

**FY 2008 FMC
Audited Financial Statements
A09-01**



November 2008

FEDERAL MARITIME COMMISSION

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2008 AND 2007**



FEDERAL MARITIME COMMISSION

800 North Capitol Street, N.W.
Washington, DC 20573

November 6, 2008

Office of Inspector General

Tel.: (202) 523-5863

Fax: (202) 566-0043

E-mail: oig@fmc.gov

Mr. Anthony Haywood
Acting Chief Financial Officer
Federal Maritime Commission
Washington DC 20573

Dear Mr. Haywood,

I am pleased to provide you with the attached audit report required by the Accountability of Tax Dollars Act of 2002, which presents an unqualified opinion on the Federal Maritime Commission's FY 2008 financial statements. The audit results indicate that the Commission has established an internal control structure that facilitates the preparation of reliable financial information. We commend the Commission for the noteworthy accomplishment of attaining an unqualified opinion for the 5th consecutive year.

The independent public accounting firm of Dembo Jones Healy Pennington & Marshall, P.C. (DJHPM) performed the audit of the Commission's financial statements for the year ended September 30, 2008. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements*.

In its audit, DJHPM found that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles. There were no material weaknesses in internal control and no reportable noncompliance with laws and regulations tested.

The Office of Inspector General (OIG) oversaw the audit performance and delivery. We reviewed DJHPM's report and related documentation and made inquiries of its representatives. Our review disclosed no instances where DJHPM did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Sincerely,

Adam R. Trzeciak
Inspector General

**FEDERAL MARITIME COMMISSION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

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

Certified Public Accountants and Consultants

To the Federal Maritime Commission:

In accordance with the Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements", we are responsible for conducting audits of the financial statements of the **Federal Maritime Commission**. In our audits of the **Federal Maritime Commission** for the fiscal years **September 30, 2008 and 2007**, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- 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 and other supplementary information, and (3) our audit objectives, scope, and methodology.

Opinion on Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, **Federal Maritime Commission's** assets, liabilities, and net position as of **September 30, 2008 and 2007**; 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 **Federal Maritime Commission's** internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis. However, for the controls we tested, we found no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance. A material weakness is a control deficiency that results in more than a remote likelihood that the design or operation of one or more internal controls will not allow management or employees, in the normal course of performing their duties, to promptly detect or prevent errors, fraud, or noncompliance in amounts that would be material to the financial statements. Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies.

Compliance With Laws and Regulations

Our tests of the **Federal Maritime Commission's** compliance with selected provisions of laws and regulations for fiscal year 2008 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.

Consistency of Other Information

The **Federal Maritime Commission's** Management's Discussion and Analysis, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with **Federal Maritime Commission's** officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

Objectives, Scope, and Methodology

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, and (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Statement.

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 entity 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;
- 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, 2008**. 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 with U.S. generally accepted government auditing standards and OMB audit guidance.

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

*Rockville, Maryland
November 6, 2008*

**FEDERAL MARITIME COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2008 AND 2007
(In Dollars)**

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Assets: | | |
| Intragovernmental: | | |
| Fund Balance With Treasury (Note 2) | \$ 4,062,134 | \$ 2,843,269 |
| Total Intragovernmental | 4,062,134 | 2,843,269 |
| Accounts Receivable, Net (Note 3) | 64,579 | 66,144 |
| General Property, Plant and Equipment, Net (Note 4) | 2,112 | 7,102 |
| Total Assets | <u>\$ 4,128,825</u> | <u>\$ 2,916,515</u> |
| Liabilities (Note 5): | | |
| Intragovernmental: | | |
| Accounts Payable | \$ 36,647 | \$ 22,201 |
| Employer Contributions and Payroll Taxes Payable | 118,028 | 99,376 |
| Unfunded FECA Liability | 1,968 | - |
| Custodial Liability | 63,593 | 65,321 |
| Total Intragovernmental | 220,236 | 186,898 |
| Accounts Payable | 273,627 | 293,478 |
| Accrued Payroll | 914,920 | 820,051 |
| Employer Contributions and Payroll Taxes Payable | 12,124 | 11,540 |
| Unfunded Leave | 1,030,319 | 1,012,520 |
| Total Liabilities | 2,451,226 | 2,324,487 |
| Net Position: | | |
| Unexpended Appropriations - Other Funds | 2,706,788 | 1,596,624 |
| Cumulative Results of Operations - Other Funds | (1,029,189) | (1,004,596) |
| Total Net Position | <u>1,677,599</u> | <u>592,028</u> |
| Total Liabilities and Net Position | <u>\$ 4,128,825</u> | <u>\$ 2,916,515</u> |

The accompanying notes are an integral part of these statements.

