Audit Report

OIG-07-024

Audit of the Financial Crimes Enforcement Network's Fiscal Year 2006 Financial Statements and Fiscal Year 2005 Balance Sheet

January 8, 2007

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 8, 2007

MEMORANDUM FOR WILLIAM F. BAITY, ACTING DIRECTOR
FINANCIAL CRIMES ENFORCEMENT NETWORK

FROM: Joel A. Grover Joel Grover
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the Financial Crimes Enforcement Network's Fiscal Year 2006 Financial Statements and Fiscal Year 2005 Balance Sheet

I am pleased to transmit the attached audited Financial Crimes Enforcement Network (FinCEN) financial statements for fiscal year 2006 and balance sheet for fiscal year 2005. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of FinCEN as of, and for the year ended September 30, 2006, and its balance sheet as of September 30, 2005. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements;* and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report
- Independent Auditors' Report on Internal Control
- Independent Auditors' Report on Compliance and Other Matters

In its audit, KPMG LLP found:

- that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no matters involving internal control and its operation that are considered material weaknesses, and
- no instances of reportable noncompliance with laws and regulations tested.

KPMG LLP also issued a management letter dated November 21, 2006, discussing other matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the auditors' reports.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 21, 2006 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

Financial Statements

September 30, 2006

DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General, U.S. Department of the Treasury and
Director, Financial Crimes Enforcement Network:

We have audited the accompanying balance sheets of the U.S. Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, financing and custodial activity, and combined statement of budgetary resources for the year ended September 30, 2006 (hereinafter referred to as "financial statements"). These financial statements are the responsibility of FinCEN's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FinCEN's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the balance sheets referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury – Financial Crimes Enforcement Network as of September 30, 2006 and 2005, and the related net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the year ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles 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 this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 21, 2006, on our consideration of FinCEN's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 21, 2006

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control

Inspector General, U.S. Department of the Treasury and
Director, Financial Crimes Enforcement Network:

We have audited the balance sheets of the U.S. Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2006 and 2005 and the related statements of net cost, changes in net position, financing and custodial activity, and the combined statement of budgetary resources for the year ended September 30, 2006 (hereinafter referred to as "financial statements"), and have issued our report thereon dated November 21, 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standard*s, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of FinCEN is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2006 audit, we considered FinCEN's internal control over financial reporting by obtaining an understanding of FinCEN's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on FinCEN's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above. The Exhibit presents the status of prior year reportable conditions.

INTERNAL CONTROLS OVER PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

As required by OMB Bulletin No. 06-03 in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

We noted certain additional matters that we have reported to management of FinCEN in a separate letter dated November 21, 2006

This report is intended solely for the information and use of FinCEN’s management, the U.S. Department of the Treasury Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 21, 2006

Exhibit I

U.S. Department of Treasury
Financial Crimes Enforcement Network

Status of Prior Years' Recommendations

September 30, 2006

Reported Condition	Recommendations	Status
Improvement is needed in accounting for internal use software and accrued liabilities: • FinCEN capitalized internal use software only at year-end. Throughout the year the costs related to internal use software were incorrectly expensed. • We noted that FinCEN only reviews their undelivered orders for payables and accrued liabilities at year-end. Therefore, throughout the year, accounts payable and accrued liabilities may be misstated. (FY 2005 FinCEN Annual Financial Statement, Report No. OIG-06-027)	We recommended that FinCEN management develop procedures that would allow recording of internal use software capitalization as well as accounts payable and accrued liabilities as transactions occur and review these transactions on at least a monthly basis.	Corrective action taken – no longer considered a reportable condition. Corrective action taken – no longer considered a reportable condition.

As required by *Government Auditing Standards* and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior years' findings and recommendations. The above table summarizes the prior year finding and provides our assessment of the progress that FinCEN has made in correcting the reportable condition. We have also provided the Office of the Inspector General report number by which the recommendations are monitored for audit follow-up.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury and
Director, Financial Crimes Enforcement Network:

We have audited the balance sheets of the U.S. Department of the Treasury – Financial Crimes Enforcement Network (FinCEN) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, financing and custodial activity, and combined statement of budgetary resources for the year ended September 30, 2006 (hereinafter referred to as "financial statements"), and have issued our report thereon dated November 21, 2006.

We conducted our audits 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. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of FinCEN is responsible for complying with laws, regulations and contracts applicable to FinCEN. As part of obtaining reasonable assurance about whether FinCEN's financial statements are free of material misstatement, we performed tests of FinCEN's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to FinCEN. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether FinCEN's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests of FFMIA disclosed no instances in which FinCEN's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of FinCEN's management, the U.S. Department of the Treasury Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 21, 2006

Management's Discussion and Analysis

Department of the Treasury
Financial Crimes Enforcement Network

Management Discussion and Analysis
September 30, 2006

Mission and Organizational Structure

The Financial Crimes Enforcement Network (FinCEN), a bureau within Treasury's Office of Terrorism and Financial Intelligence, is responsible for administering the Bank Secrecy Act (BSA). The BSA requires financial institutions to file reports on certain types of financial activity and to establish appropriate internal controls to guard against money laundering, terrorist financing, and other types of illicit finance. FinCEN fulfills its responsibility to safeguard the financial system from the abuses of financial crime through the administration of the BSA; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with our counterpart financial intelligence units; and networking people, ideas, and information.

Strategic Goals and Performance Goals

FinCEN's strategic goals directly link to the Treasury Strategic Goal: "Preserve the Integrity of the Financial Systems" and the national priority of "Dismantling the Financial Infrastructure of Terrorist Networks." To improve and clarify the bureau's strategic foundation, FinCEN developed and released an updated Strategic Plan that revised our strategic objectives, and developed performance measures that link directly to the strategic plan and enable FinCEN to monitor program execution. FinCEN's organizational structure was adjusted to reflect our functional priorities and align with the Strategic Plan. FinCEN's four strategic goals and related performance goals are listed below:

1. Protect the financial system through effective administration of the BSA.
   - Develop and implement appropriate anti-money laundering regulatory policy and regulations under the BSA and related authorities;
   - Provide guidance to support financial institutions in establishing risk-based programs that comply with the BSA;
   - Promote uniform and effective application of, examination for, and enforcement of the BSA; and
   - Use regulatory means to support law enforcement in the investigation and prosecution of financial crimes.

2. Combat terrorism, money laundering, and other financial crime through analysis of BSA data and other relevant information.
   - Expand the production of analytic products that incorporate analysis of relevant classified information;
   - Produce policy-level assessments of terrorist financing and money laundering threats that fuse BSA data with all appropriate information sources;

- Adjust our support of law enforcement investigations to better reflect our increased capabilities to perform complex data mining and analysis; and
- Apply analytical resources to support regulatory activity concerning the BSA.

3. Intensify international anti-money laundering collaboration through the global network of financial intelligence units.
   - Strengthen anti-terrorist financing and anti-money laundering policies and programs worldwide; and
   - Enhance international standard setting and cooperation in the areas of terrorist financing, money laundering and other financial crimes.

4. Facilitate regulatory compliance, data management, and information sharing through E-government.
   - Accelerate the secure flow of financial information from the industries subject to BSA requirements to the law enforcement agencies that use it to prevent, detect, and prosecute financial crime, including terrorist financing; and to the regulators who must assess the adequacy of that information as well as oversee BSA compliance; and
   - Enhance communications between the government and the financial industry to ensure expeditious notification to law enforcement of possible terrorist or other illegal activity.

Program History

Regulatory: FinCEN issues regulations, regulatory rulings, and interpretive guidance. Additionally, FinCEN works closely with federal and state regulatory agencies that examine financial institutions for BSA compliance to ensure consistency across regulated industries. As appropriate, FinCEN investigates alleged violations, issues letters of caution or warning, and seeks injunctions. When required, FinCEN imposes civil monetary penalties for egregious BSA violations.

