FY

2011

Federal Maritime Commission

Audited Financial Statements

A12-01

FEDERAL MARITIME COMMISSION
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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

November 9, 2011

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 2011 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 eighth 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 performed 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, the OIG monitored DJHPM's audit of FMC's FY 2011 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 8, 2011, 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, 2011 and 2010, 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, 2011 and 2010, 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, and (2) 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, 2011 and 2010; 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.

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.

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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 2011 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, 2011. 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 8, 2011

FEDERAL MARITIME COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2011 AND 2010
(In Dollars)

		2011		2010
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 2)	$	3,792,671	$	4,862,018
Total Intragovernmental		3,792,671		4,862,018
Accounts Receivable, Net (Note 3)		979		114
Property, Equipment, and Software, Net (Note 4)		525,021		629,719
Other (Note 5)		300		1,728
Total Assets	$	4,318,971	$	5,493,579
Liabilities:				
Intragovernmental				
Accounts Payable (Note 6)	$	146,636	$	687,333
Employer Contributions and Payroll Taxes Payable		188,998		181,479
`		1,956		1,741
Other		870		-
Custodial Liability		979		114
Total Intragovernmental		339,439		870,667
Accounts Payable (Note 6)		103,362		273,306
Accrued Payroll and Leave		951,116		1,051,210
Employer Contributions and Payroll Taxes Payable		24,546		22,613
Unfunded Leave (Note 7)		1,229,110		1,217,002
Actuarial FECA Liability (Note 7)		5,910		11,821
Total Liabilities	$	2,653,483	$	3,446,619
Net Position:				
Unexpended Appropriations	$	2,378,313	$	2,647,804
Cumulative Results of Operations		(712,825)		(600,844)
Total Net Position	$	1,665,488	$	2,046,960
Total Liabilities and Net Position	$	4,318,971	$	5,493,579

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(In Dollars)

		2011		2010
Program Costs:				
Operational and Administrative (Note 10)				
Gross Costs	$	17,474,598	$	17,931,656
Net Program Costs	$	17,474,598	$	17,931,656
Formal Proceedings (Note 10)				
Gross Costs	$	7,576,489	$	7,227,972
Less: Earned Revenue		(39,856)		(118,744)
Net Program Costs	$	7,536,633	$	7,109,228
Office of Inspector General (Note 10)				
Gross Costs	$	721,109	$	679,070
Less: Earned Revenue		(19,336)		(3,285)
Net Program Costs	$	701,773	$	675,785
Office of Equal Employment Opportunity (Note 10)				
Gross Costs	$	198,706	$	206,652
Net Program Costs	$	198,706	$	206,652
Net Cost of Operations	$	25,911,710	$	25,923,321

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(In Dollars)

		2011		2010
Cumulative Results of Operations:				
Beginning Balances	$	(600,844)	$	(879,264)
Budgetary Financing Sources:				
Appropriations Used		24,236,436		24,626,223
Other Financing Sources (Non-Exchange):				
Imputed Financing Sources (Note 11)		1,563,293		1,575,518
Total Financing Sources		25,799,729		26,201,741
Net Cost of Operations		(25,911,710)		(25,923,321)
Net Change		(111,981)		278,420
Cumulative Results of Operations	$	(712,825)	$	(600,844)
Unexpended Appropriations:				
Beginning Balances	$	2,647,804	$	3,214,566
Budgetary Financing Sources:				
Appropriations Received		24,135,000		24,135,000
Other Adjustments		(168,055)		(75,539)
Appropriations Used		(24,236,436)		(24,626,223)
Total Budgetary Financing Sources		(269,491)		(566,762)
Total Unexpended Appropriations	$	2,378,313	$	2,647,804
Net Position	$	1,665,488	$	2,046,960

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(In Dollars)

		2011		2010
Budgetary Resources:				
Unobligated Balance:				
Unobligated Balance Brought Forward, October 1	$	1,303,927	$	867,458
Recoveries of Prior Year Unpaid Obligations		103,585		582,606
Budget Authority				
Appropriation		24,135,000		24,135,000
Spending Authority From Offsetting Collections				
Earned				
Collected		59,192		122,029
Subtotal		24,194,192		24,257,029
Permanently Not Available		(168,055)		(75,539)
Total Budgetary Resources	$	25,433,649	$	25,631,554
Status of Budgetary Resources:				
Obligations Incurred				
Direct	$	24,128,553	$	24,205,598
Reimbursable		59,192		122,029
Subtotal		24,187,745		24,327,627
Unobligated Balance				
Apportioned		25,375		10,273
Unobligated Balance Not Available		1,220,529		1,293,654
Total Status of Budgetary Resources	$	25,433,649	$	25,631,554
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$	3,558,091	$	3,910,216
Obligations Incurred Net (Note 13)		24,187,745		24,327,627
Gross Outlays		(25,095,485)		(24,097,146)
Recoveries of Prior Year Unpaid				
Obligations, Actual		(103,585)		(582,606)
Total, Unpaid Obligated Balance, Net, End of Period	$	2,546,766	$	3,558,091
Net Outlays:				
Gross Outlays	$	25,095,485	$	24,097,146
Offsetting Collections		(59,192)		(122,029)
Distributed Offsetting Receipts		2,430,482		1,250,668
Net Outlays	$	27,466,775	$	25,225,785

