TRIBAL AND OTHER TRUST FUNDS AND INDIVIDUAL INDIAN MONIES TRUST FUNDS MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

ANNUAL REPORT 2010

TRIBAL AND OTHER TRUST FUNDS AND
INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

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Letter from the Special Trustee

I am pleased to present Fiscal Year 2010 Tribal and Other Trust Funds and Individual Indian Monies Trust Funds audited financial statements for the funds that are managed by the Office of the Special Trustee for American Indians (OST). This letter provides information about our office's accomplishments in fulfillment of the Department of the Interior's fiduciary trust responsibilities.

At OST, our day-to-day work is guided by our Indian trust management mission statement — "to perform our fiduciary trust responsibilities to American Indian tribes, individual Indians, and Alaska Natives by incorporating a beneficiary focus and beneficiary participation while providing effective, competent stewardship and management of trust assets."

Interior's Comprehensive Trust Management Plan (CTM) guides and describes the vision, goals and objectives of fiduciary trust management and operations of the trust for all bureaus and offices within Interior. Achieving the goals in the plan will result in enhanced beneficiary services, reliable ownership information, and quality administrative services; improved management of all trust fund assets; and increased support for Indian self-governance and self-determination.

OST supports its goal to fulfill Indian fiduciary trust responsibilities by implementing the following strategies:

Improve Indian Fiduciary Trust Beneficiary Services by continuing to provide timely, accurate account performance statements and convenient access to trust account services; communicating with beneficiaries and facilitating beneficiary involvement in trust management.

Support Indian Self-Governance and Self-Determination by managing self-governance compacts and self-determination contracts for OST programs.

Improve Indian Trust Ownership and Other Information through prompt distribution of financial trust assets to heirs after the Office of Hearing and Appeals renders probate decisions and ensure accuracy of data maintained in offices and accounting systems.

Manage Trust Fund Assets for Timely and Productive Use through managing and investing funds held on behalf of individual Indians and Tribes and receipting, disbursing, and accounting for funds timely and accurately.

Improve Management of Land and Natural Resource Assets by providing appraisal information as requested on trust and restricted lands for tribal and individual Indian owners and exploring solutions to reduce the number of fractionated ownership interests in land.

The following are a few of OST's FY2010 accomplishments that improved services to trust beneficiaries:

- Processed a total of $543.7 million through the centralized commercial lockbox and posted 77.10 percent to beneficiaries' accounts within two days of receipt. Converted to a new lockbox contract.
- Disbursed more than $814 million to individual Indian and tribal beneficiaries.
- Recovered addresses on 40 percent of the Whereabouts Unknown accounts identified as of October 1, 2009. This represented 33,697 accounts totaling $28 million.
- Distributed funds for 8,061 completed probates which closed 10,168 estate accounts.
- Distributed $1,271,320 Youpee Escheat funds.
- Assisted the Federal Indian Minerals Office with distribution of oil and gas royalties to trust beneficiaries in the amount of $62,279.
- Mailed to beneficiaries who own assets more than 780,000 quarterly performance statements that provide sources of funds, encumbrance information (who is leasing their trust property, duration of the lease and payment terms) and listings of trust property owned.
- Provided tribal account statements on CD-ROM to approximately 100 tribes and provided tribes online account access.
- Continued to emphasize debit card and direct deposit options in lieu of paper checks, increasing the total number of account holders who have chosen these options to over 31,500.
- Handled over 233,000 beneficiary inquiries.
- Provided 3,747 outreach events to beneficiaries, which included wills clinics and financial skills training.
- Conducted 422 investment meetings with tribal representatives.
- Maintained Self-Governance and Self-Determination funding agreements with 38 tribes for the real estate appraisals and individual Indian beneficiary trust functions.
- Continued improvement of the Office of Appraisal Services' workload management. Reduced the appraisal backlog from 3,600 to 374, which is about 91 percent. Transmitted 11,852 appraisal products to clients throughout FY 2010.
- Moved 9,586 boxes of records to the American Indian Records Repository (AIRR). Indexed 13,249 boxes.
- Produced and distributed a video about the American Indian Records Repository.

- Supported the BIA Ft. Berthold Agency by researching oil and gas development activities, providing lease well production data to track producing wells, designing a field monitoring process for lease well management, developing business rules on surface use agreements and producing custom TAAMS oil and gas reports.
- Provided technical support for conversion of the Royalty Distribution and Reporting System (RDRS) to the TAAMS oil and gas royalty management module, including the implementation of a new simplified Explanation of Payments.
- Awarded the Cannon Financial Institute *Certified Indian Fiduciary Trust Specialist* designation to one BIA and twelve OST employees.
- Provided records management training to 611 BIA and OST records contacts and 309 tribal employees.
- Helped fund and support programs at the National Indian Programs Training Center, based in Albuquerque, New Mexico.
- Provided information to beneficiaries on their accounts and available services by producing and distributing brochures, statement inserts and promotional items that include OST contact information.
- Conducted 31 Indian Trust Evaluations (ITE) and issued 58 final ITE reports.
- Performed 47 records assessments and issued 45 record assessment reports to identify improvements to OST and BIA Records Management Programs.
- Developed an annual report for Congress, as required by the 1994 Act.
- The Trust Beneficiary Call Center (TBCC) used a tracking system to deploy an automated, streamlined, paperless (green initiative) process for one-time disbursements requested by beneficiaries from their IIM accounts. The process is used by TBCC and field staff to disburse an average of $200-$300,000 daily to 80 – 100 account holders, which has had a positive impact on processing efficiencies.
- Researched and corrected, as necessary, 101,846 beneficiary accounts in TFAS to ensure these accounts were correctly classified.
- Drafted an administrative procedure, based on Departmental policy, to launch/implement telework in 2011.
- Drafted an administrative procedure, based on Departmental policy, to launch a wellness program. Established a wellness site on OST's intranet.
- Hired a consultant to produce a new OST workforce plan to assess skill requirements.
- Finalized an administrative procedure to establish a student loan repayment program.

OST has improved service to trust beneficiaries even as we face challenges managing this unique trust. In keeping with the CTM, OST will pursue the following priorities during FY 2011:

1. Employee Engagement
   - Implement Telework
   - Enhance the Training Program
   - Improve Internal Communications
   - Assess Skill Requirements
   - Establish a Student Loan Repayment Program

2. Money Management
   - Implement Pay.gov
   - Partner with the Treasury for Direct Deposit of Treasury Disbursed Per Capita Payments
   - Establish and Implement a Short Term Investment Fund
   - Expand Use of Direct Deposit and Debit Cards

3. Project Data
   - Reconcile Discrepancy Reports
   - Establish TAAMS Reports Required by OST
   - Reconcile Post-conversion Issues of the TAAMS O&G System
   - Resolve Public Domain Property Issues

4. Automation
   - Enhance Imaging Capabilities
   - Minimize Manual Postings to the Trust Funds Accounting System (TFAS)
   - Enhance the Secure Trust Accounting Records System (STARS)
   - Pilot BIA Access to the Trust Beneficiary Call Center System
   - Implement Electronic Disbursements for Tribal Credit Payments
   - Provide IIM Beneficiaries Online Account Access

5. Geospatial
   - Funded a Geospatial Pilot Project

I hope you find this year's audited financial statements informative and useful. We welcome your help, comments or suggestions for continued improvement.