Analysis: FinCEN supports law enforcement agencies, intelligence agencies, and foreign financial intelligence units (FIUs) investigating financial crimes by providing specialized and unique analysis of BSA data along with data from law enforcement, intelligence, and commercial sources. FinCEN's analyses supports regulatory and other policy decisions, and are used to develop threat assessments, industry reports, and technical guides describing financial transaction mechanisms. Additionally, FinCEN proactively identifies individuals and networks involved with suspicious financial activity and refers that information to appropriate law enforcement agencies.

In the global arena, FinCEN's activities include: supporting international initiatives to educate other jurisdictions about the BSA regulatory regime, as well as to establish international anti-money laundering/counter-terrorist financing regulatory standards and norms; expanding and organizing the exchange of financial information; improving the expertise and capabilities of personnel with anti-money laundering and counter-terrorist financing missions; and fostering better and more secure communication among FIUs through technology.

Data Collection and Sharing: As administrator of the BSA, FinCEN must ensure the effective collection, management, and dissemination of the highly sensitive confidential information collected under the Act. FinCEN provides direct access to BSA data to authorized law enforcement, regulatory, and intelligence agencies. FinCEN will continue to integrate and modernize the various components of the BSA data collection and sharing systems. These efforts include upgrading the BSA E-Filing system to provide a more robust collection function, improving the quality of BSA data by preventing the omission of critical information, validating the information collected, and upgrading the BSA analytical tools used by FinCEN analysts.

Performance Results

FinCEN issues regulations and guidance for implementing and integrating BSA compliance programs within different segments of the financial services industry. In FY 2006, FinCEN issued the following proposed and final rules:

- Requiring financial institutions to implement appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls regarding correspondent accounts established or maintained for certain foreign financial institutions and appropriate, specific due diligence policies, procedures, and controls and, where necessary, enhanced scrutiny regarding private banking accounts established or maintained for non-U.S. persons, in accordance with Section 312 of the USA PATRIOT Act;
- Requiring mutual funds to report suspicious activity;
- Requiring certain insurance companies to establish anti-money laundering programs and report suspicious activity; and
- Proposing and imposing special measures against foreign financial institutions determined to be of primary money laundering concern, in accordance with Section 311 of the USA PATRIOT Act.

FinCEN enhanced its outreach program by increasing the amount of written and oral guidance provided to regulated industries concerning BSA compliance.

By the close of FY 2006, FinCEN had executed memoranda of understanding (MOU) agreements governing the exchange of information with 48 federal and state regulatory agencies, surpassing its projected target of 45. These agreements provide a solid foundation upon which FinCEN may improve its ability to monitor industry compliance by providing vital data on various industry segments. FinCEN will be in a position to extend the reach of its compliance efforts even further as it completes MOU with additional agencies and increases the resources available to make effective use of the data.

FinCEN works closely with its regulatory partners to take enforcement action against institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties in appropriate matters. Timely enforcement action communicates urgency to financial institutions, and is paramount to deterring non-compliance. In FY 2006, FinCEN met its target measure of 1.0 years average time to process cases. The year-to-date actual result of 1.0 years reflects effective use of resources.

FinCEN continued to support anti-money laundering policy initiatives and investigations at the federal and state level by producing advanced BSA data analyses tailored to law enforcement and other partner agencies' needs. Examples of the analytical products that proved valuable to FinCEN's customers include:

- Three assessments, using the analysis of all BSA reports, identifying potential money laundering hotspots and significant changes in financial activity. The report helped federal and state authorities appropriately allocate drug and cash interdiction resources along the southwest border. The recipients of these reports were the Texas Department of Public Safety, the Arizona Attorney General's office, the El Paso Intelligence Center, the Office of National Drug Control Policy and the National Drug Intelligence Center.

- Assessment of potential money laundering vulnerabilities associated with limited liability companies (LLCs), particularly issues relating to the formation and operation of such business entities. This assessment formed the basis for FinCEN recommendations to consider increased regulation of agents and nominee incorporation services. This is expected to contribute to greater coordination among federal agencies investigating abuse of LLCs.

FinCEN supports law enforcement and its regulatory industry partners by facilitating information sharing and providing analyses of BSA data. In FY 2006, a survey of FinCEN's customers found that 69 percent rated FinCEN's analytic products as valuable, which did not meet FinCEN's 75 percent target. FinCEN's original target of 75 percent respondents rating their analytic product as valuable was established in FY 2005, and was based on one year of data. FinCEN is currently revising this measure through the FY 2006 Program Assessment Rating Tool (PART) process.

FinCEN, as the financial intelligence unit for the United States plays a leadership role in Egmont Group, a cooperative network of 101 FIUs world wide. In FY 2006, FinCEN supported cooperative efforts to combat money-laundering, terrorist financing, and other financial crimes by:

- Enhancing reciprocal international sharing of financial intelligence information;
- Providing training to personnel from foreign FIUs;
- Facilitating efficient and secure communication among FIUs through the Egmont Secure Web system; and
- Promoting the establishment or strengthening of FIUs, and assisting in the enhancement of anti-money laundering and counter-terrorist financing programs within existing FIUs.

FinCEN led international efforts by hosting a meeting to counter terrorist financing activities in the tri-border area of Argentina, Brazil and Paraguay. The FIUs from these three countries and the United States., known as the 3 + 1 Group, compared data, examined common trends and developed strategies to address the situation.

FinCEN also provides authorized law enforcement, regulatory and intelligence agencies direct access to BSA data. Several of FinCEN's ongoing efforts will continue to improve its systems for collecting and disseminating this information. FinCEN, in partnership with the IRS, provided its partners access to BSA data though the WebCBRS system; a new, easier-to-use, web-based interface through which authorized users can access BSA data. FinCEN also conducted a baseline survey of the users of the BSA Direct E-Filing system to determine the overall satisfaction level and to identify where improvements are needed. The FY 2006 results indicate that 92 percent of respondents are satisfied with the BSA Direct E-Filing system. Other accomplishments related to collection and sharing of BSA Data are:

- Executed memoranda of understanding with 34 law enforcement and intelligence agencies for access to the BSA Data;
- Modernized the Secure Outreach access system, 314(a) system, and 90% of the Egmont Secure Web System upgrade;
- Increased the percentage of BSA reports filed electronically by providing outreach and technical assistance to the largest filers;
- Established a monitoring program to improved the quality of SAR data, by identifying the critical fields that are most often left blank; and
- Conducted a feasibility study regarding a cross-border wire transfer system, as mandated by the Intelligence Reform and Terrorism Prevention Act of 2004. This system would help to eliminate an important gap in the financial transactional data available to law enforcement and intelligence agencies.

Future Perspective

Going forward, FinCEN will continue to partner with law enforcement and regulatory agencies, counterpart FIUs, and financial institutions, which are the first line of defense in securing the U.S. financial system. To further enhance its administration of the BSA and achieve its goal of safeguarding the financial system, FinCEN will:

- Increase global capacity in anti-money laundering/counter-terrorist financing efforts by continuing bilateral and multilateral engagements with our international partners;
- Improve outreach to state governments and financial industries newly covered by BSA regulations;
- Strengthen oversight of BSA compliance examinations;
- Continue to adopt and revise anti-money laundering regulations;
- Continue major enforcement actions against financial institutions demonstrating systemic BSA non-compliance;
- Improve coordination with partner law enforcement and regulatory agencies to identify and educate unregistered money services businesses;
- Use advanced analytical tools to improve geographic and industry threat assessments;
- Continue facilitating efficient and secure communication among FIUs through the Egmont Secure Web system;
- Improve outreach to U.S. law enforcement and regulatory agencies about the benefits of collaborating with the Egmont Group of FIUs;

- Upgrade information technology to better retrieve and share BSA data with a growing user population;
- Use BSA data analysis to identify regulatory issues within the financial services industry;
- Evaluate lowering the current $3,000 recordkeeping and travel rule thresholds for transmittals of funds:
- Collaborate with the Electronic Payments Association regarding automated clearinghouse wire transfer information;
- Collaborate with law enforcement, the federal banking agencies, and industry to address potential abuse of cover payments; and
- Evaluate the need to propose regulatory action regarding information about cross-border electronic wire transfers.

