assignments, interns must receive relevant formal classroom training, and be assigned a mentor to assist with the development process. Individual Development Plans are prepared by the supervisor in conjunction with the bureau training division and the intern to implement the training and to ensure that the intern's training experience is designed to provide him/her with the knowledge and skills needed to learn the requirements of the position and perform successfully. During the two-year internship, supervisors closely monitor interns to assess their fitness for continued employment in the federal government. Following successful completion of program requirements, including supervisory certification that the intern meets suitability, performance, and conduct standards, and FCIP Council approval, the intern will be noncompetitively converted to a career or career-conditional appointment.

The class of 2005 had four interns who were converted to permanent employees during 2008 and the class of 2006 is in the process of converting four interns by November 2008. Department leadership continued its partnership with the National Academy Foundation (NAF) by employing a total of 12 finance interns from local high schools and participating in NAF-sponsored events.

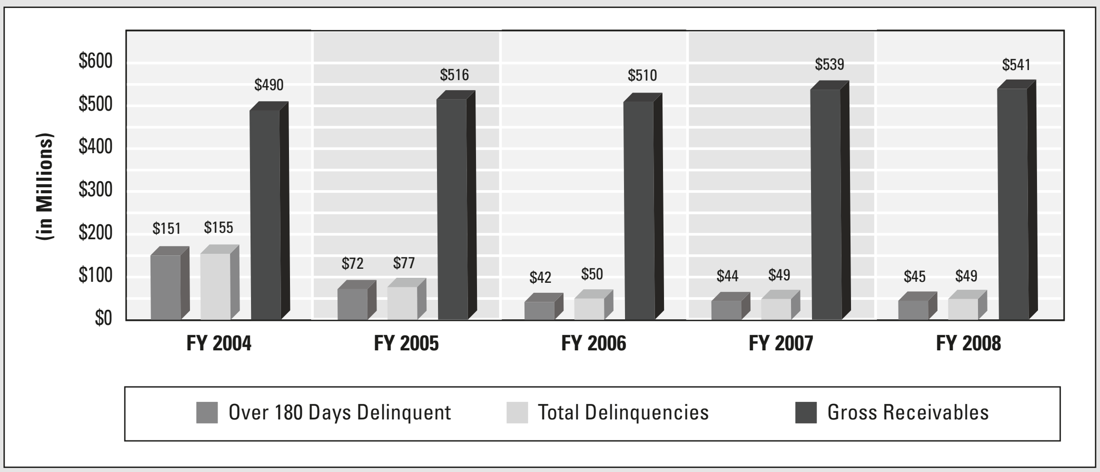
Last year, the Department added the accounting and budgeting series to the list of Department-wide mission-critical occupations. Employees at the GS-7 through GS-15 and equivalent levels in the accounting and budgeting series are eligible to apply for the Senior Executive Service Candidate Development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

DEBT MANAGEMENT

RECEIVABLES AND DEBT MANAGEMENT

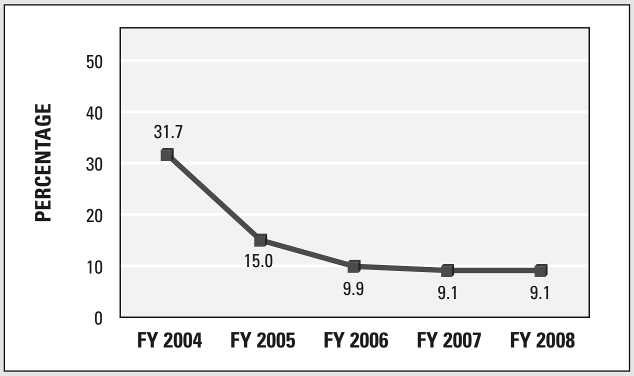
The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to diminish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

GROSS RECEIVABLES



The Department's gross receivables increased 0.4 percent, from $539 million at September 30, 2007 to $541 million at September 30, 2008, as reported on the Department's Treasury Report on Receivables (TROR). The TROR is the primary means for the Department to provide comprehensive information on its gross receivables and delinquent debt due from the public. Debt over 180 days delinquent increased slightly from $44 million at September 30, 2007 to $45 million at September 30, 2008. Total delinquencies as a percentage of gross receivables remained the same at 9.1 percent at September 30, 2007 and 2008.

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. Over $19 million in delinquent debt has been referred to Treasury for cross-servicing since FY 2002. Currently, over 69 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.

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

PAYMENT PRACTICES

Electronic Funds Transfer (EFT)

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

The Department's vendor EFT percentage increased from 97 percent for FY 2007 to 98 percent for FY 2008. The Department accomplished this, in large part, by working closely with its bureaus to identify opportunities for new or improved business processes. This improved performance allowed the Department in FY 2008, on average, to meet OMB's vendor EFT performance goal of 96 percent. The Department has maintained its overall EFT percentage at 99 percent from FY 2007 to FY 2008. The Department believes its continued efforts to implement new or improved business processes will lead to further increases in vendor and overall EFT percentages.

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

Payment Category	EFT Percentage		Total Volume (Actual Number of Transactions — EFT and Non-EFT)	
	FY 2008	FY 2007	FY 2008	FY 2007
Grants	100%	100%	26,802	25,815
Payroll	99%	99%	1,256,838	1,196,926
Retirement Benefits	99%	100%	5,396	4,527
Vendor	98%	97%	431,452	331,264
Overall	**99%**	**99%**	**1,720,488**	**1,558,532**

Bankcards

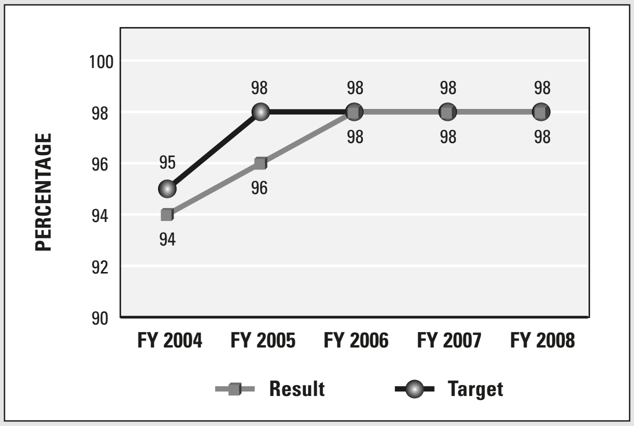
The Department is committed to the use of bankcards (purchase cards) as a means of streamlining Departmental procurements. Bankcard usage is closely monitored, and those that are no longer needed are promptly closed. This has resulted in an overall decrease over the past seven fiscal years in the number of bankcards in use, from 6,405 at September 30, 2001, to 5,321 at September 30, 2008. The Department's emphasis on EFT-compliant payment methods has contributed to an overall increase over the past seven fiscal years in bankcard purchases, from $131.6 million in FY 2001 to $145.5 million in FY 2008. The Department continues to monitor the internal controls surrounding bankcard purchases to ensure that all such purchases are legal and proper.

Prompt Payment

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

The Department has maintained its prompt payment performance at 98 percent from FY 2007 to FY 2008. Furthermore, the number of invoices with late-payment interest penalties decreased, from 5,551 in FY 2007 to 4,810 in FY 2008. 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.

TIMELY VENDOR PAYMENT



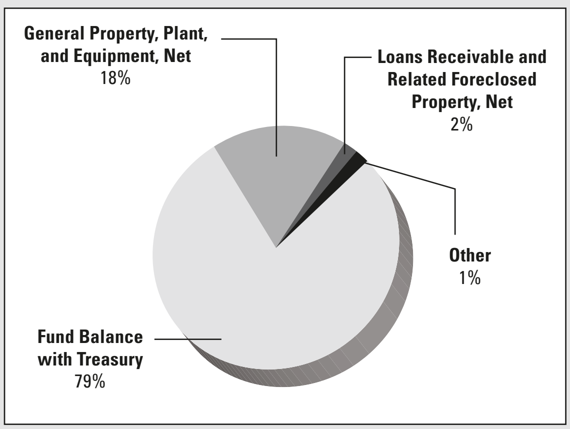
ANALYSIS OF FY 2008 FINANCIAL CONDITION AND RESULTS

Composition of Assets and Assets by Responsibility Segment

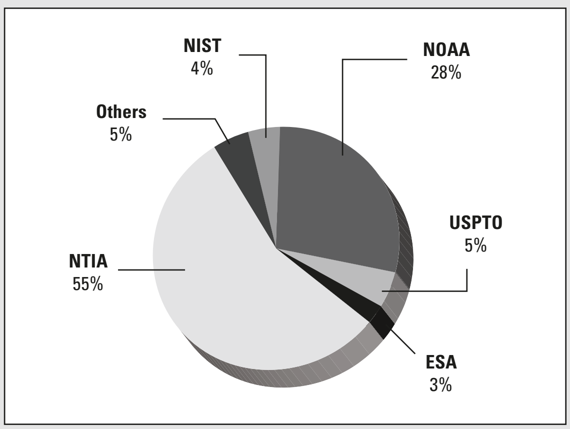
The composition (by percentage) and distribution (by responsibility segment) of the Department's assets changed significantly from FY 2007 to FY 2008 due to proceeds of $18.96 billion from the Federal Communications Commission (FCC) auction of licenses for recovered analog spectrum held in March 2008.

Total assets amounted to $33.72 billion at September 30, 2008. Fund Balance with Treasury of $26.63 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 $6.19 billion includes $3.99 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems; $692 million of satellites and weather systems; $818 million of structures, facilities, and leasehold improvements; and $691 million of other General PP&E. Loans Receivable and Related Foreclosed Property, Net of $511 million primarily relates to NOAA's direct loan programs. Other Assets of $382 million primarily includes Advances and Prepayments of $166 million, Accounts Receivable, Net of $103 million, and Inventory, Materials, and Supplies, Net of $101 million.

COMPOSITION OF THE DEPARTMENT'S ASSETS



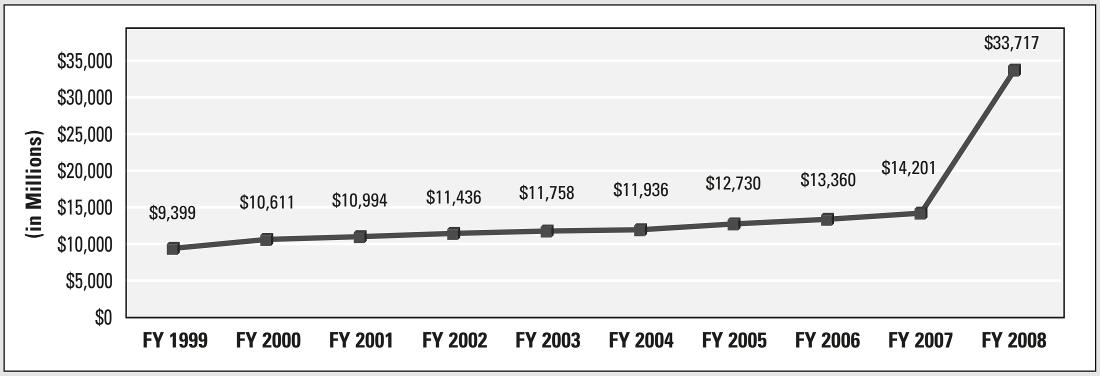
ASSETS BY RESPONSIBILITY SEGMENT



Trends in Assets

Total Assets increased $19.52 billion or 137 percent, from $14.20 billion at September 30, 2007 to $33.72 billion at September 30, 2008. Fund Balance with Treasury increased $19.03 billion or 251 percent, from $7.60 billion to $26.63 billion, which primarily resulted from proceeds of $18.96 billion from the auction of licenses for recovered analog spectrum held in March 2008. General PP&E, Net increased $461 million or 8 percent, from $5.73 billion to $6.19 billion, mainly due to an increase of $632 million in Construction-in-progress, primarily for NOAA satellites/weather systems personal property. Loans Receivable and Related Foreclosed Property, Net decreased $9 million or 2 percent, from $520 million to $511 million, primarily due to NOAA's Bering Sea and Aleutian Islands Non-Pollock Buyback Loans and Bering Sea Pollock Fishery Buyback Loans.

TRENDS IN TOTAL ASSETS

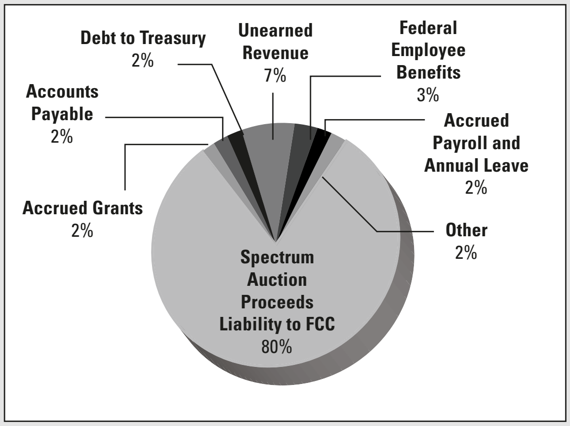


Composition of Liabilities and Liabilities by Responsibility Segment

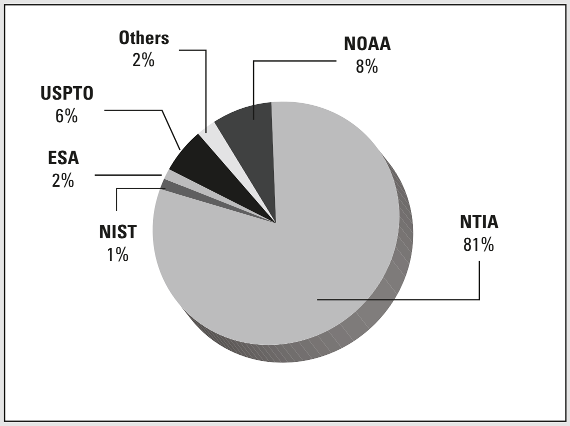
The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities changed significantly from FY 2007 to FY 2008 due to the Spectrum Auction Proceeds Liability to FCC of $17.18 billion as of September 30, 2008, resulting from the FCC auction of licenses for recovered analog spectrum held in March 2008.

Total liabilities amounted to $21.50 billion at September 30, 2008. The Spectrum Auction Proceeds Liability to FCC of $17.18 billion represents FCC auction proceeds for which licenses had not yet been granted by FCC as of September 30, 2008. Unearned Revenue of $1.42 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 $667 million is comprised of the actuarial present value of projected benefits for the NOAA Corps Retirement System ($448 million) and the NOAA Corps Post-retirement Health Benefits ($49 million), and Actuarial FECA Liability ($170 million), which represents the actuarial liability for future workers' compensation benefits. Debt to Treasury of $477 million consists of monies borrowed primarily for NOAA's direct loan programs. Accounts Payable of $455 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Accrued payroll and Annual Leave of $452 million includes salaries and wages earned by employees, but not disbursed as of September 30. Accrued Grants of $374 million, which relates to a diverse array of financial assistance programs and projects, includes EDA accrued grants of $240 million for their economic development and assistance funding to state and local governments. Other Liabilities of $481 million primarily includes Accrued Coupons for Digital-to-Analog Converter Box Program of $166 million, Downward Subsidy Reestimates Payable to Treasury of $68 million, Environmental and Disposal Liabilities of $68 million, Accrued FECA Liability of $34 million, and Accrued Benefits of $32 million.

COMPOSITION OF THE DEPARTMENT'S LIABILITIES



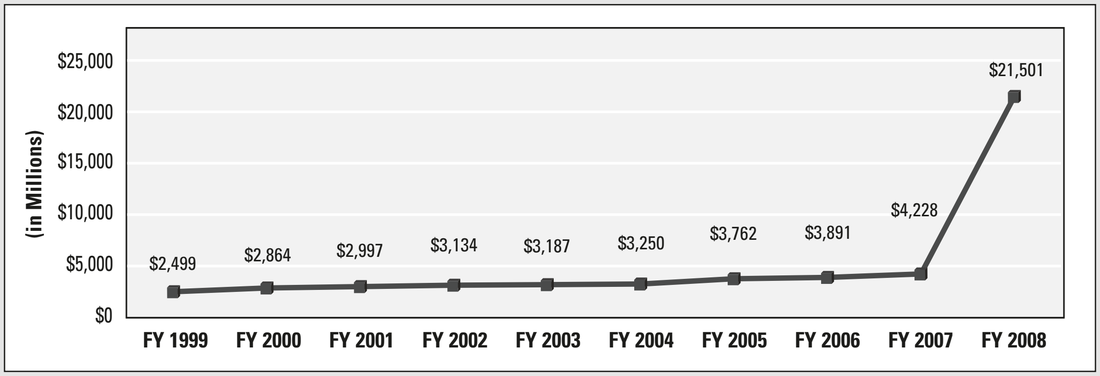
LIABILITIES BY RESPONSIBILITY SEGMENT



Trends in Liabilities

Total Liabilities increased $17.27 billion or 409 percent, from $4.23 billion at September 30, 2007 to $21.50 billion at September 30, 2008. The increase is primarily due to the $17.18 billion Spectrum Auction Proceeds Liability to FCC as of September 30, 2008. Accrued Payroll and Annual Leave increased $56 million or 14 percent, from $396 million to $452 million, mainly due to an increase in the number of days accrued and normal salary increases. Debt to Treasury decreased $169 million or 26 percent, from $646 million to $477 million, due to significant Digital Television Transition and Public Safety Fund borrowing repayments. Other Liabilities increased $185 million or 63 percent, from $296 million to $481 million, primarily due to accrued coupons of $166 million for converter box coupons not yet redeemed as of September 30, 2008 for NTIA's Digital-to-Analog Converter Box Program.

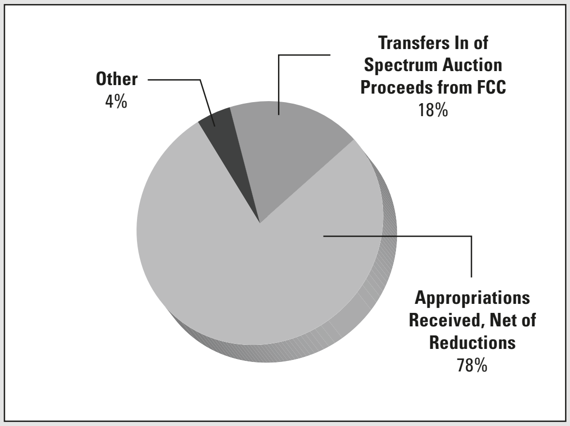
TRENDS IN TOTAL LIABILITIES



Composition of and Trends in Financing Sources

Most of the Department's Financing Sources, shown on the Consolidated Statements of Changes in Net Position, are obtained from Appropriations Received, Net of Reductions. The Department's Financing Sources in FY 2008 also includes the transfers in of spectrum auction proceeds from FCC from the auction of licenses for recovered analog spectrum held in March 2008. These transfers in, amounting to $1.78 billion in FY 2008, represent the auction proceeds for which licenses have been granted by FCC in FY 2008. Other typical Financing Sources include net transfers to and from other federal agencies without reimbursement, imputed financing sources from cost absorbed by other federal agencies, and Downward Subsidy Reestimates Payable to Treasury (a negative Financing Source).

