U.S. COMMODITY FUTURES TRADING COMMISSION
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Office of the
Inspector General

November 15, 2012

Mr. Gary Gensler
Chairman
Commodity Futures Trading Commission
Washington, D.C. 20581

Dear Chairman Gensler:

The Office of the Inspector General contracted with an independent public accounting firm to conduct an audit of the CFTC's financial statements for fiscal year 2012. I concur with the attached unqualified opinion of our independent public accounting firm. Should you have any questions concerning this audit please contact me.

Sincerely,

A. Roy Lavik
Inspector General

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Chairman and Inspector General of the
U.S. Commodity Futures Trading Commission:

We have audited the accompanying balance sheets of the Commodity Futures Trading Commission (CFTC) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (hereinafter referred to as " financial statements" or "basic financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2012 audit, we also considered the CFTC's internal control over financial reporting and tested the CFTC's compliance with certain provisions of applicable laws, regulations and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our Opinion on the Financial Statements, we concluded that the CFTC's financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, the CFTC changed its presentation for reporting the statements of budgetary resources in fiscal year 2012 based on new reporting requirements under Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements.*

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The Government Accountability Office (GAO) is conducting a review on a matter that may represent a potential violation of the *Anti-Deficiency Act*. This matter is currently under review by the GAO. A final determination has not yet been made and therefore the outcome of this matter is not presently known.

The following sections discuss our opinion on the CFTC's financial statements; our consideration of the CFTC's internal control over financial reporting; our tests of the CFTC's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the Commodity Futures Trading Commission as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commodity Futures Trading Commission as of September 30, 2012 and 2011, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the CFTC's financial statements, the CFTC changed its presentation for reporting the statements of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the CFTC's statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information in the Other Accompanying Information section of the CFTC's *Agency Financial Report Fiscal Year 2012* is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Internal Control Over Financial Reporting

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

The results of our other tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the CFTC's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

The Government Accountability Office (GAO) is conducting a review on a matter that may represent a potential violation of the *Anti-Deficiency Act*. This matter is currently under review by the GAO. A final determination has not yet been made and therefore the outcome of this matter is not presently known.

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Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws, regulations, and contracts applicable to CFTC.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 and 2011 financial statements of CFTC 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 OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 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 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 CFTC'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; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2012 audit, we considered CFTC's internal control over financial reporting by obtaining an understanding of CFTC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CFTC's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether CFTC's fiscal year 2012 financial statements are free of material misstatement, we performed tests of CFTC'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. 07-04, including the provisions referred to in Section 803(a) of 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 CFTC. However, providing an opinion on compliance with laws, regulations, and contracts, was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of CFTC's management, CFTC's 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 15, 2012

A Message from the Chief Financial Officer

The public accounting firm, KPMG LLP, on behalf of the Inspector General, reported that the Commission's financial statements were presented fairly, in all material respects, and were in conformity with U.S. generally accepted accounting principles. For the sixth consecutive year the Commission had no material weaknesses, and was compliant with laws and regulations.

The CFTC leverages a financial management systems platform operated by the U.S. Department of Transportation's (DOT) Enterprise Service Center, an Office of Management and Budget (OMB) designated financial management service provider. As a consequence, the CFTC is able to accumulate, analyze, and present reliable financial information, or provide reliable, timely information for managing current operations and timely reporting of financial information to central agencies. Furthermore, our system is in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (although CFTC is not required to comply with FFMIA, it has elected to do so).

Mark Carney

Mark Carney
November 15, 2012
Chief Financial Officer

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the CFTC for FY 2012 and FY 2011 pursuant to the requirements of Title 31 of the U.S. Code, section 3515 (b).

While these statements have been prepared from the books and records of the Commission in accordance with GAAP for Federal entities and the formats prescribed by OMB Circular A-136, *Financial Reporting Requirements*, these 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 understanding that they represent a component of the U.S. government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

Principal Financial Statements

Commodity Futures Trading Commission
BALANCE SHEETS
As of September 30, 2012 and 2011

	2012	2011
Assets		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 82,557,690	$ 81,785,717
Investments (Note 3)	77,135,901	-
Prepayments (Note 1J)	185,766	90,107
Total Intragovernmental	**159,879,357**	**81,875,824**
Custodial Receivables, Net (Note 4)	4,140,347	2,574,173
Accounts Receivable (Note 4)	20,976	59,226
General Property, Plant and Equipment, Net (Note 5)	53,410,435	42,346,895
Deferred Costs (Note 6)	1,234,223	6,254,873
Prepayments (Note 1J)	1,617,731	1,019,519
Total Assets	**$ 220,303,069**	**$ 134,130,510**
Liabilities		
Intragovernmental:		
FECA Liabilities	$ 127,661	$ 91,175
Accounts Payable	523,356	693,987
Total Intragovernmental	**651,017**	**785,162**
Accounts Payable	6,694,416	6,398,362
Accrued Funded Payroll	7,837,836	7,346,675
Annual Leave	8,639,840	8,117,663
Actuarial FECA Liabilities (Note 9)	636,582	437,337
Custodial Liabilities	4,140,347	2,574,173
Deposit Fund Liabilities	77,098	57,127
Deferred Lease Liabilities (Note 10)	24,808,042	21,974,782
Other	19,050	19,649
Contingent Liabilities (Note 11)	-	-
Total Liabilities	**$ 53,504,228**	**$ 47,710,930**
Net Position		
Cumulative Results of Operations - Earmarked	$ 99,996,749	$ 23,755,000
Cumulative Results of Operations - Other	20,452,619	17,998,424
Unexpended Appropriations	46,349,473	44,666,156
Total Net Position	**166,798,841**	**86,419,580**
Total Liabilities and Net Position	**$ 220,303,069**	**$ 134,130,510**

