FY

2010

Federal Maritime Commission

Audited Financial Statements

A11-02

FEDERAL MARITIME COMMISSION
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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FEDERAL MARITIME COMMISSION
Office of Inspector General
Washington, DC 20573-0001

November 10, 2010

Office of Inspector General

The Honorable Richard A. Lidinsky, Jr.
Chairman
Federal Maritime Commission

I am pleased to provide you with the attached audit report required by the Accountability for Tax Dollars Act of 2002 (ATDA), which presents an unqualified opinion on the Federal Maritime Commission's (FMC) FY 2010 financial statements. The audit results indicate that FMC has established an internal control structure that facilitates the preparation of reliable financial and performance information. We commend FMC for the noteworthy accomplishment of attaining an unqualified (clean) opinion for the seventh consecutive year.

The Office of Inspector General (OIG) engaged the independent certified public accounting firm of Dembo Jones Healy Pennington & Marshall, P.C. (DJHPM) to perform the audit of the FMC's financial statements for the fiscal year ended September 30, 2010. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) audit guidance.

In its audit of the Federal Maritime Commission, DJHPM found:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- no reportable noncompliance with laws and regulations tested.

To fulfill our responsibilities under ATDA and related legislation for ensuring the quality of the audit work performed, we monitored DJHPM's audit of FMC's FY 2010 financial statements by:

- reviewing DJHPM's approach and planning of the audit;
- evaluating the qualifications and independence of its auditors;

- monitoring the progress of the audit at key points;
- examining its work papers related to planning the audit, assessing FMC's internal control, and substantive testing;
- reviewing DJHPM's audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended;
- coordinating the issuance of the audit report; and
- performing other procedures we deemed necessary.

Our review disclosed no instances where DJHPM did not comply, in all material respects, with U.S. generally accepted government auditing standards. However, our review cannot be construed as an audit in accordance with U.S. generally accepted government auditing standards. It was not intended to enable us to express, and we do not express, any opinion on FMC's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. DJHPM is solely responsible for the attached auditor's report dated November 10, 2010, and the conclusions expressed in the report.

We appreciate the cooperation and courtesies extended to both DJHPM and OIG staff during the audit.

Sincerely,

/Adam R. Trzeciak/
Inspector General

Attachment

cc: Commissioners
Managing Director

DJHPM
Dembo, Jones, Healy, Pennington & Marshall, P.C.
Certified Public Accountants and Consultants

Chairman Lidinsky:

We have audited the accompanying balance sheet of the Federal Maritime Commission (FMC) as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended. In our audits of the Federal Maritime Commission for the fiscal years September 30, 2010 and 2009, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses or significant deficiencies in internal control over financial reporting (including safeguarding assets),
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other accompanying information, and (3) our audit objectives, scope, and methodology.

Opinion on Financial Statements

In our opinion, the financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Federal Maritime Commission's assets, liabilities, and net position as of September 30, 2010 and 2009; and net costs; changes in net position; budgetary resources; and custodial activity for the years then ended.

Consideration of Internal Control

In planning and performing our audit, we considered the Federal Maritime Commission's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on internal control and compliance or on management's assertion on internal control included in MD&A. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on the effectiveness of the entity's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies, as defined above.

We noted other non-reportable matters involving internal control and its operation that we will communicate in a separate management letter to FMC management.

Compliance With Laws and Regulations

Our tests of the Federal Maritime Commission's compliance with selected provisions of laws and regulations for fiscal year 2010 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

The Federal Maritime Commission's management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the FMC and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance with selected provisions of laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Federal Maritime Commission. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the Federal Maritime Commission's financial statements for the fiscal year ended September 30, 2010. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB guidance.

Dembo, Jones, Healy, Pennington & Marshall, P.C.