Donna M. Erwin
Principal Deputy Special Trustee

AUDIT

OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

INDEPENDENT AUDITORS' REPORTS ON THE TRIBAL AND OTHER TRUST FUNDS AND INDIVIDUAL INDIAN MONIES TRUST FUNDS FINANCIAL STATEMENTS FOR FY2010 AND FY2009

Report No.: X-IN-OST-0005-2010

November 2010

OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

NOV 0 9 2010

Memorandum

To: Principal Deputy Special Trustee for American Indians

From: Mary L. Kendall
Acting Inspector General

Subject: Independent Auditors' Report on the Tribal and Other Trust Funds and Individual Indian Monies Trust Funds Financial Statements for FY2010 and FY2009 (Report No. X-IN-OST-0005-2010)

Introduction

This memorandum transmits the KPMG LLP's (KPMG) auditors' reports of the Office of the Special Trustee for American Indians (OST) financial statements for fiscal years (FYs) 2010 and 2009. The OST financial reports contain financial statements and notes for Tribal and Other Trust Funds (Tribal) and Individual Indian Monies Trust Funds (IIM).

The American Indian Trust Fund Management Reform Act of 1994 requires audits of the Tribal and IIM financial statements. Under a contract issued by OST and monitored by the Office of the Inspector General (OIG), KPMG, an independent public accounting firm, performed audits of the OST FY2010 and FY2009 financial statements. The contract required that the audits be performed in accordance with auditing standards generally accepted in the United States of America and the "Government Auditing Standards" issued by the Comptroller General of the United States.

Results of Independent Audit

In its audit reports, dated November 8, 2010, KPMG issued qualified opinions on the Tribal and IIM financial statements because KPMG was unable to satisfy themselves as to the fairness of trust fund balances due to certain parties, for whom OST holds assets in trust disagreeing with the balances recorded by OST and/or having requested an accounting of their trust funds with certain of these parties having filed claims and a class action lawsuit against the United States Government.

Evaluation of KPMG Audit Performance

To fulfill our monitoring responsibilities, the OIG:

- reviewed KPMG's approach and planning of the audits;
- evaluated the qualifications and independence of the auditors;

- monitored the progress of the audits at key points;
- attended periodic meetings with OST management and KPMG to discuss audit progress, findings, and recommendations;
- reviewed KPMG's audit reports; and
- performed other procedures we deemed necessary.

KPMG is responsible for the attached auditors' reports dated November 8, 2010, and the conclusions expressed. We do not express an opinion on OST financial statements, internal controls, or compliance with laws and regulations.

Report Distribution

The legislation, as amended, creating the OIG requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, we will include the information in the attachment in our next semiannual report. The distribution of the report is not restricted, and copies are available for public inspection.

The OIG appreciates the courtesies and cooperation extended to KPMG and our staff during this audit. If you have any questions regarding the report, please contact me at 202–208–5745.

Attachment

TRIBAL AND OTHER TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Financial Statements

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

Independent Auditors' Report on Financial Statements

The Special Trustee for American Indians
U.S. Department of the Interior Office of the Special Trustee
for American Indians; and

U.S. Department of the Interior Office of Inspector General:

We have audited the accompanying statements of assets and trust fund balances – cash basis of the Tribal and Other Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (OST) as of September 30, 2010 and 2009, and the related statements of changes in trust fund balances – cash basis for the years then ended. These financial statements are the responsibility of management of OST. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the fourth paragraph of this report, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 internal control over financial reporting of the Tribal and Other Trust Funds managed by OST. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

It was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the accompanying financial statements as of September 30, 2010 and 2009 due to the effects of certain parties for whom OST holds assets in trust disagreeing with balances recorded by OST and/or having requested an accounting of their trust funds, and of which certain of these parties have filed claims against the United States Government. Trust fund balances enter into the determination of financial position and changes in trust fund balances.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to determine the fairness of trust fund balances and related changes in trust fund balances, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Tribal and Other Trust Funds managed by OST as of September 30, 2010 and 2009, and the changes in trust fund balances for the years then ended in conformity with the basis of accounting described in note 2.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2010 on our consideration of internal control over financial reporting and on our tests of Tribal and Other Trust Funds' compliance with certain provisions of laws, regulations and other matters of the Tribal and Other Trust Funds managed by OST. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 8, 2010

TRIBAL AND OTHER TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Statements of Assets and Trust Fund Balances – Cash Basis

September 30, 2010 and 2009

(In thousands)

Assets		**2010**	**2009**
Cash and cash equivalents (note 3)	$	526,516	378,630
Investments (note 4)		2,574,319	2,718,999
Total assets	$	3,100,835	3,097,629
Trust Fund Balances			
Held for Indian tribes (notes 7 and 9)	$	2,795,781	2,788,229
Held by the Department of the Interior and considered to be U.S. Government funds (note 7)		305,054	309,400
Total trust fund balances	$	3,100,835	3,097,629

See accompanying notes to financial statements.

TRIBAL AND OTHER TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Statements of Changes in Trust Fund Balances – Cash Basis

Years ended September 30, 2010 and 2009

(In thousands)

		2010	2009
Increases:			
Receipts	$	413,032	437,898
Interest received on invested funds		118,441	122,091
Gain on disposition of investments, net		759	5,434
		532,232	565,423
Decreases:			
Disbursements to and on behalf of Indian tribes and other trust funds and withdrawal of trust funds by Indian tribes (note 9)		(529,026)	(470,966)
Increase in trust fund balances, net		3,206	94,457
Trust fund balances, beginning of year		3,097,629	3,003,172
Trust fund balances, end of year (notes 7 and 9)	$	3,100,835	3,097,629

See accompanying notes to financial statements.

(1) Background and Description of the Trust Funds

(a) Overview of the Trust Funds

Establishment and Management of the Trust Funds – The legislation that authorizes the Secretary of the United States Department of the Interior (Secretary) to manage the Tribal and Other Trust Funds recognizes the unique trust relationship that exists between the Indian tribes, individual Indians, and the United States Government (U.S. Government). Agreements between the U.S. Government and the various Indian tribes, many of these in the form of treaties, recognize the sovereignty of tribes. During the course of the United States' history and the U.S. Government's evolving policies toward Indian tribes, the trust relationship has retained characteristics based upon tribal sovereignty. The United States Congress has designated the Secretary as the trustee delegate with responsibility for the financial and nonfinancial resources held in trust on behalf of American Indian tribes, individual Indians, and other trust funds. In carrying out the management and oversight of the Indian trust assets, the Secretary has a fiduciary responsibility to ensure monies are received for the use of Indian lands and the extraction of natural resources from Indian lands, distribute such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to the trust beneficiaries in accordance with applicable law.

