# 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 2016

**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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# United States Department of the Interior

OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Washington, DC 20240


November 10, 2016

The Fiscal Year (FY) 2016 independent audit of the financial statements for *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 ("OST")* has been completed. I am pleased to report that, for the fourth consecutive year, the financial statements for the Individual Indian Monies Trust Funds have received an unmodified audit opinion. OST continues to provide high-quality trust services to individual beneficiaries and is taking action to achieve an unmodified opinion on the Tribal and Other Trust Funds financial statements, as well.

On June 22, 2016, President Obama signed into law the Indian Trust Asset Reform Act ("ITARA"), Pub. L. 114-178. Title III of this Act:

- Allows the Secretary of the Interior to establish an Under Secretary for Indian Affairs who is to report directly to the Secretary of the Interior and coordinate with OST to ensure an orderly transition of OST functions to an agency or bureau within Interior;
- Requires Interior to prepare a transition plan and timetable, within one year of the enactment of this law, for how identified OST functions might be moved to other entities within the Department of the Interior;
- Requires appraisals and valuations of Indian trust property to be administered by a single administrative entity within Interior; and
- Requires Interior, within one year of enactment of this law, to establish minimum qualifications for individuals to prepare appraisals and valuations of Indian trust property and allows an appraisal or valuation that meets those qualifications to be considered final without being reviewed or approved by Interior under certain conditions.

Until a plan is developed by the Secretary of the Interior in FY 2017, it is not yet known how this law will affect OST as an organization. Accordingly, tribal consultations have been held as shown below in the Accomplishments section.

In FY 2016, OST achieved multiple milestones in delivering trust management services to Tribal and Individual Indian Monies (IIM) account holders:

- $1.2 billion was received into and disbursed from tribal and individual Indian beneficiaries' accounts (81% of these funds were disbursed electronically).
- 878,000 periodic performance statements (showing sources of funds, encumbrance information, and listings of trust property owned) were provided to beneficiaries.
- Approximately $5 billion of trust fund assets were invested to help meet the needs and objectives of tribal and individual Indian beneficiaries.
- Approximately 10.3 million financial transactions were processed with 99.99% accuracy.

OST also made the following major accomplishments:

- Participated with Indian Affairs in 10 consultation sessions (including one telephonic conference session) and one listening session throughout key locations in Indian Country to secure input on the implementation of Title III of ITARA. OST prepared extensive briefing materials and delivered detailed presentations at each session.
- Received positive feedback during and following each consultation session from both tribes and government participants on the critical work OST performs in delivering services to Indian beneficiaries and tribes. OST plans to provide a draft report to the Department in November 2016.
- Completed the final transfer of all bulk printing to the U.S. Department of the Treasury. This final transition piece included all tax related forms in addition to the existing printing of all Statements of Account, Oil and Gas Explanations of Payment, checks, and invoices. This effort has reduced costs to the federal government and increased reliability to the beneficiary while at the same time providing for effective continuity of operations to ensure no disruption in service.
- In FY 2016, reduced the region-wide appraisal backlog from 566 to 6 while maintaining a normal annual appraisal workload. Nine of the twelve Office of Appraisal Services (OAS) regions ended the fiscal year with a zero appraisal backlog; for two of the regions, Alaska and Great Plains, this was a first time occurrence. OAS regions completed 4,133 appraisal requests, involving 4,072 tracts containing 767,692 acres having a composite value of $312,382,950.
- Completed 974 site specific appraisals and 10 mass appraisal models to support the acquisitions of the Department's Land Buy Back Program for Tribal Nations. These appraisals, valued at approximately $1.5 billion, encompassed 11,487 land tracts, totaling 1,345,654 acres.
- Conducted two National Records Management Training Conferences throughout Indian Country. Each training conference was three days. Total attendance was 283.
- Completed 34 trust evaluations at various Bureau of Indian Affairs (BIA) and tribal locations to evaluate compliance with trust standards in the management of Indian trust operations.
- Completed 53 records assessments at various BIA and OST locations to assess compliance with the Indian Affairs Records Management Manual.
- Presented 233 financial empowerment courses that helped beneficiaries achieve a level of understanding of financial management that supports and promotes financial self-sufficiency.
- Verified and updated the mailing addresses for 10,888 Whereabouts Unknown IIM accountholders with balances totaling $17.6 million.
- Responded to 195,558 beneficiary contacts at the Trust Beneficiary Call Center and achieved an overall first-line resolution rate of 98.5%, outperforming the industry average of 49%.

OST employees work hard to provide meaningful asset management services to tribal and individual Indian trust beneficiaries on a daily basis. Their work is guided by the OST mission statement — "To honor our trust responsibilities by incorporating a beneficiary focus and participation while providing superior stewardship of trust assets."

