United States Government Accountability Office

GAO

Report to the Chairman, United States Securities and Exchange Commission

November 2008

FINANCIAL AUDIT

Securities and Exchange Commission's Financial Statements for Fiscal Years 2008 and 2007

GAO-09-173

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-09-173, a report to Chairman, United States Securities and Exchange Commission

November 2008

FINANCIAL AUDIT

Securities and Exchange Commission's Financial Statements for Fiscal Years 2008 and 2007

Why GAO Did This Study

Established in 1934 to enforce the securities laws and protect investors, the Securities and Exchange Commission (SEC) plays an important role in maintaining the integrity of the U.S. securities markets.

Pursuant to the Accountability of Tax Dollars Act of 2002, SEC is required to prepare and submit to Congress and the Office of Management and Budget audited financial statements. GAO agreed, under its audit authority, to perform the audit of SEC's financial statements. GAO's audit determined whether, in all material respects, (1) SEC's fiscal year 2008 financial statements were reliable and (2) SEC's management maintained effective internal control over financial reporting and compliance with laws and regulations. GAO also tested SEC's compliance with selected laws and regulations.

To view the full product, including the scope and methodology, click on GAO-09-173. For more information, contact Jeanette Franzel, (202)-512-9471 or franzelj@gao.gov.

What GAO Found

In GAO's opinion, SEC's fiscal years 2008 and 2007 financial statements were fairly presented in all material respects. A notable achievement during fiscal year 2008 was the significant progress SEC made in addressing the material weakness reported in GAO's previous financial statement audit of SEC. As a result, GAO concluded that, although certain controls should be improved, SEC had effective internal control over financial reporting and compliance with laws and regulations as of September 30, 2008. GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

Last year, GAO identified significant control deficiencies in SEC's period-end financial reporting process, disgorgements and penalties accounts receivable, accounting for transaction fee revenue, and preparation of financial statement disclosures. These significant deficiencies, taken collectively, constituted a material weakness in SEC's financial reporting process. Based on our work during this year's audit, GAO concluded that SEC's improvements in internal controls over its financial reporting process were such that GAO no longer considers this area to be a significant deficiency or a material weakness as of September 30, 2008. However, SEC's financial reporting process continues to rely heavily on manual compensating measures that were labor-intensive and required heroic efforts from SEC and contractor personnel to produce reliable financial reporting within mandated time frames. SEC's ability to sustain improvements over its financial reporting process remains at risk until SEC fully integrates its subsidiary systems, and until its accounting system can readily produce financial reports without the need for significant manual processes.

As was the case last year, GAO continued to identify weaknesses in controls over information security, accounting for budgetary resources, and property and equipment, and therefore continues to consider these areas as significant deficiencies as of September 30, 2008.

In commenting on a draft of this report, SEC's Chairman cited GAO's recognition of the agency's substantial progress in strengthening internal controls during fiscal year 2008. The Chairman also stated SEC will continue working to enhance the reliability of its financial reporting, the soundness of its operations, and public confidence in the agency's mission.

Contents

Contents

G A O
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

November 14, 2008

The Honorable Christopher Cox
Chairman
United States Securities and Exchange Commission

Dear Mr. Cox:

This report presents our opinion on whether the financial statements of the United States Securities and Exchange Commission (SEC) for the fiscal years ended September 30, 2008, and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. This report also presents (1) our opinion on the effectiveness of SEC's internal control over financial reporting and compliance as of September 30, 2008, and (2) the results of our evaluation of SEC's compliance with selected laws and regulations during 2008.

The Accountability of Tax Dollars Act of 2002 requires that SEC prepare and submit audited financial statements to Congress and the Office of Management and Budget (OMB). We agreed, under our audit authority, to audit SEC's financial statements. We conducted this audit in accordance with U.S. generally accepted government auditing standards and OMB guidance.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Banking, Housing, and Urban Affairs; the Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Financial Services; and the House Committee on Oversight and Government Reform. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. In addition, this report will be available at no charge on our Web site at http://www.gao.gov.

If you have questions about this report, or if I can be of further assistance, please call me at (202) 512-9471 or franzelj@gao.gov.