The balances that have accumulated in the Tribal and Other Trust Funds have resulted generally from judgment awards, settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

The accompanying financial statements include only the financial assets held in trust by the Office of the Special Trustee for American Indians (OST) for trust beneficiaries and do not include: (i) the operating account balances of OST (e.g., Fund Balance with Treasury; Property, Plant, and Equipment; etc.) or (ii) other Indian trust assets, including but not limited to, Indian lands, buildings, or other nonfinancial assets managed by the United States Department of the Interior (the Department).

The Reform Act – The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act) authorized the establishment of OST, which is headed by the Special Trustee for American Indians (Special Trustee) who reports to the Secretary. Under this legislation, the Special Trustee is responsible for oversight, reform, and coordination of the policies, procedures, systems, and practices used by various bureaus and offices of the Department, including but not limited to OST, the Bureau of Indian Affairs (BIA) (a component of Indian Affairs (IA)), the Office of Natural Resources Revenue (ONRR) (formerly, Minerals Management Service/Minerals Revenue Management Program), and the Bureau of Land Management (BLM), in managing Indian trust assets.

Office of the Special Trustee for American Indians – Indian trust assets, including the Tribal and Other Trust Funds, are primarily managed under the delegated authority of OST and BIA. Management of Indian trust assets on behalf of the trust beneficiaries is dependent upon the processing of trust-related transactions within certain information systems of the Department,

including but not limited to OST, BIA, ONRR, and other Departmental bureaus and offices. BIA and other Departmental bureaus and offices are responsible for managing the natural resources located within the boundaries of Indian reservations and trust lands, as well as the processing of data regarding the ownership and leasing of Indian lands. The allocation of receipts and disbursements by OST to trust beneficiaries are significantly dependent and reliant upon the receipt of timely and accurate information derived from records maintained by BIA, ONRR, and other Departmental bureaus and offices (see note 8).

Regional Offices – OST and BIA maintain staff at regional offices located throughout the United States.

Agency and Field Offices – OST and BIA also maintain staff at agency and field offices located throughout the United States, which are generally located near the tribes and individual Indians served. OST and BIA personnel located at most of the agency and field offices perform various functions related to trust fund activities.

(b) Description of the Trust Funds

Certain of the Tribal and Other Trust Funds are subject to legal, regulatory, budgetary, court-ordered, or other restrictions (see note 7). A brief description of the Tribal and Other Trust Funds follows:

- **Tribal Trust Funds** – As of September 30, 2010 and 2009, approximately 2,800 and 2,700 accounts, respectively, comprise the Tribal Trust Funds, which totaled approximately $2,795,781,000 and $2,788,229,000, respectively.

  Tribal Trust Funds realize receipts from a variety of sources, including judgment awards, settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

- **Other Trust Funds** – Other Trust Funds are comprised of those funds classified as *Held by the Department of the Interior and considered to be U.S. Government funds* (see note 7). Other Trust Funds totaled approximately $305,054,000 and $309,400,000 as of September 30, 2010 and 2009, respectively.

  Other Trust Funds realize receipts from a variety of sources including leases, rights-of-way, judgment awards, settlement of Indian claims, donations and bequests, and investment income.

(c) Investment of Trust Funds

Authorizing legislation and a substantial body of case law specify how Indian trust funds should be managed and which financial instruments constitute appropriate investments for Indian trust funds. The Tribal and Other Trust Funds are invested in U.S. Government securities, including U.S. Department of the Treasury (U.S. Treasury) issues, U.S. Government agency issues, and U.S. Government-sponsored entity issues.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

OST uses the cash basis of accounting for the Tribal and Other Trust Funds, which is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting differs from generally accepted accounting principles in that receivables and payables are not accrued and premiums and discounts on investments are not amortized or accreted. Receipts are recorded when received and disbursements are recorded when issued. Investments are stated at historical cost. Interest received on invested funds reported in the statements of changes in trust fund balances reflects interest received during the fiscal year.

(b) Cash and Cash Equivalents

Management considers all highly liquid financial instruments with maturities of three months or less when purchased to be cash equivalents.

(c) Investments

Investment securities at September 30, 2010 and 2009 consist of U.S. Treasury issues, U.S. Government agency issues, and U.S. Government-sponsored entity issues. Investment securities are recorded at historical cost. Investment income is recognized when received.

The Tribal and Other Trust Funds are invested in U.S. Government securities, as mandated by 25 USC 162a.

(d) Fair Value Measurements

Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820), establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. ASC Topic 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. Since the Tribal and Other Trust Funds use the cash basis of accounting (see note 2(a)), ASC Topic 820 only affects note disclosures related to fair value.

(e) Receipts

Receipts from various leasing activities, mineral royalties and sales of extracted minerals, timber and other forest products, fees and fines, and the granting of easements are generated from a variety of nonfinancial assets that are held in trust by the U.S. Government and managed by BIA and other Departmental bureaus and offices on behalf of tribes. Receipts on hand at the regional and agency offices, and/or in-transit at September 30, 2010 and 2009, if any, awaiting deposit to the U.S. Treasury, are not included in the accompanying financial statements.

Receipts also include payments from the U.S. Government for judgment awards and the settlement of claims.

(f) Disbursements

Payments disbursed from the Tribal and Other Trust Funds consist of accumulations of funds from various income-producing activities such as leasing, royalty receipts, minerals extraction, timber and other forest product sales, judgment awards, settlement of claims, and investment income. Under certain conditions, tribes disburse or authorize disbursement of per capita payments to their enrolled members.

Public Law 103-412 specifically allows for the voluntary withdrawal of judgment awards and settlement of claims funds from the Tribal and Other Trust Funds. Except where prohibited by statute, an Indian tribe may submit a plan to withdraw some or all funds held in trust for the tribe in accordance with 25 CFR 1200.

(g) Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of increases and decreases in trust fund balances during the reporting period. Actual results could differ from those estimates.

(h) Subsequent Events

Subsequent events are evaluated by management through the date that the financial statements are available to be issued, which is November 8, 2010.

(3) Cash and Cash Equivalents

Cash equivalents of approximately $523 million and $375 million at September 30, 2010 and 2009, respectively, consist of overnight investments with the U.S. Treasury.