In FY 2017, OST will continue to provide efficient and cost-effective trust management services; to receipt, invest, disburse, and accurately account for beneficiary trust funds; to collaborate with other federal agencies to achieve operational efficiencies; to support and promote self-governance; and to partner with other bureaus and offices to fulfill the Department's trust responsibilities.

I hope you find this year's audited financial statements informative and useful. If you have questions about the audit, or suggestions as to how OST may better serve you as a beneficiary, please contact:

Debra DuMontier
Deputy Special Trustee
Office of the Special Trustee for American Indians
Department of the Interior
4400 Masthead Street, NE
Mail Stop 225
Albuquerque, NM 87109
Phone: (505) 816-1131
Email: Debra_Dumontier@ost.doi.gov

Regards,

Vincent G. Logan
Special Trustee for American Indians

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

November 10, 2016

Memorandum

To: Vincent G. Logan
Special Trustee for American Indians

From: Mary L. Kendall
Deputy Inspector General

Subject: Independent Auditors' Reports on the Tribal and Other Trust Funds and Individual Indian Monies Trust Funds Statements for Fiscal Years 2016 and 2015
Report No. 2016-FIN-024

This memorandum transmits the KPMG LLP (KPMG) auditors' reports of the Office of the Special Trustee for American Indians (OST) financial statements for fiscal years (FYs) 2016 and 2015. 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 Inspector General (OIG), KPMG, an independent public accounting firm, performed audits of the OST FY2016 and FY2015 financial statements. The contract required that the audits be performed in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office.

KPMG issued a qualified opinion on the Tribal financial statements because it was unable to satisfy themselves as to the fairness of trust fund balances.

To fulfill our oversight responsibilities under the CFO Act for ensuring that high quality audit work is performed, we reviewed KPMG's reports and related documentation and made inquiries of its representatives regarding the audit. We performed tasks that included the following:

- 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; and
- reviewed KPMG's audit reports.

Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on OST's financial statements, internal controls, or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports and the conclusions expressed in the reports. Our review, however, disclosed no instances where KPMG did not comply, in all material respects, with generally accepted GAS.

The legislation, as amended, creating the OIG requires semiannual reporting to the 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, which will be available to the public.

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, 2016 and 2015

(With Independent Auditors' Report Thereon)

**KPMG LLP**
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

# Independent Auditors' Report

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:

## Report on the Financial Statements

We have audited the accompanying financial statements 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), which comprise the statements of assets and trust fund balances – cash basis as of September 30, 2016 and 2015 and the related statements of changes in trust fund balances – cash basis for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in note 2 to the financial statements; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OST's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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

### *Basis for Qualified Opinion*

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, 2016 and 2015 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.

### *Qualified Opinion*

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 above present fairly, in all material respects, the financial position of the Tribal and Other Trust Funds managed by OST as of September 30, 2016 and 2015, and the changes in trust fund balances for the years then ended, in accordance with the cash basis of accounting described in note 2.

### *Basis of Accounting*

We draw attention to note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting as described, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016 on our consideration of internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, and other matters for 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 result 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* in considering the internal control over financial reporting and compliance for the Tribal and Other Trust Funds managed by OST.

KPMG LLP

Albuquerque, New Mexico
November 10, 2016

**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, 2016 and 2015

(In thousands)

| **Assets** | | **2016** | **2015** |
|---|---|---|---|
| Cash and cash equivalents (note 3) | $ | 823,307 | 652,441 |
| Investments (note 4) | | 3,302,053 | 3,441,108 |
| Total assets | $ | 4,125,360 | 4,093,549 |
| **Trust Fund Balances** | | | |
| Held for Indian tribes (notes 7 and 9) | $ | 3,855,612 | 3,802,788 |
| Held by the Department of the Interior and considered to be U.S. Government funds (note 7) | | 269,748 | 290,761 |
| Total trust fund balances | $ | 4,125,360 | 4,093,549 |

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, 2016 and 2015

(In thousands)

| | | 2016 | 2015 |
|---|---|---|---|
| Increases: | | | |
| Receipts | $ | 375,483 | 414,457 |
| Interest received on invested funds | | 104,065 | 101,811 |
| Gain on disposition of investments, net | | 3,242 | 8,883 |
| | | 482,790 | 525,151 |
| Decreases: | | | |
| Disbursements to and on behalf of Indian tribes and other trust funds and withdrawal of trust funds by Indian tribes (note 9) | | (450,979) | (477,215) |
| Increase in trust fund balances, net | | 31,811 | 47,936 |
| Trust fund balances, beginning of year | | 4,093,549 | 4,045,613 |
| Trust fund balances, end of year (notes 7 and 9) | $ | 4,125,360 | 4,093,549 |

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), 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. A brief description of the Tribal and Other Trust Funds follows:

- **Tribal Trust Funds** – As of September 30, 2016 and 2015, the Tribal Trust Funds were comprised of approximately 3,400 and 3,300 accounts, which totaled approximately $3,855,612,000 and $3,802,788,000, 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 $269,748,000 and $290,761,000 as of September 30, 2016 and 2015, 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. 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, 2016 and 2015 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 Measurement* (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 in transit at September 30, 2016 and 2015, 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, fees and fines, 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 and notes 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 10, 2016.

