FY 2007 FMC
Audited Financial Statements
A08-02

November 2007

Dembo Jones Healy Pennington & Marshall, PC
Certified Public Accountants and Consultants

**Independent Auditors' Opinion
on the Financial Statements**

To the Federal Maritime Commission

We have audited the accompanying balance sheet of the Federal Maritime Commission (FMC) as of September 30, 2007, and the related statement of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal year then ended. These financial statements are the responsibility of FMC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Federal Maritime Commission as of September 30, 2006, were audited by other auditors whose report dated November 2, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements." These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Maritime Commission as of September 30, 2007, and its net costs; changes in net position; budgetary resources; and custodial activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis (MD&A) section is not a required part of the basic financial statements of the Federal Maritime Commission but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, "Financial Reporting Requirements". We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and, accordingly, express no opinion on it.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated November 6, 2007, on our consideration of the Federal Maritime Commission's internal control over financial reporting and a report dated November 6, 2007 on its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards,* and, in considering the results of the audits, these reports should be read in conjunction with this report.

While this report is intended solely for the information and use of the management of the Federal Maritime Commission, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

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

November 6, 2007

DJHPM

Dembo Jones Healy Pennington & Marshall, PC
Certified Public Accountants and Consultants

Report of Independent Auditors on Internal Control

To the Federal Maritime Commission

We have audited the accompanying balance sheet of the Federal Maritime Commission (FMC) as of September 30, 2007, and the related statement of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal year then ended, and have issued our report thereon dated November 6, 2007. We conducted our audit in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered the Federal Maritime Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We obtained an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of FMC's internal controls. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. Our audit was not for the purpose of expressing an opinion on the effectiveness of FMC's internal control. Accordingly, we do not express an opinion on the effectiveness of FMC's internal control.

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 a 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 was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Federal Maritime Commission in a separate letter dated November 6, 2007.

Finally, with respect to internal control related to performance measures reported in the annual performance plan, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

While this report is intended solely for the information and use of the management of the Federal Maritime Commission, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

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

November 6, 2007

DJHPM
Dembo Jones Healy Pennington & Marshall, PC
Certified Public Accountants and Consultants

Report of Independent Auditors on Compliance with Laws and Regulations

To the Federal Maritime Commission

We have audited the accompanying balance sheet of the Federal Maritime Commission (FMC) as of September 30, 2007, and the related statement of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal year then ended, and have issued our report thereon dated November 6, 2007. We conducted our audit in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

The management of the Federal Maritime Commission is responsible for complying with laws and regulations applicable to FMC. As part of obtaining reasonable assurance about whether FMC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Federal Maritime Commission.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

While this report is intended solely for the information and use of the management of the Federal Maritime Commission, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

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

November 6, 2007

FEDERAL MARITIME COMMISSION
FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006

TABLE OF CONTENTS

FEDERAL MARITIME COMMISSION
BALANCE SHEETS
As of September 30, 2007 and 2006
(In Dollars)

	2007	2006
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 2,843,269	$ 2,676,163
Total Intragovernmental	2,843,269	2,676,163
Accounts Receivable, Net (Note 3)	66,144	2,961
General Property, Plant and Equipment, Net (Note 4)	7,102	30,353
Other	-	754
TOTAL ASSETS	$ 2,916,515	$ 2,710,231
LIABILITIES		
Intragovernmental:		
Accounts Payable & Other Accrued	$ 22,201	$ 11,145
Payroll Taxes Payable	99,376	102,709
Other Post Employment Benefits	-	8,529
Unfunded FECA Liability	-	495
Custodial Liability	3,157	3,450
Total Intragovernmental	124,734	126,328
Other Liabilities:		
Accounts Payable	293,478	273,774
Accrued Liabilities	820,051	816,239
Employer Contributions and Payroll Taxes Payable	11,540	11,305
Unfunded Annual Leave	1,012,520	1,061,614
Custodial Liability	62,164	(2,171)
Total Other Liabilities	2,199,753	2,160,761
Total Liabilities	2,324,487	2,287,089
NET POSITION		
Unexpended Appropriations	1,596,624	1,453,216
Cumulative Results of Operations	(1,004,596)	(1,030,074)
Total Net Position	592,028	423,142
TOTAL LIABILITIES AND NET POSITION	$ 2,916,515	$ 2,710,231

The accompanying notes are an integral part of these financial statements.