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

Commodity Futures Trading Commission
STATEMENTS OF NET COST
For the Years Ended September 30, 2012 and 2011

		2012		2011
Net Cost by Goal (Note 15)				
Goal 1: Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system.				
Gross Costs	$	59,233,491	$	48,413,277
Less: Earned Revenue		(64,907)		(22,890)
Net Cost of Operations- Goal 1	**$**	**59,168,584**	**$**	**48,390,387**
Goal 2: Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants.				
Gross Costs	$	54,707,413	$	43,722,068
Less: Earned Revenue		(59,948)		(20,672)
Net Cost of Operations- Goal 2	**$**	**54,647,465**	**$**	**43,701,396**
Goal 3: Protect the public and market participants through a robust enforcement program				
Gross Costs	$	61,039,770	$	61,173,365
Less: Earned Revenue		(66,887)		(28,923)
Net Cost of Operations- Goal 3	**$**	**60,972,883**	**$**	**61,144,442**
Goal 4: Enhance integrity of US markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide.				
Gross Costs	$	6,955,212	$	8,444,176
Less: Earned Revenue		(7,621)		(3,992)
Net Cost of Operations- Goal 4	**$**	**6,947,591**	**$**	**8,440,184**
Goal 5: Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources				
Gross Costs	$	25,682,379	$	25,895,474
Less: Earned Revenue		(28,141)		(12,243)
Net Cost of Operations- Goal 5	**$**	**25,654,238**	**$**	**25,883,231**
Grand Total				
Gross Costs	$	207,618,265	$	187,648,360
Less: Earned Revenue		(227,504)		(88,720)
Total Net Cost of Operations	**$**	**207,390,761**	**$**	**187,559,640**

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

Commodity Futures Trading Commission
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2012 and 2011

	2012		
	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:			
Beginning Balances, October 1	**$ 23,755,000**	**$ 17,998,424**	**$ 41,753,424**
Appropriations Used	-	202,899,168	202,899,168
Other Financing Sources:			
Transfers-In Without Reimbursement (Note 17)	76,708,620	-	76,708,620
Imputed Financing Sources	-	6,478,917	6,478,917
Total Financing Sources	**76,708,620**	**6,478,917**	**83,187,537**
Net Cost of Operations	**(466,871)**	**(206,923,890)**	**(207,390,761)**
Net Change	**76,241,749**	**2,454,195**	**78,695,944**
Total Cumulative Results of Operations, September 30	**$ 99,996,749**	**$ 20,452,619**	**$ 120,449,368**
Unexpended Appropriations:			
Beginning Balances, October 1	**$ -**	$ **44,666,156**	**$ 44,666,156**
Budgetary Financing Sources:			
Appropriations Received	-	205,294,000	205,294,000
Less: Other Adjustments (Rescissions, etc.)	-	(711,515)	(711,515)
Appropriations Used	-	(202,899,168)	(202,899,168)
Total Budgetary Financing Sources	-	1,683,317	1,683,317
Total Unexpended Appropriations, September 30	**$ -**	$ **46,349,473**	**$ 46,349,473**
Net Position	**$ 99,996,749**	**$ 66,802,092**	**$ 166,798,841**

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

Commodity Futures Trading Commission
STATEMENTS OF CHANGES IN NET POSITION (Continued)
For the Years Ended September 30, 2012 and 2011

	2011		
	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:			
Beginning Balances, October 1	$ -	$ 11,455,579	$ 11,455,579
Appropriations Used	-	187,513,010	187,513,010
Other Financing Sources:			
Transfers-In/Out Without Reimbursement (+/-)	23,755,000		23,755,000
Imputed Financing Sources	-	6,589,475	6,589,475
Total Financing Sources	**23,755,000**	**6,589,475**	**30,344,475**
Net Cost of Operations	-	**(187,559,640)**	**(187,559,640)**
Net Change	23,755,000	**6,542,845**	**30,297,845**
Total Cumulative Results of Operations, September 30	$ 23,755,000	$ 17,998,424	$ 41,753,424
Unexpended Appropriations:			
Beginning Balances, October 1	$ -	$ 30,449,492	$ 30,449,492
Budgetary Financing Sources:			
Appropriations Received	-	202,675,000	202,675,000
Less: Other Adjustments (Rescissions, etc.)	-	(945,326)	(945,326)
Appropriations Used	-	(187,513,010)	(187,513,010)
Total Budgetary Financing Sources	**-**	**14,216,664**	**14,216,664**
Total Unexpended Appropriations, September 30	$ -	$ 44,666,156	$ 44,666,156
Net Position	$ 23,755,000	$ 62,664,580	$ 86,419,580

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

Commodity Futures Trading Commission
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and 2011

