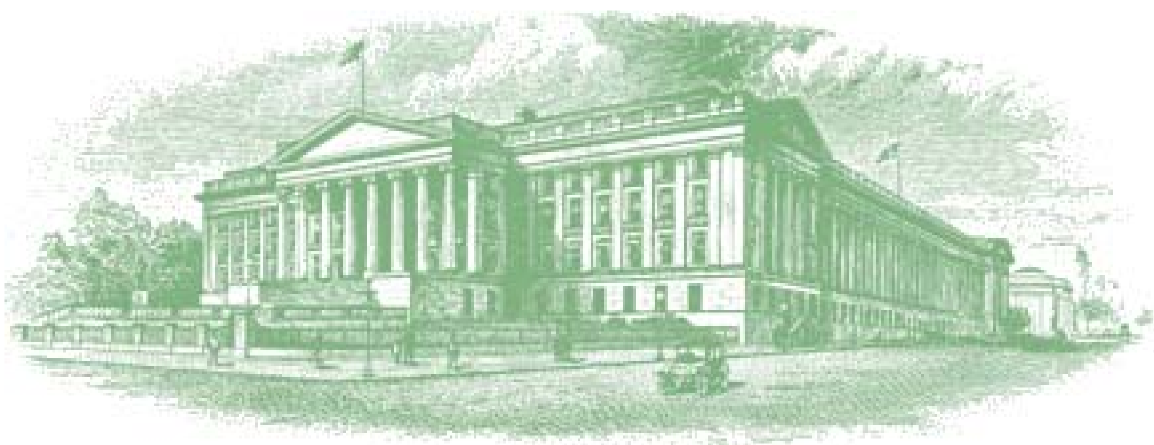
Audit Report



OIG-12-024

Audit of the Financial Crimes Enforcement Network's
Fiscal Years 2011 and 2010 Financial Statements

December 8, 2011

Office of
Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 8, 2011

**MEMORANDUM FOR JAMES H. FREIS, JR., DIRECTOR
FINANCIAL CRIMES ENFORCEMENT NETWORK**

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Financial Crimes Enforcement Network's Fiscal Years 2011 and 2010 Financial Statements

I am pleased to transmit the attached audited Financial Crimes Enforcement Network's (FinCEN) financial statements for fiscal years 2011 and 2010. Under a contract monitored by the Office of Inspector General, GKA, P.C. (GKA), an independent certified public accounting firm, performed an audit of the financial statements of FinCEN as of September 30, 2011 and 2010 and for the years then ended. 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. 07-04, *Audit Requirements for Federal Financial Statements,* as amended*;* and the *GAO/PCIE Financial Audit Manual*.

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

- Independent Auditor's Report on Financial Statements;
- Independent Auditor's Report on Internal Control Over Financial Reporting; and
- Independent Auditor's Report on Compliance with Laws and Regulations.

In its audit, GKA reported:

- that the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America,

- no matters involving internal control and its operations that are considered material weaknesses, and

- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed GKA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed 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. GKA is responsible for the attached auditor's reports dated November 14, 2011 and the conclusions expressed in the reports. However, our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Ade Bankole, Manager, Financial Audits at
(202) 927-5329.

Attachment

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Financial Crimes Enforcement Network
AUDIT REPORT
Fiscal Year 2011

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Member of the American Institute of Certified Public Accountants

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United States Department of the Treasury
Financial Crimes Enforcement Network

Management's Discussion and Analysis
September 30, 2011

The Financial Crimes Enforcement Network (FinCEN), a Treasury bureau reporting to the Under Secretary of the Office of Terrorism and Financial Intelligence, plays a key role in supporting the Department's strategic goal to 'combat illicit financial activity to advance national security and the integrity of the financial system.' This role includes ensuring safer and more transparent U.S. and international financial systems through the administration of the Bank Secrecy Act (BSA).

FinCEN furnishes analytical and financial expertise in support of law enforcement investigations and prosecutions and to determine emerging trends in money laundering and other financial crimes. FinCEN also serves as the nation's financial intelligence unit (FIU). An FIU serves as a national center to collect, analyze, disseminate, and exchange information pursuant to a country's anti-money laundering/counter-terrorist financing (AML/CFT) legislation and regulations.

FinCEN's activities and efforts are developed in coordination with federal, state, and international partners. These efforts are linked to the following bureau strategic goals:

- Financial systems resistant to abuse by money launders, terrorists, and their financial supporters, and other predators of financial crime;
- Detection and deterrence of money laundering, terrorism financing, and other illicit activity; and
- Efficiency management, safeguarding, and use of BSA information.

In this environment of declining resources, FinCEN is uniquely positioned at the intersection of financial industry, regulators, law enforcement agencies, and global partners, and is able to network these different perspectives to bring holistic insights to the detection and deterrence of financial crime. This position allows FinCEN to support and develop a multitude of partnerships that have a broad impact globally and through the law enforcement and financial sectors.