FEDERAL MARITIME COMMISSION
STATEMENTS OF NET COST
For the Years Ended September 30, 2007 and 2006

(In Dollars)

	2007	2006
PROGRAM COSTS		
Office of Administration		
Gross Costs	$ 8,869,541	$ 8,449,512
Less: Earned Revenue	-	-
Net Program Costs (Note 7)	8,869,541	8,449,512
Other Programs		
Office of Operations	7,203,333	7,132,804
Formal Proceedings	4,801,085	4,958,503
Office of Inspector General	394,294	469,885
Office of EEO	141,593	135,722
Total Other Program Costs (Note 7)	12,540,305	12,696,914
NET COST OF OPERATIONS (Note 8)	$ 21,409,846	$ 21,146,426

The accompanying notes are an integral part of these financial statements.

FEDERAL MARITIME COMMISSION
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2007 and 2006

(In Dollars)

	2007	2006
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ (1,030,074)	$ (919,626)
BUDGETARY FINANCING SOURCES		
Appropriations Used	20,257,069	19,920,517
OTHER FINANCING SOURCES (NON-EXCHANGE)		
Imputed Financing Sources (Note 10)	1,178,255	1,115,461
Total Financing Sources	21,435,324	21,035,978
Net Cost of Operations	21,409,846	21,146,426
Net Changes	25,478	(110,448)
CUMULATIVE RESULTS OF OPERATIONS	(1,004,596)	(1,030,074)
UNEXPENDED APPROPRIATIONS		
Beginning Balances	1,453,216	1,231,683
BUDGETARY FINANCING SOURCES		
Appropriations Received	20,427,910	20,499,000
Other Adjustments	(27,433)	(356,950)
Appropriations Used	(20,257,069)	(19,920,517)
Total Budgetary Financing Sources	143,408	221,533
Total Unexpended Appropriations	1,596,624	1,453,216
NET POSITION	$ 592,028	$ 423,142

The accompanying notes are an integral part of these financial statements.

FEDERAL MARITIME COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2007 and 2006
(In Dollars)

	2007	2006
BUDGETARY RESOURCES		
Unobligated Balance brought forward, October 1:	$ 126,737	$ 180,856
Recoveries of Prior Year Unpaid Obligations	220,175	150,821
Budget Authority		
Appropriation	20,427,910	20,499,000
Permanently Not Available	(27,433)	(356,950)
TOTAL BUDGETARY RESOURCES	$ 20,747,389	$ 20,473,727
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct (Note 14)	$ 20,536,495	$ 20,346,990
Reimbursable	-	-
Subtotal	20,536,495	20,346,990
Unobligated Balance		
Apportioned	4,511	4,636
Unobligated Balance Not Available	206,383	122,101
TOTAL STATUS OF BUDGETARY RESOURCES	$ 20,747,389	$ 20,473,727
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, net		
Unpaid Obligations, brought forward, October 1	$ 2,549,426	$ 2,036,289
Total Unpaid Obligated Balance, net	2,549,426	2,036,289
Obligations Incurred net	20,536,495	20,346,990
Less: Gross Outlays	20,233,371	19,683,032
Less: Recoveries of Prior Year Unpaid Obligations, actual	220,175	150,821
TOTAL, UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	$ 2,632,375	$ 2,549,426
NET OUTLAYS		
Gross Outlays	$ 20,233,371	$ 19,683,032
Less: Offsetting Collections	-	-
NET OUTLAYS	$ 20,233,371	$ 19,683,032

The accompanying notes are an integral part of these financial statements.

FEDERAL MARITIME COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2007 and 2006

(In Dollars)

	2007	2006
REVENUE ACTIVITY:		
Sources of Cash Collections:		
Miscellaneous (Note 12)	$ 1,951,111	$ 1,595,530
Total Cash Collections	1,951,111	1,595,530
Accrual Adjustments	64,041	396
Total Custodial Revenue	2,015,152	1,595,926
DISPOSITION OF COLLECTIONS:		
Transferred to Others (by Recipient)	1,951,088	1,595,530
Increase/(Decrease) in Amounts Yet to be Transferred	64,064	396
NET CUSTODIAL ACTIVITY	$ -	$ -

The accompanying notes are an integral part of these financial statements.

FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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.

FMC monitors the activities of ocean common carriers, marine terminal operators, conferences, ports and ocean transportation intermediaries (OTIs) (non-vessel-operating common carriers and ocean freight forwarders) who operate in the foreign commerce of the U.S. to ensure they maintain just and reasonable practices. FMC maintains a trade monitoring and enforcement program designed to detect and appropriately remedy malpractices and violations. FMC monitors the laws and practices of foreign governments which could be potentially restrictive and identifies carriers owned or controlled by foreign governments; processes and reviews agreements and service contracts for compliance with statutory requirements; and reviews common carriers' privately published tariff systems for accessibility and accuracy as required by the Ocean Shipping Reform Act of 1998. FMC also issues licenses to qualified OTIs in the U.S., ensures that all OTIs are bonded or maintain other evidence of financial responsibility, and ensures that passenger vessel operators demonstrate adequate financial responsibility for casualty and nonperformance.