(4) Investments

The historical cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities by major class of security at September 30 were as follows (amounts exclude investments in U.S. Treasury overnight securities discussed in note 3):

	Historical cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	(In thousands)			
At September 30, 2010:				
U.S. Treasury and agency securities	$ 2,128,385	86,763	(1,252)	2,213,896
U.S. Government entity issued mortgage-backed securities	445,934	29,537	(11)	475,460
	$ 2,574,319	116,300	(1,263)	2,689,356
At September 30, 2009:				
U.S. Treasury and agency securities	$ 2,273,851	63,139	(5,015)	2,331,975
U.S. Government entity issued mortgage-backed securities	445,148	23,318	(892)	467,574
	$ 2,718,999	86,457	(5,907)	2,799,549

The investments above held by the Tribal and Other Trust Funds at September 30, 2010 and 2009 consist of fixed income securities, some of which are mortgaged-backed debt securities, issued by the U.S. Treasury, U.S. Government agencies, or U.S. Government-sponsored entities. All of these securities are either explicitly or implicitly backed by the U.S. Government. Given the backing by the U.S. Government, current market conditions have not had a significant adverse impact on the fair value of these securities.

Maturities of investment securities were as follows at September 30, 2010:

	Historical cost	Fair value
	(In thousands)	
Due in one year or less	$ 241,925	244,130
Due after one year through five years	408,873	436,207
Due after five years through ten years	369,028	391,559
Due after ten years	1,554,493	1,617,460
	$ 2,574,319	2,689,356

(5) Fair Value Disclosure Measurements

ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the principal or most advantageous market for the asset or liability. For measuring fair value, ASC Topic 820 establishes a hierarchy that places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority on unobservable inputs (Level 3 measurements). The three levels of inputs within the fair value hierarchy are defined as follows:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Tribal and Other Trust Funds have the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect the Tribal and Other Trust Funds' own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. All of the investment securities held by the Tribal and Other Trust Funds at September 30, 2010 and 2009 are valued using Level 2 inputs.

The carrying value of cash and cash equivalents reflected in the statements of assets and trust fund balances approximates fair value, which is valued using Level 1 inputs. The fair value of investment securities disclosed in note 4 represents the best estimate of prices that the securities could be sold for in the open market as of September 30, 2010 and 2009. Those fair values are measured using pricing services, pricing models, or broker quotes. Inputs into the pricing models include the securities' par values, interest rates and maturity dates. If broker quotes are used to value investment securities the fair value is estimated as the average of three broker quotes.

The fair value methods described above may produce fair value disclosures that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes that the valuation methods used on the Tribal and Other Trust Funds are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the disclosed fair value of investment securities could result in a different fair value measurement at the reporting date.

(6) Contingencies

Certain Indian tribes for whom OST holds assets in trust do not agree with balances recorded by OST and/or have requested an accounting of their trust funds, and certain of these Indian tribes have filed claims against the U.S. Government for failure to fulfill its fiduciary responsibilities and for other related items. Ninety-seven tribal trust cases, brought by sixty-six different tribes, currently are pending in various federal district courts and the U.S. Court of Federal Claims. The cases involve claims for trust fund and asset mismanagement, accounting, and other declaratory relief. A substantial number of the cases are stayed pending settlement negotiations or discovery. In addition, in many of these cases, the court does not have jurisdiction to grant monetary relief. Settlement offers have been made in a small percentage of the cases. Neither OST nor the Office of the Solicitor for the Department can presently determine the outcome of these actions nor the total amount, responsibility, and funding source of the potential liability. Any settlement resulting from an adverse outcome of the claims described above is not expected to be satisfied with trust fund balances. No amounts have been recorded in the accompanying Tribal and Other Trust Funds' financial statements for potential claims from the U.S. Government.

(7) Trust Fund Balances

Trust fund balances are the aggregation of financial assets held in trust and represent the amounts owed to beneficiaries as of September 30, 2010 and 2009 for which OST has a fiduciary responsibility.

The Tribal and Other Trust Funds contain the following trust fund balance categories for U.S. Government budget purposes, which are reflected as separate components in the accompanying financial statements:

- *Held for Indian tribes* – These represent funds held on behalf of Indian tribes. These funds are considered non-U.S. Government monies.

- *Held by the Department of the Interior and considered to be U.S. Government funds* – These represent funds, some of which will be transferred to the Held for Indian tribes category provided certain conditions are satisfied, and for others, the corpus of the fund may be nonexpendable. These funds are considered U.S. Government monies.

A portion of trust fund balances represents estimated payments on production-type leases for which certain tribes and individual Indians hold an interest. When certain adjustments to production are identified, estimated payments received in excess of production are returned to the depositor or adjusted for in future payments.

(8) Related-Party Transactions with Other Government Organizations

(a) U.S. Department of the Interior Bureau of Indian Affairs

BIA is responsible for the collection of certain monies resulting from the management and use of Indian trust lands and other trust resources. Upon receipt, OST records the deposit of trust funds to trust accounts based on the information received from BIA.

(b) U.S. Department of the Interior Office of Natural Resources Revenue

For certain trust leases, ONRR is responsible for the collection of royalty payments on behalf of Indian tribes and individual Indians holding mineral rights. ONRR deposits the royalty payments with the U.S. Treasury and electronically transfers to OST the related accounting information, generally the next business day. The accounting information received from ONRR provides OST an allocation of 100% tribally owned lease royalties, enabling OST to record trust deposits directly into tribal accounts. For tribally/individually co-owned leases, allocation and accounting data is forwarded, generally twice a month, to OST via electronic interface through the Royalty Distribution Reporting System that is maintained by BIA. Pursuant to established procedure and appropriate authorization, the data is recorded by OST. ONRR and BLM both perform verification and other monitoring procedures of mineral assets. Oil and gas companies sometimes forward payments to ONRR based on estimated mineral production in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 that requires timely distribution of royalties. These estimated payments may be disbursed by OST to the beneficiaries. Typically, the oil and gas companies adjust future payments for excess or shortfall amounts, if any, based on actual production.

(c) Other

The U.S. Treasury holds cash and certain investments and in certain instances disburses for OST.

The Department's Office of the Solicitor serves as legal counsel for OST.

(9) Transfers of Trust Funds

Certain per capita disbursements authorized by tribes result in transfers from the Tribal and Other Trust Funds to the Individual Indian Monies (IIM) Trust Funds while certain oil and gas distributions may result in transfers to/from the IIM Trust Funds from/to the Tribal and Other Trust Funds. Net transfers of trust funds from the Tribal and Other Trust Funds to the IIM Trust Funds totaled approximately $58.0 million and $56.7 million during the years ended September 30, 2010 and 2009, respectively. These transfers are reflected as disbursements in the accompanying statements of changes in trust fund balances. In addition, pursuant to information provided by BIA, OST historically utilized special deposit accounts maintained within the IIM Trust Funds for both tribal and IIM beneficiaries as suspense accounts, whereby funds are temporarily posted when allocation information is not provided when the funds are received. Following receipt of allocation information from BIA, the funds are transferred from the special deposit accounts to the designated tribal and/or IIM account(s). Special deposit accounts totaled approximately $24 million and $29 million as of September 30, 2010 and 2009, respectively. The majority of the special deposit account monies held in the IIM Trust Funds relate to historical balances and has not been distributed because the ultimate disposition of the funds has not been determined. Since the ultimate disposition is unknown at September 30, 2010, the portion attributable to the Tribal and Other Trust Funds is unknown.

INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Financial Statements

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

Independent Auditors' Report on Financial Statements

The Special Trustee for American Indians
U.S. Department of the Interior Office of the Special Trustee
for American Indians; and

U.S. Department of the Interior Office of Inspector General:

We have audited the accompanying statements of assets and trust fund balances – modified cash basis of the Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (OST) as of September 30, 2010 and 2009, and the related statements of changes in trust fund balances – modified cash basis for the years then ended. These financial statements are the responsibility of management of OST. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the fourth paragraph of this report, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 internal control over financial reporting of the Individual Indian Monies Trust Funds managed by OST. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

It was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the accompanying financial statements as of September 30, 2010 and 2009 due to the effects of certain parties for whom OST holds assets in trust having filed a class action lawsuit for an accounting of the individuals' trust funds. Trust fund balances enter into the determination of financial position and changes in trust fund balances.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to determine the fairness of trust fund balances and related changes in trust fund balances, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Individual Indian Monies Trust Funds managed by OST as of September 30, 2010 and 2009, and the changes in trust fund balances for the years then ended in conformity with the basis of accounting described in note 2.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2010 on our consideration of internal control over financial reporting and on our tests of Individual Indian Monies Trust Funds' compliance with certain provisions of laws, regulations, and other matters of the Individual Indian Monies Trust Funds managed by OST. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 8, 2010

INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Statements of Assets and Trust Fund Balances – Modified Cash Basis

September 30, 2010 and 2009

(In thousands)

Assets		**2010**	**2009**
Cash and cash equivalents (note 3)	$	55,045	33,364
Investments (note 4)		412,391	420,535
Accrued interest receivable		2,983	3,210
Total assets	$	470,419	457,109
Trust Fund Balances			
Held for individual Indians (notes 7 and 9)	$	470,419	457,109

See accompanying notes to financial statements.

INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Statements of Changes in Trust Fund Balances – Modified Cash Basis

Years ended September 30, 2010 and 2009

(In thousands)

		2010	2009
Increases:			
Receipts (note 9)	$	336,865	334,236
Interest earned on invested funds		19,677	20,792
Gain on disposition of investments, net		211	126
		356,753	355,154
Decreases:			
Disbursements to and on behalf of account holders		(343,443)	(342,234)
Increase in trust fund balances, net		13,310	12,920
Trust fund balances, beginning of year		457,109	444,189
Trust fund balances, end of year (notes 7 and 9)	$	470,419	457,109

See accompanying notes to financial statements.

(1) Background and Description of the Trust Funds

(a) Overview of the Trust Funds

Establishment and Management of the Trust Funds – The legislation that authorizes the Secretary of the United States Department of the Interior (Secretary) to manage the Individual Indian Monies Trust Funds (IIM Trust Funds) recognizes the unique trust relationship that exists between the Indian tribes, individual Indians, and the United States Government (U.S. Government). Agreements between the U.S. Government and the various Indian tribes, many of these in the form of treaties, recognize the sovereignty of tribes. During the course of the United States' history and the U.S. Government's evolving policies toward individual Indians and Indian tribes, the trust relationship has retained characteristics based upon tribal sovereignty. The United States Congress has designated the Secretary as the trustee delegate with responsibility for the financial and nonfinancial resources held in trust on behalf of American Indian tribes, individual Indians, and other trust funds. In carrying out the management and oversight of the Indian trust assets, the Secretary has a fiduciary responsibility to ensure monies are received for the use of Indian lands and the extraction of natural resources from Indian lands, distribute such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to the trust beneficiaries in accordance with applicable law.

The balances that have accumulated in the IIM Trust Funds have resulted generally from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, receipt of judgment and tribal per capita distributions, settlement of claims, and investment income.

The accompanying financial statements include only the financial assets held in trust by the Office of the Special Trustee for American Indians (OST) for trust beneficiaries and do not include: (i) the operating account balances of OST (e.g., Fund Balance with Treasury; Property, Plant, and Equipment; etc.) or (ii) other Indian trust assets, including but not limited to, Indian lands, buildings, or other nonfinancial assets managed by the United States Department of the Interior (the Department).

The Reform Act – The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act) authorized the establishment of OST, which is headed by the Special Trustee for American Indians (Special Trustee) who reports to the Secretary. Under this legislation, the Special Trustee is responsible for oversight, reform, and coordination of the policies, procedures, systems, and practices used by various bureaus and offices of the Department, including but not limited to OST, the Bureau of Indian Affairs (BIA) (a component of Indian Affairs (IA)), the Office of Natural Resources Revenue (ONRR) (formerly, Minerals Management Service/Minerals Revenue Management Program), and the Bureau of Land Management (BLM), in managing Indian trust assets.

Office of the Special Trustee for American Indians – Indian trust assets, including the IIM Trust Funds, are primarily managed under the delegated authority of OST and BIA. Management of Indian trust assets on behalf of the trust beneficiaries is dependent upon the processing of trust-related transactions within certain information systems of the Department, including but not limited to OST, BIA, ONRR, and other Departmental bureaus and offices. BIA and other Departmental bureaus and offices are responsible for managing the natural resources located within the boundaries of Indian reservations and trust lands as well as the processing of data regarding the ownership and leasing of Indian lands. The allocation of receipts and disbursements by OST to trust beneficiaries are significantly dependent and reliant upon the receipt of timely and accurate information derived from records maintained by BIA, ONRR, and other Departmental bureaus and offices (see note 8).

Regional Offices – OST and BIA maintain staff at regional offices located throughout the United States.

Agency and Field Offices – OST and BIA also maintain staff at agency and field offices located throughout the United States, which are generally located near the tribes and individual Indians served. OST and BIA personnel located at most of the agency and field offices perform various functions related to trust fund activities.

(b) Description of the Trust Funds

The IIM Trust Funds are comprised of approximately 381,000 and 384,000 accounts, held primarily for the benefit of individual Indian account holder beneficiaries and tribal entities, as of September 30, 2010 and 2009, respectively. Included within the IIM Trust Funds are certain special deposit accounts that are subject to legal, regulatory, budgetary, court-ordered, or other restrictions that may ultimately result in funds being distributed to tribal and/or other entities.

The IIM Trust Funds are primarily funds on deposit for individual Indians with a beneficial interest in those funds. IIM account holders realize receipts primarily from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment and tribal per capita distributions, settlement of claims, and investment income.