The accompanying notes are an integral part of these financial statements

FEDERAL MARITIME COMMISSION
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(In Dollars)

	2011	2010
Revenue Activity:		
Sources of Cash Collections:		
Miscellaneous	2,430,482	1,250,668
Total Cash Collections (Note 15)	2,430,482	1,250,668
Accrual Adjustments	865	(69,122)
Total Custodial Revenue	2,431,347	1,181,546
Disposition of Collections:		
Transferred to Others (by Recipient)	2,430,482	1,250,668
Retained by the Reporting Entity	865	(69,122)
Total Disposition of Collections	2,431,347	1,181,546
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these financial 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.

The 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.

The 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 the 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 the FMC to incur obligations for specified purposes. In fiscal years 2011 and 2010, 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 the 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.

The 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

The 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 the 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 adds a fee equal to 28 percent of the amount of debt that is less than 2 years delinquent or 30 percent of debts delinquent by 2 years or more. 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. The 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 the 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.

The 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.
The 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 the 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 2011 and 2010 to the extent directed by OMB.

T. Contingencies

The FMC recognizes contingent liabilities when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. 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, 2011 and 2010 were as follows:

	2011	2010
Fund Balances:		
Appropriated Funds	$ 3,792,671	$ 4,862,018
Total	$ 3,792,671	$ 4,862,018
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 25,375	$ 10,273
Unavailable	1,220,529	1,293,654
Obligated Balance Not Yet Disbursed	2,546,767	3,558,091
Total	$ 3,792,671	$ 4,862,018

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. (See also Undelivered Orders at the End of the Period, Note 14.)

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2011 and 2010 were as follows:

	2011	2010
With the Public		
Contractor/Vendor Receivables	$ 979	$ 114
Total Accounts Receivable	$ 979	$ 114

The accounts receivable is primarily made up of custodial collections.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2011 and 2010.

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2011:

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 225,000	$ 112,500	$ 112,500
Furniture & Equipment	520,566	288,624	231,942
Software-in-Development	180,579	-	180,579
Total	$ 926,145	$ 401,124	$ 525,021

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	-	180,579
Total	$ 926,145	$ 296,426	$ 629,719

NOTE 5. OTHER ASSETS

Other asset account balances as of September 30, 2011 and 2010 were as follows:

	2011	2010
With the Public		
Advances and Prepayments	$ 300	$ 1,728
Total Public Other Assets	$ 300	$ 1,728

FMC has one travel-related advance 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, services of other agencies and leasehold improvements. In FY10, intragovernmental accounts payable also includes liabilities incurred for a video conferencing system and a telephone system. For the years ending September 30, 2011 and 2010, intragovernmental accounts payable totals $146,636 and $687,333, 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 years ending September 30, 2011 and 2010, the non-Federal accounts payable totals $103,362 and $273,306, respectively.

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for FMC as of September 30, 2011 and 2010 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.

		2011		2010
Intragovernmental – FECA	$	1,956	$	1,741
Intragovernmental – Unemployment Insurance		870		-
Unfunded Leave		1,229,110		1,217,002
Actuarial FECA		5,910		11,821
Total Liabilities Not Covered by Budgetary Resources	$	1,237,846	$	1,230,564
Accounts Payable		249,998		960,639
Accrued Funded Payroll and Leave		951,116		1,051,210
Employer Contributions and Payroll Taxes Payable		213,544		204,092
Custodial Liability		979		114
Total Liabilities Covered by Budgetary Resources	$	1,415,637	$	2,216,055
Total Liabilities	$	2,653,483	$	3,446,619

FECA and the Unemployment Insurance liabilities represent 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 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
Washington DC	10 years	10/31/2012
Jamaica, NY	5 years	07/01/2013
Houston, TX	10 years	09/14/2018
Tacoma, WA	10 years	06/30/2019
Hollywood, FL	10 years	05/31/2020
San Pedro, CA	10 years	09/30/2021

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
2012	$	2,970,399
2013		347,931
2014		71,819
2015		73,070
2016		74,665
Thereafter		264,886
Total Future Payments	$	3,802,770

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

FMC recognizes contingent liabilities when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable and the future outflow or sacrifice of resources is measurable. There is one legal action 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 the case would not have a material impact on the Financial Statements. No loss accrual has been made for the case outstanding at September 30, 2011.