Financial Statements

Highlights of FinCEN's FY 2006 financial performance appear below. FinCEN is financed annually through appropriations authorized by Congress. The FY 2006 enacted budget is $74 million and includes an across-the-board rescission of 1%. Total assets were $55 and $50 million and total liabilities were $20 and $14 million at the end of FYs 2006 and 2005, respectively.

Assets: FinCEN's total assets as of September 30, 2006 and 2005, were $55 and $50 million, respectively, of which approximately 59% consists of the fund balance with the Treasury in 2006 and 63% in 2005. While total assets increased by $5 million, we must note that the BSA Direct Data Retrieval and Sharing Component Project was cancelled in July 2006. The cancellation of this project resulted in a write off of $5 million with a corresponding decrease to FinCEN's capitalized software. This amount includes both hardware and software and the associated labor. There was an increase in accounts receivable of $2.5 million due to 2 large civil monetary penalties that were assessed in 2006.

Liabilities: Total liabilities were $20 and $14 million, respectively at September 30, 2006 and 2005. Intra-governmental liabilities totaled $13 million. The increase in total liabilities in FY 2006 over FY 2005 was approximately $6 million or 42% and is attributable to accruing $3.6 million in rent for FY 2006 as GSA has not billed FinCEN for any rent for FY 2006.

Net Cost of Operations: The net cost of FinCEN operations totaled $101 million for the year ended September 30, 2006 and $90 million for the year ended September 30, 2005, an increase of 12%. This increase is due primarily to an increase in technology investments for information sharing activities. The additional expense associated with the write off of $5 million for items that were previously capitalized for the BSA Direct R&S Component project also contributed to the increase. All of FinCEN's costs are reported under the Department of the Treasury's Strategic Goal 3: Preserve the Integrity of Financial Systems. FinCEN discloses its net cost by its own Strategic Goals on the face of the financial statements. The majority of FinCEN's costs ($51 million or 50%) relate to FinCEN's goal of facilitating compliance, data management and information sharing through e-Government.

Custodial Revenue: Total net revenue collected by FinCEN on behalf of the federal government consists mainly of civil monetary penalties. These penalties are assessed against businesses or individual who do not comply with the reporting and disclosure requirements of the Bank Secrecy Act. In fiscal year 2006 FinCEN had 2 large civil monetary penalties for approximately $2.5 million. In fiscal year 2005 there were $10 million in civil monetary penalties assessed.

Systems and Internal Controls

FinCEN's investment review board meets routinely to monitor ongoing IT projects and review proposed capital investments. Financial management systems are in compliance with Federal financial systems standards, Federal Manager's Financial Integrity Act (FMFIA) Section 4 and Federal Financial Management Improvement Act (FFMIA). FinCEN relies on the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) for administrative and accounting services, and uses their systems.

FinCEN completed an internal control review of its Blanket Purchase Agreements in February 2006. While the review identified areas that could be improved, overall there are adequate safeguards in place around this process. FinCEN also completed a review of its Travel Card Program in April 2006. While FinCEN identified that additional guidance is needed on appropriate travel card use, overall the internal controls over this program are adequate to safeguard against fraud, waste and abuse.

BPD performed a Purchase Card Review for FinCEN in July 2006. BPD found several areas in which the purchase card program could be improved, but that overall FinCEN has strong safeguards against waste, fraud and abuse.

Improper Payment Improvement Act (IPIA) Reporting

Background

The Improper Payments Information Act of 2002 (IPIA) requires agencies to review their programs and activities to identify those that are susceptible to significant erroneous payments. "Significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5% and $10 million of total program funding.

Risk Assessment Methodology

As a bureau of the Department of the Treasury, FinCEN follows the methodology and guidance prescribed by the Department. Each year, a comprehensive inventory of the funding sources for all programs and activities is developed. If program or activity funding is at least $10 million, Risk Assessments are required at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). For those payment types resulting in high risk assessments that comprise at least 2.5% and $10 million of a total funding source, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) if erroneous payments exceed $10 million, a Corrective Action Plan to reduce erroneous payments must be developed and submitted to the Office of Management and Budget for approval.

Results for FY 2006

All of FinCEN's programs and activities resulted in low risk susceptibility for improper payments.

Other Information/Issues

Six audits or reviews, two by the Treasury's Office of the Inspector General (OIG) and three by the Government Accountability Office (GAO) identified opportunities for improvement. First, the OIG audit of FinCEN's analysis of BSA data found that the bureau is performing more complex analysis in line with USA PATRIOT Act requirements but needs to better plan and measure the effort, that the FinCEN database needs to be either significantly enhanced or replaced, and that FinCEN needs to develop a methodology to monitor and detect potential inappropriate use of databases. Next, the OIG's audit of FinCEN's 2005 Balance Sheet Audit resulted in an unqualified opinion but reported a material weakness in the accounts payable accrual and recording of internally developed software. FinCEN addressed the following recommendation from that report: that FinCEN's management develop procedures that would allow recording of internal use software capitalization as well as accounts payable and accrued liabilities as transactions occur and review these transactions on at least a monthly basis.

GAO reviewed FinCEN's BSA Direct Retrieval & Sharing Project and similar to FinCEN's own findings, found that FinCEN did not always apply effective investment management processes to oversee the project. The GAO recommended that FinCEN develop a plan for improving the agency's capabilities for overseeing the BSA Direct project, monitor progress against the plan, and take appropriate actions to address deviations. In an audit regarding Treasury's roles and responsibilities relating to selected provisions of the USA PATRIOT Act, GAO found that FinCEN had taken various actions to maximize its performance as a global partner in international financial crime, such as modernizing the Egmont Secure Web, and soliciting feedback from customers. The GAO recommended that FinCEN take appropriate steps in developing future customer surveys to help ensure a higher response rate from foreign customers. The last GAO audit focused on the framework for BSA oversight. Although GAO recognized the efforts of FinCEN and the federal banking agencies in developing the interagency BSA/AML Examination Manual, they also identified opportunities to further strengthen their compliance framework. Specifically, GAO recommended that FinCEN and the federal banking agencies continue to meet periodically to determine if additional guidance is needed by regulated industries and to determine the feasibility of a uniform classification system for BSA noncompliance.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of FinCEN. While the statements have been prepared from the books and records of FinCEN in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Summary of Performance Measures

Performance Measures	FY 2005 Actual	FY 2006 Target	FY 2006 Actual
Number of domestic and overseas outreach events in which FinCEN participated as a speaker/panelist	73	65	148
Average time to process enforcement matters (years)	1.3	1.0	1.0
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding/information sharing agreements	41	45	48
Percentage of customers finding FinCEN's analytic support valuable	73%	75%	69%
Percentage of complex analytic work completed by FinCEN analysts	10%	25%	30%
Number of collaborative analysis projects with foreign financial intelligence units	2	5	3
Percentage of countries/jurisdictions connected to the Egmont Secure Web	99%	98%	97%
Number of countries admitted to Egmont	101	N/A	101
Number of users directly accessing BSA data through FinCEN's web based system.	3,344	4,000	4,683
Customer satisfaction with BSA Direct E- Filing Component	New	New	92%
Share of BSA filings submitted electronically.	29%	60%	48%
Cost per BSA Form E-Filed	0.32	0.19	0.22