FY 2011 Accomplishments

FinCEN's accomplishments in FY 2011 include:

- Enhanced collaboration with law enforcement to identify sources of lead information, developed analysis criteria to more effectively leverage BSA data to identify potential non-compliant institutions, strengthened relationships with state regulators and enhanced effectiveness of examinations through greater engagement with and coordination of IRS and state efforts. This strategy has assisted FinCEN in taking action against money transmitters that have failed to register with FinCEN as well as against other non-compliant institutions, as warranted;

- Continued participation in the U.S. Government's coordinated attack on mortgage fraud by updating analyses of Suspicious Activity Reports (SARs) and issuing financial institution advisories to highlight current trends in residential and commercial mortgage loan fraud, and in loan modification and foreclosure rescue scams;
- Support for federal law enforcement efforts to combat health care fraud (HCF) by initiating an advanced targeting process to identify potential health care fraud perpetrators and to provide analytical support to investigations and prosecutions. This included work with several of the multi-agency Health Care Fraud Prevention and Enforcement Action Teams, participation in HCF related conferences/training sessions, and expansion of analytical support efforts to additional federal, state and local law enforcement agencies;
- Creation and dissemination of a large number of tactical financial intelligence reports to Egmont Group FIUs and managed case exchange with FIUs on behalf of U.S. law enforcement and regulatory agencies. These intelligence products are integral to domestic and foreign investigations of money laundering, financial fraud, and terrorist financing around the world; and
- Two releases of functionality through the deployment of a new, advanced analytical tool on the current technical platform to the FinCEN analysts as part of the BSA IT Modernization Program. In support of Treasury's Data Center Consolidation efforts, FinCEN worked with the Bureau of Public Debt to establish the first iteration of the modernized Production and Disaster Recovery environment. FinCEN also completed an initial, limited deployment of the new Registered User Portal, which will eventually serve as the entryway to all BSA programs and tools to the user community.

Highlights of Performance Measures

Performance Measures	**FY 2010 Actual**	**FY 2011 Target**	**FY 2011 Actual**
Percentage of regulatory helpline customers understanding BSA guidance	92%	90%	92%
Percentage of financial regulators finding information exchanged with FinCEN under MOUs valuable to improve BSA consistency and compliance	86%	86%	92%
Percentage of domestic law enforcement finding FinCEN's analytic reports contribute to the detection and deterrence of financial crime	80%	80%	86%
Percentage of foreign FIUs finding FinCEN's analytic reports provide valuable information towards the detection and deterrence of financial crime	90%	90%	92%
Percentage of customers finding the BSA data provides valuable information towards the detection and deterrence of financial crime	87%	86%	89%

In the regulatory area, FinCEN surveys its compliance memoranda of understanding (MOU) holders to determine the impact of the information exchange to improve the consistency and compliance of the financial system with FinCEN's regulations implementing the BSA. In FY 2011, FinCEN met its target of 86 percent with 92 percent rating the information exchange valuable. FinCEN attributes a portion of this success to enhancements made to the products prepared for the state regulators.

FinCEN's goal to provide financial institutions with understandable guidance is critical to institutions establishing anti-money laundering programs that comply with FinCEN's regulations. Understandable guidance will also contribute to protecting financial institutions and their customers from financial crime. In FY 2011, FinCEN's goal was to maintain a 90 percent satisfaction level and FinCEN met its target with 92 percent. FinCEN attained this success by responding timely (within 24 hours of the inquiry) and providing a high level of service.

In the analytical area, FinCEN supports domestic law enforcement and international FIU partners by providing analyses of BSA information, and measures the percentage of customers finding FinCEN's analytic reports highly valuable. In FY 2011, FinCEN discontinued the "Percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytic reports highly valuable" and replaced it with the following two performance measures based on customer served. Breaking the measure out will enable FinCEN to better assess its performance and focus on the distinct needs of its domestic law enforcement and foreign FIU customers. The two measures closely tie to how BSA information is used by law enforcement and foreign FIUs to identify, investigate, and prevent abuse of the financial system.

The first measure looks at the value provided to the domestic law enforcement community. In FY 2010, FinCEN set the baseline for this performance measure with 80 percent rating the analytic products as valuable. In FY 2011 86 percent of the domestic law enforcement respondents rated the analytic products as valuable. FinCEN attributes this performance to its focus on increased communication with law enforcement partners; case support where FinCEN could add value to investigative efforts, and products and services developed to meet the needs of its customers.

The second measure tracks the value of the analytic reports to foreign FIU customers. In FY 2010, FinCEN set a baseline for this measure of 90 percent. In FY 2011, 92 percent of foreign FIUs rated the analytic products as valuable. FinCEN attributes FIUs' high satisfaction with its analytical reports primarily to the quality, quantity and timeliness of information provided. FinCEN's response time to FIU requests decreased from 41 days in FY 2009 to 32 days in FY 2011, approaching the Egmont Group goal of 30 days. FinCEN's bilateral and multilateral international liaison work enhances the sharing of information while building stronger relationships with foreign FIUs.

In the efficient management, safeguarding, and use of BSA information, FinCEN began tracking the value of the BSA information to law enforcement and regulatory agency users with direct access to the BSA data. This is a composite measure compiled from survey results. The survey looks at the value of BSA data, such as whether the data provided unknown information, supplemented or expanded known information, verified information, helped identify new leads, opened a new investigation or examination, supported an existing investigation or examination, and provided information for an investigative or examination report. The FY 2011 actual for the percentage of customers finding the BSA data provides valuable information towards the detection and deterrence of financial crime was 89 percent. FinCEN attributes this performance to its efforts to ensure BSA information collected has a high degree of usefulness for criminal, tax, or regulatory purposes, and its training and access programs, which are designed to ensure understanding of the value of the data and maximize its utilization.