(c) Investment of Trust Funds

Authorizing legislation and a substantial body of case law specify how Indian trust funds should be managed and which financial instruments constitute appropriate investments for Indian trust funds. The IIM Trust Funds are pooled and invested in U.S. Government securities, including U.S. Department of the Treasury (U.S. Treasury) issues, U.S. Government agency issues, and U.S. Government-sponsored entity issues.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

OST uses the cash basis of accounting with certain modifications for the IIM Trust Funds, which is a comprehensive basis of accounting other than generally accepted accounting principles. Receipts are recorded when received with the exception of interest earned on invested funds (including discount accretion and premium amortization), and disbursements are recorded when issued. Investments are stated at amortized cost. Accrual adjustments to reflect interest earned but not received, and to record any applicable accretion of discounts and amortization of premiums over the terms of the investments, have been recorded in the accompanying financial statements. Interest income reported in the statements of changes in trust fund balances reflects interest earned, net of any premium amortization or discount accretion recognized during the fiscal year.

(b) Cash and Cash Equivalents

Management considers all highly liquid financial instruments with maturities of three months or less when purchased to be cash equivalents.

(c) Investments

Investment securities at September 30, 2010 and 2009 consist of U.S. Treasury issues, U.S. Government agency issues, and U.S. Government-sponsored entity issues. IIM Trust Funds are pooled and invested. Investment securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized or accreted over the expected life of the related investment security as an adjustment to yield using the effective-interest method. Investment income is recognized when earned.

The IIM Trust Funds are invested in U.S. Government securities, as mandated by 25 USC 162a.

(d) Fair Value Measurements

Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820), establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. ASC Topic 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. Since the IIM Trust Funds use the cash basis of accounting with certain modifications (see note 2(a)), ASC Topic 820 only affects note disclosures related to fair value.

(e) Receipts

Receipts from various leasing activities, mineral royalties and sales of extracted minerals, timber and other forest products, fees and fines, and the granting of easements are generated from a variety of nonfinancial assets that are held in trust by the U.S. Government and managed by BIA and other Departmental bureaus and offices on behalf of individual Indians. Receipts on hand at the regional

and agency offices, and/or in-transit at September 30, 2010 and 2009, if any, awaiting deposit to the U.S. Treasury, are not included in the accompanying financial statements.

Receipts also include payments from the U.S. Government for judgment awards and the settlement of claims.

(f) Disbursements

Payments disbursed from the IIM Trust Funds consist of accumulations of funds from various income-producing activities such as leasing, royalty receipts, mineral extraction, timber and other forest product sales, judgment awards, tribal per capita distributions, settlement of claims, and investment income.

(g) Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of increases and decreases in trust fund balances during the reporting period. Actual results could differ from those estimates.

(h) Subsequent Events

Subsequent events are evaluated by management through the date that the financial statements are available to be issued, which is November 8, 2010.

(3) Cash and Cash Equivalents

Cash equivalents of approximately $42 million and $28 million at September 30, 2010 and 2009, respectively, consist of overnight investments with the U.S. Treasury.

(4) Investments

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities by major class of security at September 30 were as follows (amounts exclude investments in U.S. Treasury overnight securities discussed in note 3):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	(In thousands)			
September 30, 2010:				
U.S. Treasury and agency securities	$ 237,648	13,711	(75)	251,284
U.S. Government entity issued mortgage-backed securities	174,743	12,308	—	187,051
	$ 412,391	26,019	(75)	438,335
September 30, 2009:				
U.S. Treasury and agency securities	$ 224,563	6,275	(6)	230,832
U.S. Government entity issued mortgage-backed securities	195,972	10,591	—	206,563
	$ 420,535	16,866	(6)	437,395

The investments above held by the IIM Trust Funds at September 30, 2010 and 2009 consist of fixed income securities, some of which are mortgaged-backed debt securities, issued by the U.S. Treasury, U.S. Government agencies, or U.S. Government-sponsored entities. All of these securities are either explicitly or implicitly backed by the U.S. Government. Given the backing by the U.S. Government, current market conditions have not had a significant adverse impact on the fair value of these securities.

Maturities of investment securities were as follows at September 30, 2010:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$ —	—
Due after one year through five years	20,041	20,522
Due after five years through ten years	85,072	89,869
Due after ten years	307,278	327,944
	$ 412,391	438,335

(5) Fair Value Disclosure Measurements

ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the principal or most advantageous market for the asset or liability. For measuring fair value, ASC Topic 820 establishes a hierarchy that places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority on unobservable inputs (Level 3 measurements). The three levels of inputs within the fair value hierarchy are defined as follows:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the IIM Trust Funds have the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect the IIM Trust Funds' own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. All of the investment securities held by the IIM Trust Funds at September 30, 2010 and 2009 are valued using Level 2 inputs.

The carrying value of cash and cash equivalents and accrued interest receivable reflected in the statements of assets and trust fund balances approximates fair value, which is valued using Level 1 inputs. The fair value of investment securities disclosed in note 4 represents the best estimate of prices that the securities could be sold for in the open market as of September 30, 2010 and 2009. Those fair values are measured using pricing services, pricing models, or broker quotes. Inputs into the pricing models include the securities' par values, interest rates and maturity dates. If broker quotes are used to value investment securities the fair value is estimated as the average of three broker quotes.

The fair value methods described above may produce fair value disclosures that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes that the valuation methods used on the IIM Trust Funds are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the disclosed fair value of investment securities could result in a different fair value measurement at the reporting date.

(6) Contingencies

Certain parties for whom OST holds funds in trust filed a class action lawsuit in 1996, seeking an accounting of their individual trust funds. Although plaintiffs sought $58 billion from the District Court in lieu of the accounting, the District Court awarded them $456 million. However, in July 2009 the Court of Appeals reversed and vacated that judgment. The plaintiffs may seek to have the case reviewed by the United States Supreme Court. On December 7, 2009, Attorney General Eric Holder and Interior Secretary Kenneth Salazar announced that the parties had reached a $3.4 billion settlement subject to Congressional approval. The current deadline for the Congressional approval of the settlement is January 7, 2011. Neither the settlement, nor any future judgment award, should the settlement fail to achieve Congressional approval, is expected to be satisfied with individual trust funds. No amounts have been recorded in the accompanying IIM Trust Funds' financial statements for potential claims from the U.S. Government.

(7) Trust Fund Balances

Trust fund balances are the aggregation of financial assets held in trust and primarily represent the amounts owed to beneficiaries as of September 30, 2010 and 2009 for which OST has a fiduciary responsibility.

The subsidiary detail of IIM account balances contains approximately 11,000 special deposit accounts with balances totaling approximately $24 million and $29 million as of September 30, 2010 and 2009, respectively. The majority of the special deposit account monies held in the IIM Trust Funds relates to historical balances and has not been allocated because the allocation information for the funds has not been provided by BIA. Since the ultimate allocation is unknown at September 30, 2010, the portion attributable to the IIM Trust Funds is unknown.

The subsidiary detail of IIM account balances contains certain oil and gas holding accounts with balances totaling approximately $17.5 million and $7.7 million as of September 30, 2010 and 2009, respectively, which have not been distributed to beneficiaries. Upon receipt of the allocation and accounting data, to be provided by ONRR and BIA, the monies will be distributed to the proper beneficiaries' accounts (see note 8).