Sincerely yours,

Jeanette M. Franzel

Jeanette M. Franzel
Director
Financial Management and Assurance

G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

To the Chairman of the United States Securities and Exchange Commission

In our audits of the United States Securities and Exchange Commission (SEC) for fiscal years 2008 and 2007, we found

- the financial statements as of and for the fiscal years ended September 30, 2008, and 2007, including the accompanying notes, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although internal controls could be improved, SEC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2008; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail these conclusions as well as our conclusions on SEC's Management Discussion and Analysis and other supplementary information. They also present information on the objectives, scope, and methodology of our audit and our discussion of SEC management's comments on a draft of this report.

Opinion on Financial Statements

SEC's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SEC's assets, liabilities, net position, net costs, changes in net position, budgetary resources, and custodial activity as of, and for the fiscal years ended, September 30, 2008, and September 30, 2007.

As disclosed in footnote 1.D. to SEC's financial statements, in fiscal year 2008, SEC changed its method of presentation for the receipt, accounting, and disposition of all disgorgement-related assets stemming from actions against violators of federal securities laws and for investments.

Opinion on Internal Control

Although certain internal controls could be improved, SEC maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2008, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion on internal control is based on criteria established under 31 U.S.C. § 3512(c)(d), commonly referred to as the Federal Managers' Financial Integrity Act (FMFIA), and the Office of Management and Budget (OMB) Circular No. A-123, *Management Accountability and Control.*

During this year's audit, we identified three significant deficiencies[1] in internal control, which although not material weaknesses,[2] represent significant deficiencies in the design or operation of internal control that could adversely affect SEC's ability to meet its internal control objectives. These deficiencies, described in more detail later in this report, concern (1) information security controls, (2) controls over accounting for budgetary resources, and (3) property and equipment controls.

In our 2007 audit report,[3] we identified significant deficiencies in internal control in SEC's period-end financial reporting process, disgorgements and penalties accounts receivable,[4] accounting for transaction fee revenue, and preparation of financial statement disclosures. These significant deficiencies, taken collectively, constituted a material weakness in SEC's financial reporting process. Our fiscal year 2008 audit concluded that SEC has made sufficient improvements in internal controls over its financial reporting process such that we no longer consider these issues to be significant deficiencies or a material weakness. Specifically, in 2008, SEC upgraded its general ledger system, Momentum; implemented new system modules to automate and integrate accounts receivable and property and equipment transactions; and improved controls and documentation for its period-end financial reporting process. However, some of the new

[1] A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

[2] A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

[3] GAO, *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Years 2007 and 2006*, GAO-08-167 (Washington, D.C.: Nov. 16, 2007).

[4] A disgorgement is the repayment of illegally gained profits (or avoided losses) for distribution to harmed investors whenever feasible. A penalty is a monetary payment from a violator of securities law that SEC obtains pursuant to statutory authority. A penalty is fundamentally a punitive measure, although penalties occasionally can be used to compensate harmed investors.

processes were not fully implemented as of September 30, 2008, and other system integration projects involving accounting for disgorgements and penalties and investments are not scheduled to be implemented until fiscal year 2009. As a result, SEC continues to rely heavily on manual compensating controls and detective controls to work around its financial systems' limitations. These compensating and detective measures were labor-intensive and required heroic efforts from SEC and contractor personnel to produce reliable financial reporting within mandated time frames. SEC's ability to sustain improvements over its financial reporting process remains at risk until SEC fully integrates its subsidiary systems for disgorgements and penalties and for investments and until its general ledger accounting system can readily produce financial reports, thus eliminating the need for manual reconciliations, manual data handling, and other time-consuming manual processes.

With regard to the current year significant deficiencies in internal control related to information security, accounting for budgetary resources, and property and equipment, we have reported on all of these deficiencies in prior audits and have provided SEC with recommendations to address these issues. SEC has taken actions to address these deficiencies; however, our work showed continuing deficiencies in the design and/or implementation of effective internal control for all of these areas as of September 30, 2008. Although the significant deficiencies in internal control did not materially affect the 2008 financial statements, misstatements may nevertheless occur in unaudited financial information reported by SEC, including performance information, as a result of these deficiencies.

We will be reporting additional details concerning these significant deficiencies separately to SEC management, along with recommendations for corrective actions. We will also be reporting less significant matters involving SEC's system of internal control separately to SEC management.