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.

Congress enacts appropriations to permit FMC to incur obligations for authorized purposes. In fiscal years 2007 and 2006, FMC was accountable for General Fund appropriations. FMC 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (continued)

FMC has custodial collections and custodial receivables that would be considered non-entity assets throughout the fiscal year, but at fiscal year end the collections are all transferred to Treasury. A small amount of receivables still remain on the books.

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 principals of 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. 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. These financial statements were prepared following accrual accounting. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Revenues & Other Financing Sources

Congress enacts annual appropriations to be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees and reimbursements from other government entities and the public.

Appropriations are recognized as a financing source when expended. Revenues from service fees associated with reimbursable agreements are recognized concurrently with the 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).

There are no earned revenues for the periods ended September 30, 2007 and 2006.

E. 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.

F. 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.

G. Accounts Receivable

Accounts receivable consists of amounts owed to FMC by the general public and FMC employees. Accounts receivable in the Salaries and Expense Fund represents an employee-related receivable. 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable (continued)

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.

H. Property, Plant and Equipment, Net

FMC's property, plant and equipment is recorded at original acquisition cost and is depreciated using the straight-line method over the estimated useful life of the asset. 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, plant and equipment. The useful life classification for capitalized equipment assets is 5 years.

I. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees in select circumstances. 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.

J. Liabilities

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 not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding. Intragovernmental liabilities are claims against FMC by other federal agencies. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as components requiring or

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Liabilities (continued)

generating resources on the Reconciliation of Net Cost to Budget. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities.

K. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and the public.

L. 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 by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of Federal Employee's Retirement System (FERS)-covered employees.

M. Accrued and Actuarial Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because FMC will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. 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.

N. Retirement Plans

FMC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Retirement Plans (continued)

1984 elected to join either FERS and Social Security, or remain in CSRS. 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 communicates 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.

O. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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.

Q. 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 2007 and 2006 to the extent directed by OMB.

R. 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 they are 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. There are no contingencies that require disclosure.

S. 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Expired Accounts and Cancelled Authority (continued)

the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled.

T. Reclassification

Certain fiscal year 2006 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation. Under Statements of Federal Financial Accounting Standards No. 7, OMB has reclassified the Statement of Financing to be presented in a note as Reconciliation of Net Cost of Operations to Budget.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury as of September 30, 2007 and 2006 consisted of:

	2007	2006
Fund Balances		
Appropriated Funds	$ 2,843,269	$ 2,676,163
Total Fund Balance	$ 2,843,269	$ 2,676,163
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 4,511	$ 4,636
Unavailable	206,383	122,101
Obligated Balance not yet Disbursed	2,632,375	2,549,426
Total	$ 2,843,269	$ 2,676,163

The unavailable unobligated fund balances represents the amount of appropriations for which the period of availability for obligation has expired. This balance is 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.

NOTE 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable balances as of September 30, 2007 and 2006 were as follows:

	2007	2006
With the Public	$ 141,144	$ 2,961
Allowance for Loss on Receivables	75,000	-
Total Accounts Receivable, Net	$ 66,144	$ 2,961

The accounts receivable is primarily made up of balances from two non-federal vendors. One receivable for $7,208 is a net assessment of a penalty resulting from an FMC enforcement action. A second receivable for $56,923 represents an amount due from a contractor for unsupported claims that were paid by the agency.

NOTE 4. GENERAL PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment account balances as of September 30, 2007 and 2006 were as follows:

Schedule of Property, Plant and Equipment as of September 30, 2007

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Office Equipment 5 yrs.	$ 350,588	$ 343,486	$ 7,102

Schedule of Property, Plant and Equipment as of September 30, 2006

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Office Equipment 5 yrs.	$ 419,982	$ 389,629	$ 30,353

NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on FMC's Balance Sheet as of September 30, 2007 and 2006, include liabilities not covered by budgetary resources, which are liabilities for which 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. Liabilities not covered by budgetary resources consist of unfunded leave balances of $1,012,520 and $1,061,614 as of September 30, 2007 and 2006, respectively.

NOTE 6. LEASES

FMC occupies office space in six locations, of which only four of the lease agreements (three locations) are required to be accounted for as operating leases. The lease locations and terms are listed below:

LOCATION	TERM	LEASE EXPIRATON DATE
Washington DC	10 years	01/02/2012
Jamaica, New York	12 months	01/01/2008
Jamaica, New York	12 months	01/01/2008
Seattle, WA	2 years	05/31/2008

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:

Operating Leases

Fiscal Year	Lease Payments
2008	$ 2,763,733
2009	2,770,460
2010	2,795,448
2011	2,821,193
2012	2,847,718
Thereafter	237,690
Total Future Payments	$ 14,236,242

The operating lease amount does not include estimated payments for leases with annual renewal options.