Rockville, Maryland
November 10, 2010

FINANCIAL SECTION

FEDERAL MARITIME COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2010 AND 2009
(In Dollars)

		2010		2009
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 2)	$	4,862,018	$	4,777,674
Total Intragovernmental		4,862,018		4,777,674
Accounts Receivable, Net (Note 3)		114		70,222
Property, Equipment, and Software, Net (Note 4)		629,719		202,500
Other (Note 5)		1,728		-
Total Assets	$	5,493,579	$	5,050,396
Liabilities:				
Intragovernmental				
Accounts Payable (Note 6)	$	687,333	$	309,177
Employer Contributions and Payroll Taxes Payable		181,479		138,468
Unfunded FECA Liability (Note 7)		1,741		1,968
Custodial Liability		114		69,236
Total Intragovernmental		870,667		518,849
Accounts Payable (Note 6)		273,306		231,925
Accrued Payroll and Leave		1,051,210		865,970
Employer Contributions and Payroll Taxes Payable		22,613		17,568
Unfunded Leave (Note 7)		1,217,002		1,075,533
Actuarial FECA Liability (Note 7)		11,821		5,249
Total Liabilities	$	3,446,619	$	2,715,094
Net Position:				
Unexpended Appropriations	$	2,647,804	$	3,214,566
Cumulative Results of Operations		(600,844)		(879,264)
Total Net Position	$	2,046,960	$	2,335,302
Total Liabilities and Net Position	$	5,493,579	$	5,050,396

The accompanying notes are an integral part of these statements.

FEDERAL MARITIME COMMISSION
STATEMENT OF NET COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(In Dollars)

	2010	2009
Program Costs:		
Operational and Administrative (Note 10)		
Gross Costs	$ 17,931,656	$ 16,541,546
Net Program Costs	$ 17,931,656	$ 16,541,546
Formal Proceedings (Note 10)		
Gross Costs	$ 7,227,972	$ 6,082,905
Less: Earned Revenue	(118,744)	-
Net Program Costs	$ 7,109,228	$ 6,082,905
Office of Inspector General (Note 10)		
Gross Costs	$ 679,070	$ 529,935
Less: Earned Revenue	(3,285)	-
Net Program Costs	$ 675,785	$ 529,935
Office of Equal Employment Opportunity (Note 10)		
Gross Costs	$ 206,652	$ 151,287
Net Program Costs	$ 206,652	$ 151,287
Net Cost of Operations	$ 25,923,321	$ 23,305,673

The accompanying notes are an integral part of these statements.

FEDERAL MARITIME COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(In Dollars)

		2010		2009
Cumulative Results of Operations:				
Beginning Balances	$	(879,264)	$	(1,029,189)
Budgetary Financing Sources:				
Appropriations Used		24,626,223		22,258,507
Other Financing Sources (Non-Exchange):				
Imputed Financing Sources (Note 11)		1,575,518		1,197,091
Total Financing Sources		26,201,741		23,455,598
Net Cost of Operations		(25,923,321)		(23,305,673)
Net Change		278,420		149,925
Cumulative Results of Operations	$	(600,844)	$	(879,264)
Unexpended Appropriations:				
Beginning Balances	$	3,214,566	$	2,706,788
Budgetary Financing Sources:				
Appropriations Received		24,135,000		22,800,000
Other Adjustments		(75,539)		(33,715)
Appropriations Used		(24,626,223)		(22,258,507)
Total Budgetary Financing Sources		(566,762)		507,778
Total Unexpended Appropriations	$	2,647,804	$	3,214,566
Net Position	$	2,046,960	$	2,335,302

The accompanying notes are an integral part of these statements.

FEDERAL MARITIME COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(In Dollars)

		2010		2009
Budgetary Resources:				
Unobligated Balance Brought Forward, October 1	$	867,458	$	747,665
Recoveries of Prior Year Unpaid Obligations		582,606		171,489
Budget Authority				
Appropriation		24,135,000		22,800,000
Spending Authority From Offsetting Collections				
Earned				
Collected		122,029		-
Subtotal		24,257,029		22,800,000
Permanently Not Available		(75,539)		(33,715)
Total Budgetary Resources	$	25,631,554	$	23,685,439
Status of Budgetary Resources:				
Obligations Incurred (Note 13)				
Direct	$	24,205,598	$	22,817,981
Reimbursable		122,029		-
Subtotal		24,327,627		22,817,981
Unobligated Balance				
Apportioned		10,273		66,284
Unobligated Balance Not Available		1,293,654		801,174
Total Status of Budgetary Resources	$	25,631,554	$	23,685,439
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$	3,910,216	$	3,314,469
Obligations Incurred Net		24,327,627		22,817,981
Gross Outlays		(24,097,146)		(22,050,745)
Recoveries of Prior Year Unpaid				
Obligations, Actual		(582,606)		(171,489)
Total, Unpaid Obligated Balance, Net, End of Period	$	3,558,091	$	3,910,216
Net Outlays:				
Gross Outlays	$	24,097,146	$	22,050,745
Offsetting Collections		(122,029)		-
Net Outlays	$	23,975,117	$	22,050,745

The accompanying notes are an integral part of these statements.