COMPOSITION OF THE DEPARTMENT'S FY 2008 FINANCING SOURCES



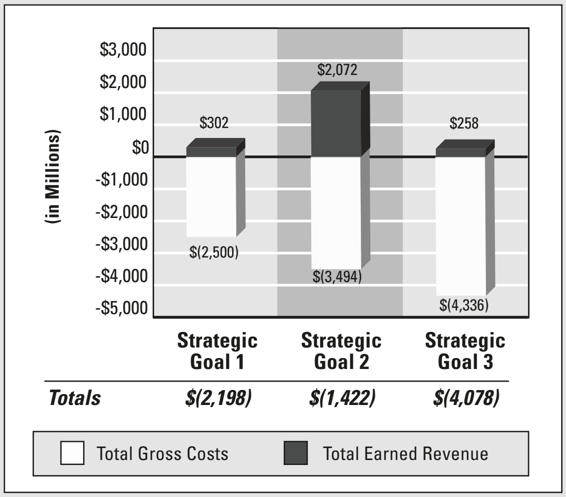
The composition (by percentage) of the Department's financing sources changed significantly from FY 2007 to FY 2008 due to the transfers in of spectrum auction proceeds from FCC.

Total Financing Sources increased $3.00 billion or 43 percent, from $6.94 billion for FY 2007 to $9.94 billion for FY 2008. Appropriations Received, Net of Reductions, increased by $1.06 billion or 16 percent, primarily due to an increase in appropriations received for the Census Bureau of $557 million or 61 percent (from $913 million to $1.47 billion) and for EDA of $499 million or 178 percent (from $281 million to $780 million). All other financing sources had a net increase of $163 million, from $286 million at September 30, 2007 to $449 million at September 30, 2008.

FY 2008 Net Cost of Operations by Strategic Goal

In FY 2008, Net Cost of Operations amounted to $7.70 billion, which consists of Gross Costs of $10.33 billion less Earned Revenue of $2.63 billion.

FY 2008 NET COST OF OPERATIONS BREAKDOWN OF GROSS COSTS AND EARNED REVENUE BY STRATEGIC GOAL



Strategic Goal 1, Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers, includes Net Program Costs of $1.23 billion (Gross Costs of $1.47 billion less Earned Revenue of $244 million) for the Census Bureau. The Census Bureau carries out the Decennial Census, periodic censuses, and demographic and other surveys, and prepares and releases targeted data products for economic and other programs. ITA's programs and activities also support Strategic Goal 1, with Net Program Costs of $448 million (Gross Costs of $465 million less Earned Revenue of $17 million). ITA assists the export growth of small and medium-sized businesses, enforces U.S. trade laws and trade agreements, monitors and maintains trading relationships with established markets, promotes new business in emerging markets, and improves access to overseas markets by identifying and pressing for the removal of trade barriers.

Strategic Goal 1 also includes Net Program Costs of $237 million (Gross Costs of $263 million less Earned Revenue of $26 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 closures of military installations and other federal facilities changing trade patterns, and the depletion of natural resources.

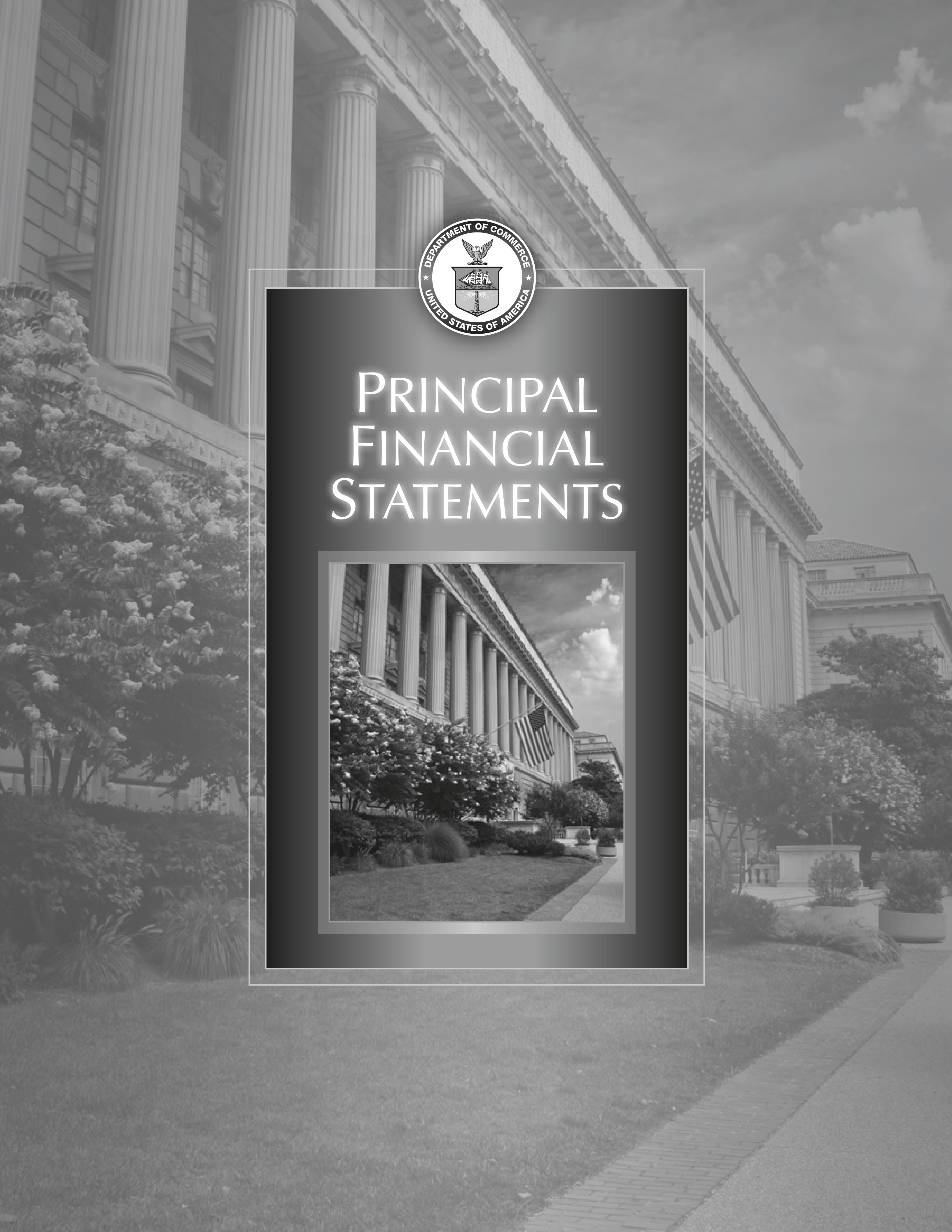
Strategic Goal 2, Promote U.S. Innovation and Industrial Competitiveness, includes Net Program Costs of $30 million (Gross Costs of $1.89 billion less Earned Revenue of $1.86 billion) for USPTO, which includes processing patent applications and disseminating patent information. Through issuing patents, USPTO encourages technological advancement by providing incentives to invent, invest in, and disclose new technology. Strategic Goal 2 also includes Net Program Costs of $556 million (Gross Costs of $672 million less Earned Revenue of $116 million) for the NIST's Measurement and Standards Laboratories. These laboratories are the stewards of the Nation's measurement infrastructure, and provide measurement methods, reference materials, test procedures, instrument calibrations, fundamental data, and standards that comprise essential tools for research, production, and buyer-seller transactions.

Strategic Goal 3, Promote Environmental Stewardship, includes Net Program Costs of $1.58 billion (Gross Costs of $1.65 billion less Earned Revenue of $67 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.



Principal Financial Statements


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

United States Department of Commerce Consolidated Balance Sheets
As of September 30, 2008 and 2007 *(In Thousands)*

	FY 2008	FY 2007
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Notes 2 and 18)	$ 26,633,414	$ 7,596,655
Accounts Receivable (Note 3)	64,963	65,431
Other - Advances and Prepayments	110,087	64,346
Total Intragovernmental	**26,808,464**	**7,726,432**
Cash (Note 4)	5,135	7,696
Accounts Receivable, Net (Note 3)	38,191	36,909
Loans Receivable and Related Foreclosed Property, Net (Note 5)	511,009	519,854
Inventory, Materials, and Supplies, Net (Note 6)	100,595	106,801
General Property, Plant, and Equipment, Net (Note 7)	6,190,408	5,729,764
Other (Note 8)	63,003	73,267
TOTAL ASSETS	**$ 33,716,805**	**$ 14,200,723**
Stewardship, Property, Plant, and Equipment (Note 22)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 109,931	$ 104,866
Debt to Treasury (Note 10)	476,653	645,997
Other		
Spectrum Auction Proceeds Liability to Federal Communications Commission (Note 18)	17,177,707	-
Resources Payable to Treasury	25,792	30,197
Unearned Revenue	359,411	422,860
Other (Note 11)	135,534	98,926
Total Intragovernmental	**18,285,028**	**1,302,846**
Accounts Payable	345,215	327,328
Loan Guarantee Liabilities (Notes 5 and 16)	621	55,732
Federal Employee Benefits (Note 12)	666,563	625,816
Environmental and Disposal Liabilities (Note 13)	67,863	67,443
Other		
Accrued Payroll and Annual Leave	452,073	396,444
Accrued Grants	373,525	404,939
Accrued Coupons for Digital-to-Analog Converter Box Program (Note 18)	165,533	-
Capital Lease Liabilities (Note 14)	30,881	15,558
Unearned Revenue	1,058,956	1,004,305
Other (Note 11)	54,710	27,685
TOTAL LIABILITIES	**$ 21,500,968**	**$ 4,228,096**
Commitments and Contingencies (Notes 5, 14, and 16)		
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations - Earmarked Funds (Note 20)	$ 462	$ -
Unexpended Appropriations - Other Funds	5,179,925	4,528,905
Cumulative Results of Operations		
Cumulative Results of Operations - Earmarked Funds (Note 20)	1,646,557	552,347
Cumulative Results of Operations - Other Funds	5,388,893	4,891,375
TOTAL NET POSITION	**$ 12,215,837**	**$ 9,972,627**
TOTAL LIABILITIES AND NET POSITION	**$ 33,716,805**	**$ 14,200,723**

The accompanying notes are an integral part of these statements.

United States Department of Commerce Consolidated Statements of Net Cost
For the Years Ended September 30, 2008 and 2007 (Note 17) *(In Thousands)*

	FY 2008	FY 2007
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers		
Gross Costs	$ 2,499,703	$ 2,133,671
Less: Earned Revenue	(301,572)	(298,730)
Net Program Costs	**2,198,131**	**1,834,941**
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness		
Gross Costs	3,494,428	2,781,232
Less: Earned Revenue	(2,071,665)	(1,967,068)
Net Program Costs	**1,422,763**	**814,164**
Strategic Goal 3: Promote Environmental Stewardship		
Gross Costs	4,335,967	4,062,583
Less: Earned Revenue	(258,048)	(276,781)
Net Program Costs	**4,077,919**	**3,785,802**
NET COST OF OPERATIONS	**$ 7,698,813**	**$ 6,434,907**

The accompanying notes are an integral part of these statements.

United States Department of Commerce Consolidated Statements of Changes in Net Position For the Years Ended September 30, 2008 and 2007 *(In Thousands)*

	FY 2008			FY 2007		
	Earmarked Funds (Note 20)	All Other Funds	Consolidated Total	Earmarked Funds (Note 20)	All Other Funds	Consolidated Total
Cumulative Results Of Operations:						
Beginning Balance	$ 552,347	$ 4,891,375	$ 5,443,722	$ 620,980	$ 4,542,101	$ 5,163,081
Budgetary Financing Sources:						
Appropriations Used	4,870	7,049,980	7,054,850	-	6,433,917	6,433,917
Non-exchange Revenue	24,171	-	24,171	16,855	36	16,891
Donations and Forfeitures of Cash and Cash Equivalents	-	1,039	1,039	-	1,216	1,216
Transfers In of Spectrum Auction Proceeds from Federal Communications Commission (Note 18)	1,778,983	-	1,778,983	-	-	-
Transfers In/(Out) Without Reimbursement, Net	10,394	250,844	261,238	24,176	81,921	106,097
Other Budgetary Financing Sources/(Uses), Net	-	674	674	-	(333)	(333)
Other Financing Sources (Non-exchange):						
Donations and Forfeitures of Property	-	228	228	-	16,535	16,535
Transfers In/(Out) Without Reimbursement, Net	-	3,301	3,301	-	220	220
Imputed Financing Sources from Cost Absorbed by Others	922	213,321	214,243	1,044	195,859	196,903
Downward Subsidy Reestimates Payable to Treasury	-	(68,379)	(68,379)	-	(36,710)	(36,710)
Loan Modification Savings Paid to Treasury	-	-	-	-	(18,910)	(18,910)
Other Financing Sources/(Uses), Net	10,269	9,924	20,193	6,907	(7,185)	(278)
Total Financing Sources	**1,829,609**	**7,460,932**	**9,290,541**	**48,982**	**6,666,566**	**6,715,548**
Net Cost of Operations	**(735,399)**	**(6,963,414)**	**(7,698,813)**	**(117,615)**	**(6,317,292)**	**(6,434,907)**
Net Change	**1,094,210**	**497,518**	**1,591,728**	**(68,633)**	**349,274**	**280,641**
Cumulative Results of Operations – Ending Balance	**1,646,557**	**5,388,893**	**7,035,450**	**552,347**	**4,891,375**	**5,443,722**
Unexpended Appropriations:						
Beginning Balance	-	4,528,905	4,528,905	27	4,306,394	4,306,421
Budgetary Financing Sources:						
Appropriations Received (Note 18)	-	7,749,948	7,749,948	-	6,683,664	6,683,664
Appropriations Transferred In/(Out), Net	5,332	5,430	10,762	(27)	13,500	13,473
Other Adjustments (Note 18)	-	(54,378)	(54,378)	-	(40,736)	(40,736)
Appropriations Used	(4,870)	(7,049,980)	(7,054,850)	-	(6,433,917)	(6,433,917)
Total Budgetary Financing Sources	**462**	**651,020**	**651,482**	**(27)**	**222,511**	**222,484**
Unexpended Appropriations – Ending Balance	**462**	**5,179,925**	**5,180,387**	**-**	**4,528,905**	**4,528,905**
NET POSITION	**$ 1,647,019**	**$ 10,568,818**	**$ 12,215,837**	**$ 552,347**	**$ 9,420,280**	**$ 9,972,627**

The accompanying notes are an integral part of these statements.

United States Department of Commerce Combined Statements of Budgetary Resources
For the Years Ended September 30, 2008 and 2007 (Note 18) *(In Thousands)*

	FY 2008		FY 2007	
	Budgetary	Non-budgetary Credit Program Financing Accounts	Budgetary	Non-budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ 822,282	$ 59,011	$ 799,694	$ 86,727
Adjustments to Unobligated Balance, Brought Forward	(12)	-	(857)	-
Recoveries of Prior-years Unpaid Obligations	116,481	9,115	120,391	2,477
Budget Authority				
Appropriations	9,551,341	(1)	6,695,491	4,936
Borrowing Authority	500,200	56,910	1,084,164	72,583
Spending Authority From Offsetting Collections				
Earned				
Collected	3,313,100	77,720	3,212,048	64,940
Change in Receivables	7,190	(518)	(38,872)	518
Change in Unfilled Customer Orders				
Advances Received	(24,925)	-	31,143	-
Without Advances	26,570	-	7,232	(355)
Previously Unavailable	2,475	-	1,341	-
Total Budget Authority	**13,375,951**	**134,111**	**10,992,547**	**142,622**
Nonexpenditure Transfers, Net	271,193	-	118,736	-
Temporarily Not Available Pursuant to Public Law	(1,654)	-	(12,189)	-
Permanently Not Available	(719,836)	(56,134)	(36,429)	(48,538)
TOTAL BUDGETARY RESOURCES	**$ 13,864,405**	**$ 146,103**	**$ 11,981,893**	**$ 183,288**
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred				
Direct	$ 8,510,374	$ 85,807	$ 8,125,038	$ 91,071
Reimbursable	3,064,675	719	3,034,573	33,206
Total Obligations Incurred	**11,575,049**	**86,526**	**11,159,611**	**124,277**
Unobligated Balance				
Apportioned	806,243	-	442,461	1,932
Exempt From Apportionment	308,833	-	298,865	-
Total Unobligated Balance	**1,115,076**	**-**	**741,326**	**1,932**
Unobligated Balance Not Available	1,174,280	59,577	80,956	57,079
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 13,864,405**	**$ 146,103**	**$ 11,981,893**	**$ 183,288**
CHANGE IN UNPAID OBLIGATED BALANCE, NET:				
Unpaid Obligated Balance, Net, Brought Forward, October 1				
Unpaid Obligations, Brought Forward	$ 7,007,742	$ 206,855	$ 5,763,273	$ 245,901
Less: Uncollected Customer Payments, Brought Forward	(281,307)	(1,253)	(312,947)	(1,090)
Total Unpaid Obligated Balance, Net, Brought Forward	**6,726,435**	**205,602**	**5,450,326**	**244,811**
Adjustments to Unpaid Obligations, Brought Forward	1,123	-	-	-
Obligations Incurred	11,575,049	86,526	11,159,611	124,277
Less: Gross Outlays	(11,042,570)	(68,563)	(9,794,751)	(160,846)
Less: Actual Recoveries of Prior-years Unpaid Obligations	(116,481)	(9,115)	(120,391)	(2,477)
Change in Uncollected Customer Payments	(33,760)	518	31,640	(163)
TOTAL UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	**7,109,796**	**214,968**	**6,726,435**	**$ 205,602**
Unpaid Obligated Balance, Net, End of Period				
Unpaid Obligations	$ 7,424,863	$ 215,703	$ 7,007,742	$ 206,855
Less: Uncollected Customer Payments	(315,067)	(735)	(281,307)	(1,253)
TOTAL UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	**$ 7,109,796**	**$ 214,968**	**$ 6,726,435**	**$ 205,602**
NET OUTLAYS:				
Gross Outlays	$ 11,042,570	$ 68,563	$ 9,794,751	$ 160,846
Less: Offsetting Collections	(3,288,175)	(77,720)	(3,243,191)	(64,940)
Less: Distributed Offsetting (Receipts)/Outlays, Net	(20,397)	-	(72,871)	-
NET OUTLAYS	**$ 7,733,998**	**$ (9,157)**	**$ 6,478,689**	**$ 95,906**

The accompanying notes are an integral part of these 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 13 bureaus, the Emergency Oil and Gas and Steel Loan Guarantee Programs, the National Intellectual Property Law Enforcement Coordination Council, 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
- Technology Administration (TA)
    - National Institute of Standards and Technology (NIST)
    - National Technical Information Service (NTIS)
- 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 Intellectual Property Law Enforcement Coordination Council (NIPC)
    - National Telecommunications and Information Administration (NTIA)

- 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 is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or 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. Within the Department, EDA allocates funds, as the parent to the U.S. Department of Agriculture's Rural Development Administration. Therefore, all financial activity related to these funds are reported in the Department's financial statements. NIST, NOAA, EDA, the Census Bureau, BEA, NTIS, and USPTO receive allocation transfers, as the child, from the General Services Administration, Environmental Protection Agency, Delta Regional Authority, and Appalachian Regional Commission. Activity relating to these child allocation transfers is not reported in the Department's financial statements.

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 a general fund, public enterprise revolving funds (not including credit reform financing funds), special funds, and a trust fund. (See Note 20, 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 primarily represent the Spectrum Auction Proceeds Liability to the Federal Communications Commission (FCC) and 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 Loans Receivable and Related Foreclosed Property, 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 at 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.

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 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 Thresholds: 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 is an exception to this policy, based on a cost vs. benefits and materiality analysis given the size of NOAA, having a capitalization threshold of $200 thousand. General PP&E with an acquisition cost less than the capitalization threshold is expensed when purchased. When the purchase of a large quantity of items, each costing less than the capitalization threshold, would materially distort the amount of costs reported in a given period, the purchase is capitalized as a group.