United States Department of the Treasury
Financial Crimes Enforcement Network
Balance Sheets

	As of September 30	
	2006	**2005**
ASSETS (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$32,611,997	$31,933,229
Accounts receivable (Note 4)	55,680	42,918
Other (Note 6)	488,615	461,082
Total intragovernmental	**33,156,292**	**32,437,229**
Accounts receivable, net (Notes 2 and 4)	2,517,053	6,114
Property and equipment, net (Note 5)	19,793,852	17,899,022
Other (Note 6)	-	3,822
Total assets	**$55,467,197**	**$50,346,187**
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts payable	7,151,258	2,540,641
Other (Note 8)	5,636,939	3,465,809
Total intragovernmental	**12,788,197**	**6,006,450**
Accounts payable	3,764,483	4,662,506
Other (Note 8)	3,349,330	3,356,494
Total liabilities	**19,902,010**	**14,025,450**
Commitments and contingencies (Notes 9 and 10)		
NET POSITION		
Unexpended appropriations – (Note 1)	20,879,843	23,917,882
Cumulative results of operations – (Note 1)	14,685,344	12,402,855
Total net position	**35,565,187**	**36,320,737**
Total liabilities and net position	**$55,467,197**	**$50,346,187**

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Net Cost

	For the Years Ended September 30	
		(Unaudited)
PROGRAM COSTS (Note 11)	**2006**	**2005**
Protect the financial system:		
Gross costs	$24,866,917	$26,569,147
Less: earned revenue	(297,424)	(350,648)
Net program costs	**24,569,493**	**26,218,499**
Combat terrorism, money laundering, and other financial crime:		
Gross costs	20,859,439	22,904,437
Less: earned revenue	(249,492)	(302,283)
Net program costs	**20,609,947**	**22,602,154**
Intensify international anti-money laundering collaboration:		
Gross costs	4,521,257	4,580,888
Less: earned revenue	(54,077)	(60,457)
Net program costs	**4,467,180**	**4,520,431**
Facilitate compliance, data management, and information sharing through e-Government:		
Gross costs (Note 5)	52,508,242	37,563,277
Less: earned revenue	(628,032)	(495,743)
Net program costs	**51,880,210**	**37,067,534**
Net cost of operations	**$101,526,830**	**$90,408,618**

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Changes in Net Position

	For the Years Ended September 30	
	2006	**2005 (Unaudited)**
Cumulative results of operations:		
Beginning Balances	$12,402,855	$4,559,808
Budgetary financing sources:		
Appropriations used	75,362,696	67,642,292
Other financing sources (non-exchange):		
Transfers in without reimbursement	2,300,000	2,000,000
Imputed financing from costs absorbed by others (Note 15)	26,146,623	28,609,373
Total financing sources	**103,809,319**	**98,251,665**
Net cost of operations (Note 11)	(101,526,830)	(90,408,618)
Net change	**2,282,489**	**7,843,047**
Cumulative results of operations	**$14,685,344**	**$12,402,855**
Unexpended appropriations:		
Beginning balance	$23,917,882	$20,200,472
Budgetary financing sources:		
Appropriations received	73,630,000	72,502,000
Other adjustments	(1,305,343)	(1,142,298)
Appropriations used	(75,362,696)	(67,642,292)
Total budgetary financing sources	**(3,038,039)**	**3,717,410**
Total unexpended appropriations	**20,879,843**	**23,917,882**
Net position	**$35,565,187**	**$36,320,737**

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Budgetary Resources

	For the Years Ended September 30	
		(Unaudited)
	2006	**2005**
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$8,991,088	$12,434,003
Recoveries of prior year unpaid obligations (Note 12)	2,800,592	1,361,449
Budget authority:		
Appropriations	73,630,000	72,502,000
Spending authority from offsetting collections:		
Earned		
Collected	3,564,095	3,170,101
Change in receivables from Federal sources	12,761	39,030
Change in unfilled customer orders		
Without advance from Federal sources	(12,081)	(2,014,213)
Subtotal	**77,194,775**	**73,696,918**
Permanently not available	(1,305,343)	(1,142,298)
Total budgetary resources	**$87,681,112**	**$86,350,072**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 12):		
Direct	$70,936,071	$76,156,077
Reimbursable	3,574,531	1,202,907
Subtotal	**74,510,602**	**77,358,984**
Unobligated balance:		
Apportioned	10,079,577	7,536,577
Unobligated balance not available	3,090,933	1,454,511
Total status of budgetary resources	**$87,681,112**	**$86,350,072**

(Continued)

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Budgetary Resources

	For the Years Ended September 30	
		(Unaudited)
	2006	**2005**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net:		
Unpaid obligations brought forward, October 1	$23,066,399	$12,654,371
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(124,259)	(2,099,441)
Total unpaid obligated balance, net	**22,942,140**	**10,554,930**
Obligations incurred, net (Note 12)	(74,510,602)	(77,358,984)
Less: Gross outlays	(75,209,984)	(65,585,506)
Less: Recoveries of prior year unpaid obligations, actual	(2,800,592)	(1,361,449)
Change in uncollected customer payments from Federal sources	(680)	1,975,183
Obligated balance, net, end of period:		
Unpaid obligations	19,566,426	23,066,399
Less: Uncollected customer payments from Federal sources	(124,939)	(124,259)
Total, unpaid obligated balance, net, end of period	**$19,441,487**	**$22,942,140**
NET OUTLAYS		
Gross outlays	$75,209,984	$65,585,506
Less: Offsetting collections	(3,564,095)	(3,170,101)
Less: Distributed offsetting receipts	(2,338)	-
Net outlays	**$71,643,551**	**$62,415,405**

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Financing

	For the Years Ended September 30	
	2006	(Unaudited/ Re-stated) 2005
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$74,510,602	$77,358,984
Less: Spending authority from offsetting collections and recoveries	(6,365,367)	(2,556,367)
Obligations net of offsetting collections and recoveries	68,145,235	74,802,617
Less: Offsetting receipts	(2,338)	-
Net obligations	68,142,897	74,802,617
Other resources:		
Transfers in without reimbursement	2,300,000	2,000,000
Imputed financing from costs absorbed by others	26,146,623	28,609,373
Net other resources used to finance activities	28,446,623	30,609,373
Total resources used to finance activities	**96,589,520**	**105,411,990**
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	(7,174,952)	4,682,809
Resources that fund expenses recognized in prior periods	374,634	9,074
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Other	(2,302,338)	(2,000,000)
Resources that finance the acquisition of assets	9,435,629	12,989,755
Other resources or adjustments to net obligated resources that do not affect net cost of operations	2,300,000	5,455,122
Total resources used to finance items not part of the net cost of operations	**2,632,973**	**21,136,760**
Total resources used to finance the net cost of operations	**$93,956,547**	**$84,275,230**

(Continued)

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Financing

	For the Years Ended September 30	
	2006	(Unaudited/ Re-stated) 2005
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: (Note 13)		
Increase in annual leave liability	$40,103	$304,881
Other	320	3,252,726
Total components of net cost of operations that will require or generate resources in future periods	**40,423**	**3,557,607**
Components not requiring or generating resources:		
Depreciation and amortization	2,480,749	2,286,613
Revaluation of assets or liabilities	5,060,050	295,282
Other	(10,939)	(6,114)
Total components of net cost of operations that will not require or generate resources	**7,529,860**	**2,575,781**
Total components of net cost of operations that will not require or generate resources in the current period	**7,570,283**	**6,133,388**
Net cost of operations	**$101,526,830**	**$90,408,618**