Future Outlook for FY 2012

In order to achieve its priorities and continue to advance its strategic goals, FinCEN will improve its ability to strengthen financial system security and enhance U.S. national security. It will continue to ensure that financial systems are resistant to abuse and continue to develop analytical products and services to support law enforcement activities. To deter financial fraud and ensure the security of financial systems, FinCEN will:

- Continue to enhance proactive BSA compliance and enforcement through stronger relationships with state regulatory agencies, greater communication with law enforcement, strengthened analytics, and development of compliance strategies for newly regulated sectors;
- Continue to advance regulatory initiatives designed to further protect the U.S. financial system from abuse while balancing their impact on the financial industry. This would include carefully considering public comment on and weighing changes to proposed rules as appropriate;
- Expand and leverage law enforcement and private sector contacts in the Southwest Border and in other high threat jurisdictions for the purpose of developing and sharing real-time or actionable intelligence on related money laundering patterns, trends, and methods;
- Support law enforcement efforts to combat illicit activities through the fusion of investigative data with the BSA to provide complex analytical products that advance investigations and prosecutions;
- Expand joint analytical projects with foreign FIUs, particularly in the areas of proactive and strategic analysis. Just as FinCEN receives BSA reports, each FIU receives domestic reporting on financial activity. By working together, FinCEN and foreign FIUs can find connections in data streams relating to suspicious activity that otherwise would not be found;
- Continue to deploy modernized BSA information management and query/analysis capabilities to FinCEN analysts, law enforcement customers, and financial industry regulators to facilitate decision-making, increase the value of BSA information through increased data integrity and improved query/analytical tools, and move Treasury to the ultimate goal of being a "paperless" agency by mandating that BSA information is filed electronically. FinCEN will also begin working on the system design to accommodate the collection of cross border electronic funds transfer information; and
- Incorporate common requirements identified by law enforcement and regulatory agencies into the BSA IT Modernization project that will be operational in FY 2013. These

common requirements mitigate duplication of effort by these agencies further downstream. FinCEN will also seek to leverage the new IT capabilities to enhance longstanding efforts to help coordinate and deconflict among various federal, state and local agencies that might be investigating related subjects or similar types of financial crime.

FY 2011 Financial Statement Highlights

Highlights of FinCEN's FY 2011 financial performance appear below. FinCEN is financed annually through appropriations authorized by Congress. The FY 2011 enacted budget is $111 million.

Balance Sheets: Assets: The total assets as of September 30, 2011 and 2010 were $92.0 and $63.5 million, respectively, of which approximately 57.01 percent consists of fund balance with Treasury in 2011 and 74.3 percent in 2010. Total assets increased by $28.5 million. This increase primarily resulted from a $21.6 million increase in plant and equipment as a result of IT Modernization for internal use software capitalization. It also included a $5.2 million increase in the fund balance with Treasury, a $2.1 million increase in accounts receivable, and an offset of $0.6 million decrease in advances and prepayments. Liabilities: The total liabilities as of September 30, 2011 and 2010 were $15.9 and $13.9 million, respectively. There was an approximately $2.0 million increase in the total liabilities in FY 2011 over FY 2010. The increase was a result of the Information Technology Project referred to as BSA IT Modernization.

Statement of Net Costs*:* The net cost of operations as of September 30, 2011 and 2010 were $120.4 and $124.7 million, respectively. This decrease of $4.3 million from 2010 is attributable to IT Modernization project's capitalization, now reflected as fixed assets. All of FinCEN's costs are reported under the Department of the Treasury's Strategic Goal 3: Prevented Terrorism and Promoted the Nation's Security through Strengthened International Financial Systems. FinCEN's net cost aligned to its own Strategic Goals is disclosed on the face of the statement of net cost. A significant portion of FinCEN's net costs ($58.5 million or 48.5 percent) relates to FinCEN's Strategic Goal 3: Efficient Management, Safeguarding and Use of BSA Information.

Internal Controls, Systems, and Audits

Financial management systems are in substantial compliance with the requirements imposed by the Federal Financial Management Improvement Act (FFMIA), and applicable sections of the Federal Manager's Financial Integrity Act (FMFIA). FinCEN relies on the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) for administrative and accounting services and systems.

Improper Payments Elimination and Recovery Act (IPERA) Reporting

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires agencies to review their programs and activities increasing efforts to recapture Improper payments by intensifying and expanding payment recapture audits. All agencies are required to develop a method of reviewing all programs 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 percent of programs outlays and $10 million of total program or activity payments made during the fiscal year reported or $100,000,000 regardless of the improper payment percentage of total program outlays.

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. For those payment types resulting in high risk assessments that comprise at least 2.5 percent of program outlays and $10 million of a total funding source, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) a corrective action plan to reduce erroneous payments must be developed and submitted to the Office of Management and Budget (OMB) for approval.

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

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.