Depreciation: Depreciation is expensed 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: The U.S. General Services Administration (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 for capitalization.

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 collectibility 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. The non-entity Fund Balance with Treasury primarily represents the amount of the Fund Balance with Treasury which is also a liability to FCC for the spectrum auction proceeds for which licenses have not yet been granted by FCC. See Note 18 for more information. The non-entity Fund Balance with Treasury also includes customer deposits held by the Department until customer orders are received. Non-entity Loans Receivable and Related Foreclosed Property, Net represents 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 for its various credit programs: Fisheries Finance Traditional, Tuna Fleet, and Individual Fishing Quota (IFQ) Direct Loans, Fishing Vessel Obligation Guarantee (FVOG) Program, Bering Sea Pollock Fishery Buyout, Pacific Groundfish Buyback Loans, Crab Buyback Loans, Bering Sea and Aleutian Islands Non-Pollock Buyback Loans, and Emergency Steel Loan Guarantee Program. To simplify interest calculations, all 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. Balances of any borrowed but undisbursed funds will earn interest at the same rate used in calculating interest expense. The amount reported for Debt to Treasury includes accrued interest payable.

The Department has also borrowed funds from Treasury for its Digital Television Transition and Public Safety Fund. This NTIA fund, which was created by the Digital Television Transition and Public Safety Act of 2005, receives proceeds from the auction of licenses for recovered analog spectrum from discontinued analog television signals, and provides funding for several programs from these receipts. This Act, as well as the Security and Accountability For Every Port Act of 2006, also provides borrowing authority to the Department to commence specified programs prior to the availability of auction receipts. NTIA shall reimburse Treasury for the borrowings, without interest, as funds are deposited into the Fund. For more information on certain programs under the Digital Television Transition and Public Safety Fund, see Note 18, *Combined Statements of Budgetary Resources.*

Spectrum Auction Proceeds Liability to Federal Communications Commission: FCC completed the auction of licenses for recovered analog spectrum in March 2008. These auction proceeds provide funding for several programs. An auction proceed is considered a liability to FCC until FCC grants the license. When the license is granted, a budgetary financing source is recognized on the Consolidated Statement of Changes in Net Position, and the liability is reduced. See Note 18 for more information on NTIA's Digital Television and Transition Public Safety Fund.

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 Treasury. The Portfolio collections are returned to Treasury monthly, 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. Actuarial gains and losses, and prior and past service costs, if any, are recognized immediately in the year they occur, without amortization. The actuarial calculations use U.S. Department of Defense Retirement Board of Actuaries economic assumptions (as used by the U.S. Military Retirement System) for investment earnings on federal securities, annual basic pay increases, and annual inflation. 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 $73.1 million. The NIST decommissioning estimate includes an assumption that an offsite waste disposal facility will become available, when needed, estimated in 2024. 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 Island 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.

Accrued Coupons for Digital-to-Analog Converter Box Program: NTIA's Digital-to-Analog Converter Box Program provides households in the U.S. with forty dollar coupons (two per household maximum) that can be applied toward the purchase of digital-to-analog converter boxes. This liability represents the projected amount due for coupons issued as of September 30, 2008 but not yet redeemed. See Note 18 for more information on the Digital-to-Analog Converter Box Program.

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.

Debt to Treasury for the Department's Digital Television Transition and Public Safety Fund is considered not covered by budgetary resources in accordance with financial reporting guidance issued by OMB.

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.

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, both obligated and unobligated. Unexpended Appropriations are reduced for Appropriations Used and adjusted for other changes in budgetary resources, 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. OMB currently limits Imputed Costs to be recognized by federal entities to the following: (1) employees' pension benefits; (2) health insurance, life insurance, and other benefits for retired employees; (3) other post-employment benefits for retired, terminated, and inactive employees, including severance payments, training and counseling, continued health care, and unemployment and workers' compensation under FECA; and (4) losses in litigation proceedings. 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 7.0 percent of an employee's basic pay. Employees contributed 7.0 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 11.2 percent (since FY 2005) of basic pay. Employees contributed .8 percent of basic pay. 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. For both FY 2008 and FY 2007, this plan was fully funded by the Department and its employees.

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, 2008, included 289 active duty officers, 343 nondisability retiree annuitants, 18 disability retiree annuitants, and 46 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. Beginning in January 2007, FERS and CSRS covered employees have no limit on the percentage of pay contributed to their TSP account. However, the total contribution for 2008 may not exceed the IRS limit of $15.5 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.

NOTE 2. FUND BALANCE WITH TREASURY

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

	FY 2008	FY 2007
General Funds	$ 7,127,382	$ 6,397,039
Revolving Funds	705,489	695,616
Special Funds		
Patent and Trademark Surcharge Fund	233,529	233,529
Digital Television Transition and Public Safety Fund	1,204,539	104,505
Others	60,861	50,494
Deposit Funds		
Spectrum Auction Proceeds Liability to FCC	17,177,707	-
Others	129,149	113,834
Trust Funds	786	646
Other Fund Types	(6,028)	992
Total	$ 26,633,414	$ 7,596,655

Status of Fund Balance with Treasury is as follows:

	FY 2008	FY 2007
Temporarily Not Available Pursuant to Public Law	$ 556,087	$ 558,468
Unobligated Balance		
Available	950,357	728,805
Unavailable	1,233,473	137,860
Obligated Balance Not Yet Disbursed	6,359,140	5,823,173
Non-budgetary	17,534,357	348,349
Total	$ 26,633,414	$ 7,596,655

See Note 18, *Combined Statements of Budgetary Resources*, for legal arrangements affecting the Department's use of Fund Balance with Treasury for FY 2008 and FY 2007.

NOTE 3. ACCOUNTS RECEIVABLE, NET

FY 2008

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 64,963	$ -	$ 64,963
With the Public	$ 48,851	$ (10,660)	$ 38,191

FY 2007

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 65,431	$ -	$ 65,431
With the Public	$ 45,261	$ (8,352)	$ 36,909

NOTE 4. CASH

	FY 2008	FY 2007
Cash Not Yet Deposited with Treasury	$ 4,621	$ 7,205
Imprest Funds	514	491
Total	$ 5,135	$ 7,696

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. LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, 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[1]
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, 2008.*

Loan Guarantee Programs:

EDA	Economic Development Revolving Fund
ELGP-Oil/Gas	Emergency Oil and Gas Loan Guarantee Program
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 2008	FY 2007
Direct Loans Obligated Prior to FY 1992	$ 31,564	$ 34,961
Direct Loans Obligated After FY 1991	476,005	479,967
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees	4	4
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees	3,436	4,922
Total	$ 511,009	$ 519,854

Direct Loans Obligated Prior to FY 1992 consist of:

FY 2008

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 20,902	$ 4,903	$ (17,380)	$ 8,425
Drought Loan Portfolio	15,620	207	(158)	15,669
Economic Development Revolving Fund	7,488	58	(76)	7,470
Fisheries Loan Fund	354	39	(393)	-
Total	$ 44,364	$ 5,207	$ (18,007)	$ 31,564

FY 2007

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 21,240	$ 4,892	$ (17,401)	$ 8,731
Drought Loan Portfolio	17,389	220	(177)	17,432
Economic Development Revolving Fund	8,807	77	(86)	8,798
Fisheries Loan Fund	354	39	(393)	-
Total	$ 47,790	$ 5,228	$ (18,057)	$ 34,961

Direct Loans Obligated After FY 1991 consist of:

FY 2008

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	$ 35,000	$ 1,181	$ 194	$ 36,375
Bering Sea Pollock Fishery Buyback	51,260	101	3,644	55,005
Crab Buyback Loans	96,336	3,107	19,826	119,269
Fisheries Finance IFQ Loans	18,693	197	3,076	21,966
Fisheries Finance Traditional Loans	162,999	1,673	25,597	190,269
Fisheries Finance Tuna Fleet Loans	6,451	60	786	7,297
Pacific Groundfish Buyback Loans	34,727	1,046	10,051	45,824
Total	$ 405,466	$ 7,365	$ 63,174	$ 476,005

FY 2007

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	$ 35,000	$ 712	$ 8,734	$ 44,446
Bering Sea Pollock Fishery Buyback	53,935	-	4,142	58,077
Crab Buyback Loans	97,163	3,134	13,506	113,803
Fisheries Finance IFQ Loans	16,851	131	3,317	20,299
Fisheries Finance Traditional Loans	155,931	1,515	32,192	189,638
Fisheries Finance Tuna Fleet Loans	7,005	56	900	7,961
Pacific Groundfish Buyback Loans	35,354	1,152	9,237	45,743
Total	$ 401,239	$ 6,700	$ 72,028	$ 479,967

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

Direct Loan Program	FY 2008	FY 2007
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ 35,000
Fisheries Finance IFQ Loans	3,616	1,564
Fisheries Finance Traditional Loans	16,651	47,441
Total	$ 20,267	$ 84,005

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Disbursements of Direct Loans:

FY 2008

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	$ (662)	$ 15	$ (25)	$ 310	$ (362)
Fisheries Finance Traditional Loans	(2,195)	37	(113)	953	(1,318)
Total	$ (2,857)	$ 52	$ (138)	$ 1,263	$ (1,680)

FY 2007

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ -	$ -	$ 350	$ 350
Fisheries Finance IFQ Loans	(299)	9	(11)	119	(182)
Fisheries Finance Traditional Loans	(6,206)	114	(329)	2,219	(4,202)
Total	$ (6,505)	$ 123	$ (340)	$ 2,688	$ (4,034)

Modifications and Reestimates:

Direct Loan Program	FY 2008 Total Modifications	FY 2008 Interest Rate Reestimates	FY 2008 Technical Reestimates	FY 2008 Total Reestimates
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ -	$ 8,118	$ 8,118
Bering Sea Pollock Fishery Buyback	-	-	(92)	(92)
Crab Buyback Loans	-	-	(8,191)	(8,191)
Fisheries Finance IFQ Loans	-	-	444	444
Fisheries Finance Traditional Loans	-	-	6,935	6,935
Fisheries Finance Tuna Fleet Loans	-	-	(25)	(25)
Pacific Groundfish Buyback Loans	-	-	(1,624)	(1,624)
Total	$ -	$ -	$ 5,565	$ 5,565

Direct Loan Program	FY 2007 Total Modifications	FY 2007 Interest Rate Reestimates	FY 2007 Technical Reestimates	FY 2007 Total Reestimates
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ -	$ (8,119)	$ (8,119)
Bering Sea Pollock Fishery Buyback	-	-	968	968
Crab Buyback Loans	-	-	15,974	15,974
Fisheries Finance IFQ Loans	-	-	(523)	(523)
Fisheries Finance Traditional Loans	-	-	(9,555)	(9,555)
Fisheries Finance Tuna Fleet Loans	-	-	343	343
Pacific Groundfish Buyback Loans	-	-	(9,304)	(9,304)
Total	$ -	$ -	$ (10,216)	$ (10,216)

Total Direct Loan Subsidy Expense:

Direct Loan Program	FY 2008	FY 2007
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ 8,118	$ (7,769)
Bering Sea Pollock Fishery Buyback	(92)	968
Crab Buyback Loans	(8,191)	15,974
Fisheries Finance IFQ Loans	82	(705)
Fisheries Finance Traditional Loans	5,617	(13,757)
Fisheries Finance Tuna Fleet Loans	(25)	343
Pacific Groundfish Buyback Loans	(1,624)	(9,304)
Total	$ 3,885	$ (14,250)

Subsidy Rates for Direct Loans by Program and Component:

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

FY 2008

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(17.66) %	0.38 %	(0.68) %	7.38 %	(10.58) %
Fisheries Finance Traditional Loans	(13.95) %	0.15 %	(0.57) %	9.73 %	(4.64) %

FY 2007

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(18.88) %	0.37 %	(0.71) %	11.14 %	(8.08) %
Fisheries Finance Traditional Loans	(13.56) %	0.23 %	(0.70) %	6.02 %	(8.01) %

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 2008	FY 2007
Beginning Balance of the Allowance for Subsidy Cost	$ 72,028	$ 59,403
Add Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	2,857	6,505
Default Costs (Net of Recoveries)	(52)	(123)
Fees and Other Collections	138	340
Other Subsidy Costs	(1,263)	(2,688)
Total of the above Subsidy Expense Components	1,680	4,034
Adjustments:		
Fees Received	(155)	(358)
Subsidy Allowance Amortization	(4,814)	4
Other	-	(1,271)
Ending Balance of the Allowance for Subsidy Cost Before Reestimates	68,739	61,812
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimates	(5,565)	10,216
Ending Balance of the Allowance for Subsidy Cost	$ 63,174	$ 72,028

Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees:

FY 2008

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	$ 11,997	$ 4	$ (11,997)	$ 4

FY 2007

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	$ 12,209	$ 5	$ (12,210)	$ 4

Defaulted Guaranteed Loans from Post-FY 1991 Guarantees:

FY 2008

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 14,128	$ 1,254	$ -	$ (11,946)	$ 3,436

FY 2007

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 17,661	$ 1,254	$ 526	$ (14,519)	$ 4,922

Loan Guarantees:

Guaranteed Loans Outstanding:

Outstanding non-acquired guaranteed loans as of September 30, 2008 and 2007, which are not reflected in the financial statements, are as follows:

	FY 2008		FY 2007	
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
Emergency Steel Loan Guarantee Program	$ -	$ -	$ 149,900	$ 131,912
FVOG Program	9,353	9,353	12,673	12,673
Total	$ 9,353	$ 9,353	$ 162,573	$ 144,585

New Guaranteed Loans Disbursed:

There were no new guaranteed loans disbursed during FY 2008 and FY 2007.

Loan Guarantee Liabilities:

Loan Guarantee Program	FY 2008 Loan Guarantee Liabilities for Post-FY 1991 Guarantees, Present Value	FY 2007 Loan Guarantee Liabilities for Post-FY 1991 Guarantees, Present Value
Emergency Steel Loan Guarantee Program	$ -	$ 54,734
FVOG Program	621	998
Total	$ 621	$ 55,732

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 2008 and FY 2007, there is not any related subsidy expense.

Modifications and Reestimates:

FY 2008 Loan Guarantee Program	FY 2008 Total Modifications	FY 2008 Interest Rate Reestimates	FY 2008 Technical Reestimates	FY 2008 Total Reestimates
Emergency Steel Loan Guarantee Program	$ 1,152	$ -	$ (56,105)	$ (56,105)
FVOG Program	-	-	(281)	(281)
Total	$ 1,152	$ -	$ (56,386)	$ (56,386)

FY 2007 Loan Guarantee Program	FY 2007 Total Modifications	FY 2007 Interest Rate Reestimates	FY 2007 Technical Reestimates	FY 2007 Total Reestimates
Emergency Oil and Gas Loan Guarantee Program	$ -	$ -	$ (253)	$ (253)
Emergency Steel Loan Guarantee Program	(18,910)	-	2,739	2,739
FVOG Program	-	-	(1,322)	(1,322)
Total	$ (18,910)	$ -	$ 1,164	$ 1,164

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Program	FY 2008	FY 2007
Emergency Oil and Gas Loan Guarantee Program	$ -	$ (253)
Emergency Steel Loan Guarantee Program	(54,953)	(16,171)
FVOG Program	(281)	(1,322)
Total	$ (55,234)	$ (17,746)

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 2008 and FY 2007.

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

	FY 2008	FY 2007
Beginning Balance of Loan Guarantee Liabilities	$ 55,732	$ 73,675
Adjustments:		
Loan Guarantee Modifications	1,152	(18,910)
Fees Received	33	63
Interest Accumulation on the Liabilities Balance	478	(710)
Other	(388)	4,934
Ending Balance of Loan Guarantee Liabilities Before Reestimates	57,007	59,052
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimates	(56,386)	(662)
Total of the above Reestimate Components	(56,386)	(662)
Transfer of Subsidy Cost for Defaulted Guaranteed Loans to Loans Receivable and Related Foreclosed Property, Net	-	(2,658)
Ending Balance of Loan Guarantee Liabilities	$ 621	$ 55,732

Administrative Expenses:

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

Direct Loan Program	FY 2008	FY 2007
Drought Loan Portfolio and Economic Development Revolving Fund	$ 932	$ 925
NOAA Direct Loan Programs	2,776	1,037
Total	$ 3,708	$ 1,962

Loan Guarantee Program	FY 2008	FY 2007
Emergency Oil and Gas Loan Guarantee Program	$ 41	$ 4
Emergency Steel Loan Guarantee Program	249	857
FVOG Program	245	88
Total	$ 535	$ 949

NOTE 6. INVENTORY, MATERIALS, AND SUPPLIES, NET

Category	Cost Flow Assumption	FY 2008	FY 2007
Inventory			
Items Held for Current Sale			
NIST Standard Reference Materials	First-in, first-out	$ 21,220	$ 20,732
Other	Various	212	288
Allowance for Excess, Obsolete, and Unserviceable Items		(108)	(95)
Total Inventory, Net		21,324	20,925
Materials and Supplies			
Items Held for Use			
NOAA's National Logistics Support Center	Weighted-average	50,505	51,775
NOAA's National Reconditioning Center	Weighted-average	39,027	45,248
Other	Various	4,722	4,401
Allowance for Excess, Obsolete, and Unserviceable Items		(14,983)	(15,548)
Total Materials and Supplies, Net		79,271	85,876
Total		$ 100,595	$ 106,801

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 2008

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 16,771	$ -	$ 16,771
Land Improvements	30-40	2,996	(1,102)	1,894
Structures, Facilities, and Leasehold Improvements	2-60	1,252,509	(434,930)	817,579
Satellites/Weather Systems Personal Property	3-20	4,281,431	(3,589,625)	691,806
Other Personal Property	2-30	1,893,641	(1,245,621)	648,020
Assets Under Capital Lease	3-40	51,348	(27,248)	24,100
Construction-in-progress	N/A	3,990,238	-	3,990,238
Total		$ 11,488,934	$ (5,298,526)	$ 6,190,408

FY 2007

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 16,656	$ -	$ 16,656
Land Improvements	30-40	2,996	(1,010)	1,986
Structures, Facilities, and Leasehold Improvements	2-60	1,186,066	(395,995)	790,071
Satellites/Weather Systems Personal Property	3-20	4,194,763	(3,337,220)	857,543
Other Personal Property	2-30	1,823,209	(1,127,281)	695,928
Assets Under Capital Lease	3-40	31,269	(21,434)	9,835
Construction-in-progress	N/A	3,357,745	-	3,357,745
Total		$ 10,612,704	$ (4,882,940)	$ 5,729,764

NOTE 8. OTHER ASSETS

	FY 2008	FY 2007
With the Public		
Advances and Prepayments	$ 55,439	$ 66,113
Notes Receivable	1,849	1,857
Bibliographic Database	5,711	5,293
Other	4	4
Total	$ 63,003	$ 73,267

As of September 30, 2008 and 2007, there is one Note Receivable with a maturity date of July 2024 and an interest rate of 7.0 percent. The balances include accrued interest. This note is considered fully collectible.

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 $56.4 million and $53.3 million, less accumulated amortization of $50.7 million and $48.0 million, at September 30, 2008 and 2007, respectively.

NOTE 9. NON-ENTITY ASSETS

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

	FY 2008	FY 2007
Intragovernmental		
Fund Balance with Treasury	$ 17,301,365	$ 112,882
Total Intragovernmental	17,301,365	112,882
With the Public		
Cash	1,029	1,022
Accounts Receivable, Net	557	5,660
Loans Receivable and Related Foreclosed Property, Net - Drought Loan Portfolio	15,669	17,432
Total	$ 17,318,620	$ 136,996

NOTE 10. DEBT TO TREASURY

FY 2008

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 469,526	$ (4,431)	$ 465,095
Loan Guarantee Program			
Emergency Steel Loan Guarantee Program	2,551	(2,551)	-
FVOG Program	9,431	(2,600)	6,831
Digital Television Transition and Public Safety Fund	164,489	(159,762)	4,727
Total	$ 645,997	$ (169,344)	$ 476,653

For the Direct Loan and Loan Guarantee Programs, maturity dates range from September 2008 to September 2038, and interest rates range from 3.26 to 7.17 percent.