## (3) Cash and Cash Equivalents

Cash equivalents of approximately $817 million and $644 million at September 30, 2016 and 2015, respectively, consist primarily 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, 2016: | | | | |
| U.S. Treasury and agency securities | $ 3,084,157 | 106,595 | (3,373) | 3,187,379 |
| U.S. Government entity issued mortgage-backed securities | 217,896 | 11,201 | (236) | 228,861 |
| | $ 3,302,053 | 117,796 | (3,609) | 3,416,240 |
| At September 30, 2015: | | | | |
| U.S. Treasury and agency securities | $ 3,149,799 | 65,248 | (16,565) | 3,198,482 |
| U.S. Government entity issued mortgage-backed securities | 291,309 | 9,632 | (1,078) | 299,863 |
| | $ 3,441,108 | 74,880 | (17,643) | 3,498,345 |

The investments above held by the Tribal and Other Trust Funds at September 30, 2016 and 2015 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, there have not been significant adverse impacts on the fair value of these securities.

Maturities of investment securities were as follows at September 30, 2016:

| | | Historical cost | Fair value |
|---|---|---|---|
| | | (In thousands) | |
| Due in one year or less | $ | 120,936 | 121,666 |
| Due after one year through five years | | 225,711 | 230,354 |
| Due after five years through ten years | | 484,016 | 523,665 |
| Due after ten years | | 2,471,390 | 2,540,555 |
| | $ | 3,302,053 | 3,416,240 |

## (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.

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.

All of the investment securities held by the Tribal and Other Trust Funds at September 30, 2016 and 2015 are valued using Level 2 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, 2016 and 2015. 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. The cases involve claims for breaches of trust concerning the Government's management of funds and natural resources assets. The relief sought in these cases range from declaratory and injunctive relief to perform an accounting, money damages, and other unspecified declaratory injunctive, or equitable, relief. At September 30, 2016, twenty-three tribal trust cases were pending in various federal courts. Overall, the Government contests liability on the claims asserted and has pursued its meritorious defenses to the relief sought. Although the Government believes it has valid legal defenses to the claims, the Government continues to engage in various forms of formal and informal dispute resolution with some tribes in an effort to resolve the claims without the need for costly and protracted litigation. Any settlement resulting from an adverse outcome of the claims described above will not 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, 2016 and 2015 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 Mineral Royalty Accounting Distribution module 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) U.S. Department of the Treasury*

The U.S. Treasury is responsible for the investment of certain tribal trust funds as a result of applicable governing settlement agreements or judgments, or legislation. The U.S. Treasury recognizes OST's expertise in investing in a variety of U.S. Government agency and U.S. Government-sponsored entity issues in addition to U.S. Treasury issues. For certain of these funds, the U.S. Treasury has implemented an interagency agreement for OST to perform the investment management functions of the funds. Performance statements for funds managed by OST under an interagency agreement are provided to Treasury representatives on a periodic basis.

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

### *(d) Other*

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 $28.6 million and $55.2 million during the years ended September 30, 2016 and 2015, 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 $22 million and $23 million as of September 30, 2016 and 2015, respectively. Substantially all 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, 2016, 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, 2016 and 2015

(With Independent Auditors' Report Thereon)

**KPMG LLP**
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

# Independent Auditors' Report

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:

## Report on the Financial Statements

We have audited the accompanying financial statements 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), which comprise the statements of assets and trust fund balances – modified cash basis as of September 30, 2016 and 2015 and the related statements of changes in trust fund balances – modified cash basis for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 2 of the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OST's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### *Opinion on the Financial Statements*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Individual Indian Monies Trust Funds managed by OST as of September 30, 2016 and 2015, and the changes in trust fund balances for the years then ended, in accordance with the modified cash basis of accounting described in note 2.

### *Basis of Accounting*

We draw attention to note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting as described, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016 on our consideration of internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, and other matters for 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 result 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* in considering the internal control over financial reporting and compliance for the Individual Indian Monies Trust Funds managed by OST.