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Statements of Custodial Activity

	For the Years Ended September 30	
		(Unaudited)
	2006	**2005**
Revenue activity (Note 14):		
Sources of cash collections:		
Civil monetary penalties	$1,437,338	$10,000,000
Total cash collections	**1,437,338**	**10,000,000**
Accrual adjustments	2,500,000	(45,966)
Total custodial revenue	**3,937,338**	**9,954,034**
Disposition of collections:		
Transferred to others:		
Department of the Treasury	(1,437,338)	(10,000,000)
(Increase)/decrease in amounts yet to be transferred	(2,500,000)	45,966
Net custodial activity	**$0**	**$0**

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

United States Department of the Treasury
Financial Crimes Enforcement Network
Notes to the Financial Statements
For the Years Ended September 30, 2006 and 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Financial Crimes Enforcement Network (FinCEN) was formally established by the Department of the Treasury (Treasury), Order 105-08, on April 25, 1990 and upgraded to bureau status October 26, 2001 in Public Law 107-56. The mission of FinCEN is to safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity. This is accomplished primarily through the administration of the Bank Secrecy Act; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with our counterpart financial intelligence units; and networking people, ideas, and information. To achieve our strategic plan, we have established the following Strategic Goals: Protect the financial system through effective administration of the Bank Secrecy Act; Combat terrorism, money laundering and other financial crime through analysis of the Bank Secrecy Act data and other relevant information; Intensify international anti-money laundering collaboration through the global network of Financial Intelligence Units; and Facilitate regulatory compliance, data management and information sharing through electronic government.

Basis of Accounting and Presentation

The financial statements have been prepared from FinCEN's accounting records in conformity with accounting principles generally accepted in the United States of America. Accounting principles generally accepted for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the United States Government.

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. The financial statements consist of a balance sheet, and the statements of net costs, changes in net position, budgetary resources, financing and custodial activity. The financial statements and the related notes are presented on a comparative basis providing information for fiscal years 2006 and 2005.

FinCEN's financial statements with respect to the balance sheet, the statement of net cost, and the statement of changes in net position are reported using the accrual basis of accounting. 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. FinCEN's statement of budgetary resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received, that will require payments during the same or future periods. FinCEN's statement of financing reconciles differences between the budgetary and accrual bases of accounting. FinCEN's non-entity revenues are reported on the statement of custodial activity using a modified accrual basis of accounting. With this method, revenue from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Intragovernmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenues are collections or accruals of revenue from other Federal agencies, and intragovernmental costs are payments or accruals to other Federal agencies.

While these financial statements have been prepared from the books and records of FinCEN, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Fund Balance with Treasury
FinCEN does not maintain cash in commercial bank accounts. The Treasury processes cash receipts and disbursements. Fund balance with Treasury is composed of appropriated and trust funds that are available to pay current liabilities and finance authorized purchase commitments.

Accounts Receivable
Accounts receivable represent amounts owed to FinCEN by other Federal agencies and the public. Intragovernmental accounts receivable represent amounts due from other Federal agencies under contractual agreements or other arrangements for services or activities performed by FinCEN. These receivables are expected to be fully collected.

Public accounts receivable consist of administrative receivables from employees or suppliers and the levy of civil monetary penalties from non-Federal sources resulting from FinCEN's regulatory responsibilities. Public accounts receivable are presented net of an allowance for doubtful accounts, which is determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, and an analysis of aged receivable activity.

Property and Equipment
Property and equipment is recorded at cost and is depreciated using the straight line method over the estimated useful lives of the assets. FinCEN capitalizes property and equipment with an acquisition value of $25,000 or greater, and a useful life of two years or greater. FinCEN also capitalizes bulk acquisitions of like-kind property and equipment items that are individually valued under the

capitalization threshold but are, in the aggregate, significant to FinCEN's financial position or results of operations.

Internal-use software includes purchased commercial off-the-shelf software (COTS), contractor developed software, and software that was internally developed by agency employees. For COTS software, the capitalized costs include the amount paid to the vendor for the software, for contractor developed software it includes the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development phase.

Major alterations and renovations that increase an asset's useful life are capitalized, while normal maintenance and repair costs are charged to expense as incurred. Upon legal transfer, donation, or approval for disposal of property and equipment, the value of the related asset and corresponding accumulated depreciation is removed.

Leasehold improvements are amortized over the shorter of the term of the remaining portion of the lease, or the useful life of the improvement. Amortization of capitalized software begins on the date the software is placed in production (i.e., successfully installed and tested).

Equipment that is to be constructed is recorded as construction-in-progress until completed and is valued at actual costs. Construction-in-progress assets are not depreciated until completed and placed in service.

FinCEN does not have any heritage assets or stewardship land. Therefore there is no presentation in the balance sheet, the footnotes or required supplementary information.

Liabilities

Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since FinCEN is a component of the United States government, a sovereign entity, FinCEN's liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities covered by budgetary 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, and there is no certainty that the appropriations will be enacted. The United States government, acting in its sovereign capacity, can abrogate liabilities of FinCEN arising from other than contracts.

Annual, Sick and Other Leave

Annual leave is accrued as a liability when earned, and the accrual is reduced as leave is taken. The balance in the accrued annual leave account reflects current pay rates and leave balances, and is reported within other liabilities in the accompanying Balance Sheet. Sick leave and other types of non-vested leave are charged to operating costs as the leave is taken.

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 liability is presented as a component of intragovernmental other liabilities, and the actuarial liability is presented within other liabilities in the accompanying Balance Sheet.

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits to employees are administered by the U.S. Department of Labor (DOL) which initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants. Reimbursement to DOL occurs approximately two years subsequent to the actual disbursement to the claimant. Budgetary resources for this intragovernmental liability are made available to FinCEN as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Future workers' compensation estimates are generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by the DOL, Treasury allocates the overall Treasury liability to Treasury components based on prior claims payment experience. The accrued liability is not covered by budgetary resources and will require future funding.

Unamortized Rent Abatement

The terms of the operating lease between FinCEN and the General Services Administration (GSA) for the Vienna, VA facility contains a rent abatement period. During the rent abatement period no rent is payable to GSA. Rent payments commenced in fiscal year 2006 , however, FinCEN is recognizing rent expense on a straight-line basis over the lease term. Accordingly, an unamortized rent abatement liability is included in other intragovernmental liabilities in the accompanying Balance Sheet. This liability is being amortized on a straight-line basis over the lease term.

Pension Costs and Other Retirement Benefits

Most FinCEN employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). As of September 30, 2006 and 2005, FinCEN contributed 7 percent of base pay for regular employees.

Employees hired after December 31, 1983 are automatically covered by the Federal Employee's Retirement System (FERS) and Social Security. As of September 30, 2006 and 2005, FinCEN contributed 11.2 percent of base pay for the FERS basic benefit. A primary feature of FERS is that it offers a savings plan to which FinCEN automatically contributes 1 percent of base pay and matches employee contributions up to an additional 4 percent of base pay. FinCEN also contributes the employer's Social Security matching share for FERS participants.

FinCEN is not responsible for administering either CSRS or FERS. Therefore, FinCEN does not report CSRS or FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to FinCEN employees. Reporting such amounts is the responsibility of OPM.

Similar to CSRS and FERS, OPM, rather than FinCEN, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLI). FinCEN does not contribute funds for the cost to provide health benefits and life insurance to its retirees.

The estimated cost of providing CSRS and FERS retirement and FEHBP and FEGLI benefits to retirees is more than the amounts contributed by FinCEN and its employees. Federal entities are required to report the full cost of providing retirement benefits to include the cost financed by OPM. The additional expense representing the difference between the estimated cost and the employer and employee contributions for these programs is included as an expense and as an imputed financing source in FinCEN's financial statements.