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

	As of September 30	
	2011	**2010**
ASSETS (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$52,454,502	$47,217,643
Accounts receivable (Note 4)	6,468,599	4,321,943
Advances and prepayments	471,291	1,033,977
Total intragovernmental	**59,394,392**	**52,573,563**
Accounts receivable, net (Note 4)	35,062	1,851
Property and equipment, net (Note 5)	32,580,135	10,972,052
Total assets	**$92,009,589**	**$63,547,466**
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts payable	7,205,984	4,736,945
Other (Note 8)	1,539,434	1,890,283
Total intragovernmental	**8,745,418**	**6,627,228**
Accounts payable	2,064,094	2,229,247
Other (Note 8)	5,107,097	5,083,917
Total liabilities	**15,916,609**	**13,940,392**
Commitments and contingencies (Notes 9 and 10)		
NET POSITION		
Unexpended appropriations	47,650,941	43,181,049
Cumulative results of operations	28,442,039	6,426,025
Total net position	**76,092,980**	**49,607,074**
Total liabilities and net position	**$92,009,589**	**$63,547,466**

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	
PROGRAM COSTS (Note 11)	**2011**	**2010**
Financial systems resistant to abuse by money launders, terrorists, etc.		
Gross costs	$32,297,997	$34,919,697
Less: earned revenue	(70,242)	(27,464)
Net program costs	**32,227,755**	**34,892,233**
Detection and deterrence of money laundering, terrorism financing and other illicit activity		
Gross costs	30,531,119	31,656,114
Less: earned revenue	(852,816)	(291,533)
Net program costs	**29,678,303**	**31,364,581**
Efficient management, safeguarding, and use of BSA Information		
Gross costs	60,570,065	61,460,683
Less: earned revenue	(2,074,697)	(3,039,429)
Net program costs	**58,495,368**	**58,421,254**
Net cost of operations	**$120,401,426**	**$124,678,068**

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	
	2011	**2010**
Cumulative Results of Operations:		
Beginning balances	$6,426,025	$2,106,763
Budgetary financing sources:		
Appropriations used	105,774,845	98,285,880
Other financing sources (non-exchange):		
Transfers in without reimbursement	13,633,131	3,944,045
Imputed financing from costs absorbed by others (Note 6)	23,009,464	26,416,610
Other	-	350,795
Total financing sources	**142,417,440**	**128,997,330**
Net cost of operations (Note 11)	(120,401,426)	(124,678,068)
Net change	**22,016,014**	**4,319,262**
Cumulative results of operations	**$28,442,039**	**$6,426,025**
Unexpended appropriations:		
Beginning balance	$43,181,049	$31,558,804
Budgetary financing sources:		
Appropriations received	111,010,000	111,010,000
Other adjustments	(765,263)	(1,101,875)
Appropriations used	(105,774,845)	(98,285,880)
Total budgetary financing sources	**4,469,892**	**11,622,245**
Total unexpended appropriations	**47,650,941**	**43,181,049**
Net position	**$76,092,980**	**$49,607,074**

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	
	2011	**2010**
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$28,037,420	$25,041,311
Recoveries of prior year unpaid obligations (Note 12)	1,420,440	1,460,155
Budget authority:		
Appropriations	111,010,000	111,010,000
Spending authority from offsetting collections:		
Earned		
Collected	14,484,231	4,307,253
Change in receivables from Federal sources	2,146,656	2,995,219
Change in unfilled customer orders Without advance from Federal sources	(3,875,692)	2,887,812
Subtotal	**123,765,195**	**121,200,284**
Permanently not available (Note 12)	(765,263)	(1,101,875)
Total budgetary resources	**$152,457,792**	**$146,599,875**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 12):		
Direct	$105,604,852	$108,317,644
Reimbursable	12,865,338	10,244,811
Subtotal	**118,470,190**	**118,562,455**
Unobligated balance:		
Apportioned	31,556,426	25,789,557
Unobligated balance not available	2,431,176	2,247,863
Total status of budgetary resources	**$152,457,792**	**$146,599,875**

(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 2011	2010
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net:		
Unpaid obligations brought forward, October 1	$29,542,142	$14,568,575
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(10,361,919)	(4,478,888)
Unpaid obligated balance, net	**19,180,223**	**10,089,687**
Obligations incurred, net	118,470,190	118,562,455
Less: Gross outlays	(119,492,110)	(102,128,733)
Less: Recoveries of prior year unpaid obligations, actual	(1,420,440)	(1,460,155)
Change in uncollected customer payments from Federal sources	1,729,036	(5,883,031)
Obligated balance, net, end of period:		
Unpaid obligations	27,099,782	29,542,142
Less: Uncollected customer payments from Federal sources	(8,632,882)	(10,361,919)
Total, unpaid obligated balance, net, end of period	**$18,466,900**	**$19,180,223**
NET OUTLAYS		
Gross outlays	$119,492,110	$102,128,733
Less: Offsetting collections	(14,484,231)	(4,307,253)
Less: Distributed offsetting receipts	(774)	-
Net outlays	**$105,007,105**	**$97,821,480**

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	
	2011	**2010**
Revenue activity (Note 13):		
Sources of cash collections:		
Civil monetary penalties	$286,774	$1,050,000
Total cash collections	**286,774**	**1,050,000**
Accrual Adjustment	25,000	-
Total custodial revenue	**311,774**	**1,050,000**
Disposition of collections:		
Transferred to others:		
Department of the Treasury	(286,774)	(1,050,000)
Accrual Adjustment	(25,000)	-
Total Disposition of Custodial Revenue & Collections	**(311,774)**	**(1,050,000)**
Net custodial activity	**$ -**	**$ -**

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, 2011 and 2010

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 enhance U. S. national security, deter and detect criminal activity, and safeguard the financial systems from abuse by promoting transparency in the U.S. and international financial systems. This is accomplished primarily through the administration of the Bank Secrecy Act (BSA); supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; enhancing international anti-money laundering and counterterrorist financing efforts and cooperation; and networking people, entities, ideas, and information.