**FEDERAL MARITIME COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(In Dollars)**

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|----------------------|
| Program Costs: | | |
| Office of Administration | \$ 6,088,432 | \$ 8,869,541 |
| Office of Operations | 9,540,047 | 7,203,333 |
| Formal Proceedings | 5,627,251 | 4,801,085 |
| Office of Inspector General | 597,799 | 394,294 |
| Office of EEO | 161,903 | 141,593 |
| Net Cost of Operations (Notes 7 and 8) | <u>\$ 22,015,432</u> | <u>\$ 21,409,846</u> |

The accompanying notes are an integral part of these statements.

FEDERAL MARITIME COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(In Dollars)

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| Cumulative Results of Operations: | | |
| Beginning Balances | \$ (1,004,596) | \$ (1,030,074) |
| Budgetary Financing Sources: | | |
| Appropriations Used | 20,906,472 | 20,257,069 |
| Other Financing Sources (Non-Exchange): | | |
| Imputed Financing Sources (Note 11) | <u>1,084,367</u> | <u>1,178,255</u> |
| Total Financing Sources | 21,990,839 | 21,435,324 |
| Net Cost of Operations (Notes 7 and 8) | <u>22,015,432</u> | <u>21,409,846</u> |
| Net Change | (24,593) | 25,478 |
| Cumulative Results of Operations | <u>\$ (1,029,189)</u> | <u>\$ (1,004,596)</u> |
| Unexpended Appropriations: | | |
| Beginning Balances | <u>\$ 1,596,624</u> | <u>\$ 1,453,216</u> |
| Budgetary Financing Sources: | | |
| Appropriations Received | 22,072,000 | 20,427,910 |
| Other Adjustments | (55,364) | (27,433) |
| Appropriations Used | <u>(20,906,472)</u> | <u>(20,257,069)</u> |
| Total Budgetary Financing Sources | <u>1,110,164</u> | <u>143,408</u> |
| Total Unexpended Appropriations | <u>\$ 2,706,788</u> | <u>\$ 1,596,624</u> |
| Net Position | <u>\$ 1,677,599</u> | <u>\$ 592,028</u> |

The accompanying notes are an integral part of these statements.

FEDERAL MARITIME COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(In Dollars)

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|----------------------|
| Budgetary Resources: | | |
| Unobligated Balance Brought Forward, October 1 | \$ 210,894 | \$ 126,737 |
| Recoveries of Prior Year Unpaid Obligations | 210,984 | 220,175 |
| Budget Authority | | |
| Appropriation | 22,072,000 | 20,427,910 |
| Less: Permanently Not Available | 55,364 | 27,433 |
| Total Budgetary Resources | <u>\$ 22,438,514</u> | <u>\$ 20,747,389</u> |
| Status of Budgetary Resources: | | |
| Obligations Incurred | | |
| Direct (Note 9) | \$ 21,690,849 | \$ 20,536,495 |
| Unobligated Balance | | |
| Apportioned | 447,579 | 4,511 |
| Unobligated Balance Not Available | 300,086 | 206,383 |
| Total Status of Budgetary Resources | <u>\$ 22,438,514</u> | <u>\$ 20,747,389</u> |
| Change in Obligated Balance: | | |
| Obligated Balance, Net | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ 2,632,375 | \$ 2,549,426 |
| Total Unpaid Obligated Balance, Net | 2,632,375 | 2,549,426 |
| Obligations Incurred Net | 21,690,849 | 20,536,495 |
| Less: Gross Outlays | 20,797,771 | 20,233,371 |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual | 210,984 | 220,175 |
| Obligated Balance, Net, End of Period | | |
| Unpaid obligations | 3,314,469 | 2,632,375 |
| Total, Unpaid Obligated Balance, Net, End of Period | <u>\$ 3,314,469</u> | <u>\$ 2,632,375</u> |
| Net Outlays: | | |
| Net Outlays: | | |
| Gross Outlays | \$ 20,797,771 | \$ 20,233,371 |
| Less: Offsetting Collections | - | - |
| Less: Distributed Offsetting Receipts | - | - |
| Net Outlays | <u>\$ 20,797,771</u> | <u>\$ 20,233,371</u> |

The accompanying notes are an integral part of these statements.