Entity Revenues, Financing Sources and Imputed Financing Sources

FinCEN receives the majority of funding needed to support its programs through Congressional appropriations. Additional funding is obtained through exchange revenues.

Appropriations are recognized as a financing source at the time the expenses are incurred or assets are purchased. Exchange revenue from reimbursable agreements is recognized when earned (i.e., goods have been delivered or services rendered). Reimbursable work between Federal appropriations is subject to the *Economy Act (31 U.S.C. 1535)* or other statutes authorizing reimbursement. Prices for goods and services sold to other Federal agencies are generally limited to the recovery of actual costs. FinCEN recognizes as an imputed financing source the amount of pension and post-retirement benefit expense for current employees paid on behalf of FinCEN by the Office of Personnel Management, as well as amounts paid from the Department of Treasury Judgment Fund in settlement of claims, legal settlements, or court assessments. When costs that are identifiable to FinCEN and directly attributable to FinCEN's operations are paid for by other agencies, FinCEN recognizes these amounts as imputed costs and financing sources.

Imputed intradepartmental costs represent the un-reimbursed portion of the full costs of goods and services received by FinCEN from a providing bureau that is part of Treasury. FinCEN identifies intra-entity costs that meet the criteria for recognition (i.e. materiality, significance to the entity, directness of the relationship to entity operations, identifiably) that are not fully reimbursed and recognizes them as operating expenses and an imputed financing source.

Non-Entity Assets, Revenues and Disbursements

Non-entity assets are those held by FinCEN that are not available for use by FinCEN. Non-entity accounts receivable reported in FinCEN's Balance Sheet and non-entity revenue reported in FinCEN's Statement of Custodial Activity includes civil monetary penalties. Civil monetary penalties represent amounts assessed on or collected from non-Federal sources for violations of laws and regulations under FinCEN's regulatory responsibility.

Non-entity accounts receivable, custodial revenue and disposition of revenue is recognized when

FinCEN is entitled to collect civil monetary penalties on behalf of the Federal government that have been established as a legally enforceable claim and collection is probable. Proceeds from the civil monetary penalty assessments are ultimately deposited in the Treasury General Fund based on established laws and regulations. These funds are not available to fund FinCEN's operating activities and accordingly, an offsetting liability due to the Treasury General Fund is recorded for amounts recognized as non-entity accounts receivable.

Non-entity accounts receivable are presented net of amounts deemed uncollectible. An allowance for doubtful accounts is established based on an assessment of the debtor's current ability to pay, the debtor's payment record and willingness to pay, and an analysis of aged receivable activity.

Use of Estimates

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

Tax Status

FinCEN, as a Federal agency, 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.

Reclassification

Certain 2005 balances have been reclassified for comparative purposes of disclosures with 2006 balances, including the adoption of the new format for the Statement of Budgetary Resources as outlined in OMB Circular A-136.

Restatement

Certain 2005 balances (unaudited) have been restated for consistent disclosures with 2006 balances, including the transfer in without reimbursement amounts included on the Statement of Financing.

Adoption of SFFAS No. 27

Earmarked Funds within the Department of Treasury appropriations include any funds financed by specifically identified revenues and other financing sources that are required by statute to be used for designated activities, benefits or purposes; which remain available over time to finance designated activities, benefits, or purposes; and which must be accounted for separately from the Treasury's general funds. Management has determined that FinCEN receipts do not meet the definition of earmarked funds as defined by Statement of Federal Financial Accounting Standards No. 27, "*Identifying and Reporting Earmarked Funds.*" Accordingly, FinCEN has no earmarked funds as of September 30, 2006 and 2005.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets as of September 30, 2006 and 2005 consisted of the following:

	2006	2005
Civil penalties assessed	$ 3,200,000	$ 700,000
Less allowance for doubtful collection	(700,000)	(700,000)
Total non-entity assets	**2,500,000**	**0**
Total entity assets	52,967,197	50,346,187
Total assets	**$55,467,197**	**$50,346,187**

Non-entity accounts receivable represents civil monetary penalties due from non-Federal sources for violations of laws or regulations under FinCEN's regulatory responsibility.

The total non-entity assets are offset on the balance sheet by the custodial liability Due to the Treasury General Fund. The amount Due to the Treasury General Fund is included in the intragovernmental other liabilities balance shown in note 8.

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balances:
Fund balance with Treasury as of September 30, 2006 and 2005 consisted of the following components:

	2006	2005
Trust funds	$156,470	$134,043
Appropriated funds	32,455,527	31,799,186
Total	**$32,611,997**	**$31,933,229**

Trust funds consist of a violent crime reduction expenditure account that is designated by law as a trust fund. Receipts in this account are used for law enforcement related information technology projects.

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of FinCEN.

Status of Fund Balances:
The status of fund balance with Treasury as of September 30, 2006 and 2005 consisted of the following:

	2006	2005
Unobligated balance:		
Available	$10,079,577	$7,536,577
Unavailable	3,090,933	1,454,511
Obligated balance not yet disbursed	19,441,487	22,942,141
Total	**$32,611,997**	**$31,933,229**

The unobligated balance unavailable represents amounts appropriated in prior fiscal years that are not available to fund new obligations, but may be used to adjust obligations and disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

The obligated balance not yet disbursed represents amounts designated for payment of goods and services ordered but not received, or goods and services received but for which payment has not yet been made.

NOTE 4. ACCOUNTS RECEIVABLE, NET

Components of accounts receivable as of September 30, 2006 and 2005, were as follows:

	2006	2005
Intragovernmental:		
Accounts receivable	$55,680	$42,918
Public:		
Accounts receivable	17,053	6,114
Civil penalties assessed	3,200,000	700,000
Less allowance for doubtful collection	(700,000)	(700,000)
Public accounts receivable, net	**2,517,053**	**6,114**
Total accounts receivable, net	**$2,572,733**	**$49,032**

Intragovernmental accounts receivable arise generally from the provision of goods and services to other Federal agencies.

Accounts receivable from non-Federal sources consist of administrative receivables from employees or suppliers and civil monetary penalties which have been billed or accrued and remain uncollected as of year-end. The collection of civil monetary penalties is a custodial activity performed by FinCEN and are not considered financing sources (revenues) available to offset the operating expenses of FinCEN and accordingly, a corresponding liability is recorded on the accompanying Balance Sheet. An allowance for doubtful accounts of $700,000 has been recognized to offset civil monetary penalties currently being litigated by the Department of Justice.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of September 30, 2006 and 2005 consisted of the following:

			2006		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$6,397,590	($3,258,448)	$3,139,142
Construction in progress	N/A	N/A	330,846	-	330,846
Internal-use software	S/L	5	9,791,668	(5,649,499)	4,142,169
Internal-use software in development	N/A	N/A	12,034,916	-	12,034,916
Leasehold improvements	S/L	3-5	705,960	(559,181)	146,779
Total			**$29,260,980**	**($9,467,128)**	**$19,793,852**

			2005		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$5,214,801	($3,535,951)	$1,678,850
Construction in progress	N/A	N/A	-	-	-
Internal-use software	S/L	5	8,329,778	(3,897,599)	4,432,179
Internal-use software in development	N/A	N/A	11,734,339	-	11,734,339
Leasehold improvements	S/L	3-5	601,829	(548,175)	53,654
Total			**$25,880,747**	**($7,981,725)**	**$17,899,022**

Construction-in-progress represents equipment that has been received but has not yet been constructed and placed into operation.