NOTE 7. INTRAGOVERNMENTAL COSTS

Intragovernmental costs 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:

	2007	2006
Office of Administration:		
Intragovernmental Costs	$ 5,641,709	$ 5,487,121
Public Costs	3,227,832	2,962,391
Total Office of Administration Costs	$ 8,869,541	$ 8,449,512
Office of Operations:		
Intragovernmental Costs	$ 1,155,565	$ 1,145,281
Public Costs	6,047,768	5,987,523
Total Office of Operations	$ 7,203,333	$ 7,132,804
Formal Proceedings:		
Intragovernmental Costs	$ 753,220	$ 754,837
Public Costs	4,047,865	4,203,666
Total Formal Proceedings	$ 4,801,085	$ 4,958,503
Office of Inspector General		
Intragovernmental Costs	$ 43,570	$ 51,228
Public Costs	350,724	418,657
Total Office of Inspector General	$ 394,294	$ 469,885
Office of EEO:		
Intragovernmental Costs	$ 18,754	$ 17,798
Public Costs	122,839	117,924
Total Office of EEO	$ 141,593	$ 135,722
Total Intragovernmental costs	$ 7,612,818	$ 7,456,265
Total Public costs	13,797,028	13,690,161
Total Net Cost	$ 21,409,846	$ 21,146,426

FMC had no earned revenues.

NOTE 8. OPERATING/PROGRAM COSTS

Costs by major budgetary object classification as of September 30, 2007 and 2006 are as follows:

Budgetary Object Classifications	2007	2006
Personnel and Benefits	$ 15,530,048	$ 15,434,367
Travel and Transportation	186,959	190,462
Rents, Communication & Utilities	3,290,761	3,066,101
Printing and Contractual Services	1,930,738	2,083,582
Supplies and Materials	227,805	186,800
Equipment	243,821	184,886
Miscellaneous	(286)	228
Total	$ 21,409,846	$ 21,146,426

NOTE 9. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY07 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2008 and can be found at the OMB Web site: http://www.whitehouse.gov/omb. The 2008 Budget of the United States Government, with the Actual column completed for 2006, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 10. IMPUTED FINANCING SOURCES

FMC recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the Office of Personnel Management. For the periods ended September 30, 2007 and 2006, respectively, imputed financing from OPM was $1,178,255 and $1,115,461.

NOTE 11. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Beginning with FY 2006, the format of the Statement of Budgetary Resources has changed and the amount of undelivered orders at the end of the period is no longer required to be reported on the face of the statement. 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 periods ended September 30, 2007 and 2006, undelivered orders amounted to $1,385,730 and $1,326,478, respectively.

NOTE 12. CUSTODIAL ACTIVITY

FMC is an administrative agency collecting for the General Fund. As a collecting entity, FMC 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 (OTIs) 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:

	2007
Fines, Penalties and Forfeitures	$1,372,037
General Fund Proprietary Receipts (license fees)	587,738
Refund of Moneys Erroneously Received and Covered	(8,664)
Total Custodial Collections	$1,951,111

NOTE 13. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 20,536,495	$ 20,346,990
Less: Spending Authority from Offsetting Collections and Recoveries	220,175	150,821
Obligations Net of Offsetting Collections and Recoveries	20,316,320	20,196,169
Less: Offsetting Receipts	-	-
Net Obligations	20,316,320	20,196,169
Other Resources		
Imputed Financing from Costs Absorbed by Others	1,178,255	1,115,461
Net Other Resources Used to Finance Activities	1,178,255	1,115,461
Total Resources Used to Finance Activities	$ 21,494,575	$ 21,311,630
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	$ 59,250	$ 275,652
Resources that Fund Expenses Recognized in Prior Periods	48,731	149
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	-	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	107,981	275,801
Total Resources Used to Finance the Net Cost of Operations	$ 21,386,594	$ 21,035,829
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	$ -	$ 91,057
Other	-	-
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	-	91,057
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	9,373	20,085
Revaluation of Assets or Liabilities	13,879	-
Other	-	(545)
Total Components of Net Cost of Operations that will Not Require or Generate Resources	23,252	19,540
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period	23,252	110,597
Net Cost of Operations	$ 21,409,846	$ 21,146,426

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

FMC has $20,536,495 of direct obligations incurred against amounts apportioned under Category A funds. FMC has no reimbursable obligations incurred nor any balance in exempt from apportionment.