	2012	2011
BUDGETARY RESOURCES		
Unobligated Balance, October 1	$ 37,356,190	$ 2,944,832
Recoveries of Prior Year Unpaid Obligations	6,327,442	1,448,576
Other Changes in Unobligated Balance	(711,515)	(539,976)
Unobligated Balance From Prior Year Authority	42,972,117	3,853,432
Appropriations	205,294,000	202,269,650
Spending Authority from Offsetting Collections	76,925,590	24,083,639
Total Budgetary Resources	**$ 325,191,707**	**$ 230,206,721**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 13)	$ 215,023,293	$ 192,850,531
Unobligated Balance, end of period		
Apportioned	18,982,888	9,880,055
Unapportioned	91,185,526	27,476,135
Total Unobligated Balance, end of period	110,168,414	37,356,190
Total Status of Budgetary Resources	**$ 325,191,707**	**$ 230,206,721**
CHANGE IN OBLIGATED BALANCES		
Unpaid Obligations, October 1 (gross)	$ 44,462,925	$ 41,365,242
Uncollected Customer Payments from Federal Sources, October 1	(50,021)	(10,403)
Obligated balance October 1 (net)	44,412,904	41,354,839
Obligations Incurred	215,023,293	192,850,530
Outlays (gross)	(203,702,085)	(188,304,270)
Change in uncollected customer payments from Federal sources	41,408	(39,619)
Recoveries of Prior-Year Unpaid Obligations	(6,327,442)	(1,448,576)
Obligated balance, September 30		
Unpaid Obligations, end of year (gross)	49,456,691	44,462,925
Uncollected Customer Payments from Federal Sources, end of year	(8,613)	(50,021)
Net Obligated Balance, September 30	**$ 49,448,078**	**$ 44,412,904**
NET BUDGET AUTHORITY AND OUTLAYS		
Budget Authority, Gross	$ 282,219,590	$ 226,353,289
Actual offsetting collections	(76,966,998)	(24,044,020)
Change in uncollected customer payments from Federal Sources	41,408	(39,619)
Budget Authority, Net	**$ 205,294,000**	**$ 202,269,650**
Outlays (gross)	$ 203,702,085	$ 188,304,270
Actual offsetting Collections	(76,966,998)	(24,044,020)
Distributed Offsetting Receipts	(3,210)	(2,219)
NET OUTLAYS	**$ 126,731,877**	**$ 164,258,031**

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

Commodity Futures Trading Commission
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2012 and 2011

	2012	2011
Revenue Activity		
Sources of Cash Collections:		
Registration and Filing Fees	$ 1,780,883	$ 2,059,411
Fines, Penalties, and Forfeitures	259,687,332	11,433,774
General Proprietary Receipts	3,210	2,219
Total Cash Collections	**261,471,425**	**13,495,404**
Change in Custodial Receivables	1,566,174	254,239
Total Custodial Revenue	**$ 263,037,599**	**$ 13,749,643**
Disposition of Collections		
Amounts Transferred to:		
Department of the Treasury	(184,762,805)	(7,740,404)
Customer Protection Fund	(76,708,620)	(5,755,000)
Change in Custodial Liabilities	(1,566,174)	(254,239)
NET CUSTODIAL ACTIVITY	**$ -**	**$ -**

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

Notes to the Financial Statements

As of and For the Fiscal Years Ended
September 30, 2012 and 2011

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

The Commodity Futures Trading Commission (CFTC) is an independent agency of the executive branch of the Federal Government. Congress created the CFTC in 1974 under the authorization of the Commodity Exchange Act (CEA) with the mandate to regulate commodity futures and option markets in the United States. The agency's mandate was renewed and expanded under the Futures Trading Acts of 1978, 1982, and 1986; under the Futures Trading Practices Act of 1992; under the CFTC Reauthorization Act of 1995; under the Commodity Futures Modernization Act of 2000; and under the Dodd-Frank Act of 2010. Congress passed the Food, Conservation, and Energy Act of 2008 (Farm Bill), which reauthorized the Commission through FY 2013. Since its inception, the CFTC has continuously operated through authorized appropriations.

The CFTC is responsible for ensuring the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud.

On July 21, 2010, the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the Dodd-Frank Act, or the Act) was signed into law, significantly expanding the powers and responsibilities of the CFTC. According to Section 748 of the Act, there is established in the Treasury of the United States a revolving fund known as the "Commodity Futures Trading Commission Customer Protection Fund" (the Fund). The Fund shall be available to the Commission, without further appropriation or fiscal year limitation, for a) the payment of awards to whistleblowers; and b) the funding of customer education initiatives designed to help customers protect themselves against fraud or other violations of this Act or the rules and regulations thereunder.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations for the CFTC, as required by the Chief Financial Officers' Act of 1990 along with the Accountability of Tax Dollars Act of 2002, and the Government Management Reform Act of 1994. They are presented in accordance with the form and content requirements contained in Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements," as amended.

The principal financial statements have been prepared in all material respects from the agency's books and records in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed for the federal government by the Federal Accounting Standards Advisory Board

(FASAB). The application and methods for applying these principles are appropriate for presenting fairly the entity's assets, liabilities, net cost of operations, changes in net position, and budgetary resources.

The financial statements report on the CFTC's financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities. The books and records of the agency served as the source of information for preparing the financial statements in the prescribed formats. All agency financial statements and reports used to monitor and control budgetary resources are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

The Balance Sheets present the financial position of the agency. The Statements of Net Cost present the agency's operating results; the Statements of Changes in Net Position display the changes in the agency's equity accounts. The Statements of Budgetary Resources present the sources, status, and uses of the agency's resources and follow the rules for the Budget of the United States Government. The Statements of Custodial Activity present the sources and disposition of collections for which the CFTC is the fiscal agent, or custodian, for the Treasury General Fund Miscellaneous Receipt accounts.

Throughout these financial statements, assets, liabilities, revenues and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities. The CFTC does not transact business among its own operating units, and therefore, intra-entity eliminations were not needed.

C. Budgetary Resources and Status

The CFTC is funded through congressionally approved appropriations. The CFTC is responsible for administering the salaries and expenses of the agency through the execution of these appropriations.

Congress annually enacts appropriations that provide the CFTC with the authority to obligate funds within the respective fiscal year for necessary expenses to carry out mandated program activities. In addition, Congress enacted a permanent indefinite appropriation that is available until expended. All appropriations are subject to quarterly apportionment as well as Congressional restrictions.

The CFTC's budgetary resources for FY 2012 consist of:

- Unobligated balances of resources brought forward from the prior year,
- Recoveries of obligations made in prior years, and
- New resources in the form of appropriations and spending authority from offsetting collections.

Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are canceled and may not be used. All unused monies related to canceled appropriations are returned to Treasury and the canceled authority is reported as a line item on the Statements of Budgetary Resources and the Statements of Changes in Net Position.