KPMG LLP

Albuquerque, New Mexico
November 10, 2016

**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, 2016 and 2015

(In thousands)

| **Assets** | | **2016** | **2015** |
|---|---|---|---|
| Cash and cash equivalents (note 3) | $ | 58,683 | 52,265 |
| Investments (note 4) | | 782,169 | 787,990 |
| Accrued interest receivable | | 5,166 | 5,181 |
| Total assets | $ | 846,018 | 845,436 |
| **Trust Fund Balances** | | | |
| Held for individual Indians (notes 7 and 9) | $ | 846,018 | 845,436 |

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, 2016 and 2015

(In thousands)

| | | 2016 | 2015 |
|---|---|---|---|
| Increases: | | | |
| Receipts (note 9) | $ | 750,590 | 1,232,316 |
| Interest earned on invested funds | | 23,126 | 23,278 |
| Gain on disposition of investments, net | | 285 | 10 |
| | | 774,001 | 1,255,604 |
| Decreases: | | | |
| Disbursements to and on behalf of account holders | | (773,419) | (1,268,666) |
| (Decrease) increase in trust fund balances, net | | 582 | (13,062) |
| Trust fund balances, beginning of year | | 845,436 | 858,498 |
| Trust fund balances, end of year (notes 7 and 9) | $ | 846,018 | 845,436 |

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), 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 401,000 and 400,000 accounts, held primarily for the benefit of individual Indian account holder beneficiaries and tribal entities, as of September 30, 2016 and 2015, 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, 2016 and 2015 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 Measurement* (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, land sales, 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 in transit at September 30, 2016 and 2015, 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, land sales, tribal per capita distributions, settlement of claims, and investment income.

### *(g) Use of Estimates*

The preparation of the financial statements and notes 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 10, 2016.

## (3) Cash and Cash Equivalents

Cash equivalents of approximately $37 million and $29 million at September 30, 2016 and 2015, 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) | | |
| At September 30, 2016: | | | | |
| U.S. Treasury and agency securities | $ 673,542 | 36,403 | (531) | 709,414 |
| U.S. Government entity issued mortgage-backed securities | 108,627 | 2,763 | (164) | 111,226 |
| | $ 782,169 | 39,166 | (695) | 820,640 |
| At September 30, 2015: | | | | |
| U.S. Treasury and agency securities | $ 667,314 | 22,226 | (4,681) | 684,859 |
| U.S. Government entity issued mortgage-backed securities | 120,676 | 2,385 | (762) | 122,299 |
| | $ 787,990 | 24,611 | (5,443) | 807,158 |

The investments above held by the IIM Trust Funds at September 30, 2016 and 2015 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, there have not been significant adverse impacts on the fair value of these securities.

Maturities of investment securities were as follows at September 30, 2016:

| | | Amortized cost | Fair value |
|---|---|---|---|
| | | (In thousands) | |
| Due in one year or less | $ | 9,998 | 10,009 |
| Due after one year through five years | | 72,025 | 73,573 |
| Due after five years through ten years | | 183,242 | 199,548 |
| Due after ten years | | 516,904 | 537,510 |
| | $ | 782,169 | 820,640 |

## (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.

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.

All of the investment securities held by the IIM Trust Funds at September 30, 2016 and 2015 are valued using Level 2 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, 2016 and 2015. 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

The Trust Funds are involved in various claims and legal actions arising in the ordinary course of business in which certain beneficiaries have filed claims against the U.S. Government for failure to fulfill its fiduciary responsibilities. The U.S. Government believes it has valid legal defenses against these claims. Any settlement or judgment resulting from an adverse outcome of the claims will not be satisfied with trust fund balances. 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, 2016 and 2015 for which OST has a fiduciary responsibility.

The subsidiary detail of IIM account balances contains approximately 11,400 special deposit accounts with balances totaling approximately $22 million and $23 million as of September 30, 2016 and 2015. Substantially all 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, 2016, 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 $27.0 million and $28.2 million as of September 30, 2016 and 2015, 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 Mineral Royalty Accounting Distribution module 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 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 $28.6 million and $55.2 million during the years ended September 30, 2016 and 2015, 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, 2016

**KPMG LLP**
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

# Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements 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), which comprise the statements of assets and trust fund balances – cash basis as of September 30, 2016 and 2015, and the related statements of changes in trust fund balances – cash basis for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2016.

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 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, 2016 and 2015 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.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered the internal control over financial reporting (internal control) for the Tribal and Other Trust Funds managed by OST to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the Tribal and Other Trust Funds managed by OST are free from material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control or compliance for the Tribal and Other Trust Funds managed by OST. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
November 10, 2016

# 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, 2016

**KPMG LLP**
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

# Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Individual Indian Monies Trust Funds (IIM Trust Funds) managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (OST), which comprise the statements of assets and trust fund balances – modified cash basis as of September 30, 2016 and 2015, and the related statements of changes in trust fund balances – modified cash basis for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2016.

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.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered the internal control over financial reporting (internal control) for the IIM Trust Funds managed by OST to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the IIM Trust Funds managed by OST are free from material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control or compliance for the IIM Trust Funds managed by OST. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
November 10, 2016