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 assist the Department of the Treasury meet the requirements of the Government Management Reform Act of 1994. The financial statements consist of the balance sheets and the statements of net costs, changes in net position, budgetary resources and custodial activity. The financial statements and the related notes are presented on a comparative basis.

FinCEN’s financial statements with respect to the balance sheets, the statements of net cost, and the statements 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 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, where 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.

Advances and Prepayments
Intragovernmental advances and prepayments primarily consist of amounts paid to the Department of the Treasury Working Capital Fund and the Department of Interior National Business Center Franchise Fund Acquisition Services Directorate prior to FinCEN's receipt of goods and services.

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's capitalization threshold for general property and equipment is established at minimum of $25,000, and an estimated useful life of two years or more. FinCEN's capitalization threshold for bulk purchases is established at a minimum of

$100,000 per lot and $5,000 per line item. The cost of each individual item must be at least $5,000, but below the minimum capitalization threshold of $25,000. Any item in the lot that meets the capitalization threshold of $25,000 is capitalized separately and not considered to be a part of the bulk purchase lot.

Internal-use software includes commercial off-the-shelf (COTS), internally and contractor developed software and license fees with a cost of $125,000 or more and an estimated useful life of 2 years or more. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development phase. Costs associated with the preliminary design phase, and the post-implementation/operational phases are expensed as incurred. For COTS software, the capitalized cost includes the amount paid to the vendor for the software. Capitalized costs for contractor developed software include the amount paid to a contractor to design, program, install and implement the software.

Enhancements to internal use software are capitalized if the costs are $125,000 or more, have an estimated useful life of 2 years or more, and add significant additional capabilities. Costs incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life without adding capabilities are expensed.

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.

Liabilities
Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. 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.

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 contain a rent abatement period. 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, 2011 and 2010, 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, 2011 and 2010, 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 the Office of Personnel Management (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 a related 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 (OPM), 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 on FinCEN's Balance Sheet and non-entity revenue reported on 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. Significant estimates relate to an allowance for loss on a receivable for fines and penalties, accrued payroll and benefits, and accrued unfunded leave. Actual results may differ from those estimates.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets as of September 30, 2011 and 2010 consisted of the following:

	2011	**2010**
Civil penalties assessed	$1,571,000	$1,500,000
Less allowance for doubtful collection	(1,546,000)	(1,500,000)
Total non-entity assets	**25,000**	**-**
Total entity assets	91,984,589	63,547,466
Total assets	**$92,009,589**	**$63,547,466**

Non-entity accounts receivable as of September 30, 2011 and 2010 primarily 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, if any, 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, 2011 and 2010 consisted of the following components:

	2011	2010
Trust funds	$65,164	$65,164
Appropriated funds	52,389,338	47,152,479
Total	**$52,454,502**	**$47,217,643**

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, 2011 and 2010 consisted of the following:

	2011	2010
Unobligated balance:		
Available	$31,556,426	$25,789,557
Unavailable	2,431,176	2,247,863
Obligated balance not yet disbursed	18,466,900	19,180,223
Total	**$52,454,502**	**$47,217,643**

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, 2011 and 2010, were as follows:

	2011	**2010**
Intragovernmental:		
Accounts receivable	$6,468,599	$4,321,943
Public:		
Accounts receivable	10,062	1,851
Civil penalties assessed	1,571,000	1,500,000
Less allowance for doubtful collection	(1,546,000)	(1,500,000)
Public accounts receivable, net	**35,062**	**1,851**
Total accounts receivable, net	**$6,503,661**	**$4,323,794**

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

Accounts receivable from public 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. An allowance for doubtful accounts of $1,546,000 has been recognized to offset civil monetary penalties. The claim for $1,500,000 has been referred to Department of Justice for possible termination of collection activity.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment as of September 30, 2011 and 2010 consisted of the following:

			2011		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$14,006,221	($5,173,008)	$8,833,213
Construction in progress	N/A	N/A	117,173	-	117,173
Internal-use software	S/L	5	25,512,273	(13,508,591)	12,003,682
Internal-use software in development	N/A	N/A	11,228,467	-	11,228,467
Leasehold improvements	S/L	3-5	1,415,002	(1,017,402)	397,600
Total			**$52,279,136**	**($19,699,001)**	**$32,580,135**

			2010		
	Depreciation Method	Useful Life (In years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Furniture, fixtures and equipment	S/L	5-7	$5,392,572	($3,857,232)	$1,535,340
Construction in progress	N/A	N/A	802,479	-	802,479
Internal-use software	S/L	5	16,395,699	(11,018,396)	5,377,303
Internal-use software in development	N/A	N/A	2,772,370	-	2,772,370
Leasehold improvements	S/L	3-5	1,319,575	(835,015)	484,560
Total			**$26,682,695**	**($15,710,643)**	**$10,972,052**

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. Depreciation and amortization expense recognized during the year ended September 30, 2011 and 2010 was $4,376,211 and $2,291,942, respectively.