The funds borrowed for the Digital Television Transition and Public Safety Fund shall be reimbursed to Treasury, without interest, as funds are deposited into the Digital Television Transition and Public Safety Fund. The maturity date for these borrowings is September 30, 2009.

FY 2007

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 406,568	$ 62,958	$ 469,526
Loan Guarantee Program			
Emergency Steel Loan Guarantee Program	3,231	(680)	2,551
FVOG Program	12,272	(2,841)	9,431
Digital Television Transition and Public Safety Fund	-	164,489	164,489
Total	$ 422,071	$ 223,926	$ 645,997

NOTE 11. OTHER LIABILITIES

	FY 2008			FY 2007
	Current Portion	Non-current Portion	Total	Total
Intragovernmental				
Accrued FECA Liability	$ 24,171	$ 9,668	$ 33,839	$ 33,207
Accrued Benefits	30,787	1,571	32,358	25,697
Custodial Activity	557	-	557	1,004
Downward Subsidy Reestimates Payable to Treasury	68,379	-	68,379	36,710
Other	401	-	401	2,308
Total	$ 124,295	$ 11,239	$ 135,534	$ 98,926
With the Public				
ITA Foreign Service Nationals' Voluntary Separation Pay	$ 2,207	$ 7,507	$ 9,714	$ 9,550
Contingent Liabilities	29,229	-	29,229	8,717
Employment-related	6,821	-	6,821	2,328
Other	8,946	-	8,946	7,090
Total	$ 47,203	$ 7,507	$ 54,710	$ 27,685

The Current Portion represents liabilities expected to be paid by September 30, 2009, while the Non-current Portion represents liabilities expected to be paid after September 30, 2009.

NOTE 12. FEDERAL EMPLOYEE BENEFITS

These liabilities consist of:

	FY 2008	FY 2007
Actuarial FECA Liability	$ 169,463	$ 164,416
NOAA Corps Retirement System Liability	448,100	416,000
NOAA Corps Post-retirement Health Benefits Liability	49,000	45,400
Total	$ 666,563	$ 625,816

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 2008	FY 2007
Year 1	4.37%	4.93%
Year 2 and Thereafter	4.77%	5.08%

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 2008		
Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2009	3.87%	4.00%
2010	2.73%	3.86%
2011	2.20%	3.87%
2012	2.23%	3.93%
2013	2.30%	3.93%

FY 2007		
Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2008	2.63%	3.74%
2009	2.90%	4.04%
2010	2.47%	4.00%
2011	2.37%	3.94%
2012	2.30%	3.94%

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, 2008 and 2007 actuarial calculations used the following U.S. Department of Defense Retirement Board of Actuaries economic assumptions:

	FY 2008	FY 2007
Investment Earnings on Federal Securities	5.75%	6.00%
Annual Basic Pay Scale Increases	3.75%	3.75%
Annual Inflation	3.00%	3.00%

The related pension costs included in the *Consolidated Statements of Net Cost* are as follows:

	FY 2008	FY 2007
Normal Cost	$ 5,600	$ 5,100
Interest on the Unfunded Liability	25,400	22,600
Prior and Past Service Cost from Plan Amendments	-	10,200
Actuarial (Gains)/Losses, Net		
Impact of New Investment Return	14,900	14,600
Impact of Updated Data for Active Duty Members, Retirees, and Survivors	5,300	6,100
Impact of New Demographic Assumptions	700	5,500
Total Pension Costs	$ 51,900	$ 64,100

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 same U.S. Department of Defense Retirement Board of Actuaries economic assumptions as used for the NOAA Corps Retirement System actuarial calculations.

The related post-retirement health benefits costs included in the *Consolidated Statements of Net Cost* are as follows:

	FY 2008	FY 2007
Normal Cost	$ 1,400	$ 1,200
Interest on the Unfunded Liability	2,500	2,900
Actuarial (Gains)/Losses, Net	2,700	(4,900)
Total Post-retirement Health Benefits Costs	$ 6,600	$ (800)

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

	FY 2008	FY 2007
Pribilof Island Cleanup	$ 10,586	$ 17,508
Nuclear Reactor	52,228	46,969
Other	5,049	2,966
Total	$ 67,863	$ 67,443

NOTE 14. LEASES

Capital Leases:

Assets under capital leases are as follows:

	FY 2008	FY 2007
Structures, Facilities, and Leasehold Improvements	$ 28,852	$ 28,084
Equipment	22,496	3,185
Less: Accumulated Depreciation	(27,248)	(21,434)
Net Assets Under Capital Leases	$ 24,100	$ 9,835

Capital Lease Liabilities are primarily related to NOAA and the Census Bureau. 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. The Census Bureau has a capital lease for equipment and software for the 2010 Decennial Census facilities and operations.

Capital Lease Liabilities:

Future payments due under capital leases are as follows:

FY 2008

	General PP&E Category		
Fiscal Year	Real Property	Personal Property	Total
2009	$ 4,205	$ 19,391	$ 23,596
2010	3,984	10	3,994
2011	4,010	-	4,010
2012	3,791	-	3,791
2013	3,648	-	3,648
Thereafter	16,010	-	16,010
Total Future Lease Payments	35,648	19,401	55,049
Less: Imputed Interest	(15,104)	(887)	(15,991)
Less: Executory Costs	(6,504)	(1,673)	(8,177)
Net Capital Lease Liabilities	$ 14,040	$ 16,841	$ 30,881

FY 2007

	General PP&E Category		
Fiscal Year	Real Property	Personal Property	Total
2008	$ 4,238	$ 1,935	$ 6,173
2009	3,934	1,929	5,863
2010	3,965	22	3,987
2011	4,000	12	4,012
2012	3,782	-	3,782
Thereafter	19,623	-	19,623
Total Future Lease Payments	39,542	3,898	43,440
Less: Imputed Interest	(17,233)	(245)	(17,478)
Less: Executory Costs	(7,105)	(3,299)	(10,404)
Net Capital Lease Liabilities	$ 15,204	$ 354	$ 15,558

Operating Leases:

Most of the Department's facilities are rented from the 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 2009 through FY 2013; and (2) future payments due under noncancellable operating leases (non-GSA real property) are as follows:

FY 2008

	General PP&E Category	
Fiscal Year	GSA Real Property	Non-GSA Real Property
2009	$ 254,965	$ 17,897
2010	262,013	15,751
2011	252,436	14,904
2012	255,809	13,999
2013	259,288	12,817
Thereafter	[1]	62,517
Total Future Lease Payments		$ 137,885

[1] *Not estimated.*

NOTE 15. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2008	FY 2007
Intragovernmental		
Debt to Treasury - Digital Television and Transition Public Safety Fund	$ 4,727	$ 164,489
Accrued FECA Liability	33,059	32,008
Other	-	1,232
Total Intragovernmental	37,786	197,729
Accrued Payroll	31,510	28,896
Accrued Annual Leave	233,682	214,415
Federal Employee Benefits	666,563	625,816
Environmental and Disposal Liabilities	67,863	67,443
Contingent Liabilities	29,229	8,717
Unearned Revenue	774,832	795,468
ITA Foreign Service Nationals' Voluntary Separation Pay	9,714	9,550
Other	1,644	983
Total	$ 1,852,823	$ 1,949,017

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 30,2008 is shown below.

Major Long-term Commitments:

	FY 2008						
Description	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Thereafter	Total
Geostationary Operational Environmental Satellites	$ 550,300	$ 794,600	$ 897,500	$ 871,900	$ 855,200	$ 3,140,000	$ 7,109,500
Convergence Satellites	288,000	381,800	420,300	415,800	436,300	2,096,100	4,038,300
Polar Operational Environmental Satellites	65,400	43,100	40,800	40,800	40,800	107,700	338,600
Other Weather Service	112,981	117,572	116,884	112,597	99,414	129,476	688,924
Other	1,824	-	-	-	-	-	1,824
Total	$ 1,018,505	$ 1,337,072	$ 1,475,484	$ 1,441,097	$ 1,431,714	$ 5,473,276	$ 12,177,148

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 $29.2 million and $8.7 million as of September 30, 2008 and 2007, respectively. Accordingly, $29.2 million and $8.7 million of contingent liabilities were included in Other Liabilities on the *Consolidated Balance Sheets* as of September 30, 2008 and 2007, 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 $198.7 million as of September 30, 2008. 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 $137.9 million as of September 30, 2008. 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, 2008 and 2007, with outstanding principal balances totaling $9.4 million and $12.7 million, respectively. A loan guarantee liability of $621 thousand and $1.0 million is recorded for the outstanding guarantees at September 30, 2008 and 2007, respectively.

Emergency Steel Loan Guarantee Program: This program has no outstanding non-acquired guaranteed loans as of September 30, 2008, and one outstanding non-acquired guaranteed loan as of September 30, 2007. The guaranteed portion (88 percent) of the outstanding principal balance totaled $131.9 million as of September 30, 2007. A loan guarantee liability of $54.7 million was recorded for the outstanding guarantee as of September 30, 2007. This loan guarantee was terminated in May 2008.

Contingent Loss Related to the National Polar Orbiting Operational Environmental Satellite System (NPOESS) Program:

In a joint effort with the Department of Defense (DOD) and the National Aeronautics and Space Administration (NASA), NOAA is developing the NPOESS. NPOESS is expected to be a state-of-the-art environment-monitoring satellite system that will replace two existing polar-orbiting satellite systems. NOAA and DOD share the costs of funding NPOESS, while NASA funds specific technology projects and studies. Over the last several years, the NPOESS program has experienced schedule delays, cost increases and technical challenges. In FY 2006, the NPOESS program underwent a statutorily required review, known as a Nunn-McCurdy review. Under the law, any DOD-funded program that is more than 25 percent over budget must be reviewed to see if it should be continued, and if so, in what manner. As a result of the review, the NPOESS program will be continued, however the number of satellites and their capabilities will be scaled back. Additionally, NOAA, NASA, and DOD agreed to restructure the NPOESS program from a three-orbit to a two-orbit program and to renegotiation of the contracts for the construction of the NPOESS program. The process may take several years.

As of September 30, 2008, the Department of Commerce Balance Sheet includes approximately $1.95 billion construction-in-progress general property, plant, and equipment related to the NPOESS program. This balance is net of a $17.0 million write-off that NOAA recorded in FY 2006, based on a determination that certain sensors were going to be eliminated from the program, thus triggering an impairment to the property value. The potential impairment for one additional sensor, currently recorded at $108.0 million in the construction-in-progress account, is not yet determinable.

NOTE 17. CONSOLIDATED STATEMENTS OF NET COST

FY 2008 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	TA	Others	Departmental Management	Combining Total	Intra-Departmental Eliminations	Consolidating Total
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers									
Intragovernmental Gross Costs	$ -	$ -	$ 370,872	$ -	$ 209,606	$ 74,640	$ 655,118	$ (79,520)	$ 575,598
Gross Costs With the Public	-	-	1,193,020	108,440	576,239	46,406	1,924,105	-	1,924,105
Total Gross Costs	-	-	1,563,892	108,440	785,845	121,046	2,579,223	(79,520)	2,499,703
Intragovernmental Earned Revenue	-	-	(233,519)	-	(35,776)	(85,029)	(354,324)	79,520	(274,804)
Earned Revenue From the Public	-	-	(15,873)	-	(10,895)		(26,768)	-	(26,768)
Total Earned Revenue	-	-	(249,392)	-	(46,671)	(85,029)	(381,092)	79,520	(301,572)
Net Program Costs	**-**	**-**	**1,314,500**	**108,440**	**739,174**	**36,017**	**2,198,131**	**-**	**2,198,131**
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness									
Intragovernmental Gross Costs	-	359,059	-	151,201	35,895	74,640	620,795	(89,058)	531,737
Gross Costs With the Public	-	1,533,531	-	679,436	703,318	46,406	2,962,691	-	2,962,691
Total Gross Costs	-	1,892,590	-	830,637	739,213	121,046	3,583,486	(89,058)	3,494,428
Intragovernmental Earned Revenue	-	(7,428)	-	(137,089)	(33,798)	(85,029)	(263,344)	89,058	(174,286)
Earned Revenue From the Public	-	(1,854,746)	-	(42,330)	(303)		(1,897,379)	-	(1,897,379)
Total Earned Revenue	-	(1,862,174)	-	(179,419)	(34,101)	(85,029)	(2,160,723)	89,058	(2,071,665)
Net Program Costs	**-**	**30,416**	**-**	**651,218**	**705,112**	**36,017**	**1,422,763**	**-**	**1,422,763**
Strategic Goal 3: Promote Environmental Stewardship									
Intragovernmental Gross Costs	673,505	-	-	-	-	74,663	748,168	(77,638)	670,530
Gross Costs With the Public	3,619,018	-	-	-	-	46,419	3,665,437	-	3,665,437
Total Gross Costs	4,292,523	-	-	-	-	121,082	4,413,605	(77,638)	4,335,967
Intragovernmental Earned Revenue	(173,045)	-	-	-	-	(85,055)	(258,100)	77,638	(180,462)
Earned Revenue From the Public	(77,586)	-	-	-	-		(77,586)	-	(77,586)
Total Earned Revenue	(250,631)	-	-	-	-	(85,055)	(335,686)	77,638	(258,048)
Net Program Costs	**4,041,892**	**-**	**-**	**-**	**-**	**36,027**	**4,077,919**	**-**	**4,077,919**
NET COST OF OPERATIONS	**$ 4,041,892**	**$ 30,416**	**$ 1,314,500**	**$ 759,658**	**$ 1,444,286**	**$ 108,061**	**$ 7,698,813**	**$ -**	**$ 7,698,813**

FY 2007 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	TA	Others	Departmental Management	Combining Total	Intra-Departmental Eliminations	Consolidating Total
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers									
Intragovernmental Gross Costs	$ -	$ -	$ 331,723	$ -	$ 183,097	$ 74,612	$ 589,432	$ (90,690)	$ 498,742
Gross Costs With the Public	-	-	956,602	-	633,400	44,927	1,634,929	-	1,634,929
Total Gross Costs	-	-	1,288,325	-	816,497	119,539	2,224,361	(90,690)	2,133,671
Intragovernmental Earned Revenue	-	-	(240,473)	-	(33,214)	(93,426)	(367,113)	90,690	(276,423)
Earned Revenue From the Public	-	-	(13,981)	-	(8,326)	-	(22,307)	-	(22,307)
Total Earned Revenue	-	-	(254,454)	-	(41,540)	(93,426)	(389,420)	90,690	(298,730)
Net Program Costs	**-**	**-**	**1,033,871**	**-**	**774,957**	**26,113**	**1,834,941**	**-**	**1,834,941**
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness									
Intragovernmental Gross Costs	-	338,979	-	125,907	53,596	74,615	593,097	(89,589)	503,508
Gross Costs With the Public	-	1,430,679	-	739,512	62,609	44,924	2,277,724	-	2,277,724
Total Gross Costs	-	1,769,658	-	865,419	116,205	119,539	2,870,821	(89,589)	2,781,232
Intragovernmental Earned Revenue	-	(7,944)	-	(123,852)	(30,984)	(93,426)	(256,206)	89,589	(166,617)
Earned Revenue From the Public	-	(1,727,762)	-	(72,590)	(99)	-	(1,800,451)	-	(1,800,451)
Total Earned Revenue	-	(1,735,706)	-	(196,442)	(31,083)	(93,426)	(2,056,657)	89,589	(1,967,068)
Net Program Costs	**-**	**33,952**	**-**	**668,977**	**85,122**	**26,113**	**814,164**	**-**	**814,164**
Strategic Goal 3: Promote Environmental Stewardship									
Intragovernmental Gross Costs	628,808	-	-	-	-	74,637	703,445	(80,375)	623,070
Gross Costs With the Public	3,394,576	-	-	-	-	44,937	3,439,513	-	3,439,513
Total Gross Costs	4,023,384	-	-	-	-	119,574	4,142,958	(80,375)	4,062,583
Intragovernmental Earned Revenue	(189,027)	-	-	-	-	(93,453)	(282,480)	80,375	(202,105)
Earned Revenue From the Public	(74,676)	-	-	-	-	-	(74,676)	-	(74,676)
Total Earned Revenue	(263,703)	-	-	-	-	(93,453)	(357,156)	80,375	(276,781)
Net Program Costs	**3,759,681**	**-**	**-**	**-**	**-**	**26,121**	**3,785,802**	**-**	**3,785,802**
NET COST OF OPERATIONS	**$ 3,759,681**	**$ 33,952**	**$ 1,033,871**	**$ 668,977**	**$ 860,079**	**$ 78,347**	**$ 6,434,907**	**$ -**	**$ 6,434,907**

Major Programs: The following tables illustrate major programs of the Department. "Other Programs" refers to the other programs within each strategic goal. 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 Totals columns on the *Consolidating Statements of Net Cost*.