FEDERAL MARITIME COMMISSION
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(In Dollars)

		2010		2009
Revenue Activity:				
Sources of Cash Collections:				
Miscellaneous	$	1,250,668	$	1,115,241
Total Cash Collections (Note 15)		1,250,668		1,115,241
Accrual Adjustments		(69,122)		5,643
Total Custodial Revenue		1,181,546		1,120,884
Disposition of Collections:				
Transferred to Others		1,250,668		1,115,241
Increase/(Decrease) in Amounts Yet to be Transferred		(69,122)		5,643
Total Disposition of Collections		1,181,546		1,120,884
Net Custodial Activity	$	-	$	-

The accompanying notes are an integral part of these statements.

FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Federal Maritime Commission (FMC) was established as an independent regulatory agency on August 12, 1961. FMC is responsible for the regulation of ocean borne transportation in the foreign commerce of the United States (U.S.). The principal statutes or statutory provisions administered by the Commission are the Shipping Act of 1984, the Foreign Practices Act of 1988, and section 19 of the Merchant Marine Act of 1920, and sections 2 and 3 of Public Law No. 89-777. Most of these statutes were modified by the passage of the Ocean Shipping Reform Act of 1998, which took effect in 1999.

The Commission: monitors the activities of ocean common carriers, marine terminal operators (MTOs), conferences, ports and ocean transportation intermediaries (non-vessel-operating common carriers and ocean freight forwarders) who operate in the U.S. foreign commerce to ensure they maintain just and reasonable practices; maintains trade monitoring, enforcement and dispute resolution programs designed to assist regulated entities in achieving compliance and to detect and appropriately remedy malpractices and violations of the prohibited acts set forth in section 10 of the 1984 Act; monitors the laws and practices of foreign governments which could have a discriminatory or otherwise adverse impact on shipping conditions in U.S. trades, and imposes remedial action, as appropriate, pursuant to section 19 of the 1920 Act or FSPA; enforces special regulatory requirements applicable to carriers owned or controlled by foreign governments; processes and reviews agreements, service contracts, and service arrangements pursuant to the 1984 Act for compliance with statutory requirements; and reviews common carriers' privately published tariff systems for accessibility and accuracy, as required by OSRA. The Commission also issues licenses to qualified ocean transportation intermediaries (OTIs) in the U.S., ensures that all OTIs are bonded or maintain other evidence of financial responsibility, and ensures that passenger vessel operators (PVOs) demonstrate adequate financial responsibility in case of nonperformance of voyages or injury to passengers.

FMC is composed of five Commissioners appointed for five-year terms by the President with the advice and consent of the Senate. The President designates one of the Commissioners to serve as Chairman, who is also the chief executive and administrative officer of FMC.

The FMC reporting entity is comprised of General Funds and General Miscellaneous Receipts.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues.

General Fund miscellaneous receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

FMC makes custodial collections and holds custodial receivables that are non-entity assets and are transferred to Treasury at fiscal year end.

B. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of the FMC. The statements are a requirement of the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of FMC in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, *Financial Reporting Requirements* and FMC accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control FMC's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Custodial Activity. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Budgets and Budgetary Accounting

Congress usually enacts appropriations to permit FMC to incur obligations for specified purposes. In fiscal years 2010 and 2009, the FMC was accountable for General Fund appropriations. The agency recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds. Balances on these statements may therefore differ from those on financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control FMC's use of budgetary resources.

E. Revenues & Other Financing Sources

Congress enacts annual appropriations to be used, within statutory limits, for operating and capital expenditures. Additional revenues are obtained from service fees and reimbursements from other government entities and the public, but these revenues are not available to the agency to fund operating expenses.