D. Entity and Non-Entity Assets

Assets consist of entity and non-entity assets. Entity assets are those assets that the CFTC has authority to use for its operations. Non-entity assets are those held by the CFTC that are not available for use in its operations. Non-entity assets held by the CFTC include deposit fund balances, custodial fines, interest, penalties, and administrative fees receivable.

E. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the CFTC's funds with Treasury in expenditure, receipt, revolving, and deposit fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases. Revolving fund custodial collections recorded in the deposit fund and miscellaneous receipts accounts of the Treasury are not available for agency use. At fiscal year-end, receipt account balances are returned to Treasury or transferred to the Customer Protection Fund.

The CFTC does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand. Spending authority from offsetting collections is recorded in the agency's expenditure account and is available for agency use subject to certain limitations.

F. Investments

The CFTC has the authority to invest amounts deposited in the Customer Protection Fund in short-term market-based Treasury securities. Market-based Treasury securities are debt securities that the U.S. Treasury issues to Federal entities without statutorily determined interest rates. Although the securities are not marketable, the terms (prices and interest rates) mirror the terms of marketable Treasury securities.

Interest earned on the investments is a component of the Fund and is available to be used for expenses of the Customer Protection Fund. Additional details regarding Customer Protection Fund investments are provided in Note 3.

G. Accounts Receivable

Accounts receivable consists of amounts owed by other federal agencies and the public to the CFTC and is valued net of an allowance for uncollectible amounts. The allowance is based on past experience in the collection of receivables and analysis of the outstanding balances. Accounts receivable arise from reimbursable operations, earned refunds or the Civil Monetary Sanctions program.

H. General Property, Plant and Equipment, Net

Furniture, fixtures, equipment, information technology hardware and software, and leasehold improvements are capitalized and depreciated or amortized over their useful lives.

The CFTC capitalizes assets annually if they have useful lives of at least two years and an individual value of $25,000 or more. Bulk or aggregate purchases are capitalized when the individual useful lives are at least two years and the purchase is a value of $25,000 or more. Property, plant and equipment that do not meet the capitalization criteria are expensed when acquired. Depreciation for equipment and amortization for software is computed on a straight-line basis using a 5-year life. Leasehold improvements are amortized over the remaining life of the lease. The Commission's assets are valued net of accumulated depreciation or amortization.

I. Deferred Costs

The Commission has received lease incentives, Tenant Improvement Allowances (TIA), from the landlords on its operating leases. These allowances can be used for construction, asset purchases, or rent expense, and are classified as deferred costs on the balance sheets. These costs are reallocated either to leasehold improvements, equipment, or if used for rent, expensed. The TIA is also amortized with the deferred lease liability over the life of the lease.

J. Prepayments

Payments to federal and non-federal sources in advance of the receipt of goods and services are recorded as prepayments and recognized as expenses when the related goods and services are received. Intragovernmental prepayments reported on the Balance Sheet were made primarily to the Department of Transportation (DOT) for transit subsidy services. Prepayments to the public were primarily for software maintenance and subscription services.

K. Liabilities

The CFTC's liabilities consist of actual and estimated amounts that are likely to be paid as a result of transactions covered by budgetary resources for which Congress has appropriated funds or funding, or are otherwise available from reimbursable transactions to pay amounts due.

Liabilities include those covered by budgetary resources in existing legislation and those not yet covered by budgetary resources. The CFTC liabilities not covered by budgetary resources include:

- Intragovernmental Federal Employees Compensation Act (FECA) liabilities,
- Annual leave benefits which will be funded by annual appropriations as leave is taken,
- Actuarial FECA liabilities,

- Custodial liabilities for custodial revenue transferred to Treasury at fiscal yearend,
- Contingent liabilities,
- Deposit funds,
- Deferred lease liabilities, and
- Advances received for reimbursable services yet to be provided.

L. Accounts Payable

Accounts payable consists primarily of contracts for goods or services, such as operating leases, leasehold improvements, software development, information technology, telecommunications, and consulting and support services.

M. Accrued Payroll and Benefits and Annual Leave Liability

The accrued payroll liability represents amounts for salaries and benefits owed for the time since the payroll was last paid through the end of the reporting period. The annual leave liability is the amount owed employees for unused annual leave as of the end of the reporting period. At the end of each quarter, the balance in the accrued annual leave account is adjusted to reflect current balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

The agency's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

For employees under FERS, the CFTC contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS and CSRS employees can contribute a portion of their gross earnings to the plan up to IRS limits; however, CSRS employees receive no matching agency contribution.

N. Leases

The CFTC does not have any capital lease liabilities. The operating leases consist of commercial property for the CFTC's headquarters and regional offices. Lease expenses are recognized on a straight-line basis.

O. Deposit Funds

Deposit funds are expenditure accounts used to record monies that do not belong to the Federal government. They are held awaiting distribution based on a legal determination or investigation. The CFTC Deposit Fund is used to collect and later distribute collections of monetary awards to the appropriate victims as restitution. The cash collections recorded in this fund are offset by a Deposit

Fund liability. Activities in this fund are not fiduciary in nature because they are not legally enforceable against the government.

P. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations are appropriations that have not yet been used to acquire goods and services or provide benefits. Appropriations are considered expended, or used, when goods and services have been acquired by the CFTC or benefits have been provided using the appropriation authority, regardless of whether monies have been paid or payables for the goods, services, or benefits have been established.

Cumulative results of operations represent the excess of budgetary or other financing sources over expenses since inception. Cumulative results of operations are derived from the net effect of capitalized assets, expenses, exchange revenue, and unfunded liabilities.