FY 2008 Statement of Net Cost by Major Program (Combining Basis):

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Total
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers						
Decennial and Periodic Censuses						
Gross Costs	$ -	$ 585,247	$ -	$ -	$ -	$ 585,247
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**585,247**	**-**	**-**	**-**	**585,247**
Other Programs						
Gross Costs	-	888,587	108,440	-	996,949	1,993,976
Less: Earned Revenue	-	(243,930)	-	-	(137,162)	(381,092)
Net Program Costs	**-**	**644,657**	**108,440**	**-**	**859,787**	**1,612,884**
Net Program Costs for Strategic Goal 1	**-**	**1,229,904**	**108,440**	**-**	**859,787**	**2,198,131**
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness						
Measurement and Standards Laboratories						
Gross Costs	-	-	671,829	-	-	671,829
Less: Earned Revenue	-	-	(115,746)	-	-	(115,746)
Net Program Costs	**-**	**-**	**556,083**	**-**	**-**	**556,083**
Patents						
Gross Costs	-	-	-	1,655,656	-	1,655,656
Less: Earned Revenue	-	-	-	(1,624,993)	-	(1,624,993)
Net Program Costs	**-**	**-**	**-**	**30,663**	**-**	**30,663**
Trademarks						
Gross Costs	-	-	-	192,587	-	192,587
Less: Earned Revenue	-	-	-	(237,181)	-	(237,181)
Net Program Costs	**-**	**-**	**-**	**(44,594)**	**-**	**(44,594)**
Other Programs						
Gross Costs	-	-	133,714	44,347	885,353	1,063,414
Less: Earned Revenue	-	-	(41,210)	-	(141,593)	(182,803)
Net Program Costs	**-**	**-**	**92,504**	**44,347**	**743,760**	**880,611**
Net Program Costs for Strategic Goal 2	**-**	**-**	**648,587**	**30,416**	**743,760**	**1,422,763**
Strategic Goal 3: Promote Environmental Stewardship						
Ecosystems						
Gross Costs	1,645,797	-	-	-	-	1,645,797
Less: Earned Revenue	(67,201)	-	-	-	-	(67,201)
Net Program Costs	**1,578,596**	**-**	**-**	**-**	**-**	**1,578,596**
Other Programs						
Gross Costs	2,646,726	-	-	-	121,082	2,767,808
Less: Earned Revenue	(183,430)	-	-	-	(85,055)	(268,485)
Net Program Costs	**2,463,296**	**-**	**-**	**-**	**36,027**	**2,499,323**
Net Program Costs for Strategic Goal 3	**4,041,892**	**-**	**-**	**-**	**36,027**	**4,077,919**
NET COST OF OPERATIONS	**$ 4,041,892**	**$ 1,229,904**	**$ 757,027**	**$ 30,416**	**$ 1,639,574**	**$ 7,698,813**

FY 2007 Statement of Net Cost by Major Program (Combining Basis):

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Total
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers						
Decennial and Periodic Censuses						
Gross Costs	$ -	$ 230,925	$ -	$ -	$ -	$ 230,925
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**230,925**	**-**	**-**	**-**	**230,925**
Other Programs						
Gross Costs	-	966,290	-	-	1,027,146	1,993,436
Less: Earned Revenue	-	(249,661)	-	-	(139,759)	(389,420)
Net Program Costs	**-**	**716,629**	**-**	**-**	**887,387**	**1,604,016**
Net Program Costs for Strategic Goal 1	**-**	**947,554**	**-**	**-**	**887,387**	**1,834,941**
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness						
Measurement and Standards Laboratories						
Gross Costs	-	-	618,910	-	-	618,910
Less: Earned Revenue	-	-	(128,288)	-	-	(128,288)
Net Program Costs	**-**	**-**	**490,622**	**-**	**-**	**490,622**
Patents						
Gross Costs	-	-	-	1,533,051	-	1,533,051
Less: Earned Revenue	-	-	-	(1,506,994)	-	(1,506,994)
Net Program Costs	**-**	**-**	**-**	**26,057**	**-**	**26,057**
Trademarks						
Gross Costs	-	-	-	204,527	-	204,527
Less: Earned Revenue	-	-	-	(228,712)	-	(228,712)
Net Program Costs	**-**	**-**	**-**	**(24,185)**	**-**	**(24,185)**
Other Programs						
Gross Costs	-	-	219,339	32,080	262,914	514,333
Less: Earned Revenue	-	-	(45,491)	-	(147,172)	(192,663)
Net Program Costs	**-**	**-**	**173,848**	**32,080**	**115,742**	**321,670**
Net Program Costs for Strategic Goal 2	**-**	**-**	**664,470**	**33,952**	**115,742**	**814,164**
Strategic Goal 3: Promote Environmental Stewardship						
Ecosystems						
Gross Costs	1,534,426	-	-	-	-	1,534,426
Less: Earned Revenue	(101,166)	-	-	-	-	(101,166)
Net Program Costs	**1,433,260**	**-**	**-**	**-**	**-**	**1,433,260**
Other Programs						
Gross Costs	2,488,958	-	-	-	119,574	2,608,532
Less: Earned Revenue	(162,537)	-	-	-	(93,453)	(255,990)
Net Program Costs	**2,326,421**	**-**	**-**	**-**	**26,121**	**2,352,542**
Net Program Costs for Strategic Goal 3	**3,759,681**	**-**	**-**	**-**	**26,121**	**3,785,802**
NET COST OF OPERATIONS	**$3,759,681**	**$ 947,554**	**$ 664,470**	**$ 33,952**	**$1,029,250**	**$ 6,434,907**

NOTE 18. COMBINED STATEMENTS OF BUDGETARY RESOURCES

The amount of Budget Authority, Appropriations on the *Combined Statements of Budgetary Resources* (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 2008	FY 2007
Budget Authority, Appropriations (SBR)	$ 9,551,340	$ 6,700,427
Less:		
Other Special Receipts for NOAA and DM/G&B, Classified as Exchange Revenue	(20,824)	(17,836)
Other Special Receipts for NTIA Digital Television Transition and Public Safety Fund, Classified as Transfers In of Spectrum Auction Proceeds from Federal Communications Commission	(1,778,983)	-
Other	(1,585)	1,073
Budgetary Financing Sources, Appropriations Received (SCNP)	$ 7,749,948	$ 6,683,664

Total borrowing authority available for NTIA's Digital Television Transition and Public Safety Fund amounted to $914.9 million and $919.7 million at September 30, 2008 and 2007, respectively, while total borrowing authority available for NOAA's loan programs amounted to $214.9 million and $204.4 million at September 30, 2008 and 2007, 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.

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

Reductions to the Department's appropriations under Public Law 110-161 amounted to $36.7 million for FY 2008, while reductions for FY 2007 under Public Law 110-05 amounted to $32.0 million. These reductions are included in the SBR Budgetary Resources line Permanently Not Available. These reductions are also part of the amounts reported on the line Other Adjustments in the Unexpended Appropriations section, Budgetary Financing Sources subsection of the SCNP.

Legal arrangements affecting the Department's use of Unobligated Balances of Budget Authority and/or Fund Balance with Treasury during FY 2008 and FY 2007 include the following:

- The Department's Deposits Funds, reported in Note 2, *Fund Balance with Treasury*, are not available to finance operating activities. These funds are also included in Note 2, *Fund Balance with Treasury*, on the line Non-budgetary (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2008 and 2007 includes $528.7 million of USPTO offsetting collections exceeding 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, *Fund Balance with Treasury*, on the lines General Funds (breakdown by type), and Temporarily Not Available Pursuant to Public Law (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. As of September 30, 2008 and 2007, $233.5 million is held in the Patent and Trademark Surcharge Fund. These funds are included in Note 2, *Fund Balance with Treasury*, on the lines Special Fund (Patent and Trademark Surcharge Fund) (breakdown by type), and Non-budgetary (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2008 and 2007 includes $25.3 and $27.7 million, respectively, 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, *Fund Balance with Treasury*, on the lines Revolving Funds (breakdown by type), and Temporarily Not Available Pursuant to Public Law (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 Combined Statement of Budgetary Resources for the year ended September 30, 2007 and the actual amounts reported in the FY 2009 budget of the U.S. government.

Apportionment Categories of Obligations Incurred:

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

	FY 2008		
	Direct	Reimbursable	Total
Category A	$ 2,988,891	$ 2,237,810	$ 5,226,701
Category B	5,433,981	48,247	5,482,228
Exempt from Apportionment	173,309	779,337	952,646
Total	$ 8,596,181	$ 3,065,394	$ 11,661,575

	FY 2007		
	Direct	Reimbursable	Total
Category A	$ 6,461,301	$ 2,173,881	$ 8,635,182
Category B	1,584,885	144,267	1,729,152
Exempt from Apportionment	169,923	749,631	919,554
Total	$ 8,216,109	$ 3,067,779	$ 11,283,888

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 $6.64 billion and $6.41 billion at September 30, 2008 and 2007, 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 receives proceeds from the auction of licenses for recovered analog spectrum from discontinued analog television signals, and provides funding for several programs from these receipts. Funding for these programs, prior to the availability of auction receipts, is provided by Treasury borrowings, as discussed in Note 1, *Summary of Significant Accounting Policies*.

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. An auction proceed becomes a budgetary resource on the SBR when FCC grants the license and the auction proceed is provided as a budgetary resource by OMB. Auction proceeds for which licenses have been granted as of September 30, 2008, totaling $1.78 billion, are included as a budgetary resource on the SBR (Budget Authority, Appropriations) and as a financing sources on SCNP for FY 2008. Auction proceeds for which licenses have not yet been granted as of September 30, 2008, totaling $17.18 billion, are considered a non-budgetary financing source (unavailable for use), and, accordingly, are not included in the SBR for FY 2008 and are recorded as a liability to FCC on the Consolidated Balance Sheet as of September 30, 2008. For the proprietary financial statements, an auction proceed is considered a liability to FCC until FCC grants the license. When the license is granted, a budgetary financing source (Transfers In of Spectrum Auction Proceeds from FCC) is recognized on the SCNP. Earned auction proceeds of $1.78 billion were subsequently utilized in part, during the fourth quarter of FY 2008, to make substantial repayments on Treasury borrowings.

As of September 30, 2008, payments for the programs under this Fund may not exceed $2.82 billion, while Treasury borrowings under this Fund may not exceed $2.69 billion.

On September 30, 2009, the Fund shall transfer $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.

Below is a brief summary of the three largest programs under this Fund, and significant financial activity recorded for the FY 2008 and FY 2007 SBR 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 $1.00 billion through FY 2010. 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 2008 and FY 2007 to FEMA under the PSIC program amounted to $6.7 million and $974.7 million.

Digital-to-Analog Converter Box Program: This program is to provide households in the U.S. with forty dollar coupons (two per-household maximum) that can be applied toward the purchase of digital-to-analog converter boxes. The Fund may make payments not to exceed $1.50 billion through FY 2009. Budgetary obligations for FY 2008 and FY 2007 for this program amounted to $840.8 million and $87.3 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 the period ended September 30, 2008, the Department had custodial nonexchange revenue of $3.9 million; custodial nonexchange revenue of $486 thousand was payable to Treasury at September 30, 2008. For the period ended September 30, 2007, the Department had custodial nonexchange revenue of $14.5 million; custodial nonexchange revenue of $1.0 million was payable to Treasury.

NOTE 20. 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, 2008 (In Thousands)

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Coastal Zone Management Fund	NTIS Revolving Fund	Damage Assessment and Restoration Revolving Fund	Other Earmarked Funds	Total Earmarked Funds
ASSETS							
Fund Balance with Treasury	$ 1,318,817	$ 1,204,539	$ 25,268	$ 23,919	$ 41,737	$ 60,627	$ 2,674,907
Cash	3,399	-	-	-	-	-	3,399
Accounts Receivable, Net	517	124	-	1,218	11	3	1,873
Loans Receivable and Related Foreclosed Property, Net	-	-	8,426	-	-	-	8,426
Inventory, Materials, and Supplies, Net	-	-	-	120	-	-	120
General Property, Plant, and Equipment, Net	204,184	-	-	583	-	-	204,767
Other	7,989	55,309	-	5,995	-	161	69,454
TOTAL ASSETS	**$ 1,534,906**	**$ 1,259,972**	**$ 33,694**	**$ 31,835**	**$ 41,748**	**$ 60,791**	**$ 2,962,946**
LIABILITIES							
Accounts Payable	$ 96,693	$ 20,493	$ -	$ 7,580	$ 3,753	$ 185	$ 128,704
Debt to Treasury	-	4,727	-	-	-	-	4,727
Federal Employee Benefits	8,318	-	-	655	-	-	8,973
Other							
Accrued Payroll and Annual Leave	136,111	149	-	1,376	75	123	137,834
Accrued Grants	-	-	-	-	-	932	932
Spectrum Auction Proceeds Liability to Federal Communications Commission (Note 18)	-	-	-	-	-	-	-
Unearned Revenue	848,505	-	-	7,806	-	-	856,311
Other	12,675	165,534	-	186	51	-	178,446
TOTAL LIABILITIES	**$ 1,102,302**	**$ 190,903**	**$ -**	**$ 17,603**	**$ 3,879**	**$ 1,240**	**$ 1,315,927**
NET POSITION							
Unexpended Appropriations	$ -	$ (27)	$ -	$ -	$ -	$ 489	$ 462
Cumulative Results of Operations	432,604	1,069,096	33,694	14,232	37,869	59,062	1,646,557
TOTAL NET POSITION	**$ 432,604**	**$ 1,069,069**	**$ 33,694**	**$ 14,232**	**$ 37,869**	**$ 59,551**	**$ 1,647,019**
TOTAL LIABILITIES AND NET POSITION	**$ 1,534,906**	**$ 1,259,972**	**$ 33,694**	**$ 31,835**	**$ 41,748**	**$ 60,791**	**$ 2,962,946**

United States Department of Commerce Consolidated Balance Sheet
As of September 30, 2007 (In Thousands)

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Coastal Zone Management Fund	NTIS Revolving Fund	Damage Assessment and Restoration Revolving Fund	Other Earmarked Funds	Total Earmarked Funds
ASSETS							
Fund Balance with Treasury	$ 1,302,303	$ 104,505	$ 27,742	$ 26,856	$ 33,392	$ 50,494	$ 1,545,292
Cash	5,990	-	-	-	-	-	5,990
Accounts Receivable, Net	422	-	-	1,321	36	2	1,781
Loans Receivable and Related Foreclosed Property, Net	-	-	8,731	-	-	-	8,731
Inventory, Materials, and Supplies, Net	-	-	-	207	-	-	207
General Property, Plant, and Equipment, Net	204,577	-	-	212	-	-	204,789
Other	6,133	17,467	-	5,635	349	349	29,933
TOTAL ASSETS	**$ 1,519,425**	**$ 121,972**	**$ 36,473**	**$ 34,231**	**$ 33,777**	**$ 50,845**	**$ 1,796,723**
LIABILITIES							
Accounts Payable	$ 95,419	$ 2,854	$ 12	$ 7,754	$ 695	$ 213	$ 106,947
Debt to Treasury	-	164,489	-	-	-	-	164,489
Federal Employee Benefits	7,929	-	-	571	-	-	8,500
Other							
Accrued Payroll and Annual Leave	113,481	104	-	1,367	32	102	115,086
Accrued Grants	-	914	-	-	-	852	1,766
Unearned Revenue	828,070	-	-	8,828	-	-	836,898
Other	10,506	-	-	176	8	-	10,690
TOTAL LIABILITIES	**$ 1,055,405**	**$ 168,361**	**$ 12**	**$ 18,696**	**$ 735**	**$ 1,167**	**$ 1,244,376**
NET POSITION							
Unexpended Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative Results of Operations	464,020	(46,389)	36,461	15,535	33,042	49,678	552,347
TOTAL NET POSITION	**$ 464,020**	**$ (46,389)**	**$ 36,461**	**$ 15,535**	**$ 33,042**	**$ 49,678**	**$ 552,347**
TOTAL LIABILITIES AND NET POSITION	**$ 1,519,425**	**$ 121,972**	**$ 36,473**	**$ 34,231**	**$ 33,777**	**$ 50,845**	**$ 1,796,723**

United States Department of Commerce Consolidated Statement of Net Cost
For the Year Ended September 30, 2008 (In Thousands)

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Coastal Zone Management Fund	NTIS Revolving Fund	Damage Assessment and Restoration Revolving Fund	Other Earmarked Funds	Total Earmarked Funds
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers							
Gross Costs	$ -	$ -	$ -	$ -	$ -	$ 4,843	$ 4,843
Less: Earned Revenue	-	-	-	-	-	-	-
Net Program Costs	**-**	**-**	**-**	**-**	**-**	**4,843**	**4,843**
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness							
Gross Costs	1,892,590	663,648	-	24,565	-	-	2,580,803
Less: Earned Revenue	(1,862,174)	(123)	-	(22,340)	-	-	(1,884,637)
Net Program Costs	**30,416**	**663,525**	**-**	**2,225**	**-**	**-**	**696,166**
Strategic Goal 3: Promote Environmental Stewardship							
Gross Costs	-	-	(32)	-	16,751	17,871	34,590
Less: Earned Revenue	-	-	(200)	-	-	-	(200)
Net Program Costs	**-**	**-**	**(232)**	**-**	**16,751**	**17,871**	**34,390**
NET COST OF OPERATIONS	**$ 30,416**	**$ 663,525**	**$ (232)**	**$ 2,225**	**$ 16,751**	**$ 22,714**	**$ 735,399**

United States Department of Commerce Consolidated Statement of Net Cost
For the Year Ended September 30, 2007 (In Thousands)

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Coastal Zone Management Fund	NTIS Revolving Fund	Damage Assessment and Restoration Revolving Fund	Other Earmarked Funds	Total Earmarked Funds
Strategic Goal 1: Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers							
Gross Costs	$ -	$ -	$ -	$ -	$ -	$ 5,332	$ 5,332
Less: Earned Revenue	-	-	-	-	-	-	-
Net Program Costs	**-**	**-**	**-**	**-**	**-**	**5,332**	**5,332**
Strategic Goal 2: Promote U.S. Innovation and Industrial Competitiveness							
Gross Costs	1,769,658	46,389	-	24,518	-	-	1,840,565
Less: Earned Revenue	(1,735,706)	-	-	(22,625)	-	-	(1,758,331)
Net Program Costs	**33,952**	**46,389**	**-**	**1,893**	**-**	**-**	**82,234**
Strategic Goal 3: Promote Environmental Stewardship							
Gross Costs	-	-	(3,657)	-	19,744	15,189	31,276
Less: Earned Revenue	-	-	(1,227)	-	-	-	(1,227)
Net Program Costs	**-**	**-**	**(4,884)**	**-**	**19,744**	**15,189**	**30,049**
NET COST OF OPERATIONS	**$ 33,952**	**$ 46,389**	**$ (4,884)**	**$ 1,893**	**$ 19,744**	**$ 20,521**	**$ 117,615**

United States Department of Commerce Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2008 (In Thousands)

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Coastal Zone Management Fund	NTIS Revolving Fund	Damage Assessment and Restoration Revolving Fund	Other Earmarked Funds	Total Earmarked Funds
Cumulative Results of Operations:							
Beginning Balance	$ 464,020	$ (46,389)	$ 36,461	$ 15,535	$ 33,042	$ 49,678	$ 552,347
Budgetary Financing Sources:							
Appropriations Used	-	27	-	-	-	4,843	4,870
Non-exchange Revenue	-	-	-	-	14,780	9,391	24,171
Transfers In of Spectrum Auction Proceeds from Federal Communications Commission	-	1,778,983	-	-	-	-	1,778,983
Transfers In/(Out) Without Reimbursement, Net	(1,000)	-	(2,999)	-	6,798	7,595	10,394
Other Financing Sources (Non-exchange):							
Imputed Financing Sources from Cost Absorbed by Others	-	-	-	922	-	-	922
Other Financing Sources/(Uses), Net	-	-	-	-	-	10,269	10,269
Total Financing Sources	**(1,000)**	**1,779,010**	**(2,999)**	**922**	**21,578**	**32,098**	**1,829,609**
Net Cost of Operations	**(30,416)**	**(663,525)**	**232**	**(2,225)**	**(16,751)**	**(22,714)**	**(735,399)**
Net Change	**(31,416)**	**1,115,485**	**(2,767)**	**(1,303)**	**4,827**	**9,384**	**1,094,210**
Cumulative Results of Operations	**432,604**	**1,069,096**	**33,694**	**14,232**	**37,869**	**59,062**	**1,646,557**
Unexpended Appropriations:							
Beginning Balance	-	-	-	-	-	-	-
Budgetary Financing Sources:							
Appropriations Transferred In/(Out), Net	-	-	-	-	-	5,332	5,332
Appropriations Used	-	(27)	-	-	-	(4,843)	(4,870)
Total Budgetary Financing Sources	-	(27)	-	-	-	489	462
Unexpended Appropriations	**-**	**(27)**	**-**	**-**	**-**	**489**	**462**
NET POSITION	**$ 432,604**	**$ 1,069,069**	**$ 33,694**	**$ 14,232**	**$ 37,869**	**$ 59,551**	**$ 1,647,019**

United States Department of Commerce Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2007 (In Thousands)

	USPTO Earmarked Funds	NTIA Digital Television Transition and Public Safety Fund	Coastal Zone Management Fund	NTIS Revolving Fund	Damage Assessment and Restoration Revolving Fund	Other Earmarked Funds	Total Earmarked Funds
Cumulative Results of Operations:							
Beginning Balance	$ 497,972	$ -	$ 34,577	$ 16,384	$ 27,626	$ 44,421	$ 620,980
Budgetary Financing Sources:							
Non-exchange Revenue	-	-	-	-	7,133	9,722	16,855
Transfers In/(Out) Without Reimbursement, Net	-	-	(3,000)	-	18,027	9,149	24,176
Other Financing Sources (Non-exchange):							
Imputed Financing Sources from Cost Absorbed by Others	-	-	-	1,044	-	-	1,044
Other Financing Sources/(Uses), Net	-	-	-	-	-	6,907	6,907
Total Financing Sources	**-**	**-**	**(3,000)**	**1,044**	**25,160**	**25,778**	**48,982**
Net Cost of Operations	**(33,952)**	**(46,389)**	**4,884**	**(1,893)**	**(19,744)**	**(20,521)**	**(117,615)**
Net Change	**(33,952)**	**(46,389)**	**1,884**	**(849)**	**5,416**	**5,257**	**(68,633)**
Cumulative Results of Operations	**464,020**	**(46,389)**	**36,461**	**15,535**	**33,042**	**49,678**	**552,347**
Unexpended Appropriations:							
Beginning Balance	27	-	-	-	-	-	27
Budgetary Financing Sources	(27)	-	-	-	-	-	(27)
Unexpended Appropriations	**-**	**-**	**-**	**-**	**-**	**-**	-
NET POSITION	**$ 464,020**	**$ (46,389)**	**$ 36,461**	**$ 15,535**	**$ 33,042**	**$ 49,678**	**$ 552,347**

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 two core business activities – granting patents and registering trademarks – 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. Since FY 1993, the Salaries and Expenses Fund has been funded primarily by the collection of fees for patent and trademark services. The USPTO may use monies from this fund 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*. The 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, 2008, $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 receives funding from borrowings from the Bureau of Public Debt, and repays 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 will also be used to reduce the National Deficit. The law establishing this program can be found in Deficit Reduction Act of 2005, P.L. 109-171 Section 3001-3014.