Internal-use software in development represents actual (direct) costs and other indirect costs incurred for various software development projects not yet placed in service. The indirect costs consist of the applied overhead on FinCEN employee labor associated with the software in development. In fiscal year 2006, the total amount of internal-use software in development additions was $5,453,626 of which $64,795 was indirect costs. In fiscal year 2005, the total amount of internal-use software in development additions was $12,184,331 of which $78,534 was indirect costs. Depreciation and amortization expense recognized during the year ended September 30, 2006 and 2005 was $2,480,749 and $2,286,613, respectively.

On July 13, 2006 FinCEN permanently halted the BSA Direct Retrieval and Sharing Component (BSA Direct R&S) project. FinCEN wrote off $5.0 million related to this project. This amount includes both hardware and software and the associated labor.

NOTE 6. OTHER ASSETS

Other assets as of September 30, 2006 and 2005 consisted of the following:

	2006	2005
Intragovernmental:		
Advances and prepayments	$488,615	$461,082
Public:		
Advances and prepayments	-	3,822
Total other assets	**$488,615**	**$464,904**

Intragovernmental advances and prepayments consist of amounts paid to the Department of the Treasury Working Capital Fund prior to FinCEN's receipt of goods and services. All other advances and prepayments consist of employee travel advances.

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations. The September 30, 2006 and 2005 liabilities not covered by budgetary resources consisted of the following:

	2006	2005
Intragovernmental:		
Accrued workers' compensation	$1,167	$847
Unamortized rent abatement	2,880,986	3,252,726
Total intragovernmental	2,882,153	3,253,573
Public:		
Accrued annual leave	2,199,003	2,158,900
Actuarial liability for workers' compensation	41,055	43,949
Total public	2,240,058	2,202,849
Total liabilities not covered by budgetary resources	**5,122,211**	**5,456,422**
Total liabilities covered by budgetary resources or non-entity assets	14,779,799	8,569,028
Total liabilities	**$19,902,010**	**$14,025,450**

NOTE 8. OTHER LIABILITIES

Other liabilities as of September 30, 2006 and 2005 consisted of the following:

	2006		
	Non-Current	Current	Total
Intragovernmental:			
Due to Treasury General Fund	$-	$2,500,000	$2,500,000
Accrued employee benefits	-	254,786	254,786
Accrued workers' compensation	320	847	1,167
Unamortized rent abatement	2,509,246	371,740	2,880,986
Total intragovernmental	**2,509,566**	**3,127,373**	**5,636,939**
Public:			
Accrued payroll and employee benefits	-	1,109,272	1,109,272
Accrued annual leave	-	2,199,003	2,199,003
Actuarial liability for workers' compensation	41,055	-	41,055
Total public	**41,055**	**3,308,275**	**3,349,330**
Total other liabilities	**$2,550,621**	**$6,435,648**	**$8,986,269**

	2005		
	Non-Current	Current	Total
Intragovernmental:			
Accrued employee benefits	$-	$212,236	$212,236
Accrued workers' compensation	847	-	847
Unamortized rent abatement	2,880,986	371,740	3,252,726
Total intragovernmental	**2,881,833**	**583,976**	**3,465,809**
Public:			
Accrued payroll and employee benefits	-	1,153,645	1,153,645
Accrued annual leave	-	2,158,900	2,158,900
Actuarial liability for workers' compensation	43,949	-	43,949
Total public	**43,949**	**3,312,545**	**3,356,494**
Total other liabilities	**$2,925,782**	**$3,896,521**	**$6,822,303**

NOTE 9. LEASES

FinCEN leases office space from the General Services Administration (GSA) under long-term occupancy agreements. All of the office space occupied by FinCEN is leased by GSA from commercial sources. GSA space is assigned to FinCEN based upon current needs. FinCEN is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made. However, it is expected that FinCEN will continue to occupy and lease office space from GSA in future years. The lease amount paid to GSA during fiscal years 2006 and 2005 was $4,010,902 and $1,475,313 (unaudited), respectively. The increase from 2005 to 2006 is due to the rent abatement for which rent was not due for most of fiscal year 2005. All of fiscal year 2006 rental payments for the Vienna office have been accrued as GSA has not billed FinCEN for rent at that location.

As of September 30, 2006 future lease payments due under GSA operating leases were as follows:

2007	$ 4,142,811
2008	4,152,848
2009	4,163,002
2010	4,173,275
2011	4,183,669
Thereafter	4,194,184
Total future payments	**$25,009,789**

NOTE 10. COMMITMENTS AND CONTINGENCIES

FinCEN is party to various administrative proceedings, legal actions and claims. To the extent applicable, the financial statements include an estimated accrued liability for those legal actions where the Legal Counsel considers adverse decisions "probable" and the potential loss can be estimated. Management has determined that it is not probable that these proceedings and actions will result in the incurrence of liabilities as of September 30, 2006 and 2005, and accordingly no liabilities have been accrued in the accompanying financial statements.

There is one legal action pending where adverse decisions are considered to be "reasonably possible" as of September 30, 2006. Complainant's attorney's current estimate of possible loss is approximately $190,000 plus compensatory damages which are inestimable. There were no legal actions pending where adverse decisions were considered to be "reasonably possible" as of September 30, 2005.

Reasonably possible losses are not recognized on the balance sheet.

NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and exchange revenue for the year ended September 30, 2006 and 2005 consisted of the following:

	2006	(Unaudited) 2005
PROGRAM COSTS		
Protect the financial system		
Intragovernmental costs	$12,568,108	$14,846,798
Public costs	12,298,809	11,722,349
Total program costs	**24,866,917**	**26,569,147**
Intragovernmental earned revenue	(297,424)	(350,648)
Net program cost	**24,569,493**	**26,218,499**
Combat terrorism, money laundering, and other financial crime		
Intragovernmental costs	10,542,669	12,798,964
Public costs	10,316,770	10,105,473
Total program costs	**20,859,439**	**22,904,437**
Intragovernmental earned revenue	(249,492)	(302,283)
Net program cost	**20,609,947**	**22,602,154**
Intensify international anti-money laundering collaboration		
Intragovernmental costs	2,285,110	2,559,794
Public costs	2,236,147	2,021,094
Total program costs	**4,521,257**	**4,580,888**
Intragovernmental earned revenue	(54,077)	(60,457)
Net program cost	**4,467,180**	**4,520,431**
Facilitate compliance, data management, and information sharing through e-Government		
Intragovernmental costs	26,538,443	20,990,302
Public costs	25,969,799	16,572,975
Total program costs	**52,508,242**	**37,563,277**
Intragovernmental earned revenue	(628,032)	(495,743)
Net program cost	**51,880,210**	**37,067,534**
Net cost of operations	**$101,526,830**	**$90,408,618**

The criteria used for the classification of costs as Intragovernmental and Public costs are that the intragovernmental costs relate to the source of goods and services purchased by the reporting entity, and not to the classification of related revenue. For example, "exchange revenue with the public" is when the buyer of the goods or services is a non-Federal entity. While with "intragovernmental costs," the buyer and seller are both Federal entities. If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue would be classified as "with the public," but the related costs would be classified as "intragovernmental." The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

NOTE 12. STATEMENT OF BUDGETARY RESOURCES

Apportionment Categories of Obligations Incurred

Obligations incurred as reported on the Statement of Budgetary Resources for the years ended September 30, 2006 and 2005 consisted of the following:

	2006	**(Unaudited) 2005**
Direct Obligations		
Category B	$70,936,071	$76,156,077
Reimbursable Obligations		
Category B	3,574,531	1,202,907
Total	**$74,510,602**	**$77,358,984**

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget.* Category B represents resources apportioned for other time periods other than calendar quarters; for activities, projects, or objectives; or for any combination thereof. FinCEN only has Category B apportionments.