Significant Deficiencies

Information Security

SEC relies extensively on computerized information systems to process, account for, and report on its financial activities and to make payments. During fiscal year 2008, SEC made important progress in mitigating certain control weaknesses that were previously reported as unresolved at the time of our prior review. For example, it adequately validated electronic certificates from certain connections to its network, physically secured the perimeter of the operations center, put in place a process to monitor unusual and suspicious activities at its operations center, and implemented a policy on remedial action plans to help ensure that deficiencies are mitigated in an effective and timely manner. However, SEC has not yet fully implemented certain key information security controls to effectively safeguard the confidentiality, integrity, and availability of its information systems and financial and sensitive data. Therefore, SEC continues to be at risk and does not have adequate assurance that (1) computer resources (programs and data) are protected from unauthorized disclosure, modification, and destruction; (2) access to facilities by unauthorized individuals is controlled; and (3) computer resources are protected and controlled to ensure the continuity of data processing operations when unexpected interruptions occur.

Consistent with our previous audits, in fiscal year 2008, we continued to find that SEC (1) has not adequately documented access privileges for a major application SEC uses for processing fees paid by SEC-registered companies, (2) does not perform procedures for periodically reviewing application code to ensure that only authorized changes have been made, (3) does not restrict physical access to live network jacks in publicly accessible areas, and (4) has not yet completed annual testing of the general support system network that allows users to communicate with the database applications.

During this year's audit, we found new information security weaknesses concerning identification and authentication, authorization, audit and monitoring, physical security, segregation of duties, and configuration management. For example, we found (1) the use of a single shared application ID for the Momentum database, (2) the lack of access request forms for some individuals using Momentum, and (3) computer functions that were not adequately segregated. These weaknesses existed, in part, because SEC has not yet fully implemented its information security program.

Furthermore, during fiscal year 2008, SEC upgraded its Momentum financial reporting system and implemented two new automated interfaces in the Momentum application. These upgraded and new systems represent progress toward creating increased integration of SEC's financial management systems to address previously reported weaknesses associated with the manual processing of financial information. However, our review of the upgraded general ledger system and new system interfaces identified information security deficiencies that reduced SEC's ability to control data integrity and detect unauthorized user activity or system changes. Specifically, we found inadequate auditing and monitoring capabilities with respect to the upgraded Momentum database. In addition, the new system interface for recording accounts receivable transactions into Momentum was developed, tested, and placed into production without proper security monitoring. These deficiencies were due, in part, to a lack of communication and coordination among SEC offices regarding the information security control requirements needed in developing its upgraded and new financial systems.

Collectively, these continuing and newly identified weaknesses represent a significant deficiency in SEC's internal control over information systems and data SEC uses for financial reporting. Specifically, the weaknesses decrease assurances regarding the reliability of the data processed by the systems and increase the risk that unauthorized individuals could gain access to critical hardware and software and intentionally or inadvertently access, alter, or delete sensitive data or computer programs. Until SEC fully implements all key elements of its information security program, the information that is processed, stored, and transmitted on its systems will remain vulnerable, and management will not have sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction. Furthermore, adequate safeguarding of financial information will continue to be at risk until SEC strengthens its control environment to ensure effective communication and coordination among SEC offices to support information security needs of the various system applications used across SEC. We will be issuing a separate report on issues we identified regarding information security concerns at SEC.

Accounting for Budgetary Resources

For fiscal year 2008, SEC incurred approximately $916 million in obligations, which represent legal liabilities against funds available to SEC to pay for goods and services ordered. At September 30, 2008, SEC reported that the amount of budgetary resources obligated for undelivered orders was approximately $157 million, which reflects obligations for goods and services ordered but not yet delivered or received as of that date.

Similar to our last year's audit, during the course of testing fiscal year 2008 undelivered order transactions, we identified several concerns over SEC's accounting for obligations and undelivered orders. Specifically, we continued to find numerous instances in which SEC (1) recorded invalid obligation-related transactions due to incorrect posting logic configurations in SEC's general ledger, (2) recorded obligations prior to having documentary evidence of a binding agreement for the goods or services, and (3) did not maintain sufficient documentation of authorizations for downward adjustments to prior-year undelivered orders. During fiscal year 2008, SEC addressed some problems related to the incorrect posting logic configurations in its general ledger; however, several significant posting logic problems continue to exist. As a result, SEC had to correct transaction errors resulting from the incorrect posting configurations by making adjusting journal entries amounting to approximately $83.8 million in fiscal year 2008.