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.

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 **Damage Assessment and Restoration Revolving Fund** is established by 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. Natural Resources.

NOTE 21. 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 reconciliation of net cost of operations to budget for FY 2008 and FY 2007 is as follows:

	FY 2008	FY 2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 11,661,575	$ 11,283,888
Less: Spending Authority From Offsetting Collections and Recoveries	(3,527,208)	(3,400,863)
Obligations Net of Offsetting Collections and Recoveries	8,134,367	7,883,025
Less: Distributed Offsetting (Receipts)/Outlays, Net	(20,397)	(72,871)
Net Obligations	8,113,970	7,810,154
Other Resources		
Donations and Forfeitures of Property	228	16,535
Transfers In/(Out) Without Reimbursement, Net	3,301	220
Imputed Financing From Cost Absorbed by Others	214,243	196,903
Downward Subsidy Reestimates Payable to Treasury	(68,379)	(36,710)
Loan Modification Savings Paid to Treasury	-	(18,910)
Other Financing Sources/(Uses), Net	20,193	(278)
Net Other Resources Used to Finance Activities	169,586	157,760
Total Resources Used to Finance Activities	**8,283,556**	**7,967,914**
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	(230,158)	(1,174,919)
Resources that Fund Expenses Recognized in Prior Periods	(29,815)	(45,317)
Budgetary Obligation for Downward Subsidy Reestimates Payable to Treasury	(21,700)	(29,056)
Budgetary Obligation for Loan Modification Savings Payable to Treasury	-	(18,910)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Distributed Offsetting (Receipts)/Outlays, Net (excludes Clearing Accounts' Gross Costs)	20,397	72,871
Credit Program Collections which Increase Loan Guarantee Liabilities or Allowance for Subsidy Cost	49,630	44,231
Budgetary Financing Sources/(Uses), Net	18,449	11,069
Resources that Finance the Acquisition of Assets	(1,009,263)	(1,008,933)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	1,645	38,020
Donations and Forfeitures of Property	(228)	(16,535)
Transfers In/(Out) Without Reimbursement, Net	(3,301)	(220)
Downward Subsidy Reestimates Payable to Treasury	68,379	36,710
Loan Modification Savings Paid to Treasury	-	18,910
Other Financing Sources/(Uses), Net	(20,193)	278
Other	(389)	(66)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**(1,156,547)**	**(2,071,867)**
Total Resources Used to Finance Net Cost of Operations	**7,127,009**	**5,896,047**
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	19,267	12,803
Increases in NOAA Corps Retirement System Liability and NOAA Corps Post-retirement Health Benefits Liability	35,700	41,600
Increase (Decrease) in Contingent Liabilities	20,512	(4,346)
Reestimates of Credit Subsidy Expense	(58,038)	14,170
Other	14,452	5,627
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	31,893	69,854
Components Not Requiring or Generating Resources		
Depreciation and Amortization	503,524	468,925
NOAA Issuances of Materials and Supplies	19,336	22,658
Revaluation of Assets or Liabilities	16,676	(922)
Loan Modification Savings	-	(18,910)
Other	375	(2,745)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	539,911	469,006
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**571,804**	**538,860**
NET COST OF OPERATIONS	**$ 7,698,813**	**$ 6,434,907**

The accompanying notes are an integral part of these statements.

NOTE 22. 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 Monument, 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 discrete areas 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. The sanctuaries are also used for recreational diving and sport fishing, and support valuable commercial industries such as fishing and kelp harvesting. As of September 30, 2008, 13 National Marine Sanctuaries, which include near-shore coral reefs and open ocean, have been designated, covering a total area of 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). The NWHI Coral Reef Ecosystem Reserve is the nation's largest marine protected area, and was established by Executive Orders in December 2000 and January 2001, in accordance with the National Marine Sanctuaries Amendments Act of 2000. On June 15, 2006, the President created the world's second largest marine conservation area off the coast of the northern Hawaiian Islands. This conservation area, designated the Northwestern Papahãnaumokuãkea Marine National Monument, encompasses nearly 140,000 square miles of U.S. waters, including 5,178 square miles of relatively undisturbed coral reef habitat that is home to more than 7,000 species. The Monument will be managed by NOAA, with the Department of the Interior, and the State of Hawaii.

Aleutian Islands Habitat Conservation Area: On July 28, 2006, NOAA Fisheries Service formally established the Aleutian Islands Habitat Conservation Area in Alaska, which covers 279,114 square nautical 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 will be 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 the Papahãnaumokuãkea Marine National Monument have been developed for the areas of acoustic impacts, artificial reefs, and climate change. In development are policy positions or management approaches for alternative energy, aquaculture, cruise ship discharge, invasive species, marine debris, and underwater cables.

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.

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 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 Division (ISD) maintains the historical archives, rare book collection, and oversees the oral history program. The historical archive and rare book collection contains 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 ISD 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 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 include 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.

The Information Services Division (ISD) preserves and promotes the history of the 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.

Heritage assets at the 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 the 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 and it has been in the agency's possession since. 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, and it has been in the agency's possession since. 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, and it has been in the agency's possession since. 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, and it has been in the Census Bureau's possession since new. 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 and it has been in the agency's possession since. 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.

Written policies to guide the acquisition, maintenance, use, and disposal of the above heritage assets at the Census Bureau are currently being developed.

Historical artifacts are designated heritage assets if they help illustrate the social, educational, and cultural heritage of NOAA and its predecessor agencies (U. S. 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, shipbuilders' contracts, personal equipment, clothing, medals and insignia, barometers, rain gauges, and any items that represent the uniqueness of the mission of NOAA and its predecessor agencies.

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 has established the heritage assets Working Committee to administer NOAA's stewardship policies and procedures. In carrying out these policies and procedures, the NOAA heritage assets 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 condition of heritage assets;
- Determines the feasibility of new asset loans, such as meters, standard tide gauges, portraits, and books for exhibit loans;
- 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, 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. This facility is undergoing a renovation in three phases. Phases I and II are complete.

Phase III commenced in October 2004, and is subdivided into four different projects. Phase III-A, renovation of Building 306 and mechanical/electrical site work, was completed in January 2006. Phase III-B, renovation of Buildings 301, 305, and 307, was completed at the end of April 2007. Phase III-C-1, renovation of Building 303, and site work, was completed in May 2007. Phase III-C-2, New SS Cooling Tower and HVAC Control for the Galveston laboratory campus, was completed in December 2007. The Boat Barn Building was completed at the end of July 2008. In July 2008, Building 303 caught fire due to lightning, and the building suffered considerable damage. A contract has been put in place to make the necessary repairs and the work was scheduled to start in October 2008. There will be an assessment performed to evaluate the overall standings after Hurricane Ike.

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 Island 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 composed 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. The 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 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 (IHS/BIA) through 2006. A new health center was constructed on St. Paul Island in 2006, though a closeout procedure and custody transfer between NMFS and IHS/BIA is still being negotiated. The NMFS has not used the building to meet its mission for at least the past 20 years.

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, part of NOAA's mission. The aquarium houses 16 permanent exhibition tanks and approximately 12 freestanding aquaria and touch tanks holding more than 140 species of fish and invertebrates. The tanks range in size from 75 to 2,800 gallons. The aquarium's outdoor habitat for resident seals was completely replaced in 2008, and was re-opened to the public in July 2008. The 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, publications, manuscripts, records, nautical chart plates, and artifacts. Many of these heritage assets are maintained by the NOAA Central Library (Library). 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. 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. Collections of the Library include a) the Charles Fitshugh Talman Special Collections Room – approximately 3,000 titles and over 5,000 items; b) the Coast and Geodetic Survey Collection – approximately 23,000 items; and c) the Weather Bureau Collection – approximately 62,500 items.

A recount of the Library was completed during FY 2008 and provides a new base number of the collection containing heritage assets. The Library's Regular Collection consists of over 144,000 journal items (pre-1970 and current) and approximately 140,700 books, plus its historical Weather Bureau Collection, Coast and Geodetic Collection, and Rare Book Collection. Many Regular Collection items contain publications from pre-NOAA organizations that are heritage assets and are integrated into the collection.

The NOAA's collection-type heritage assets also 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.

Collection-type Heritage Assets		
Category	**Description of Assets**	**Quantity of Items Held September 30, 2008**
NOAA Central Library	Publications acquired or issued by the Coast and Geodetic Survey from 1807 to 1970	22,960
	Weather Bureau Collection	62,549
	Black and white Photographs	40,000 (est.)
	Books, publications, periodicals, and journals	465,528
	Manuscripts, records, nautical chart plates, artifacts, and other items	11,461
NOAA National Ocean Service–Thunder Bay Sanctuary Research Collection	Data cards, photograph negatives, document copies, photographs, books, and other items	106,254
NOAA Others	Artifacts, artwork, books, films, instruments, maps, and records	3,824
Census Bureau Collectable Assets	Publication, books, manuscripts, photographs, and maps	19
Census Bureau Artwork and Gifts	Artifacts, artwork, books, films, instruments, and records	132
NIST Artifacts and Scientific Measures	National Bureau of Standards (NBS)/NIST scientific instruments, equipment, and objects	343
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	1,527
Total		**714,597**

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

Consolidating Balance Sheet


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

United States Department of Commerce Consolidating Balance Sheet

As of September 30, 2008 *(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	NIPC	NIST	NOAA	NTIA	NTIS	OIG	USPTO
ASSETS																					
Intragovernmental:																					
Fund Balance with Treasury	$ 26,633,414	$ -	$ 17,382	$ 705,041	$ 786	$ 48,709	$ 36,923	$ 1,308,701	$ 105,037	$ 13,098	$ 4,549	$ 3,462	$ 93,817	$ 13,443	$ 317	$ 754,283	$ 3,589,596	$ 18,476,552	$ 25,080	$ 5,396	$ 1,431,242
Accounts Receivable	64,963	(8,294)	316	9,428	-	5,203	76	8,176	389	2	508	-	3,920	2	-	1,366	42,964	52	855	-	-
Other - Advances and Prepayments	110,087	(88,387)	2,002	8,635	-	3,287	3,092	940	(1)	1,630	432	-	7,589	830	6	20,377	88,915	57,173	246	730	2,591
Total Intragovernmental	26,808,464	(96,681)	19,700	723,104	786	57,199	40,091	1,317,817	105,425	14,730	5,489	3,462	105,326	14,275	323	776,026	3,721,475	18,533,777	26,181	6,126	1,433,833
Cash	5,135	-	-	-	-	-	-	-	-	-	-	-	193	1	-	-	513	-	70	-	4,358
Accounts Receivable, Net	38,191	-	1,011	3,616	-	19	11	111	-	5	-	-	636	11	-	7,832	24,047	12	363	-	517
Loans Receivable and Related Foreclosed Property, Net	511,009	-	-	-	-	-	-	23,139	-	-	-	-	-	-	-	-	487,870	-	-	-	-
Inventory, Materials, and Supplies, Net	100,595	-	-	335	-	-	12	-	-	-	-	-	-	(1)	-	25,581	74,548	-	120	-	-
General Property, Plant, and Equipment, Net	6,190,408	-	260	115,807	8,631	796	11,696	-	-	-	468	-	3,619	46	-	595,954	5,238,349	10,013	583	2	204,184
Other	63,003	-	(1)	7,019	3	10	3	212	-	-	-	-	1,397	4	-	45	43,164	1	5,748	-	5,398
TOTAL ASSETS	$ 33,716,805	$ (96,681)	$ 20,970	$ 849,881	$ 9,420	$ 58,024	$ 51,813	$ 1,341,279	$ 105,425	$ 14,735	$ 5,957	$ 3,462	$ 111,171	$ 14,336	$ 323	$ 1,405,438	$ 9,589,966	$ 18,543,803	$ 33,065	$ 6,128	$ 1,648,290
LIABILITIES																					
Intragovernmental:																					
Accounts Payable	$ 109,931	$ (8,135)	$ 2,243	$ 6,374	$ -	$ 604	$ 587	$ 105	$ (388)	$ 177	$ -	$ -	$ 956	$ 460	$ -	$ 866	$ 94,965	$ 153	$ 6,260	$ 29	$ 4,675
Debt to Treasury	476,653	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	471,926	4,727	-	-	-
Other																					
Spectrum Auction Proceeds Liability to Federal Communications Commission	17,177,707	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		17,177,707	-	-	-
Resources Payable to Treasury	25,792	-	-	-	-	-	-	23,907	-	-	-	-	-	-	-	-	1,885	-	-	-	-
Unearned Revenue	359,411	(88,387)	2,943	88,904	-	30,536	35,386	75,288	-	7	2,897	-	-	58	-	115,050	55,244	32,797	4,123	30	4,535
Other	135,534	(159)	1,229	16,460	-	804	1,313	395	56,493	534	16	-	3,084	648	-	4,421	37,941	611	187	283	11,274
Total Intragovernmental	18,285,028	(96,681)	6,415	111,738	-	31,944	37,286	99,695	56,105	718	2,913	-	4,040	1,166	-	120,337	661,961	17,215,995	10,570	342	20,484
Accounts Payable	345,215	-	1,407	55,007	76	7,784	4,237	479	15	846	484	4	802	1,181	-	22,941	133,639	22,257	1,320	718	92,018
Loan Guarantee Liabilities	621	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	621	-	-	-	-
Federal Employee Benefits	666,563	-	2,343	61,406	-	1,703	4,345	1,254	-	164	110	-	7,590	2,702	-	9,353	564,041	1,628	655	951	8,318
Environmental and Disposal Liabilities	67,863	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54,220	13,643	-	-	-	-
Other																					
Accrued Payroll and Annual Leave	452,073	-	4,683	65,765	-	4,468	8,790	2,793	2	6,458	345	-	26,799	948	-	34,096	153,189	4,574	1,376	1,676	136,111
Accrued Grants	373,525	-	-	-	-	-	-	240,101	-	-	-	-	4,658	2,476	-	23,747	83,591	18,952	-	-	-
Accrued Coupons for Digital-to-Analog Converter Box Program	165,533	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	165,533	-	-	-
Capital Lease Liabilities	30,881	-	-	16,669	-	-	-	-	-	-	-	-	-	-	-	38	14,174	-	-	-	-
Unearned Revenue	1,058,956	-	2,057	4,160	-	-	-	7	-	730	103	-	11,387	-	-	36,730	41,489	25	4,914	-	957,354
Other	54,710	-	224	3,281	(1)	8,146	-	1,176	-	(1)	(1)	(1)	11,930	3	-	2,493	26,059	2	(1)	-	1,401
TOTAL LIABILITIES	$ 21,500,968	$ (96,681)	$ 17,129	$ 318,026	$ 75	$ 54,045	$ 54,658	$ 345,505	$ 56,122	$ 8,915	$ 3,954	$ 3	$ 67,206	$ 8,476	$ -	$ 303,955	$ 1,692,407	$ 17,428,966	$ 18,834	$ 3,687	$ 1,215,686
NET POSITION																					
Unexpended Appropriations																					
Unexpended Appropriations - Earmarked Funds	$ 462	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 489	$ -	$ -	$ -	$ -	$ (27)	$ -	$ -	$ -
Unexpended Appropriations - Other Funds	5,179,925	-	9,086	348,004	-	12,737	-	1,000,030	49,303	9,230	-	3,459	73,934	9,637	323	506,082	3,113,158	40,249	-	4,693	-
Cumulative Results of Operations																					
Cumulative Results of Operations - Earmarked Funds	1,646,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	130,626	1,069,096	14,231	-	432,604
Cumulative Results of Operations - Other Funwds	5,388,893	-	(5,245)	183,851	9,345	(8,758)	(2,845)	(4,256)	-	(3,410)	2,003	-	(30,458)	(3,777)	-	595,401	4,653,775	5,519	-	(2,252)	-
TOTAL NET POSITION	$ 12,215,837	$ -	$ 3,841	$ 531,855	$ 9,345	$ 3,979	$ (2,845)	$ 995,774	$ 49,303	$ 5,820	$ 2,003	$ 3,459	$ 43,965	$ 5,860	$ 323	$ 1,101,483	$ 7,897,559	$ 1,114,837	$ 14,231	$ 2,441	$ 432,604
TOTAL LIABILITIES AND NET POSITION	$ 33,716,805	$ (96,681)	$ 20,970	$ 849,881	$ 9,420	$ 58,024	$ 51,813	$ 1,341,279	$ 105,425	$ 14,735	$ 5,957	$ 3,462	$ 111,171	$ 14,336	$ 323	$ 1,405,438	$ 9,589,966	$ 18,543,803	$ 33,065	$ 6,128	$ 1,648,290

See accompanying independent auditors' report.

Required Supplementary Information

(UNAUDITED)


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

Required Supplementary Information (unaudited)

A Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes 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 excludes 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 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 is not performed. The significant portions of Departmental deferred maintenance relate to the PP&E of both NOAA and NIST (see below for abbreviations). These two entities represent 94 percent of the Department's General PP&E, Net balance as of September 30, 2008.

National Oceanic and Atmospheric Administration (NOAA):

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

The following shows NOAA's deferred maintenance for projects with estimated costs greater than $50 thousand, as of September 30, 2008:

(In Thousands)

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition		
Buildings and Structures	4	$ 6,050	to	$ 7,395
Heritage Assets	4, 3	11,760	to	14,370
Total		**$ 17,810**	**to**	**$ 21,765**

NOAA has established a facility condition code to classify the condition of the Buildings and Structures. Each Building and Structure is assessed an individual facility condition code. The average of the individual facility condition codes determines the CAS Asset Condition. The CAS method for Buildings and Structures 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. The amounts reported represent non-critical maintenance to bring the assets to good condition. The CAS method for heritage assets is based on the same five-point scale as the Buildings and Structures. Acceptable condition is considered to be those assets rated in good or excellent condition. There is an annual call each year to the NOAA components, requesting their submissions of new projects and updates to existing unfunded projects to reflect changes in requirements or costs.