Q. Revenues

The CFTC receives reimbursement and earns revenue for the following activities:

- Reimbursement for travel, subsistence, and related expenses from non-federal sources for attendance at meetings or similar functions that an employee has been authorized to attend in an official capacity on behalf of the Commission.
- Reimbursement for Intergovernmental Personnel Act Mobility Program assignments from state and local governments, institutions of higher education, and other eligible organizations for basic pay, supplemental pay, fringe benefits, and travel and relocation expenses.
- Reimbursement from non-federal sources for registration fees to cover the cost of expenses related to the CFTC's annual International Regulators Conference.

R. Net Cost of Operations

Net cost of operations is the difference between the CFTC's expenses and its earned revenue. The presentation of program results by strategic goals is based on the CFTC's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993. The Commission implemented a new strategic plan in FY 2011. (Note 15)

The mission statement of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets. The mission is accomplished through five strategic goals, each focusing on a vital area of regulatory responsibility:

- Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system,
- Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants,
- Protect the public and market participants through a robust enforcement program,
- Enhance integrity of U.S. markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide, and
- Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources.

S. Custodial Activity

The CFTC collects penalties and fines levied against firms for violation of laws as described in the Commodity Exchange Act as codified at 7 U.S.C. § 1, *et seq*, and the Commodities Futures Modernization Act of 2000, Appendix E of P.L. 106-554, 114 Stat. 2763. Unpaid fines, penalties and accrued interest are reported as custodial receivables, with an associated custodial liability. The receivables and the liability are reduced by amounts determined to be uncollectible. Revenues earned and the losses from bad debts are reported to Treasury.

Collections made by the CFTC during the year are deposited and reported into designated Treasury miscellaneous receipt accounts for:

- Registration and filing fees,
- Fines, penalties and forfeitures, and
- General proprietary receipts.

At fiscal year-end, custodial collections made by the CFTC are either returned to Treasury or when determined eligible, transferred to the Customer Protection Fund. The CFTC does not retain any amount for custodial activities including reimbursement of the cost of collection.

T. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

U. Reconciliation of Net Obligations and Net Cost of Operations

In accordance with OMB Circular No. A-136, the Commission reconciles its change in budgetary obligations with its net cost of operations.

V. Earmarked Funds

The Commission's Customer Protection Fund (CPF) is earmarked to operate a whistleblower program and support customer education initiatives. See Note 1.A. for a description of the purpose of the CPF and its authority to use revenues and other financing sources. Deposits into the CPF are credited from monetary sanctions collected by the Commission in a covered judicial or administrative action where the full judgment is in excess of $1,000,000 and the collection is not otherwise distributed to victims of a violation of the Dodd-Frank Act or the underlying rules and regulations, unless the balance of the CPF at the time the monetary judgment is collected, exceeds $100 million. No new legislation was enacted as of September 30, 2012 that significantly changed the purpose of the earmarked fund or redirected a material portion of the accumulated balance.

W. Reclassifications

In FY 2012, the presentation of the Statements of Budgetary Resources was changed in accordance with OMB Circular A-136. As such, activity and balances reported on the FY 2011 Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year. Certain other prior year amounts have also been reclassified to conform to the current year presentation.

Note 2 Fund Balance with Treasury

A. Reconciliation to Treasury

There are no differences between the fund balances reflected in the CFTC Balance Sheets and the balances in the Treasury accounts.

B. Fund Balance with Treasury

Fund Balance with Treasury consists of entity assets such as appropriations, reimbursements for services rendered, and collections of fines and penalties. Obligation of these funds is controlled by quarterly apportionments made by OMB. Work performed under reimbursable agreements is initially financed by the annual appropriation and is subsequently reimbursed. Collections of fines and penalties are distributed to harmed investors, returned to Treasury, or when eligible, transferred to the Customer Protection Fund.

Fund Balance with Treasury at September 30, 2012 and 2011 consisted of the following:

		2012		2011
Appropriated Funds	$	59,576,063	$	58,014,096
Customer Protection Fund		22,904,529		23,755,000
Deposit Fund		77,098		16,621
TOTAL FUND BALANCE WITH TREASURY	**$**	**82,557,690**	**$**	**81,785,717**

C. *Status of Fund Balance with Treasury*

Status of Fund Balance with Treasury at September 30, 2012 and 2011 consisted of the following:

Appropriated Funds		**2012**		**2011**
Unobligated Fund Balance				
Available	$	6,423,446	$	9,880,057
Unavailable		3,739,607		3,671,114
Obligated Balance Not Yet Disbursed		49,413,010		44,462,925
Total Appropriated Funds		**59,576,063**		**58,014,096**
Customer Protection Fund				
Unobligated Fund Balance				
Available	$	12,558,748	$	-
Unavailable		10,302,100		23,755,000
Obligated Balance Not Yet Disbursed		43,681		-
Total Customer Protection Fund		**22,904,529**		**23,755,000**
Deposit Fund		**77,098**		**16,621**
TOTAL FUND BALANCE WITH TREASURY	**$**	**82,557,690**	**$**	**81,785,717**

NOTE 3 *Investments, Net*

In fiscal year 2012, the CFTC began investing amounts deposited in the Customer Protection Funds in overnight short-term Treasury securities. Treasury overnight certificates of indebtedness are issued with a stated rate of interest to be applied to their par amount, mature on the business day immediately following their issue date, are redeemed at their par amount at maturity, and have interest payable at maturity.

The Commission may invest in other short-term or long-term Treasury securities at management's discretion.

The overnight certificates are Treasury securities whose interest rates or prices are determined based on the interest rates or prices of Treasury-related financial instruments issued or trading in the market, rather than on the interest rates or prices of outstanding marketable Treasury securities.

On September 30, 2012, the Commission's investments totaled $77,135,901 with interest earned of $12,918.