For fiscal year 2008, SEC's budgetary resources included amounts appropriated in the fiscal year 2008 appropriation for SEC and offsetting collections.[5] In 2008, SEC recorded approximately $986 million in offsetting collections, which primarily represent fees SEC collected from self-regulatory organizations (e.g., stock exchanges and the Financial Industry Regulatory Authority) and registrants. In our testing of offsetting collections for this year's audit, we identified issues concerning posting model configurations and insufficient documentation of procedures concerning processing of offsetting collections. Specifically, we identified (1) invalid revenue-related transactions due to additional incorrect posting configurations in SEC's general ledger and (2) incomplete procedures for general ledger entries necessary to properly account for returning appropriated funds to the U.S. Treasury.[6] As a result of the incorrect posting configurations in the general ledger, SEC made adjustments of

[5] Offsetting collections are amounts the SEC receives from businesslike transactions with the public (e.g., fees for filing registration statements), which SEC is authorized to credit to appropriations accounts for future obligation. The Securities Act of 1933 (15 U.S.C. § 77a et seq.) and the Securities Exchange Act of 1934 (15 U.S.C. § 78a et seq.) require SEC to assess certain fees and credit them as offsetting collections.

[6] The 2008 appropriation for SEC provided $906 million for SEC's necessary expenses and required SEC to use the offsetting collections it receives during the year to reduce amounts appropriated from the General Fund of the U.S. Treasury. See Financial Services and General Government Appropriations Act, 2008, Pub. L. No. 110-161, div. D, tit. V, 121 Stat. 1972, 2010 (Dec. 26, 2007).

approximately $983.7 million to record fees in the appropriate budgetary accounts.

Although SEC was able to identify most of the errors and make corresponding adjustments, the ineffective processes that caused these errors constitute a significant deficiency in SEC's internal control over recording and reporting obligations and revenue, and put SEC at risk that the amounts recorded in the general ledger and reported on SEC's Statement of Budgetary Resources could be misstated in the future if the necessary compensating adjustments are not identified and made. Specifically, SEC's general ledger is not configured to properly post undelivered order and offsetting collection transactions, thereby resulting in the need for SEC to routinely identify and correct these entries. Extensive reviews of the budgetary transactions, along with significant adjusting journal entries, are needed to compensate for the system limitations. An additional weakness in the area of budgetary accounting is SEC's lack of formal policies or effective internal controls to prevent recording of obligations that are not valid. Recording obligations prior to having sufficient documentary evidence of a binding agreement for the goods and services is a violation of the recording statute,[7] and may result in funds being reserved unnecessarily and, therefore, made unavailable for other uses should the agreement not materialize. In addition, early recording of obligations may result in the charging of incorrect fiscal year funds for an agreement executed in a later fiscal year.

Property and Equipment

SEC's property and equipment consists of general-purpose equipment used by the agency; capital improvements made to buildings leased by SEC for office space; and internal-use software development costs for projects in development and production. SEC acquired approximately $17 million in property and equipment during fiscal year 2008.

To address our previous audit findings concerning property and equipment, in fiscal year 2008, SEC developed a new property and equipment subsidiary ledger system that is integrated with its general ledger accounting system and new policies and procedures for recording property

[7] The recording statute provides that an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another party that is in writing and establishes specific goods to be delivered or services to be provided. 31 U.S.C. § 1501(a)(1).

transactions. However, in our testing of property and equipment acquisitions processed under this new system, we found that the controls over the receipt and acceptance of assets were not operating effectively, which caused errors in SEC's recording of new property and equipment purchases. These control deficiencies resulted from (1) incorrect system design configurations and (2) a lack of training and experience on the use of the new system in conjunction with the new accounting processes for property and equipment purchases. A contributing factor to these internal control deficiencies was SEC's decision to implement the new property and equipment system in July, late into the fiscal year, without sufficient time to fully test the system configurations and train its users prior to the year's end. SEC corrected the design configurations in September, enabling the transactions to post to the proper accounts. However, SEC personnel continued to record property and equipment purchases incorrectly since they were still not familiar with the new system processes, resulting in ongoing asset capitalization errors. To compensate for the system configuration issues and the lack of user training on the new processes, SEC performed a labor-intensive reconciliation and review of property additions and made adjusting journal entries to correct capitalization errors and properly report related account balances at September 30, 2008.