Appropriations are recognized as a financing source when expended. Revenues from service fees associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

FMC recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on its behalf by the Office of Personnel Management (OPM).

F. Taxes

FMC, as a Federal entity, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balance with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. FMC does not maintain cash in commercial bank accounts or foreign currency balances.

H. Accounts Receivable

Accounts receivable consists of amounts owed to FMC by other Federal agencies, its employees and the general public. Accounts receivable in the Salaries and Expense Fund represent employee-related receivables. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts, management determines that collection is unlikely to occur considering the debtor's ability to pay. Debts six months or more past due are referred to the Department of Treasury for follow-up collection efforts in keeping with the Debt Collection Improvement Act of 1996 (DCIA). Treasury's Debt Management Services (DMS) administers the program and deducts 18 percent from amounts ultimately collected for its fee. Collections, net of fees, are returned to the FMC for remittance to the general fund of the Treasury.

I. Property, Equipment, and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology (IT) hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, except wherein the tenant improvement allowance specified in lease agreements covers the costs of certain renovations. Maintenance and repair costs are expensed as incurred. FMC's capitalization threshold is $25,000 for individual purchases. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment and software. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Leasehold Improvements	5
Office Furniture	5
Computer Equipment	5
Office Equipment	5
IT Software	5

J. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are exceptions, such as some reimbursable agreements, subscriptions, and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

K. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the FMC as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation or other funding. Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities for which an appropriation has not been enacted or other funds received are, therefore, classified as not covered by budgetary resources. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding. There is no certainty that the appropriation will be enacted. Intragovernmental liabilities are claims against FMC by other federal agencies. Additionally, the government, acting in its sovereign capacity, can abrogate liabilities.

L. Accounts Payable

Accounts payable consists primarily of amounts owed to other Federal agencies and the public for contracts for goods or services, such as leases, utilities, telecommunications and consulting and support services.

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for unused sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the OPM upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50% beginning FY2010 and 100% in 2014.

N. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by FMC employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, and the actual costs incurred are reflected as a liability to the agency. Payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the FMC terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

O. Retirement Plans

FMC employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of FMC's contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and FMC makes a mandatory one percent contribution to this account. In addition, FMC makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. For FERS participants, FMC also remits the employer's share of the required contribution.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement.

FMC recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to FMC for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. FMC recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

FMC does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

P. Other Post-Employment Benefits

FMC employees eligible to participate in the Federal Employees Health Benefits Plan (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP) may continue to participate in these programs after their retirement. The OPM has provided FMC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. FMC recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by FMC through the recognition of an imputed financing source.

Q. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

R. Net Position

Net position is the residual difference between assets and liabilities and is comprised of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations is the net result of FMC's operations since inception.

S. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FMC recognized imputed costs and financing sources in fiscal years 2010 and 2009 to the extent directed by OMB.

T. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. FMC recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. FMC discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to FMC for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

U. Expired Accounts and Cancelled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account in which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2010 and 2009 were as follows:

		2010		2009
Fund Balances:				
Appropriated Funds	$	4,862,018	$	4,777,674
Total	$	4,862,018	$	4,777,674
Status of Fund Balance with Treasury:				
Unobligated Balance				
Available	$	10,273	$	66,284
Unavailable		1,293,654		801,174
Obligated Balance Not Yet Disbursed		3,558,091		3,910,216
Total	$	4,862,018	$	4,777,674

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the cash balance on hand.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2010 and 2009 were as follows:

		2010		2009
With the Public				
Accounts Receivable	$	114	$	70,222
Total Accounts Receivable	$	114	$	70,222

FMC has one receivable from a non-federal source remaining at fiscal year end that represents an amount due for administrative research.