Note 4 Accounts Receivable

Accounts receivable consist of amounts owed the CFTC by other Federal agencies and the public. Accounts receivable are valued at their net collectable values. Non-custodial accounts receivable are primarily for overpayments of expenses to other agencies, or vendors, and repayment of employee benefits. Historical experience has indicated that most of the non-custodial receivables are collectible and that there are no material uncollectible amounts.

Custodial receivables (non-entity assets) are those for which fines and penalties have been assessed and levied against businesses or individuals for violations of the Commodity Exchange Act (CEA) or Commission regulations. Violators may be subject to a variety of sanctions including fines, injunctive orders, bars or suspensions, rescissions of illegal contracts, disgorgements, and restitutions to customers.

Historical experience has indicated that a high percentage of custodial receivables prove uncollectible. The Commission considers all custodial receivables to be 100% uncollectible unless deemed otherwise. An allowance for uncollectible accounts has been established and included in accounts receivable on the balance sheets. The allowance is based on past experience in the collection of accounts receivable and analysis of outstanding balances. Accounts are re-estimated quarterly based on account reviews and the agency determination that changes to the net realizable value are needed.

Accounts receivable, as of September 30, 2012 and 2011, consisted of the following:

		2012		2011
Custodial Receivables, Net:				
Civil Monetary Penalty Interest	$	700,973	$	776,139
Civil Monetary Penalties, Fines, and Administrative Fees		557,751,289		463,508,290
Less: Allowance for Loss on Interest		(700,957)		(776,121)
Less: Allowance for Loss on Penalties, Fines, and Administrative Fees		(555,301,289)		(462,710,547)
Registration and Filing Fees		1,690,331		1,776,412
Net Custodial Receivables	**$**	**4,140,347**	**$**	**2,574,173**
Other Accounts Receivable		20,976		59,226
TOTAL ACCOUNTS RECEIVABLE, NET	**$**	**4,161,323**	**$**	**2,633,399**

Note 5 General Property, Plant and Equipment, Net

Equipment and information technology (IT) assets are capitalized annually if they have useful lives of at least two years and an individual value of $25,000 or more. Bulk or aggregate purchases are capitalized when the individual useful lives are at least two years and a value of $25,000 or more. Depreciation for equipment and software is computed on a straight-line basis using a 5-year life. Leasehold improvements are amortized over the remaining life of the lease. Property, Plant and Equipment as of September 30, 2012 and 2011 consisted of the following:

2012				
Major Class	**Service Life and Method**	**Cost**	**Accumulated Amortization/ Depreciation**	**Net Book Value**
Equipment	5 Years/Straight Line	$ 29,120,043	$ (12,815,168)	$ 16,304,875
IT Software	5 Years/Straight Line	16,485,238	(6,938,168)	9,547,070
Software In Development	Not Applicable	2,493,610	-	2,493,610
Leasehold Improvements	Remaining Life of Lease/Straight Line	23,641,222	(2,639,648)	21,001,574
Construction in Progress	Not Applicable	4,063,306	-	4,063,306
		$ 75,803,419	**$ (22,392,984)**	**$ 53,410,435**

2011				
Major Class	**Service Life and Method**	**Cost**	**Accumulated Amortization/ Depreciation**	**Net Book Value**
Equipment	5 Years/Straight Line	$ 23,845,759	$ (7,582,852)	$ 16,262,907
IT Software	5 Years/Straight Line	10,061,707	(4,942,862)	5,118,845
Software In Development	Not Applicable	3,513,454	-	3,513,454
Leasehold Improvements	Remaining Life of Lease/Straight Line	15,345,533	(1,427,205)	13,918,328
Construction in Progress	Not Applicable	3,533,361	-	3,533,361
		$ 56,299,814	**$ (13,952,919)**	**$ 42,346,895**

Note 6 Deferred Costs

The Commission receives Tenant Improvement Allowance (TIA) from its landlords. These allowances are used to cover the costs of building renovations, asset purchases, or rent expenses. The TIA is initially recorded as deferred costs on the balance sheet and is amortized with the deferred lease liability over the life of the lease

The Commission received approximately $16.2 million in TIA over the last three fiscal years, of which approximately $13.3 million was used to fund leasehold improvements, and $1.7 million was used to cover rental payments. The remaining, unused balance of $1.2 million is reflected as deferred costs on the balance sheet.

Deferred Costs (TIA)	**2012**	**2011**
Beginning Balance, October 1	$ 6,254,873	$ 6,303,367
TIA received	2,868,320	6,701,194
TIA used	(7,888,970)	(6,749,688)
Balance as of End of September 2012	**$ 1,234,223**	**$ 6,254,873**

Note 7 Liabilities not Covered by Budgetary Resources

As of September 30, 2012 and 2011, the following liabilities were not covered by budgetary resources:

	2012	**2011**
Intragovernmental - FECA Liabilities	$ 127,661	$ 91,175
Annual Leave	8,639,840	8,117,663
Actuarial FECA Liabilities	636,582	437,337
Custodial Liabilities	4,140,347	2,574,173
Deposit Fund Liabilities	77,098	57,127
Deferred Lease Liabilities	24,808,042	21,974,782
Other	19,050	19,649
	$ 38,448,620	**$ 33,271,906**

Note 8 Retirement Plans and Other Employee Benefits

The CFTC imputes costs and the related financing sources for its share of retirement benefits accruing to its past and present employees that are in excess of the amount of contributions from the CFTC and its employees, which are mandated by law. The Office of Personnel Management (OPM), which administers federal civilian retirement programs, provides the cost information to the CFTC. The CFTC recognizes the full cost of providing future pension and Other Retirement Benefits (ORB) for current employees as required by Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government".

Full costs include pension and ORB contributions paid out of the CFTC's appropriations and costs financed by OPM. The amount financed by OPM is recognized as an imputed financing source. This amount was $6,478,917 for the period ended September 30, 2012 and $6,589,475 for the period ended September 30, 2011. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program are reported by OPM rather than CFTC.