Adjustments to Beginning Balance of Budgetary Resources

Adjustments to budgetary resources available at the beginning of fiscal years 2006 and 2005 consisted of the followin

	2006	**(Unaudited) 2005**
Recoveries of prior year obligations	$2,800,592	$1,361,449
Cancellations of expired accounts	(569,043)	(562,282)
Enacted reductions	(736,300)	(580,016)
Total	**$1,495,249**	**$219,151**

Differences Between the Statement of Budgetary Resources and the Budget of the United States

The fiscal year 2008 *Budget of the United States Government* (also known as the President's Budget) with actual numbers for fiscal year 2006, was not published at the time these financial statements were issued. The President's Budget is expected to be published in February 2007.

The following chart displays the differences between the fiscal year 2005 Statement of Budgetary Resources (unaudited) and the actual fiscal year 2005 balances included in the fiscal year 2007 President's Budget.

	(In millions)			
	Budgetary Resources	Obligations Incurred	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$72	$77	$3	$62
Obligations in expired accounts not included in President's Budget	-	(1)	-	-
President's Budget	$72	$76	$3	$62

Undelivered Orders at the End of the Period
Undelivered orders as of September 30, 2006 and 2005 were $7,286,626 and $14,497,371 (unaudited), respectively.

NOTE 13. STATEMENT OF FINANCING

The Components Requiring or Generating Resources in Future Periods presented on the Statement of Financing represents the increase between the beginning and ending balances for the Liabilities Not Covered by Budgetary Resources presented on the Balance Sheet and detailed in Note 7.

NOTE 14. STATEMENT OF CUSTODIAL ACTIVITY

FinCEN assesses civil monetary penalties related to enforcement of the Bank Secrecy Act as authorized by 31 U.S.C. 5321(b). FinCEN collects this custodial revenue and distributes the full amount of penalties collected to the Treasury General Fund. For the years ended September 30, 2006 and 2005 cash collections and distributions to Treasury were $1,437,338 and $10,000,000 (unaudited), respectively. The custodial accrual adjustment totaling $2,500,000 at September 30, 2006 reflects the accounts receivable FinCEN has which is offset by the equal custodial liability of $2,500,000. The custodial accrual adjustment totaling ($45,966) at September 30, 2005 reflects the reversal of interest and penalties associated with two delinquent receivables written off in FY 2005 which is offset by the equal custodial liability of $45,996.

NOTE 15. IMPUTED FINANCING SOURCES

FinCEN has imputed financing costs with the Office of Personnel Management as well as the Internal Revenue Service. Imputed financing sources from the Internal Revenue Service for the collection and processing of Bank Secrecy Act Data for the years ended September 30, 2006 and 2005 were $24,232,012 and $26,871,384 (unaudited), respectively. A summary of the imputed financing costs by agency for the years ended September 30, 2006 and 2005 is as follows:

	2006	**(Unaudited) 2005**
Office of Personnel Management	$ 1,914,611	$ 1,737,989
Internal Revenue Service	24,232,012	26,871,384
Total Imputed Financing Sources	**$26,146,623**	**$28,609,373**

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STATEMENT OF BUDGETARY RESOURCES

Budgetary resources disaggregated by major accounts for the years ended September 30, 2006 and 2005 consisted of the following:

	2006		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$8,961,558	$29,530	$8,991,088
Recoveries of prior year unpaid obligations	2,789,834	10,758	2,800,592
Budget authority:			
Appropriations	73,630,000	-	73,630,000
Spending authority from offsetting collections:			
Earned			
Collected	3,521,340	42,755	3,564,095
Change in receivables from Federal sources	12,761	-	12,761
Change in unfilled customer orders			
Without advance from Federal sources	(12,081)	-	(12,081)
Subtotal	**77,152,020**	**42,755**	**77,194,775**
Permanently not available	(1,305,343)	-	(1,305,343)
Total budgetary resources	**$87,598,069**	**$83,043**	**$87,681,112**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$70,917,922	$18,149	$70,936,071
Reimbursable	3,574,531		3,574,531
Subtotal	**74,492,453**	**18,149**	**74,510,602**
Unobligated balance:			
Apportioned	10,014,683	64,894	10,079,577
Unobligated balance not available	3,090,933	-	3,090,933
Total status of budgetary resources	**$87,598,069**	**$83,043**	**$87,681,112**

(Continued)

	2006		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCES			
Obligated balance, net:			
Unpaid obligations brought forward, October 1	$22,961,886	$104,513	$23,066,399
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(124,259)	-	(124,259)
Total unpaid obligated balance, net	**22,837,627**	**104,513**	**22,942,140**
Obligations incurred, net	(74,492,453)	(18,149)	(74,510,602)
Less: Gross outlays	(75,189,656)	(20,328)	(75,209,984)
Less: Recoveries of prior year unpaid obligations, actual	(2,789,834)	(10,758)	(2,800,592)
Change in uncollected customer payments from Federal sources	(680)	-	(680)
Obligated balance, net, end of period			
Unpaid obligations	19,474,850	91,576	19,566,426
Less: Uncollected customer payments from Federal sources	(124,939)	-	(124,939)
Total, unpaid obligated balance, net, end of period	**$19,349,911**	**$91,576**	**$19,441,487**
NET OUTLAYS			
Gross outlays	$75,189,656	$20,328	$75,209,984
Less: Offsetting collections	(3,521,340)	(42,755)	(3,564,095)
Less: Distributed offsetting receipts	(2,338)	-	(2,338)
Net outlays	**$71,665,978**	**($22,427)**	**$71,643,551**

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	2005 (Unaudited)		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$12,422,651	$11,352	$12,434,003
Recoveries of prior year unpaid obligations	1,343,053	18,396	1,361,449
Budget authority:			
Appropriations	72,502,000	-	72,502,000
Spending authority from offsetting collections:			
Earned			
Collected	3,170,101	-	3,170,101
Change in receivables from Federal sources	39,030	-	39,030
Change in unfilled customer orders			
Without advance from Federal sources	(2,014,213)	-	(2,014,213)
Subtotal	**73,696,918**	**0**	**73,696,918**
Permanently not available	(1,142,298)	-	(1,142,298)
Total budgetary resources	**$86,320,324**	**$29,748**	**$86,350,072**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$76,155,859	$218	$76,156,077
Reimbursable	1,202,907	-	1,202,907
Subtotal	**77,358,766**	**218**	**77,358,984**
Unobligated balance:			
Apportioned	7,507,047	29,530	7,536,577
Unobligated balance not available	1,454,511	-	1,454,511
Total status of budgetary resources	**$86,320,324**	**$29,748**	**$86,350,072**

(Continued)

	2005 (Unaudited)		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCES			
Obligated balance, net			
Unpaid obligations brought forward, October 1	$12,495,301	$159,070	$12,654,371
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(2,099,441)	-	(2,099,441)
Total unpaid obligated balance, net	**10,395,860**	**159,070**	**10,554,930**
Obligations, incurred, net	(77,358,766)	(218)	(77,358,984)
Less: Gross outlays	(65,549,127)	(36,379)	(65,585,506)
Less: Recoveries of prior year unpaid obligations, actual	(1,343,053)	(18,396)	(1,361,449)
Change in uncollected customer payments from Federal sources	1,975,183	-	1,975,183
Obligated balance, net, end of period			
Unpaid obligations	22,961,886	104,513	23,066,399
Less: Uncollected customer payments from Federal sources	(124,259)	-	(124,259)
Total, unpaid obligated balance, net, end of period	**$22,837,627**	**$104,513**	**$22,942,140**
NET OUTLAYS			
Gross outlays	$65,549,127	$36,379	$65,585,506
Offsetting collections	(3,170,101)	-	(3,170,101)
Net outlays	**$62,379,026**	**$36,379**	**$62,415,405**