NOTE 6. IMPUTED FINANCING SOURCES

FinCEN has imputed financing costs borne by the Office of Personnel Management for employee related costs as well as with the Internal Revenue Service. Imputed financing costs borne by the Internal Revenue Service relate to the collection and processing of Bank Secrecy Act Data. A summary of the imputed financing costs by agency for the years ended September 30, 2011 and 2010 is as follows:

	2011	**2010**
Office of Personnel Management	$2,681,522	$2,959,710
Internal Revenue Service	20,327,942	23,456,900
Total Imputed Financing Sources	**$23,009,464**	**$26,416,610**

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, 2011 and 2010 liabilities not covered by budgetary resources consisted of the following:

	2011	**2010**
Intragovernmental:		
Accrued workers' compensation	$15,045	$3,143
Unamortized rent abatement	1,022,285	1,394,025
Total intragovernmental	1,037,330	1,397,168
Public:		
Accrued annual leave	2,966,749	3,037,778
Actuarial liability for workers' compensation	53,963	22,816
Total public	3,020,712	3,060,594
Total liabilities not covered by budgetary resources	**4,058,042**	**4,457,762**
Total liabilities covered by budgetary resources or non-entity assets	11,858,567	9,482,630
Total liabilities	**$15,916,609**	**$13,940,392**

NOTE 8. OTHER LIABILITIES

Other liabilities as of September 30, 2011 and 2010 consisted of the following:

	2011		
	Non-Current	Current	Total
Intragovernmental:			
Due to the Treasury General Fund	$ -	$ 25,000	$ 5,000
Accrued employee benefits	-	477,104	477,104
Accrued workers' compensation	14,529	516	15,045
Unamortized rent abatement	650,545	371,740	1,022,285
Total intragovernmental	**665,074**	**874,360**	**1,539,434**
Public:			
Accrued payroll and employee benefits	-	2,086,385	2,086,385
Accrued annual leave	-	2,966,749	2,966,749
Actuarial liability for workers' compensation	53,963	-	53,963
Total public	**53,963**	**5,053,134**	**5,107,097**
Total other liabilities	**$719,037**	**$5,927,494**	**$6,646,531**

	2010		
	Non-Current	Current	Total
Intragovernmental:			
Due to the Treasury General Fund	$ -	$ -	$ -
Accrued employee benefits	-	493,115	493,115
Accrued workers' compensation	516	2,627	3,143
Unamortized rent abatement	1,022,285	371,740	1,394,025
Total intragovernmental	**1,022,801**	**867,482**	**1,890,283**
Public:			
Accrued payroll and employee benefits	-	2,023,323	2,023,323
Accrued annual leave	-	3,037,778	3,037,778
Actuarial liability for workers' compensation	22,816	-	22,816
Total public	**22,816**	**5,061,101**	**5,083,917**
Total other liabilities	**$1,045,617**	**$5,928,583**	**$6,974,200**

Amounts due to other agencies include payroll collections received for employees of those agencies.

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 expense incurred related to GSA leases during fiscal years 2011 and 2010 was $4,793,612 and $4,722,838 respectively.

As of September 30, 2011 future lease payments due under non-cancelable operating leases are as follows:

2012	$24,361
2013	24,361
2014	24,361
2015	24,361
2016	24,361
Thereafter	282,181
Total future payments	**$403,986**

NOTE 10. COMMITMENTS AND CONTINGENCIES

FinCEN is party to various administrative proceedings, legal actions and claims. In the opinion of management and legal counsel, no legal actions against FinCEN were both probable and estimable as of September 30, 2011 and 2010, and no legal liabilities have been accrued in the accompanying financial statements.

There were no pending or threatened litigation or unasserted claims that required disclosure as of September 30, 2011 and 2010.

NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and exchange revenue for the years ended September 30, 2011 and 2010 consisted of the following:

	2011	2010
PROGRAM COSTS		
Financial systems resistant to abuse by money launders, terrorists, etc.		
Intragovernmental costs	$17,763,944	$19,477,413
Public costs	14,534,053	15,442,284
Total program costs	**32,297,997**	**34,919,697**
Intragovernmental earned revenue	(70,242)	(27,464)
Net program cost	**32,227,755**	**34,892,233**
Detection and deterrence of money laundering, terrorism financing and other illicit activity		
Intragovernmental costs	16,792,158	17,657,061
Public costs	13,738,961	13,999,053
Total program costs	**30,531,119**	**31,656,114**
Intragovernmental earned revenue	(852,816)	(291,533)
Net program cost	**29,678,303**	**31,364,581**
Efficient management, safeguarding, and use of BSA information		
Intragovernmental costs	33,313,621	34,281,371
Public costs	27,256,444	27,179,312
Total program costs	**60,570,065**	**61,460,683**
Intragovernmental earned revenue	(2,074,697)	(3,039,429)
Net program cost	**58,495,368**	**58,421,254**
Net cost of operations	**$120,401,426**	**$124,678,068**