Note 9 *Actuarial FECA Liabilities*

FECA provides income and medical cost protections to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the CFTC and subsequently seeks reimbursement from the CFTC for these paid claims. Accrued FECA liabilities represent amounts due to DOL for claims paid on behalf of the agency. Accrued FECA liabilities at September 30, 2012 and September 30, 2011 were $127,661 and $91,175, respectively.

Actuarial FECA liability represents the liability for future workers compensation (FWC) benefits, which includes the expected liability for death, disability, medical, and miscellaneous cost for approved cases. The liability is determined using a formula provided by DOL annually as of September 30th using a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefits payments are discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds. To provide more specifically for effects of inflation on the liability for FWC benefits, wage inflation factors (Consumer Price Index-Medical) are applied to the calculation of projected future benefits. These factors are also used to adjust historical payments so benefits are stated in current-year constant dollars. Actuarial FECA liabilities at September 30, 2012 and September 30, 2011 were $636,582 and $437,337, respectively.

Note 10 *Leases*

The CFTC leases office space in publicly owned buildings for its locations in Washington D.C., Chicago, New York, and Kansas City. The lease contracts for publicly owned buildings are operating leases. The CFTC has no real property. Future estimated minimum lease payments are not accrued as liabilities and are expensed on a straight-line basis.

As of September 30, 2012, future estimated minimum lease payments through FY 2025 are as follows:

Fiscal Year		
2013	$	17,781,576
2014		18,110,766
2015		18,254,669
2016		19,017,114
2017		19,411,711
2018 and thereafter		155,776,015
Total Future Minimum Lease Payments	$	248,351,850
Add: Amount representing estimated executory costs (taxes, maintenance, and insurance)		37,355,082
TOTAL MINIMUM LEASE PAYMENTS, INCLUDING ESTIMATED EXECUTORY COSTS	**$**	**285,706,932**

Lease expense is recognized on a straight-line basis because lease payment amounts vary, and in some cases, CFTC receives periods of up-front free rent, or incentive contributions (TIA) paid by the landlord. As of September 30, 2012, the Commission had received $16,199,394 in incentive awards for the renovation of space in Washington D.C., Chicago, New York and Kansas City. A deferred lease liability representing expense amounts in excess of payments to date has been recorded. The deferred lease liabilities at September 30, 2012 and September 30, 2011 were $ 24,808,042 and $$21,974,782 respectively.

Note 11 Contingent Liabilities

The CFTC records contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, including judgments that have been issued against the agency and which have been appealed. In FY 2012, the Commission is involved in one civil matter which it believes the chance of an unfavorable outcome to be probable. The potential loss in this matter is estimated to be $150,000. Additionally, the Commission discloses legal matters in which an unfavorable outcome is reasonably possible. In FY 2012, the Commission was involved in three civil matters which it believes the chance of an unfavorable outcome to be reasonably possible. The potential loss in these cases is estimated to be $473,648.70.

Note 12 Undelivered Orders

The amount of budgetary resources obligated for undelivered orders as of September 30, 2012 and 2011 consisted of the following:

	2012	2011
Undelivered Orders	**$ 36,204,581**	**$ 31,133,527**

The amount of undelivered orders represents the value of unpaid and paid obligations recorded during the fiscal year, upward adjustments of obligations that were originally

recorded in a prior fiscal year, and recoveries resulting from downward adjustments of obligations that were originally recorded in a prior fiscal year.

Note 13 Apportionment Categories of Obligations Incurred

Obligations incurred and reported in the Statements of Budgetary Resources in FY 2012 and FY 2011 were Category A and consisted of the following:

	2012	2011
Direct Obligations	$ 214,808,706	$ 192,773,375
Reimbursable Obligations	214,587	77,156
TOTAL OBLIGATIONS INCURRED	**$ 215,023,293**	**$ 192,850,531**

Note 14 Explanations of Differences between the Statement of Budgetary Resources and Budget of the United States Government

The CFTC had no material differences between the amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the U.S. Government for FY 2011. The Budget of the U.S. Government with actual numbers for FY 2012 has not yet been published. The expected publish date is February 2013. A copy of the Budget can be obtained from OMB's Internet site at http://www.whitehouse.gov/omb/.

Note 15 Intra-governmental Cost and Exchange Revenue by Goal

As required by the Government Performance and Results Act of 1993, the agency's reporting has been aligned with the following major goals presented in the 2011 – 2015 CFTC Strategic Plan.

1. Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system

2. Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants

3. Protect the public and market participants through a robust enforcement program

4. Enhance integrity of US markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide

5. Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources

The Net Cost of Operations is derived from transactions between the Commission and public entities, as well as with other federal agencies. The details of the intra-governmental costs and revenues, as well as those with the public, are as follows:

	2012	2011
Goal 1: Protect the public and market participants by ensuring market integrity; promoting transparency, competition, and fairness; and lowering risk in the system		
Intragovernmental Gross Costs	$ 10,083,898	$ 8,543,266
Less: Earned Revenue	(47,728)	(18,783)
Intragovernmental Net Cost of Operations	**$ 10,036,170**	**$ 8,524,482**
Gross Costs With the Public	$ 49,149,593	$ 39,870,011
Less: Earned Revenue	(17,179)	(4,106)
Net Cost of Operations With the Public	**$ 49,132,414**	**$ 39,865,905**
Total Net Cost of Operations- Goal 1	**$ 59,168,584**	**$ 48,390,387**
Goal 2: Protect the public and market participants by ensuring the financial integrity of derivatives transactions, mitigation of systemic risk, and the fitness and soundness of intermediaries and other registrants		
Intragovernmental Gross Costs	$ 9,313,379	$ 7,715,430
Less: Earned Revenue	(44,081)	(16,963)
Intragovernmental Net Cost of Operations	**$ 9,269,298**	**$ 7,698,467**
Gross Costs With the Public	$ 45,394,034	$ 36,006,638
Less: Earned Revenue	(15,867)	(3,709)
Net Cost of Operations With the Public	**$ 45,378,167**	**$ 36,002,929**
Total Net Cost of Operations- Goal 2	**$ 54,647,465**	**$ 43,701,396**
Goal 3: Protect the public and market participants through a robust enforcement program		
Intragovernmental Gross Costs	$ 10,391,398	$ 10,794,979
Less: Earned Revenue	(49,183)	(23,734)
Intragovernmental Net Cost of Operations	**$ 10,342,215**	**$ 10,771,245**
Gross Costs With the Public	$ 50,648,372	$ 50,378,386
Less: Earned Revenue	(17,704)	(5,189)
Net Cost of Operations With the Public	**$ 50,630,668**	**$ 50,373,197**
Total Net Cost of Operations- Goal 3	**$ 60,972,883**	**$ 61,144,442**
Goal 4: Enhance integrity of US markets by engaging in cross-border cooperation, promoting strong international regulatory standards, and encouraging ongoing convergence of laws and regulation worldwide		
Intragovernmental Gross Costs	$ 1,184,054	$ 1,490,105
Less: Earned Revenue	(5,604)	(3,276)
Intragovernmental Net Cost of Operations	**$ 1,178,450**	**$ 1,486,828**
Gross Costs With the Public	$ 5,771,158	$ 6,954,071
Less: Earned Revenue	(2,017)	(716)
Net Cost of Operations With the Public	**$ 5,769,141**	**$ 6,953,356**
Total Net Cost of Operations- Goal 4	**$ 6,947,591**	**$ 8,440,184**
Goal 5: Promote Commission excellence through executive direction and leadership, organizational and individual performance management, and effective management of resources		
Intragovernmental Gross Costs	$ 4,372,163	$ 4,569,654
Less: Earned Revenue	(20,694)	(10,047)
Intragovernmental Net Cost of Operations	**$ 4,351,469**	**$ 4,559,607**
Gross Costs With the Public	$ 21,310,216	$ 21,325,820
Less: Earned Revenue	(7,447)	(2,196)
Net Cost of Operations With the Public	**$ 21,302,769**	**$ 21,323,624**
Total Net Cost of Operations- Goal 5	**$ 25,654,238**	**$ 25,883,231**
NET COST OF OPERATIONS	**$ 207,390,761**	**$ 187,559,640**

Note 16 Reconciliation of Net Obligations and Net Cost of Operations

The schedule presented in this footnote reconciles the net obligations with the Net Cost of Operations. Resources Used to Finance Activities reflects the budgetary resources obligated and other resources used to finance the activities of the agency. Resources Used to Finance Items Not Part of the Net Cost of Operations adjusts total resources used to finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the Net Cost of Operations. Components Requiring or Generating Resources in Future Periods identifies items that are recognized as a component of the net cost of operations for the period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period. Components Not Requiring or Generating Resources includes items recognized as part of the net cost of operations for the period but will not generate or require the use of resources. Net Cost of Operations agrees with the Net Cost of Operations as reported on the Statements of Net Cost.

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 215,023,293	$ 192,850,531
Less: Spending Authority from Offsetting Collections and Recoveries	(83,253,032)	(25,532,215)
Obligations Net of Offsetting Collections and Recoveries	131,770,261	167,318,316
Less: Offsetting Receipts	(3,210)	(2,219)
Net Obligations After Offsetting Receipts	131,767,051	167,316,097
Other Resources		
Transfers In from Disgorgements, Fines and Penalties	76,708,620	23,755,000
Imputed Financing From Costs Absorbed by Others	6,478,917	6,589,475
Total Resources Used to Finance Activities	**$ 214,954,588**	**$ 197,660,572**
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 before Adjustments	$ (5,112,842)	$ (3,560,305)
Offsetting Receipts	3,210	2,219
Resources that Fund the Acquisition of Fixed Assets	(12,963,942)	(16,997,172)
Total Resources Used to Finance Items Not Part of the Net Cost Of	**$ (18,073,574)**	**$ (20,555,258)**
Components of the Net Cost of Operations that will not Require or		
Increase in Unfunded Liabilities	$ 757,908	$ 765,005
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	**$ 757,908**	**$ 765,005**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	$ 8,588,607	$ 9,542,857
(Gain)/Loss on Disposal	-	160,131
Other	1,163,232	(13,667)
Total Components of Net Cost of Operations that will Not Require or Generate Resources	**$ 9,751,839**	**$ 9,689,321**
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Year	**$ 10,509,747**	**$ 10,454,326**
Net Cost of Operations	**$ 207,390,761**	**$ 187,559,640**

Note 17 Earmarked Funds

Earmarked funds arise from disgorgement and penalty collections and are transferred to the Customer Protection Fund (CPF), established by the Dodd-Frank Act. The collections are transferred from the custodial receipt account if they are found to be eligible before the end of each fiscal year. In cases where the collection has been returned to the Treasury Department, the Commission can recover the funds directly from Treasury. The collections will fund the Commission's whistleblower awards program and customer education initiatives.

The Dodd-Frank Act provides that whistleblower awards shall be paid under regulations prescribed by the Commission. An important prerequisite to implementation of the whistleblower awards program is the issuance of rules and regulations describing its scope and procedures. The Commission issued final rules implementing the Act on August 25, 2011. These rules became effective on October 24, 2011. The Commission established the Whistleblower Office in FY 2012.

During FY 2012, $76.7 million of eligible collections were transferred into the Customer Protection Fund. The Fund's balance or net position at September 30, 2012 and September 30, 2011 were $99.9 million and $23.7 million, respectively.