A portion of trust fund balances represents estimated payments on production-type leases for which certain individual Indians and tribes hold an interest. When certain adjustments to production are identified, estimated payments received in excess of production are returned to the depositor or adjusted for in future payments.

(8) Related-Party Transactions with Other Government Organizations

(a) U.S. Department of the Interior Bureau of Indian Affairs

BIA is responsible for the collection of certain monies resulting from the management and use of Indian trust lands and other trust resources. Upon receipt, OST records the deposit of trust funds to trust accounts based on the information received from BIA.

(b) U.S. Department of the Interior Office of Natural Resources Revenue

For certain trust leases, ONRR is responsible for the collection of royalty payments on behalf of Indian tribes and individual Indians holding mineral rights. ONRR deposits the royalty payments with the U.S. Treasury and electronically transfers to OST the related accounting information, generally the next business day. For tribally/individually co-owned leases and individually owned leases, the allocation and accounting data to distribute the monies to the proper IIM account is forwarded, generally twice a month, to OST via electronic interface through the Royalty Distribution Reporting System that is maintained by BIA. Pursuant to established procedure and appropriate authorization, the data is recorded by OST. ONRR and BLM both perform verification and other monitoring procedures of mineral assets. Oil and gas companies sometimes forward payments to ONRR based on estimated mineral production in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 that requires timely distribution of royalties. These estimated payments may be disbursed by OST to the beneficiaries. Typically, the oil and gas companies adjust future payments for excess or shortfall amounts, if any, based on actual production.

(c) Other

The U.S. Treasury holds cash and certain investments and in certain instances disburses for OST.

The Department's Office of the Solicitor serves as legal counsel for OST.

(9) Transfers of Trust Funds

Certain per capita disbursements authorized by tribes result in transfers from the Tribal and Other Trust Funds to the IIM Trust Funds while certain oil and gas distributions may result in transfers to/from the IIM Trust Funds from/to the Tribal and Other Trust Funds. Net transfers of trust funds to the IIM Trust Funds from the Tribal and Other Trust Funds totaled approximately $58.0 million and $56.7 million during the years ended September 30, 2010 and 2009, respectively. These transfers are reflected as receipts in the accompanying statements of changes in trust fund balances. In addition, pursuant to information provided by BIA, OST historically utilized special deposit accounts (see note 7) maintained within the IIM Trust Funds for both tribal and IIM beneficiaries as suspense accounts, whereby funds are temporarily posted when allocation information is not provided when the funds are received. Following receipt of allocation information from BIA, the funds are transferred from the special deposit accounts to the designated tribal and/or IIM account(s).

TRIBAL AND OTHER TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

September 30, 2010

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters

The Special Trustee for American Indians
U.S. Department of the Interior Office of the Special Trustee for American Indians; and

U.S. Department of the Interior Office of Inspector General:

We have audited the statements of assets and trust fund balances – cash basis of the Tribal and Other Trust Funds as of September 30, 2010 and 2009, and the related statements of changes in trust fund balances – cash basis for the years then ended, managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (OST), and have issued our report thereon dated November 8, 2010. The objective of our audit was to express an opinion on the fair presentation of the Tribal and Other Trust Funds Financial Statements. In connection with our fiscal year 2010 audit, we also considered internal control over financial reporting for the Tribal and Other Trust Funds managed by OST and tested compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the Tribal and Other Trust Funds Financial Statements.

Summary

Our audit report on the Tribal and Other Trust Funds Financial Statements was qualified because it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the Tribal and Other Trust Funds Financial Statements as of September 30, 2010 and 2009 due to the effects of certain tribal parties for whom OST holds assets in trust disagreeing with the balances recorded by OST, and/or having requested an accounting of their trust funds, and of which certain of these parties have filed, or are expected to file, claims against the United States Government. Trust fund balances enter into the determination of financial position and changes in trust fund balances.

Our audit report states that the Tribal and Other Trust Funds Financial Statements are prepared in accordance with a basis of accounting that is a comprehensive basis of accounting other than generally accepted accounting principles, as described in note 2 to the Tribal and Other Trust Funds Financial Statements.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

The following sections present an overview of the Tribal and Other Trust Funds Financial Statements, and discuss our consideration of internal control over financial reporting for the Tribal and Other Trust Funds managed by OST, our tests of compliance with certain provisions of applicable laws and regulations for the Tribal and Other Trust Funds managed by OST, and management's and our responsibilities.

Overview – Tribal and Other Trust Funds Financial Statements

The United States Congress has designated the Secretary of the United States Department of the Interior (the Secretary) as the trustee delegate with responsibility for the financial and nonfinancial resources held in trust on behalf of American Indian tribes and other trust funds. In carrying out the management and oversight of the Indian trust assets, the Secretary has a fiduciary responsibility to ensure monies are received for the use of Indian lands and the extraction of natural resources from Indian lands, distribute such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to the trust beneficiaries in accordance with applicable law.

The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act) authorized the establishment of OST, which is headed by the Special Trustee for American Indians (Special Trustee) who reports to the Secretary. Under this legislation, the Special Trustee is responsible for oversight, reform, and coordination of the policies, procedures, systems, and practices used by various bureaus and offices of the Department of the Interior (Department), including but not limited to OST, the Bureau of Indian Affairs (BIA) (a component of Indian Affairs (IA)), the Office of Natural Resources Revenue (ONRR), formerly known as Minerals Management Service Minerals Revenue Management Program, and the Bureau of Land Management (BLM), in managing Indian trust assets.

The Tribal and Other Trust Funds are dependent upon the processing of trust-related transactions within certain information systems of the Department, including but not limited to OST, BIA, ONRR, and other Departmental bureaus and offices. BIA and other Departmental bureaus and offices are responsible for managing the natural resources located within the boundaries of Indian reservations and trust lands as well as the processing of data regarding the ownership and leasing of Indian lands. The allocation and distribution of receipts and disbursements by OST to trust beneficiaries are significantly dependent and reliant upon the receipt of timely and accurate information derived from records maintained by BIA, ONRR, and other Departmental bureaus and offices.

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 was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected in a timely basis.

In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses as defined above. Exhibit I to this report presents the status of prior year significant deficiencies reported.

We did however note certain other matters that we have reported to OST management in a separate letter dated November 8, 2010.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

We did however note certain other matters that we have reported to OST management in a separate letter dated November 8, 2010.

Responsibilities

Management's Responsibilities

The Reform Act requires that the Secretary shall cause to be conducted an annual audit on a fiscal year basis of all funds held in trust by the U.S. Government for the benefit of an Indian tribe that are deposited or invested pursuant to the Act of June 24, 1938 (25 U.S.C. 162a).