National Institute of Standards and Technology (NIST):

NIST also uses the CAS method to estimate deferred maintenance. 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 as of September 30, 2008:

(In Thousands)

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition
Mechanical and Electrical Devices	5	$ 364,000 to $ 446,400
Buildings (Internal Structures)	4	52,600 to 71,100
Buildings (External Structures)	4	36,000 to 46,000
Total		**$ 452,600 to $ 563,500**

B ***Stewardship Marine Sanctuaries, Marine National Monument, and Conservation Area:***

NOAA maintains the following sanctuaries, Marine National Monument, and conservation area, which are similar in nature to stewardship land and which are more fully described in Note 22, Stewardship Property, Plant, and Equipment, of the Notes to the Financial Statements.

National Marine Sanctuaries: These protected waters provide a secure habitat for species close to extinction, and also protect historically significant shipwrecks and prehistoric artifacts. Each of the 13 individual sanctuary sites, which include near-shore coral reefs and open ocean, conducts research and monitoring activities to characterize existing resources and document changes. The waters and resources of the National Marine Sanctuaries are generally in good condition, though some specific resources (e.g. certain coral reefs, some commercial and recreational fisheries, and some benthic habitats) are threatened.

Papahãnaumokuãkea Marine National Monument: The majority of all coral reef habitats located in U.S. waters surround the Northwestern Hawaiian Islands (NWHI). The Papahãnaumokuãkea Marine National Monument, located off the coast of the NWHI, encompasses nearly 140,000 square miles of U.S. waters, including 5,178 square miles of relatively undisturbed coral reef habitat that is home to more than 7,000 species. The Monument will be managed by the NOAA National Marine Sanctuary, with the Department of the Interior, and the State of Hawaii. The condition of the Papahãnaumokuãkea Marine National Monument is good.

Aleutian Islands Habitat Conservation Area: This conservation area in Alaska, which covers 279,114 square nautical 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.

Written policy statements or permit guidelines for the National Marine Sanctuaries and the Papahãnaumokuãkea Marine National Monument have been developed for the areas of acoustic impacts, artificial reefs, and climate change. In development are policy positions or management approaches for alternative energy, aquaculture, cruise ship discharge, invasive species, marine debris, and underwater cables.

C *Collection-type Heritage Assets*

NOAA's collection-type heritage assets are comprised primarily of books, publications, manuscripts, records, nautical chart plates, and artifacts. Many of these heritage assets are maintained by the NOAA Central Library (Library). A re-count of the library inventory was completed during FY 2008 and provides a new base number of the collection containing heritage assets. The Library's Regular Collection consists of over 144,000 journal items (pre-1970 and current) and approximately 140,700 books, plus its historical Weather Bureau (M collections), Coast and Geodetic Survey collection, and Rare Book Collection. Many Regular Collection items contain publications from pre-NOAA organizations.

NOAA's collection-type heritage assets also 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 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, publications, and manuscripts, that make up the majority of the NOAA 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.

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 Division (ISD) maintains the historical archives, rare book collection, and oversees the oral history program. The historical collection contains titles that are considered "classics" of historical scientific interest, books by prominent contemporary scientists, 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 these books are generally fair. The photos and manuscripts maintained include images 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 Enumerators Badge, Steel Hand Bander, Unisys Tape and Reel, Film Optical Sensing Device, 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 Departments 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, 2008 *(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	Other Programs
BUDGETARY RESOURCES:									
Unobligated Balance, Brought Forward, October 1	$ 881,293	$ 193,506	$ 28,036	$ 40,738	$ 13,892	$ 9,539	$ 6,247	$ 9,439	$ 579,896
Adjustments to Unobligated Balance, Brought Forward	(12)	-	-	-	-			-	(12)
Recoveries of Prior-years Unpaid Obligations	125,596	18,977	11,963	10,780	1	13,594	4,097	26,281	39,903
Budget Authority									
Appropriations	9,551,340	2,965,396		985,207	1,778,983	405,172	1,237,406	749,100	1,430,076
Borrowing Authority	557,110	-	-	-	500,200	-	-	-	56,910
Spending Authority From Offsetting Collections									
Earned									
Collected	3,390,820	228,178	1,862,291	1,861	749	14,249	314	20,765	1,262,413
Change in Receivables	6,672	(1,059)	(77)	-	123	3,612	-	7,600	(3,527)
Change in Unfilled Customer Orders									
Advances Received	(24,925)	717	23,407	-	(123)	112	-	(7,728)	(41,310)
Without Advances	26,570	3,658	-	-	-	10,038	-	-	12,874
Previously Unavailable	2,475	-	-	-	-	-	-	-	2,475
Total Budget Authority	**13,510,062**	**3,196,890**	**1,885,621**	**987,068**	**2,279,932**	**433,183**	**1,237,720**	**769,737**	**2,719,911**
Nonexpenditure Transfers, Net	271,193	250,811	(1,000)	(979)	-	1,028	(3,000)	-	24,333
Temporarily Not Available Pursuant to Public Law	(1,654)	-	-	-	-	-	-	-	(1,654)
Permanently Not Available	(775,970)	(15,379)	-	(6,265)	(664,690)	(625)	(1,365)	(5,701)	(81,945)
TOTAL BUDGETARY RESOURCES	**$ 14,010,508**	**$ 3,644,805**	**$ 1,924,620**	**$ 1,031,342**	**$ 1,629,135**	**$ 456,719**	**$ 1,243,699**	**$ 799,756**	**$ 3,280,432**
STATUS OF BUDGETARY RESOURCES:									
Obligations Incurred									
Direct	$ 8,596,181	$ 3,100,480	$ -	$ 994,572	$ 942,432	$ 422,904	$ 1,148,807	$ 288,587	$ 1,698,399
Reimbursable	3,065,394	219,872	1,852,541	-	-	16,274	-	16,580	960,127
Total Obligations Incurred	**11,661,575**	**3,320,352**	**1,852,541**	**994,572**	**942,432**	**439,178**	**1,148,807**	**305,167**	**2,658,526**
Unobligated Balance									
Apportioned	806,243	184,281	64,068	21,914	164,554	14,368	89,949	94,589	172,520
Exempt From Apportionment	308,833	-	-	-	-	-	-	-	308,833
Total Unobligated Balance	**1,115,076**	**184,281**	**64,068**	**21,914**	**164,554**	**14,368**	**89,949**	**94,589**	**481,353**
Unobligated Balance Not Available	1,233,857	140,172	8,011	14,856	522,149	3,173	4,943	400,000	140,553
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 14,010,508**	**$ 3,644,805**	**$ 1,924,620**	**$ 1,031,342**	**$ 1,629,135**	**$ 456,719**	**$ 1,243,699**	**$ 799,756**	**$ 3,280,432**
CHANGE IN UNPAID OBLIGATED BALANCE, NET:									
Unpaid Obligated Balance, Net, Brought Forward, October 1									
Unpaid Obligations, Brought Forward	$ 7,214,597	$ 2,112,736	$ 511,466	$ 1,072,168	$ 1,010,288	$ 96,992	$ 142,986	$ 786,046	$ 1,481,915
Less: Uncollected Customer Payments, Brought Forward	(282,560)	(208,537)	584	-	-	(3,504)	-	-	(71,103)
Total Unpaid Obligated Balance, Net, Brought Forward	**6,932,037**	**1,904,199**	**512,050**	**1,072,168**	**1,010,288**	**93,488**	**142,986**	**786,046**	**1,410,812**
Adjustments to Unpaid Obligations, Brought Forward	1,123	1,123	-	-	-	-	-	-	-
Obligations Incurred	11,661,575	3,320,352	1,852,541	994,572	942,432	439,178	1,148,807	305,167	2,658,526
Less: Gross Outlays	(11,111,133)	(3,317,173)	(1,868,184)	(1,075,706)	(519,935)	(441,220)	(980,673)	(251,360)	(2,656,882)
Less: Actual Recoveries of Prior-years Unpaid Obligations	(125,596)	(18,977)	(11,963)	(10,780)	(1)	(13,594)	(4,097)	(26,281)	(39,903)
Change in Uncollected Customer Payments	(33,242)	(2,599)	77	-	(123)	(13,650)	-	(7,600)	(9,347)
TOTAL UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	**$ 7,324,764**	**$ 1,886,925**	**$ 484,521**	**$ 980,254**	**$ 1,432,661**	**$ 64,202**	**$ 307,023**	**$ 805,972**	**$ 1,363,206**
Unpaid Obligated Balance, Net, End of Period									
Unpaid Obligations	$ 7,640,566	$ 2,098,061	$ 483,860	$ 980,254	$ 1,432,784	$ 81,356	$ 307,023	$ 813,572	$ 1,443,656
Less: Uncollected Customer Payments	(315,802)	(211,136)	661	-	(123)	(17,154)	-	(7,600)	(80,450)
TOTAL UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	**$ 7,324,764**	**$ 1,886,925**	**$ 484,521**	**$ 980,254**	**$ 1,432,661**	**$ 64,202**	**$ 307,023**	**$ 805,972**	**$ 1,363,206**
NET OUTLAYS:									
Gross Outlays	$ 11,111,133	$ 3,317,173	$ 1,868,184	$ 1,075,706	$ 519,935	$ 441,220	$ 980,673	$ 251,360	$ 2,656,882
Less: Offsetting Collections	(3,365,895)	(228,895)	(1,885,698)	(1,861)	(626)	(14,361)	(314)	(13,037)	(1,221,103)
Less: Distributed Offsetting (Receipts)/Outlays, Net	(20,397)	-	-	-	-	-	-	-	(20,397)
NET OUTLAYS	**$ 7,724,841**	**$ 3,088,278**	**$ (17,514)**	**$ 1,073,845**	**$ 519,309**	**$ 426,859**	**$ 980,359**	**$ 238,323**	**$ 1,415,382**

Required Supplementary Stewardship Information

(UNAUDITED)


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

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 27 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, 2008, encompassed approximately 1.3 million acres of estuarine waters, wetlands, and uplands. The newest reserve, Mission-Aransas, TX, was designated on May 3, 2006. The NERRs are state-operated and managed in cooperation with NOAA. The 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 137 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. The 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 2004 through FY 2008 were as follows:

(In Millions)

Program	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
National Estuarine Research Reserves	$ 0.5	$ 15.4	$ 6.8	$ 11.6	$ 11.8	$ 46.1
Coastal and Estuarine Land Conservation Program	21.8	15.5	18.5	34.7	28.1	118.6
Total	**$ 22.3**	**$ 30.9**	**$ 25.3**	**$ 46.3**	**$ 39.9**	**$ 164.7**

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.

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 2004 through FY 2008 were as follows:

(In Millions)

Program	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
Public Works	$ 194.8	$ 220.1	$ 180.1	$ 155.5	$ 133.5	$ 884.0
Economic and Defense Adjustments	75.3	75.4	53.1	53.5	60.0	317.3
Disaster Recovery	18.5	10.1	24.2	4.4	1.8	59.0
Total	**$ 288.6**	**$ 305.6**	**$ 257.4**	**$ 213.4**	**$ 195.3**	**$ 1,260.3**

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. There is also a Graduate Fellowship Program for Ph.D. candidates in the specialized areas of population dynamics and marine resource economics. 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. As of September 30, 2008, 51 Graduate Research Fellowships have been 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 educated, 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. The NOAA EPP Cooperative Science Center goals are to:

- Educate, 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 the MSI.

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, business development, and revitalizing local communities. EEP's objective is to increase the number of students at MSIs proficient in environmental business enterprises.

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. 16 additional students were added to the program in FY 2008.

The Graduate Sciences Program (GSP) is aimed primarily at increasing opportunities for students in NOAA-related fields to pursue research and educational training in atmospheric, environmental, remote sensing and oceanic sciences at minority serving institutions (MSI) when possible. The GSP offers between two years (master's candidates) to four years (doctoral students) of NOAA-related research and training opportunities. The GSP provides college graduates entry-level employment and hands-on research and work experience at NOAA. Seven students were selected to participate in the GSP in FY 2007. Three additional students were added to the program in FY 2008, and the program plans to add five students in FY 2009.

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. There were 112 students starting the program in 2008.

The following table summarizes NOAA's investments in human capital for FY 2004 through FY 2008:

(In Millions)

Program	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
National Sea Grant College Program	$ 0.6	$ 0.7	$ 0.7	$ 0.5	$ 0.5	$ 3.0
National Estuarine Research Reserve Program	0.8	0.9	0.9	0.8	0.8	4.2
Educational Partnership Program	N/A	7.0	13.9	14.2	12.8	47.9
Ernest F. Hollings Undergraduate Scholarship Program	N/A	0.3	3.8	4.1	3.6	11.8
Total	**$ 1.4**	**$ 8.9**	**$ 19.3**	**$ 19.6**	**$ 17.7**	**$ 66.9**
[1] *Not applicable*						

The following table further summarizes NOAA's human capital investments for FY 2004 to FY 2008 by performance goal:

(In Millions)

Performance Outcome	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 1.4	$ 8.9	$ 19.3	$ 19.6	$ 17.7

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 and 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 have been the stewards of the nation's measurement infrastructure since their inception in 1901 as the National Bureau of Standards. The NIST Laboratories foster scientific and technological leadership by helping the United States to drive and take advantage of the increased pace of technological change, fostering more efficient transactions in the domestic and global marketplace, and addressing other critical needs assigned to NIST by the Administration and Congress. In support of the American Competitiveness Initiative, NIST develops and disseminates measurement techniques, reference data, test methods, standards, and other infrastructural technologies and services required by U.S. industry, government and academia to compete in the 21st century. In this way, the laboratories promote innovation, facilitate trade, and ensure public safety and security by strengthening the nation's measurement and standards infrastructure.

Advanced Technology Program (ATP): The ATP is a cost-shared funding program for businesses that was intended to develop new technologies for commercial use. ATP was abolished by the America COMPETES Act, which was signed into law by the President on August 9, 2007. However, this statute allows for continued support for previously awarded ATP projects and the 56 new FY 2007 awards. Special attention is being given to documenting the results of funded research to ensure maximum private sector use is made of this investment in the years ahead.

The following table summarizes NIST's R&D investments for FY 2004 through FY 2008 by R&D Category:

(In Millions)

	NIST Laboratories					Advanced Technology Program					Total				
R&D Category	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Basic Research	$ 65.0	$ 66.6	$ 85.2	$ 110.7	$ 132.8	$ -	$ -	$ -	$ -	$ -	$ 65.0	$ 66.6	$ 85.2	$ 110.7	$ 132.8
Applied Research	319.7	325.6	345.8	345.3	381.0	96.9	96.1	58.0	31.0	23.2	416.6	421.7	403.8	376.3	404.2
Development	13.7	14.3	16.7	15.3	14.4	96.9	96.0	58.0	30.9	23.2	110.6	110.3	74.7	46.2	37.6
Total	**$ 398.4**	**$ 406.5**	**$ 447.7**	**$ 471.3**	**$ 528.2**	**$ 193.8**	**$ 192.1**	**$ 116.0**	**$ 61.9**	**$ 46.4**	**$ 592.2**	**$ 598.6**	**$ 563.7**	**$ 533.2**	**$ 574.6**

The following tables further summarize NIST's R&D investments for FY 2004 through FY 2008 by performance outcome.

(In Millions)

FY 2008				
Performance Outcome	Basic Research	Applied Research	Development	Total
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
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**

(In Millions)

FY 2007				
Performance Outcome	Basic Research	Applied Research	Development	Total
Promote Innovation, Facilitate Trade, and Ensure Public Safety and Security by Strengthening the Nation's Measurements and Standards Infrastructure	$ 110.7	$ 345.3	$ 15.3	$ 471.3
Accelerate Private Investment in and Development of High-risk, Broad-impact Technologies	-	31.0	30.9	61.9
Total	**$ 110.7**	**$ 376.3**	**$ 46.2**	**$ 533.2**

(In Millions)

FY 2006				
Performance Outcome	Basic Research	Applied Research	Development	Total
Promote Innovation, Facilitate Trade, Ensure Public Safety and Security, and Help Create Jobs by Strengthening the Nation's Measurements and Standards Infrastructure	$ 85.2	$ 345.8	$ 16.7	$ 447.7
Accelerate Private Investment in and Development of High-risk, Broad-impact Technologies	-	58.0	58.0	116.0
Total	**$ 85.2**	**$ 403.8**	**$ 74.7**	**$ 563.7**

(In Millions)

FY 2005				
Performance Outcome	Basic Research	Applied Research	Development	Total
Promote Innovation, Facilitate Trade, Ensure Public Safety and Security and Help Create Jobs by Strengthening the Nation's Measurements and Standards Infrastructure	$ 66.6	$ 325.6	$ 14.3	$ 406.5
Accelerate Private Investment in and Development of High-risk, Broad-Impact Technologies	-	96.1	96.0	192.1
Total	**$ 66.6**	**$ 421.7**	**$ 110.3**	**$ 598.6**

(In Millions)

FY 2004				
Performance Outcome	Basic Research	Applied Research	Development	Total
Provide Technical Leadership for the Nation's Measurements and Standards Infrastructure; and	$ -	$ -	$ -	$ -
Assure the Availability and Efficient Transfer of Measurement and Standards Capabilities Essential to Established Industries	$ 65.0	$ 319.7	$ 13.7	$ 398.4
Accelerate Private Investment in and Development of High-risk, Broad-impact Technologies	-	96.9	96.9	193.8
Total	**$ 65.0**	**$ 416.6**	**$ 110.6**	**$ 592.2**

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;
- 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. The 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. The NOAA's research organizations conduct applied research on the upper and lower atmosphere as well as the space environment.

Fisheries: The NOAA's NMFS is responsible for the management and stewardship of living marine resources and their habitat within the Nation's Exclusive Economic Zone. The NMFS manages these resources through science-based conservation and management, and the protection and restoration of healthy ecosystems to ensure their continuation as functioning components of ecosystems, while also affording economic opportunities and enhancing the quality of life for the American public. Fishery stocks and protected species are surveyed, catch data are collected, and research is conducted to better understand the variables affecting the abundance and variety of marine fishes and protected species. Protection of endangered species, restoration of coastal and estuarine fishery habitats, and enforcement of fishery regulations are primary bureau activities. The research and management of living marine resources is conducted in partnership with states, universities, other countries, and international organizations.

Marine Operations and Maintenance and Aircraft Services: These expenditures 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 change. It also provides guidance for the development and evolution of spacecraft and sensors to meet future needs.

The NOAA's R&D investments by program for FY 2004 through FY 2008 were as follows:

(In Millions)

Program	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
Environmental and Climate	$ 317.9	$ 307.8	$ 324.2	$ 289.3	$ 331.2	$ 1,570.4
Fisheries	70.6	53.5	56.3	49.3	53.6	283.3
Marine Operations and Maintenance and Aircraft Services	51.7	57.5	50.7	51.1	51.5	262.5
Weather Service	17.6	26.9	15.1	40.8	56.7	157.1
Others	116.5	124.9	124.1	120.2	111.1	596.8
Total	**$ 574.3**	**$ 570.6**	**$ 570.4**	**$ 550.7**	**$ 604.1**	**$ 2,870.1**

The following table summarizes NOAA's R&D investments for FY 2004 through FY 2008 by R&D category:

(In Millions)

R&D Category	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
Applied Research	$ 546.7	$ 514.8	$ 523.1	$ 475.7	$ 517.6	$ 2,577.9
Development	27.6	55.8	47.3	75.0	86.5	292.2
Total	**$ 574.3**	**$ 570.6**	**$ 570.4**	**$ 550.7**	**$ 604.1**	**$ 2,870.1**

The following tables further summarize NOAA's R&D investments for FY 2004 through FY 2008 by performance outcome.