**FEDERAL MARITIME COMMISSION
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(In Dollars)**

| | <u>2008</u> | <u>2007</u> |
|--|----------------|------------------|
| Revenue Activity: | | |
| Total Cash Collections (Note 13) | \$ 478,250 | \$ 1,951,111 |
| Accrual Adjustments | <u>(1,728)</u> | <u>64,041</u> |
| Total Custodial Revenue | 476,522 | 2,015,152 |
| Disposition of Collections: | | |
| Transferred to Others (by Recipient) | 478,250 | 1,951,088 |
| Increase/(Decrease) in Amounts Yet to be Transferred | <u>(1,728)</u> | <u>64,064</u> |
| Total Disposition of Collections | <u>476,522</u> | <u>2,015,152</u> |
| Net Custodial Activity | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

**FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

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 2008 and 2007, 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.

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

**FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

D. 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 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, 2008 and 2007.

**FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 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.

**FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

**FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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 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.

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.

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.

**FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2008 and 2007 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 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 2007 balances may have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

**FEDERAL MARITIME COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury as of September 30, 2008 and 2007 consisted of:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Fund Balances | | |
| Appropriated Funds | \$ 4,062,134 | \$ 2,843,269 |
| Total Fund Balance | <u>\$ 4,062,134</u> | <u>\$ 2,843,269</u> |
| | | |
| Status of Fund Balance with Treasury | | |
| Unobligated Balance | | |
| Available | \$ 447,579 | \$ 4,511 |
| Unavailable | 300,086 | 206,383 |
| Obligated Balance not yet Disbursed | <u>3,314,469</u> | <u>2,632,375</u> |
| Total | <u>\$ 4,062,134</u> | <u>\$ 2,843,269</u> |

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

Net accounts receivable balances as of September 30, 2008 and 2007 are \$64,579 and \$66,144, respectively.

The accounts receivable is primarily made up of a balance from one non-federal vendor for \$56,421 that 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, 2008 and 2007 were as follows:

Schedule of Property, Plant and Equipment as of September 30, 2008

| <u>Description</u> | <u>Acquisition Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|-------------------------|-----------------------------|-------------------------------------|---------------------------|
| Office Equipment 5 yrs. | <u>\$ 291,938</u> | <u>\$ 289,826</u> | <u>\$ 2,112</u> |

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

| <u>Description</u> | <u>Acquisition Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|-------------------------|-----------------------------|-------------------------------------|---------------------------|
| Office Equipment 5 yrs. | <u>\$ 350,588</u> | <u>\$ 343,486</u> | <u>\$ 7,102</u> |

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NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on FMC's Balance Sheet as of September 30, 2008 and 2007 include liabilities not covered by budgetary resources, which consist of unfunded leave balances of \$1,030,319 and \$1,012,520 and FECA balances of \$1,968 and zero, respectively. 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.

NOTE 6. LEASES

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

| <u>LOCATION</u> | <u>TERM</u> | <u>LEASE EXPIRATION DATE</u> |
|-------------------|-------------|------------------------------|
| Hollywood, FL | 23 months | 05/31/2010 |
| San Pedro, CA | 5 years | 09/30/2011 |
| Washington DC | 10 years | 10/31/2012 |
| Jamaica, New York | 5 years | 07/01/2013 |
| Houston, TX | 10 years | 08/31/2018 |

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

| <u>Fiscal Year</u> | <u>Lease Payments</u> |
|-----------------------|-----------------------|
| 2009 | \$ 2,877,886 |
| 2010 | 2,892,828 |
| 2011 | 2,897,671 |
| 2012 | 2,913,050 |
| 2013 | 289,816 |
| Thereafter | <u>64,674</u> |
| Total Future Payments | <u>\$ 11,935,925</u> |

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

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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:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------|----------------------|----------------------|
| Office of Administration: | | |
| Intragovernmental Costs | \$ 2,844,453 | \$ 5,641,709 |
| Public Costs | 3,243,979 | 3,227,832 |
| Total Office of Administration Costs | <u>\$ 6,088,432</u> | <u>\$ 8,869,541</u> |
| Office of Operations: | | |
| Intragovernmental Costs | \$ 3,005,774 | \$ 1,155,565 |
| Public Costs | 6,534,273 | 6,047,768 |
| Total Office of Operations | <u>\$ 9,540,047</u> | <u>\$ 7,203,333</u> |
| Formal Proceedings: | | |
| Intragovernmental Costs | \$ 1,785,954 | \$ 753,220 |
| Public Costs | 3,841,297 | 4,047,865 |
| Total Formal Proceedings | <u>\$ 5,627,251</u> | <u>\$ 4,801,085</u> |
| Office of Inspector General | | |
| Intragovernmental Costs | \$ 165,737 | \$ 43,570 |
| Public Costs | 432,062 | 350,724 |
| Total Office of Inspector General | <u>\$ 597,799</u> | <u>\$ 394,294</u> |
| Office of EEO: | | |
| Intragovernmental Costs | \$ 71,152 | \$ 18,754 |
| Public Costs | 90,751 | 122,839 |
| Total Office of EEO | <u>\$ 161,903</u> | <u>\$ 141,593</u> |
| Total Intragovernmental costs | <u>\$ 7,873,070</u> | <u>\$ 7,612,818</u> |
| Total Public costs | <u>14,142,362</u> | <u>13,797,028</u> |
| Total Net Cost | <u>\$ 22,015,432</u> | <u>\$ 21,409,846</u> |

FMC had no earned revenues.