The criteria used for this classification 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, 2011 and 2010 consisted of the following:

	2011	**2010**
Direct Obligations		
Category B	$105,604,852	$108,317,644
Reimbursable Obligations		
Category B	12,865,338	10,244,811
Total	**$118,470,190**	**$118,562,455**

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 2011 and 2010 consisted of the following:

	2011	**2010**
Recoveries of prior year obligations	$1,420,440	$1,460,155
Cancellations of expired accounts	(543,243)	(1,101,875)
Enacted Recissions	(222,020)	-
Total	**$655,177**	**$358,280**

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

The fiscal year 2013 *Budget of the United States Government* (also known as the President's Budget) with actual numbers for fiscal year 2011, was not published at the time these financial statements were issued. The President's Budget is expected to be published in February 2012. There were no material differences between the fiscal year 2010 Statement of Budgetary Resources and the actual fiscal year 2010 balances included in the fiscal year 2012 President's Budget.

Undelivered Orders at the End of the Period

Undelivered orders as of September 30, 2011 and 2010 were $15,737,507 and $21,093,488, respectively.

NOTE 13. 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, 2011 and 2010 cash collections and distributions to Treasury were $286,774 and $1,050,000 respectively. The custodial accrual adjustment totaling $25,000 at September 30, 2011 reflects the change in accounts receivable FinCEN has which are offset by the increase in custodial liability – amounts yet to be transferred of $25,000.

NOTE 14. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

A reconciliation of net cost of operations to budget for the years ended September 30, 2011 and 2010 follows:

	For the Years Ended September 30	
	2011	**2010**
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$118,470,190	$118,562,455
Less: Spending authority from offsetting collections and recoveries	(14,175,635)	(11,650,439)
Obligations net of offsetting collections and recoveries	104,294,555	106,912,016
Less: Offsetting receipts	(774)	-
Net obligations	104,293,781	106,912,016
Other resources:		
Transfers in without reimbursement	13,633,131	3,944,045
Imputed financing from costs absorbed by others	23,009,464	26,416,610
Other	-	350,795
Net other resources used to finance activities	36,642,595	30,711,450
Total resources used to finance activities	**140,936,376**	**137,623,466**
Resources used to finance items not part of the net cost of operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,480,290)	8,568,379
Resources that fund expenses recognized in prior periods	442,769	376,353
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Other	13,632,357	3,944,045
Resources that finance the acquisition of assets	25,993,059	6,655,967
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(13,633,131)	(3,593,250)
Total resources used to finance items not part of the net cost of operations	**24,954,764**	**15,951,494**
Total resources used to finance the net cost of operations	**115,981,612**	**121,671,972**

(Continued)

	For the Years Ended September 30	
	2011	**2010**
Components of the net cost of operations that will not require or generate resources in the current period:		
Components requiring or generating resources in future periods:		
Increase in annual leave liability	$0	$218,678
Other	43,050	-
Total components of net cost of operations that will require or generate resources in future periods	**43,050**	**218,678**
Components not requiring or generating resources:		
Depreciation and amortization	4,376,211	2,291,942
Revaluation of assets or liabilities	8,764	496,057
Other	(8,211)	(581)
Total components of net cost of operations that will not require or generate resources	**4,376,764**	**2,787,418**
Total components of net cost of operations that will not require or generate resources in the current period	**4,419,814**	**3,006,096**
Net cost of operations	**$120,401,426**	**$124,678,068**

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STATEMENT OF BUDGETARY RESOURCES

Budgetary resources disaggregated by major accounts for the years ended September 30, 2011 and 2010 consisted of the following:

	2011		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$27,972,256	$65,164	$28,037,420
Recoveries of prior year unpaid obligations	1,420,440	-	1,420,440
Budget authority:			
Appropriations	111,010,000	-	111,010,000
Spending authority from offsetting collections:			
Earned			
Collected	14,484,231	-	14,484,231
Change in receivables from Federal sources	2,146,656	-	2,146,656
Change in unfilled customer orders			
Without advance from Federal sources	(3,875,692)	-	(3,875,692)
Subtotal	**123,765,195**	-	**123,765,195**
Permanently not available	(765,263)	-	(765,263)
Total budgetary resources	**$152,392,628**	**$65,164**	**$152,457,792**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$105,604,852	$ -	$105,604,852
Reimbursable	12,865,338	-	12,865,338
Subtotal	**118,470,190**	-	**118,470,190**
Unobligated balance:			
Apportioned	31,491,262	65,164	31,556,426
Unobligated balance not available	2,431,176	-	2,431,176
Total status of budgetary resources	**$152,392,628**	**$65,164**	**$152,457,792**

(Continued)