(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**

(In Millions)

FY 2007			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources Through an Ecosystem Approach to Management	$ 225.9	$ 12.3	$ 238.2
Understand Climate Variability and Change to Enhance Society's Ability to Plan and Respond	145.9	12.3	158.2
Serve Society's Needs for Weather and Water Information	101.6	50.2	151.8
Support the Nation's Commerce with Information for Safe, Efficient, and Environmentally Sound Transportation	2.3	0.2	2.5
Total	**$ 475.7**	**$ 75.0**	**$ 550.7**

(In Millions)

FY 2006			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources Through an Ecosystem-based Management	$ 250.7	$ 14.0	$ 264.7
Understand Climate Variability and Change to Enhance Society's Ability to Plan and Respond	160.2	12.3	172.5
Serve Society's Needs for Weather and Water Information	109.0	20.9	129.9
Support the Nation's Commerce with Information for Safe, Efficient, and Environmentally Sound Transportation	3.2	0.1	3.3
Total	**$ 523.1**	**$ 47.3**	**$ 570.4**

(In Millions)

FY 2005			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources Through an Ecosystem-based Management	$ 242.4	$ 8.6	$ 251.0
Understand Climate Variability and Change to Enhance Society's Ability to Plan and Respond	157.8	5.3	163.1
Serve Society's Needs for Weather and Water Information	105.4	41.9	147.3
Support the Nation's Commerce with Information for Safe, Efficient, and Environmentally Sound Transportation	9.2	-	9.2
Total	**$ 514.8**	**$ 55.8**	**$ 570.6**

(In Millions)

FY 2004			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources Through an Ecosystem Approach to Management	$ 271.6	$ 10.1	$ 281.7
Understand Climate Variability and Change to Enhance Society's Ability to Plan and Respond	163.6	4.3	167.9
Serve Society's Needs for Weather and Water Information	94.9	9.2	104.1
Support the Nation's Commerce with Information for Safe, Efficient, and Environmentally Sound Transportation	16.6	4.0	20.6
Total	**$ 546.7**	**$ 27.6**	**$ 574.3**

Independent Auditor's Report


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

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

November 12, 2008

MEMORANDUM FOR: Carlos M. Gutierrez
Secretary of Commerce

FROM: Todd J. Zinser

SUBJECT: FY 2008 Consolidated Financial Statements
Final Audit Report No. FSD-19048-9-0002

I am pleased to provide you with the attached audit report required by the Chief Financial Officers Act of 1990, as amended, which presents an unqualified opinion on the Department of Commerce's FY 2008 consolidated financial statements. The audit results indicate that the Department has established an internal control structure that facilitates the preparation of reliable financial and performance information.

The independent public accounting firm of KPMG LLP performed the audit of the Department's financial statements for the year ended September 30, 2008. The contract required that the audit be performed 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 that

- the financial statements were fairly presented, in all material respects and in conformity with U.S. generally accepted accounting principles;
- there were two significant deficiencies related to weaknesses in controls over the Department's financial management systems and accounting for personal property at the National Oceanic and Atmospheric Administration, which were not considered material weaknesses in internal control as defined in the audit report;
- there were 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;
- there was one instance in which the Department did not comply with other laws and regulations (Anti-Deficiency Act violation at the National Oceanic and Atmospheric Administration); and
- there was one additional concern in which the Department's Office of General Counsel is reviewing whether the Economic Development Administration violated the Anti-Deficiency Act during FY 2008. However, a conclusion has not yet been reached.

My office oversaw the audit performance and delivery. 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 U.S. generally accepted government auditing standards. It was not intended to enable us to express, and we do not 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 10, 2008, and the conclusions expressed in the report.

In accordance with Department Administrative Order 213-5, *Audit Resolution and Follow-up*, please provide us with an audit action plan that addresses all of the report recommendations related to accounting for NOAA personal property within 60 days of the date of this memorandum. The plan is not required to address the significant deficiency related to financial management system weaknesses. Instead, we ask that you provide an audit action plan addressing the related specific recommendations included in the separate, limited-distribution information technology general controls report (FSD-19048-9-0001).

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Judith J. Gordon, Assistant Inspector General for Audit and Evaluation, on (202) 482-2754. We appreciate the cooperation and courtesies the Department extended to both KPMG and my staff during the audit.

Attachment

cc: Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration

Suzanne Hilding
Chief Information Officer

William J. Brennan
Acting Under Secretary of Commerce for Oceans and Atmosphere
and Acting NOAA Administrator

KPMG LLP
2001 M Street, NW
Washington, DC 20036

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, 2008 and 2007, 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 2008 audit, we also considered the Department's internal controls 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, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal controls over financial reporting resulted in the identification of two significant deficiencies related to weaknesses in (1) the Department's general information technology controls, and (2) accounting for personal property at the National Oceanic and Atmospheric Administration (NOAA). However, we do not consider these significant deficiencies to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed one matter of noncompliance with the *Anti-Deficiency Act* that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (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 controls 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.

KPMG

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce as of September 30, 2008 and 2007, 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 balance sheet, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources referred to above present fairly, in all material respects, the financial position of the U.S. Department of Commerce, as of September 30, 2008 and 2007, 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.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2008 consolidating balance sheet on page 243 is presented for purposes of additional analysis of the consolidated balance sheet rather than to present the financial positions of the Department's bureaus individually. The September 30, 2008 consolidating balance sheet has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the September 30, 2008 consolidated balance sheet taken as a whole. The information in the FY 2008 Performance Section, Appendices, and the information on pages IV through VIII are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the

Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

In our fiscal year 2008 audit, we noted two matters, summarized below, and in more detail in Exhibit I, that we consider to be significant deficiencies. However, these significant deficiencies are not believed to be material weaknesses.

- **General information technology controls.** We found that although the Department has taken corrective actions to address certain information technology (IT) control weaknesses, general IT weaknesses still exist. Despite the positive efforts made by the Department, the Department needs to make continued improvement in its IT general control environment to fully ensure that financial data being processed on the Department's systems has integrity, is confidentially maintained, and is available when needed.

- **Accounting for personal property at NOAA.** We identified internal control deficiencies relating to managing and accounting for personal property additions, deletions, and the population of active property items, resulting in the need for NOAA to undertake a significant remediation effort, in order to ensure that its personal property balances were fairly stated as of September 30, 2008. NOAA needs to make improvements in the effective monitoring of its property physical inventory process and personal property subsidiary ledger, as well as to work with its Line Offices to improve asset purchase coding and the timely processing of supporting documentation needed for updating the personal property accounting records.

We also noted certain additional matters that we reported to the management of the Department in two separate documents addressing information technology and other matters, respectively.

Compliance and Other Matters

The results of certain of our tests of compliance as 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 instance of noncompliance and other matter that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended:

- **Anti-Deficiency Act (ADA).** As reported in the prior year, we were informed by the National Oceanic and Atmospheric Administration (NOAA) that during fiscal year

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2005, 82 real property agreements, with the earliest signed in 1923, included indemnification clauses or provisions involving an indeterminate liability, or both. The Office of General Counsel (OGC) determined that these clauses or provisions were *prima facie* violations of the ADA, because those clauses constituted open-ended obligations of the U.S. Government, even though no liability claims were filed against the agreements. As of November 10, 2008, the date of our fiscal year 2008 Independent Auditors' Report, 81 agreements have been amended, terminated or expired, thereby eliminating future ADA concerns, and corrective actions are underway on the remaining agreement, which is being renegotiated to remove the clauses.

Additional Concern. In fiscal year 2008, the Economic Development Administration (EDA) informed us of a potential ADA violation related to the use of voluntary services at a summit held on May 22, 2008, that may not have been authorized by law. EDA accepted voluntary services, which potentially do not qualify as gratuitous services because the participants did not execute waivers-of-compensation prior to the event. The OGC is reviewing this matter to determine whether a violation of the ADA occurred, but a conclusion has not yet been reached. Since OGC's review is not complete, the outcome of this matter, and any resulting ramifications, is not presently known.

* * * * * * *

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, as amended.

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

Responsibilities

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 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, as amended. Those standards and OMB Bulletin No. 07-04, as amended, 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 2008 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. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express 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.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2008 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, as amended, including certain 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 responses to the significant deficiencies identified in our audit are presented in Exhibit I. We did not audit the Department's responses and, accordingly, we express no opinion on them.

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 10, 2008

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Significant Deficiencies

Financial Management Systems Need Improvement ***(Repeat Condition Since 1998)***

For many years, the U.S. Department of Commerce (the Department) Office of Inspector General (OIG), and departmental self-assessments have identified weaknesses in the Department's information technology (IT) and financial systems controls. As at many federal entities, information security is recognized as a top management challenge for the Department. During our fiscal year (FY) 2008 assessment of the Department's IT general and financial systems controls, performed in support of the FY 2008 consolidated financial statement audit, we found that there is continued improvement in the Department's certification and accreditation (C&A) program. We also noted that the bureaus and the Department took positive steps to implement management, operational, and technical controls to help establish sound information security practices and address known weaknesses, including an IT security material weakness reported under the *Federal Managers' Financial Integrity Act* (FMFIA) in the prior year.

Despite continued progress, during our FY 2008 audit we identified weaknesses in general IT controls that we consider to be a significant deficiency as defined by the American Institute of Certified Public Accountants. As part of the Department's FY 2008 FMFIA evaluation, the Department determined that a material weakness related to IT security still exists, due to weaknesses in the Department's certification and accreditation processes and documentation for non-financial systems.

Effective IT general controls add assurance that data used to prepare and report financial information and statements is complete, reliable, and has integrity. Our FY 2008 IT assessment was focused on the IT general controls over the Department's major financial management systems and supporting network infrastructure, using GAO's *Federal Information System Controls Audit Manual* (FISCAM) as a guide. The six FISCAM IT general control review elements, and our related findings, are as follows:

- **Entity-wide security program.** An entity-wide security program for security planning and management is the foundation of an organization's information security control structure. The program should provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related security controls.

  Although the Department has made improvements in this area, during our FY 2008 audit we identified that entity-wide security can still be improved at six bureaus and at the Department level, primarily in the areas of: (1) updating system security plans to comply with current Federal guidance, (2) improving incident response procedures and training, (3) ensuring completion of specialized role-based training, (4) establishing approved interconnection sharing agreements, (5) reporting and monitoring identified control weaknesses, and (6) maintaining background investigation and clearance documentation.

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Significant Deficiencies, Continued

Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources*, provides key guidance for establishing and maintaining an entity-wide information security program. Collectively, the identified entity-wide security planning and management issues, coupled with the access control issues described below, reduce the overall effectiveness of the entity-wide security programs for the individual bureaus and operating units, and the overall Department. The *Department of Commerce IT Security Program Policy and Minimum Implementation Standards*, reiterates OMB Circular A-130 guidance, and implements key elements of such guidance as Department-wide policy.

- **Access controls.** In close concert with an organization's entity-wide information security program, access controls for general support systems and financial systems 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.

  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 very 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 National Institute of Standards and Technology (NIST) security publications provide guidance related to the maintenance of technical access controls. In addition, the *Department of Commerce IT Security Program Policy and Minimum Implementation Standards* contain many requirements for operating Department IT devices in a secure manner.

  During fiscal year 2008, we noted that access controls should be improved at all bureaus and at the Department level, primarily in the areas of: (1) applying consistently patch management practices to protect system devices against external and internal vulnerabilities, (2) managing user accounts to appropriately terminate and recertify network, financial system, and database accounts, (3) improving logical controls over financial application, database, and network access, (4) strengthening password controls, (5) restricting data center access, (6) managing configuration settings of system devices, (7) monitoring user actions through the use of audit trails, (8) enforcing multi-factor authentication, and (9) enforcing visitor access policy. We recognize that the Department and its bureaus have certain compensating controls in place to help reduce the risk of the identified vulnerabilities, and we have considered such compensating controls as part of our overall consolidated financial statement audit.

- **Application software development and change control.** The primary focus of application software development and change control is on controlling the changes

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Significant Deficiencies, Continued

that are made to software systems in operation. Establishing controls over the modification of application software programs ensures that only authorized programs and authorized modifications are implemented. This is accomplished by instituting policies, procedures, and techniques to determine that all 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 2008, we noted that application software development and change controls should be improved at two bureaus in the areas of: (1) finalizing an approved system development life cycle methodology, and (2) testing and tracking system software changes.

- **System software.** System software is a set of programs designed to operate and control the processing activities of computer equipment. System software helps control the input, processing, output, and data storage associated with all of the applications that run on a system. Controls over access to and modification of system software are essential in providing reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired.

  During fiscal year 2008, we noted that system software controls should be improved at four bureaus in the areas of: (1) auditing and monitoring system software controls, (2) installing system software patches in accordance with policy, (3) improving system software access controls, and (4) maintaining documentation for testing and authorizing system software patches.

- **Segregation of duties.** Work responsibilities should be segregated so that an individual does not control more than one critical function within a process. Inadequately segregated duties increase the risk that erroneous or fraudulent transactions could be processed, improper program changes could be implemented, and computer resources could be damaged or destroyed. Key areas of concern for segregation of duties involve duties among major operating and programming activities, including duties performed by users, application programmers, and data center staff. Policies outlining individual responsibilities should be documented, communicated, and enforced. The prevention and/or detection of unauthorized or erroneous actions by personnel require effective supervision and review by management, as well as formal operating procedures.

  During fiscal year 2008, we noted weaknesses related to segregation of duties for financial systems at two bureaus.

- **Service continuity.** Losing the capability to process, retrieve, and protect information maintained electronically can significantly affect an agency's ability to accomplish its mission. For this reason, an agency should have: (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur.

During fiscal year 2008, we noted that service continuity controls should be improved at four bureaus and at the Department level, primarily in the areas of: (1) updating contingency plans to include appropriate controls and reflect current processing environments, (2) testing contingency plans, (3) procuring an alternate processing site, (4) documenting policies and procedures for backing up key financial systems, and (5) improving data center physical and environmental controls.

<u>Recommendations</u>

Specific recommendations are included in a separate limited distribution IT general controls report, issued as part of the fiscal year 2008 consolidated financial statement audit. The Department should monitor bureau actions to ensure effective implementation of our recommendations.

<u>Management's Response</u>

Management agreed with the findings, conclusions, and recommendations related to improving the Department's financial management systems controls. The Department is in the process of developing corrective action plans to address the recommendations presented in the separate limited distribution IT general controls report.

Accounting for NOAA Personal Property Needs Improvement *(New Condition)*

The Department has substantial investment in general property, plant, and equipment. The National Oceanic and Atmospheric Administration (NOAA) accounts for a majority of the Department's property. During our audit, we identified the following internal control deficiencies related to NOAA's managing and accounting for personal property, which has a net book value of approximately $1 billion, as of September 30, 2008:

- **Personal Property Physical Inventory.** NOAA's fiscal year 2008 annual personal property physical inventory was not performed with sufficient timeliness, or with adequate follow-up action, to ensure completeness or to resolve identified differences. Specifically, we noted:
    - Ineffective monitoring of the progress of completed inventory certifications. The inventory tracking log indicated no entry for approximately 60 of 700 custodial areas. Some, but not all, of these custodial areas contained capitalized assets.
    - Failure to correct timely the personal property subsidiary ledger, Sunflower, for errors or omissions identified through the inventory process. For example, in our sample of 20 physical inventory certifications, we noted 7 assets that were identified as having been excessed or scrapped, but were not removed from the

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accounting records by September 30, 2008. We identified an additional asset that was disposed of in February 2006, but remained in Sunflower until February 2008.

As a result of our findings, and concerns related to the accurate reporting of the inventory certifications, NOAA engaged a contractor to verify the accuracy of the physical inventory certifications and identify the corrections that should be made to the accounting records. This effort identified assets with a recorded cost and accumulated depreciation of $12.7 million and $11.9 million, respectively, which had been previously disposed of, but had not been removed from the accounting records.

- **Personal Property Purchased Additions.** NOAA's effective analysis and use of its Unreconciled Payment Report (UPR) is a key control in achieving the objective of the timely and accurate recording of purchased personal property additions. The UPR captures all payments made to capitalizable Object Class Codes (OCC), matches these payments to asset additions recorded in the Sunflower system, and provides an on-line report of payments that have not been matched. We identified the following weaknesses in the operation of the UPR control, resulting in errors in the recording of purchased personal property additions that were not detected and corrected timely:
    - Three capital assets purchased totaling approximately $1.4 million, were expensed, instead of being capitalized.
    - Fourteen assets, totaling approximately $4.5 million, were capitalized in fiscal year 2008, although they were purchased in previous fiscal years.
    - Several other capital assets acquired during fiscal year 2008 were not recorded timely.
- **Personal Property Constructed Additions.** NOAA continues to experience delays in the timely transfer of completed personal property Construction Work-In-Progress (CWIP) projects into Property, Plant and Equipment (PP&E). We identified:
    - Five projects with CWIP of approximately $10 million, which had been completed but not transferred to completed PP&E by the end of the fiscal year.
- **Maintenance and Review of Personal Property Data in Sunflower.** In addition to the inaccuracies noted above, we identified evidence that NOAA had failed to adequately review data within the Sunflower property subsidiary ledger to ensure that all personal property data is accurately recorded:
    - Sunflower identifies certain property items valued at over $200 thousand as non-capitalizable. NOAA had not reviewed these items to determine if they were misclassified. Upon further research, we determined that two items, costing approximately $672 thousand should have been capitalized.
    - NOAA records certain related assets as "linked assets" in Sunflower, with the capitalizable value of all assets recorded under one asset number. We identified that record keeping for these related assets needs to be improved.

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- The Sunflower subsidiary ledger contains an 'Edit Interface' file of transaction records waiting to be processed. This file should be continuously reviewed, to ensure that all personal property transactions have been accurately processed. NOAA identified that 3,803 unprocessed transaction records had accumulated in this file as of October 13, 2008. NOAA has begun an analysis of this data, and as of November 7, 2008, determined that:
  - 1 record was a completed CWIP project (for a vessel) that should have been recorded as a completed PP&E with a cost of approximately $1.3 million as of September 30, 2008;
  - 992 records represented valid "accountable" property items that did not meet NOAA's asset capitalization threshhold, but should have been added to the Sunflower system;
  - 778 records were duplicate or invalid entries that should have been deleted from the Edit Interface file, and
  - 2,032 records require further review. These records have a stated total cost value of approximately $7.3 million. The ultimate disposition of these remaining records may result in adjustments to the personal property account.

<u>Recommendations</u>

We recommend that NOAA:

- Effectively monitor annual personal property physical inventory, sufficient to ensure that all inventory certifications are submitted timely, and that all required corrections are made to the Sunflower system.
- Emphasize with the Line or Staff Offices through training, procedure memos, and other communications, the need to use correct OCC codes, reconcile payments appearing on the UPR, and submit asset purchase and retirement paperwork, timely.
- Research unmatched payments that appear on the UPR, review the accuracy of coding property as non-capitalizable, obtain information and missing acquisition paperwork from Line or Staff Offices, and record capitalized purchases and asset retirements in Sunflower timely.
- Ensure that completed CWIP projects are transferred into PP&E timely, and that sufficient resources are assigned to this task
- Perform a detailed review of all non-capitalized assets costing more than $200 thousand in Sunflower, and maintain ongoing record of all such assets with explanations and supporting documentation.
- Improve record keeping of "linked assets" in Sunflower.

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- Complete the internal review currently underway of records remaining in the Sunflower Edit Interface file, process the backlog of required transactions in a timely manner, and monitor new transactions within this file promptly.

Management's Response

Management agrees with the audit findings and recommendations pertaining to the need to improve and strengthen the accounting for NOAA personal property. NOAA's Office of Chief Administrative Officer and Logistics Division will develop and implement corrective action plans that will address the specific areas noted as needing improvement.