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 other Federal agencies for personnel benefits ($4,662,227 in FY2011), rent ($3,319,260 in FY2011), utilities, and other services. Payments made to non-Federal entities (the public) are comprised primarily of employee salaries and benefits ($14,842,054 in FY2011) and other services. Such costs are summarized as follows:

	2011	2010
Operational and Administrative		
Intragovernmental Costs	$ 5,107,709	$ 6,782,806
Public Costs	12,366,889	11,148,850
Total Program Costs	17,474,598	17,931,656
Net Program Costs	17,474,598	17,931,656
Formal Proceedings		
Intragovernmental Costs	1,553,388	2,145,204
Public Costs	6,023,101	5,082,768
Total Program Costs	7,576,489	7,227,972
Less: Intragovernmental Earned Revenue	(39,856)	(118,744)
Net Program Costs	7,536,633	7,109,228
Office of Inspector General		
Intragovernmental Costs	129,943	185,426
Public Costs	591,166	493,644
Total Program Costs	721,109	679,070
Less: Intragovernmental Earned Revenue	(19,336)	(3,285)
Net Program Costs	701,773	675,785
Office of Equal Employment Opportunity		
Intragovernmental Costs	33,614	55,943
Public Costs	165,092	150,709
Total Program Costs	198,706	206,652
Net Program Costs	198,706	206,652
Total Intragovernmental Costs	6,824,654	9,169,379
Total Public Costs	19,146,248	16,875,971
Total Costs	25,970,902	26,045,350
Less: Total Intragovernmental Earned Revenue	(59,192)	(122,029)
Total Net Cost	$ 25,911,710	$ 25,923,321

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 years ended September 30, 2011 and 2010 imputed financing was as follows:

	2011	2010
Office of Personnel Management	$ 1,563,293	$ 1,575,518
Total Imputed Financing Sources	$ 1,563,293	$ 1,575,518

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

The President's Budget that will include FY11 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2012 and can be found at the OMB Web site: http://www.whitehouse.gov/omb/. The 2012 Budget of the United States Government, with the "Actual" column completed for 2010, 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, 2011 and 2010 consisted of the following:

	2011	2010
Direct Obligations, Category A	$ 24,128,553	$ 24,205,598
Reimbursable Obligations, Category A	59,192	122,029
Total Obligations Incurred	$ 24,187,745	$ 24,327,627

Category A apportionments distribute budgetary resources by fiscal quarters.

NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders represent goods and services which have been ordered but not yet received at fiscal year end. 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 years ending September 30, 2011 and 2010, respectively, undelivered orders amounted to the following:

	2011	2010
Undelivered Orders	$ 1,132,410	$ 1,343,878
Total Undelivered Orders	$ 1,132,410	$ 1,343,878

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 application fees by ocean transportation intermediaries. 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:

	2011	2010
Fines and Penalties	$ 2,097,500	$ 1,041,250
License Fees	336,252	213,492
User Fees, Net of Refunds	(3,270)	(4,074)
Total Custodial Collections	$ 2,430,482	$ 1,250,668

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.

	2011	2010
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 24,187,745	$ 24,327,627
Spending Authority From Offsetting Collections and Recoveries	(162,777)	(704,635)
Obligations Net of Offsetting Collections and Recoveries	24,024,968	23,622,992
Offsetting Receipts	2,430,482	1,250,668
Net Obligations	26,455,450	24,873,660
Other Resources		
Imputed Financing From Costs Absorbed By Others	1,563,293	1,575,518
Net Other Resources Used to Finance Activities	1,563,293	1,575,518
Total Resources Used to Finance Activities	28,018,743	26,449,178
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	211,467	1,003,229
Resources That Fund Expenses Recognized In Prior Periods	1,086	759
Budgetary Offsetting Collections and Receipts That Do		
Not Affect Net Cost of Operations		
Other	(2,430,482)	(1,250,668)
Resources That Finance the Acquisition of Assets	-	(479,066)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(2,217,929)	(725,746)
Total Resources Used to Finance the Net Cost of Operations	25,800,814	25,723,432
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	12,109	141,469
Other	(5,911)	6,572
Total Components of Net Cost of Operations That Will Require or		
Generate Resources In Future Periods	6,198	148,041
Components Not Requiring or Generating Resources		
Depreciation and Amortization	104,698	51,848
Total Components of Net Cost of Operations That Will Not Require or		
Generate Resources	104,698	51,848
Total Components of Net Cost of Operations That Will Not Require or		
Generate Resources In The Current Period	110,896	199,889
Net Cost of Operations	$ 25,911,710	$ 25,923,321