	2011		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCES			
Obligated balance, net:			
Unpaid obligations brought forward, October 1	$29,542,142	$ -	$29,542,142
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(10,361,918)	-	(10,361,918)
Total unpaid obligated balance, net	**19,180,224**	**-**	**19,180,224**
Obligations incurred, net	118,470,190	-	118,470,190
Less: Gross outlays	(119,492,110)	-	(119,492,110)
Less: Recoveries of prior year unpaid obligations, actual	(1,420,440)	-	(1,420,440)
Change in uncollected customer payments from Federal sources	1,729,036	-	1,729,036
Obligated balance, net, end of period			
Unpaid obligations	27,099,782	-	27,099,782
Less: Uncollected customer payments from Federal sources	(8,632,882)	-	(8,632,882)
Total, unpaid obligated balance, net, end of period	**$18,466,900**	**$ -**	**$18,466,900**
NET OUTLAYS			
Gross outlays	$119,492,110	$ -	$119,492,110
Less: Offsetting collections	(14,484,231)	-	(14,484,231)
Less: Distributed offsetting receipts	(774)	-	(774)
Net outlays	**$105,007,105**	**$ -**	**$105,007,105**

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	2010		
	Appropriated Funds	Trust Funds	Total
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	$25,001,852	$39,459	$25,041,311
Recoveries of prior year unpaid obligations	1,425,096	35,059	1,460,155
Budget authority:			
Appropriations	111,010,000	-	111,010,000
Spending authority from offsetting collections:			
Earned			
Collected	4,307,253	-	4,307,253
Change in receivables from Federal sources	2,995,219	-	2,995,219
Change in unfilled customer orders			
Without advance from Federal sources	2,887,812	-	2,887,812
Subtotal	**121,200,284**	**-**	**121,200,284**
Permanently not available	(1,101,875)		(1,101,875)
Total budgetary resources	**$146,525,357**	**$74,518**	**$146,599,875**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	$108,308,290	$9,354	$108,317,644
Reimbursable	10,244,811		10,244,811
Subtotal	**118,553,101**	**9,354**	**118,562,455**
Unobligated balance:			
Apportioned	25,724,393	65,164	25,789,557
Unobligated balance not available	2,247,863		2,247,863
Total status of budgetary resources	**$146,525,357**	**$74,518**	**$146,599,875**

(Continued)

	2010		
	Appropriated Funds	Trust Funds	Total
CHANGE IN OBLIGATED BALANCES			
Obligated balance, net			
Unpaid obligations brought forward, October 1	$14,485,113	$83,462	$14,568,575
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(4,478,888)	-	(4,478,888)
Total unpaid obligated balance, net	**10,006,225**	**83,462**	**10,089,687**
Obligations, incurred, net	118,553,101	9,354	118,562,455
Less: Gross outlays	(102,070,97)	(57,757)	(102,128,733)
Less: Recoveries of prior year unpaid obligations, actual	(1,425,096)	(35,059)	(1,460,155)
Change in uncollected customer payments from Federal sources	(5,883,031)	-	(5,883,031)
Obligated balance, net, end of period			
Unpaid obligations	29,542,142	-	29,542,142
Less: Uncollected customer payments from Federal sources	(10,361,919)	-	(10,361,919)
Total, unpaid obligated balance, net, end of period	**$19,180,223**	**$ -**	**$19,180,223**
NET OUTLAYS			
Gross outlays	$102,070,976	$57,757	$102,128,733
Less: Offsetting collections	(4,307,253)	-	(4,307,253)
Less: Distributed offsetting receipts	-	-	-
Net outlays	**$97,763,723**	**$57,757**	**$97,821,480**

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Independent Auditor's Report on Financial Statements

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, 2011 and 2010, and the related statements of net cost, changes in net position, budgetary resources and custodial activity (hereinafter referred to as "financial statements") for the years then ended. 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 applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin 07-04 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FinCEN as of September 30, 2011, and 2010, and its net costs, changes in net position, budgetary resources and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited

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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 14, 2011, on our consideration of FinCEN's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, and contracts. These 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 considering the results of our audit.

GKA, P.C.

November 14, 2011

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Independent Auditor's Report on Internal Control over Financial Reporting

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

We have audited the balance sheet and the related statements of net cost, changes in net position, budgetary resources and custodial activity, hereinafter referred to as "financial statements" of the U.S. Department of the Treasury - Financial Crimes Enforcement Network (FinCEN) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered FinCEN's internal control over financial reporting by obtaining an understanding of the design effectiveness of FinCEN's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing 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 OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on the effectiveness of FinCEN's internal control over financial reporting. Consequently, we do not provide an opinion on the effectiveness of FinCEN's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies,

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in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Management of FinCEN, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

November 14, 2011

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Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the balance sheet and the related statements of net cost, changes in net position, budgetary resources and custodial activity, hereinafter referred to as "financial statements" of the U.S. Department of the Treasury - Financial Crimes Enforcement Network (FinCEN) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of FinCEN is responsible for complying with laws and regulations applicable to FinCEN. As part of obtaining reasonable assurance about whether FinCEN's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain requirements referred to in Section 803(a) of the *Federal Financial Management Improvement Act (FFMIA) of 1996*. 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, our objective was not to provide an opinion on overall compliance with laws, regulations and contracts. Accordingly, we do not express such an opinion.

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

Under FFMIA, we are required to report whether FinCEN's financial management systems substantially comply with (1) federal financial

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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 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 the Management of FinCEN, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and U.S. Congress and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

November 14, 2011