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2010

Major Class		Acquisition Cost		Accumulated Amortization/ Depreciation		Net Book Value
Leasehold Improvements	$	225,000	$	67,500	$	157,500
Furniture & Equipment		520,566		228,926		291,640
Software-in-Development		180,579		N/A		180,579
Total	$	926,145	$	296,426	$	629,719

Schedule of Property, Equipment, and Software as of September 30, 2009

Major Class		Acquisition Cost		Accumulated Amortization/ Depreciation		Net Book Value
Leasehold Improvements	$	225,000	$	22,500	$	202,500
Furniture & Equipment		291,938		291,938		-
Total	$	516,938	$	314,438	$	202,500

NOTE 5. OTHER ASSETS

Other assets account balances as of September 30, 2010 and 2009, were as follows:

		2010		2009
With the Public				
Advances and Prepayments	$	1,728	$	-
Total Public Assets	$	1,728	$	-

FMC has two travel-related advances remaining at fiscal year end.

NOTE 6. ACCOUNTS PAYABLE

Liabilities include both intragovernmental accounts payable and other accounts payable. Intragovernmental liabilities are owed to other federal entities for rent, printing costs, and services of other agencies. In FY10, intragovernmental accounts payable also includes liabilities incurred for leasehold improvements made to FMC offices, a video conferencing system, and a telephone system. For the fiscal years ending September 30, 2010 and 2009, intragovernmental accounts payable totals $687,333 and $309,177, respectively. Other accounts payable are owed to non-federal sources or to the general public, and includes liabilities for general supplies, training, studies, analysis, and/or evaluations, miscellaneous services, and operation and maintenance of equipment. For the fiscal years ending September 30, 2010 and 2009, the non-federal accounts payable totals $273,306 and $231,925, respectively.

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for FMC as of September 30, 2010 and 2009, include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

		2010		2009
Intragovernmental – FECA	$	1,741	$	1,968
Unfunded Leave		1,217,002		1,075,533
Actuarial FECA		11,821		5,249
Total Liabilities Not Covered by Budgetary Resources	$	1,230,564	$	1,082,750
Total Liabilities Covered by Budgetary Resources		2,216,055		1,632,344
Total Liabilities	$	3,446,619	$	2,715,094

FECA liability represents the unfunded liability for actual workers compensation claims paid on FMC's behalf and payable to DOL. FMC also records an actuarial liability for future workers compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 8. OPERATING LEASES

FMC occupies office space in seven locations, of which only six of the lease agreements are required to be accounted for as operating leases. Lease payments are increased annually based on the adjustments for operating cost and real estate tax escalations. The lease locations and terms are listed below:

Location	Term	Lease Expiration Date
San Pedro, CA	5 years	9/30/2011
Washington DC	10 years	10/31/2012
Jamaica, NY	5 years	7/1/2013
Houston, TX	10 years	9/14/2018
Tacoma, WA	10 years	6/30/2019
Hollywood, FL	10 years	5/31/2020

The lease amounts vary from year to year depending on the specific lease. The schedule of future payments for the term of the leases is as follows:

Fiscal Year		Totals
2011	$	2,943,374
2012		2,959,243
2013		336,514
2014		60,130
2015		61,099
Thereafter		261,136
Total Future Payments	$	6,621,496

The operating lease amount does not include estimated payments for leases with annual renewal options. Real estate taxes included in the Washington DC lease may escalate depending on the market during the year they are due.

NOTE 9. CONTINGENCIES

There are legal actions pending against FMC in which claims have been asserted that may be based on action taken by FMC. Management intends to vigorously contest all such claims. Management believes, based on information provided by legal counsel, that losses, if any, for these cases would not have a material impact on the Financial Statements. No loss accrual has been made for these cases outstanding at September 30, 2010.

NOTE 10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and exchange revenue represent goods and services exchange transactions made between two reporting entities within the Federal government, and are in contrast to those with non-federal entities (the public). Intragovernmental costs include payments to federal vendors for personnel benefits, rent, utilities, and other services. Payments made to non-federal entities (the public) are comprised primarily of employee salaries and other services. Such costs are summarized as follows:

	2010	2009
Operational and Administrative		
Intragovernmental Costs	$ 6,782,806	$ 6,379,667
Public Costs	11,148,850	10,161,879
Net Program Costs	17,931,656	16,541,546
Formal Proceedings		
Intragovernmental Costs	2,145,204	1,961,167
Public Costs	5,082,768	4,121,738
Total Program Costs	7,227,972	6,082,905
Intragovernmental Earned Revenue	(118,744)	-
Net Program Costs	7,109,228	6,082,905
Office of Inspector General		
Intragovernmental Costs	185,426	150,600
Public Costs	493,644	379,335
Total Program Costs	679,070	529,935
Intragovernmental Earned Revenue	(3,285)	-
Net Program Costs	675,785	529,935
Office of Equal Employment Opportunity		
Intragovernmental Costs	55,943	43,579
Public Costs	150,709	107,708
Net Program Costs	206,652	151,287
Total Intragovernmental costs	9,169,379	8,535,013
Total Public costs	16,875,971	14,770,660
Total Costs	26,045,350	23,305,673
Total Intragovernmental Earned Revenue	(122,029)	-
Total Net Cost	$ 25,923,321	$ 23,305,673

NOTE 11. IMPUTED FINANCING SOURCES

FMC recognizes as imputed financing the costs of future benefits which include health benefits, life insurance, pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the fiscal years ended September 30, 2010 and 2009, respectively, imputed financing was as follows.

	2010	2009
Office of Personnel Management	$ 1,575,518	$ 1,197,091
Total Imputed Financing Sources	$ 1,575,518	$ 1,197,091

NOTE 12. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include FY10 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2011 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb/*. The 2011 Budget of the United States Government, with the "Actual" column completed for 2009, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 13. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources as of September 30, 2010 and 2009 consisted of the following:

	2010	2009
Direct Obligations, Category A	$ 24,205,598	$ 22,817,981
Reimbursable Obligations, Category A	122,029	-
Total Obligations Incurred	$ 24,327,627	$ 22,817,981

Category A apportionments distribute budgetary resources by fiscal quarters.

NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the fiscal years ended September 30, 2010 and 2009, respectively, undelivered orders amounted to the following:

	2010	2009
Undelivered Orders	$ 1,343,878	$ 2,347,107
Total Undelivered Orders	$ 1,343,878	$ 2,347,107

NOTE 15. CUSTODIAL ACTIVITY

FMC is an administrative agency collecting for the General Fund. As a collecting entity, FMC measures and reports cash collections and refunds as custodial activity on the Statement of Custodial Activity. Cash collections result primarily from FMC regulatory activities to include the assessment of fines and penalties and the payment of license fees by qualified ocean transportation intermediaries in the U.S. A small portion of amounts collected is for interest on past due fines, petitions, status changes and special permission fees.

Custodial receipts are broken out in the following general receipt funds:

Fund	2010	2009
Fines, Penalties and Forfeitures	$ 1,041,250	$ 843,000
General Fund Proprietary Receipts (user fees)	213,492	273,218
Refund of User Fees	(4,074)	(977)
Total Custodial Collections	$ 1,250,668	$ 1,115,241

NOTE 16. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

FMC has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

		2010		2009
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations Incurred	$	24,327,627	$	22,817,981
Spending Authority From Offsetting Collections and Recoveries		(704,635)		(171,489)
Obligations Net of Offsetting Collections and Recoveries		23,622,992		22,646,492
Offsetting Receipts		-		-
Net Obligations		23,622,992		22,646,492
Other Resources				
Imputed Financing From Costs Absorbed By Others		1,575,518		1,197,091
Net Other Resources Used to Finance Activities		1,575,518		1,197,091
Total Resources Used to Finance Activities		25,198,510		23,843,583
Resources Used to Finance Items Not Part of the Net Cost of Operations:				
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided		1,003,229		(387,985)
Resources That Fund Expenses Recognized In Prior Periods		759		-
Resources That Finance the Acquisition of Assets		(479,066)		(225,000)
Total Resources Used to Finance Items Not Part of Net Cost of Operations		524,922		(612,985)
Total Resources Used to Finance the Net Cost of Operations		25,723,432		23,230,598
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods				
Increase In Annual Leave Liability		141,469		45,214
Other		6,572		5,249
Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods		148,041		50,463
Components Not Requiring or Generating Resources				
Depreciation and Amortization		51,848		24,612
Total Components of Net Cost of Operations That Will Not Require or Generate Resources		51,848		24,612
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period		199,889		75,075
Net Cost of Operations	$	25,923,321	$	23,305,673