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NOTE 8. OPERATING/PROGRAM COSTS

Costs by major budgetary object classification as of September 30, 2008 and 2007 are as follows:

| <u>Budgetary Object Classifications</u> | <u>2008</u> | <u>2007</u> |
|---|-----------------------------|-----------------------------|
| Personnel and Benefits | \$ 15,476,038 | \$ 15,530,048 |
| Travel and Transportation | 226,734 | 186,959 |
| Rents, Communication & Utilities | 3,217,133 | 3,290,761 |
| Printing and Contractual Services | 2,439,076 | 1,930,738 |
| Supplies and Materials | 164,779 | 227,805 |
| Equipment | 491,672 | 243,821 |
| Miscellaneous | - | (286) |
| Total | <u>\$ 22,015,432</u> | <u>\$ 21,409,846</u> |

NOTE 9. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

At September 30, 2008, FMC has \$21,690,849 of direct obligations incurred against amounts apportioned under Category A funds, and \$20,536,495 at September 30, 2007. Category A apportionments distribute budgetary resources by fiscal quarters. FMC has no reimbursable obligations incurred or any balance in exempt from apportionment.

NOTE 10. 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 FY08 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2009 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb>. The 2009 Budget of the United States Government, with the Actual column completed for 2007, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 11. 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, 2008 and 2007, respectively, imputed financing from OPM was \$1,084,367 and \$1,178,255.

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NOTE 12. 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 periods ended September 30, 2008 and 2007, undelivered orders amounted to \$1,959,123 and \$1,385,730, respectively.

NOTE 13. 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:

| | 2008 | 2007 |
|---|------------|--------------|
| Fines, Penalties and Forfeitures | \$ 182,513 | \$ 1,372,037 |
| General Fund Proprietary Receipts (license fees) | 299,947 | 587,738 |
| Refund of Moneys Erroneously Received and Covered | (4,210) | (8,664) |
| Total Custodial Collections | \$ 478,250 | \$ 1,951,111 |

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NOTE 14. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Federal Maritime Commission has reconciled its budgetary obligations and non-budgetary resources available with its net cost of operations.

| | <u>2008</u> | <u>2007</u> |
|---|--------------------------|--------------------------|
| Resources Used to Finance Activities: | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$ 21,690,849 | \$ 20,536,495 |
| Less: Spending Authority from Offsetting Collections And Recoveries | <u>210,984</u> | <u>220,175</u> |
| Obligations Net of Offsetting Collections and Recoveries | 21,479,865 | 20,316,320 |
| Less: Offsetting Receipts | <u>-</u> | <u>-</u> |
| Net Obligations | <u>21,479,865</u> | <u>20,316,320</u> |
| Other Resources | | |
| Imputed Financing from Costs Absorbed by Others | <u>1,084,367</u> | <u>1,178,255</u> |
| Net Other Resources Used to Finance Activities | <u>1,084,367</u> | <u>1,178,255</u> |
| Total Resources Used to Finance Activities | <u>\$ 22,564,232</u> | <u>\$ 21,494,575</u> |
| 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 | \$ 573,393 | \$ 59,250 |
| Resources that Fund Expenses Recognized in Prior Periods | <u>-</u> | <u>48,731</u> |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | <u>573,393</u> | <u>107,981</u> |
| Total Resources Used to Finance the Net Cost of Operations | <u>\$ 21,990,839</u> | <u>\$ 21,386,594</u> |
| 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 | \$ 17,799 | \$ - |
| Other | <u>1,968</u> | <u>-</u> |
| Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods | <u>19,767</u> | <u>-</u> |
| Components Not Requiring or Generating Resources: | | |
| Depreciation and Amortization | 4,989 | 9,373 |
| Revaluation of Assets or Liabilities | - | 13,879 |
| Other | <u>(163)</u> | <u>-</u> |
| Total Components of Net Cost of Operations that will Not Require or Generate Resources | <u>4,826</u> | <u>23,252</u> |
| Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period | <u>24,593</u> | <u>23,252</u> |
| Net Cost of Operations | <u>\$ 22,015,432</u> | <u>\$ 21,409,846</u> |