Management is responsible for the Tribal and Other Trust Funds Financial Statements, including:

- Preparing the financial statements in conformity with the basis of accounting described in note 2 to the Tribal and Other Trust Funds Financial Statements;
- Establishing and maintaining effective internal control; and
- Complying with laws and regulations applicable to the Tribal and Other Trust Funds managed by OST.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2010 and 2009 Tribal and Other Trust Funds Financial Statements based on our audit. Except as discussed in the fourth paragraph of our auditors' report, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 internal control over financial reporting of the Tribal and Other Trust Funds managed by OST. Accordingly, we express no such opinion.

An audit also includes:

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

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2010 audit, we considered internal control over financial reporting for the Tribal and Other Trust Funds managed by OST by obtaining an understanding of the internal controls, 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 financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. 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 provide an opinion on internal control over financial reporting for the Tribal and Other Trust Funds managed by OST. Accordingly, we do not express an opinion on the effectiveness of the Tribal and Other Trust Funds' internal control over financial reporting.

As part of obtaining reasonable assurance about whether the fiscal year 2010 Tribal and Other Trust Funds Financial Statements are free of material misstatement, we tested compliance with certain provisions of laws and regulations for the Tribal and Other Trust Funds managed by OST, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Tribal and Other Trust Funds managed by OST. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

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This report is intended solely for the information and use of the Department's management, the U.S. Department of the Interior Office of Inspector General, Office of Management and Budget, 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 8, 2010

Exhibit I

TRIBAL AND OTHER TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Status of Prior Year Findings, Reported as of September 30, 2009

September 30, 2010

Reference	Condition	Current Year Status
OST-2009-A	Unresolved Financial Reporting Matters from Prior Periods	Removed. Remaining unresolved financial reporting matters from prior periods are no longer considered significant deficiencies.

INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

September 30, 2010

KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters

The Special Trustee for American Indians
U.S. Department of the Interior Office of the Special Trustee for American Indians; and

U.S. Department of the Interior Office of Inspector General:

We have audited the statements of assets and trust fund balances – modified cash basis of the Individual Indian Monies Trust Funds (IIM Trust Funds) as of September 30, 2010 and 2009, and the related statements of changes in trust fund balances – modified cash basis for the years then ended, managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (OST), and have issued our report thereon dated November 8, 2010. The objective of our audit was to express an opinion on the fair presentation of the IIM Trust Funds Financial Statements. In connection with our fiscal year 2010 audit, we also considered internal control over financial reporting for the IIM Trust Funds managed by OST and tested compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the IIM Trust Funds Financial Statements.

Summary

Our audit report on the IIM Trust Funds Financial Statements was qualified because it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the IIM Trust Funds Financial Statements as of September 30, 2010 and 2009 due to the effects of certain parties for whom OST holds financial assets in trust having filed a class action lawsuit for an accounting of the individuals' trust funds. Trust fund balances enter into the determination of financial position and changes in trust fund balances.

Our audit report states that the IIM Trust Funds Financial Statements are prepared in accordance with a basis of accounting that is a comprehensive basis of accounting other than generally accepted accounting principles, as described in note 2 to the IIM Trust Funds Financial Statements.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States.

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The following sections present an overview of the IIM Trust Funds Financial Statements, and discuss our consideration of internal control over financial reporting for the IIM Trust Funds managed by OST, our tests of compliance with certain provisions of applicable laws and regulations for the IIM Trust Funds managed by OST, and management's and our responsibilities.

Overview – IIM Trust Funds Financial Statements

The United States Congress has designated the Secretary of the United States Department of the Interior (the Secretary) as the trustee delegate with responsibility for the financial and nonfinancial resources held in trust on behalf of individual Indians. In carrying out the management and oversight of the Indian trust assets, the Secretary has a fiduciary responsibility to ensure monies are received for the use of Indian lands and the extraction of natural resources from Indian lands, distribute such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to the trust beneficiaries in accordance with applicable law.

The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act) authorized the establishment of OST, which is headed by the Special Trustee for American Indians (Special Trustee) who reports to the Secretary. Under this legislation, the Special Trustee is responsible for oversight, reform, and coordination of the policies, procedures, systems, and practices used by various bureaus and offices of the Department of the Interior (Department), including but not limited to OST, the Bureau of Indian Affairs (BIA) (a component of Indian Affairs (IA)), the Office of Natural Resources Revenue (ONRR), formerly known as Minerals Management Service Minerals Revenue Management Program, and the Bureau of Land Management (BLM), in managing Indian trust assets.

The IIM Trust Funds are dependent upon the processing of trust-related transactions within certain information systems of the Department, including but not limited to OST, BIA, ONRR, and other Departmental bureaus and offices. BIA and other Departmental bureaus and offices are responsible for managing the natural resources located within the boundaries of Indian reservations and trust lands as well as the processing of data regarding the ownership and leasing of Indian lands. The allocation and distribution of receipts and disbursements by OST to trust beneficiaries are significantly dependent and reliant upon the receipt of timely and accurate information derived from records maintained by BIA, ONRR, and other Departmental bureaus and offices.

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 was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses as defined above. Exhibit I to this report presents the status of prior year significant deficiencies reported.

We did however note certain other matters that we have reported to OST management in a separate letter dated November 8, 2010.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

We did however note certain other matters that we have reported to OST management in a separate letter dated November 8, 2010.

Responsibilities

Management's Responsibilities

The Reform Act requires that the Secretary shall cause to be conducted an annual audit on a fiscal year basis of all funds held in trust by the U.S. Government for the benefit of an individual Indian that are deposited or invested pursuant to the Act of June 24, 1938 (25 U.S.C. 162a).

Management is responsible for the IIM Trust Funds Financial Statements, including:

- Preparing the financial statements in conformity with the basis of accounting described in note 2 to the IIM Trust Funds Financial Statements;
- Establishing and maintaining effective internal control; and
- Complying with laws and regulations applicable to the IIM Trust Funds managed by OST.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2010 and 2009 IIM Trust Funds Financial Statements based on our audit. Except as discussed in the fourth paragraph of our auditors' report, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 internal control over financial reporting of the IIM Trust Funds managed by OST. Accordingly, we express no such opinion.

An audit also includes:

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

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2010 audit, we considered internal control over financial reporting for the IIM Trust Funds managed by OST by obtaining an understanding of the internal controls, 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 financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. 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 provide an opinion on internal control over financial reporting for the IIM Trust Funds managed by OST. Accordingly, we do not express an opinion on the effectiveness of the IIM Trust Funds' internal control over financial reporting.

As part of obtaining reasonable assurance about whether the fiscal year 2010 IIM Trust Funds Financial Statements are free of material misstatement, we tested compliance with certain provisions of laws and regulations for the IIM Trust Funds managed by OST, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the IIM Trust Funds managed by OST. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

* * * * * * *

This report is intended solely for the information and use of the Department's management, the U.S. Department of the Interior Office of Inspector General, Office of Management and Budget, 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 8, 2010

Exhibit I

INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Status of Prior Year Findings, Reported as of September 30, 2009

September 30, 2010

Reference	Condition	Current Year Status
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