In addition to the above issues, during the course of testing fiscal year 2008 property transactions, we continued to find inaccuracies in amounts capitalized for internal-use software projects, inaccuracies in recorded acquisition costs, and unrecorded property and equipment purchases. These issues are consistent with findings in our previous audits of SEC and indicate a need for improved oversight and review of accounting for property transactions. SEC corrected most of the substantive errors we identified through our interim and year-end testing. The remaining uncorrected errors did not materially affect the balances reported for property and equipment or the corresponding depreciation/amortization expense amounts in SEC's financial statements for fiscal year 2008. However, these continuing conditions, along with the issues we found this year with the new system implementation, evidence a significant deficiency in control over the recording of property and equipment that affects the reliability of SEC's reported balances for property and equipment. Although the system configuration issue has been addressed, until users are adequately trained in using the new property and equipment system and processes, and oversight and review processes over accounting for property and equipment transactions are strengthened, SEC does not have sufficient assurance that property and equipment transactions will be completely, consistently, or accurately recorded or reported.

Compliance with Laws and Regulations

Our tests of SEC's compliance with selected provisions of laws and regulations for fiscal year 2008 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

SEC's Management Discussion and Analysis and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We did not audit and do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with SEC officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance. However, because of the internal control weaknesses noted in this report, misstatements may occur in related performance information.

Objectives, Scope, and Methodology

SEC management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) management maintained effective internal control, the objectives of which are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the timely and reliable preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with applicable laws and regulations: Transactions are executed in accordance with (1) laws governing the use of budgetary authority, (2) other laws and regulations that could have a direct and material effect on the financial statements, and (3) any other laws, regulations, or governmentwide policies identified by OMB audit guidance.

We are also responsible for (1) testing compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements and for which OMB audit guidance requires testing and (2) performing limited procedures with respect to certain other information appearing in SEC's Performance and Accountability Report. To fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by SEC management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of SEC and its operations, including its internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- obtained an understanding of the design of internal controls related to the existence and completeness assertions relating to performance measures as reported in SEC's Management Discussion and Analysis, and determined whether the internal controls have been placed in operation;
- tested relevant internal controls over financial reporting and compliance with applicable laws and regulations, and evaluated the design and operating effectiveness of internal control;
- considered SEC's process for evaluating and reporting on internal control and financial management systems under FMFIA; and
- tested compliance with selected provisions of the following laws and their related regulations:
    - the Securities Exchange Act of 1934, as amended;

- the Securities Act of 1933, as amended;
- the Antideficiency Act;
- laws governing the pay and allowance system for SEC employees;
- the Debt Collection Improvement Act;
- the Prompt Payment Act;
- the Federal Employees' Retirement System Act of 1986; and
- the Financial Services and General Government Appropriations Act, 2008.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to SEC. We limited our tests of compliance to those required by OMB audit guidance and other laws and regulations that had a direct and material effect on, or that we deemed applicable to, SEC's financial statements for the fiscal year ended September 30, 2008. We caution that noncompliance may occur and not be detected by these tests, and that this testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

SEC Comments and Our Evaluation

In commenting on a draft of this report, SEC's Chairman said that he was pleased to receive an unqualified opinion on SEC's financial statements, and that SEC had effective internal control over financial reporting. He referred to SEC's substantial progress it made in strengthening its internal controls during fiscal year 2008, and expressed his pleasure that several control deficiencies that last year were found to collectively constitute a material weakness had been remedied. He cited this result as testimony to SEC's commitment to improving its internal control environment and operational efficiencies to allow SEC to lead by example in financial reporting. SEC's Chairman expressed his appreciation for our diligent efforts to complete our audit of an essentially new framework of internal control over financial reporting put in place in the fourth quarter, in a very compressed time frame. He added that these accomplishments are as commendable as they are unprecedented.

The complete text of SEC's comments is reprinted in appendix I.

Jeanette M. Franzel
Director
Financial Management and Assurance

November 14, 2008

Management's Discussion and Analysis

Management's Discussion and Analysis

The Securities and Exchange Commission's Management's Discussion and Analysis (MD&A) serves as a brief overview of this entire report. It provides you with a concise description of the agency's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned. It should also provide you with a balanced assessment of our program and financial performance, and the efficiency and effectiveness of our operations.

Vision, Mission, Values, and Goals

Vision

The Securities and Exchange Commission (SEC) aims to be the standard against which federal agencies are measured. The SEC's vision is to strengthen the integrity and soundness of U.S. securities markets for the benefit of investors and other market participants, and to conduct its work in a manner that is as sophisticated, flexible, and dynamic as the securities markets it regulates.

Mission

The mission of the SEC is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

Values

In managing the evolving needs of a complex marketplace and in pursuing its mission, the SEC embraces the following values:

- Integrity
- Accountability
- Fairness
- Resourcefulness
- Teamwork
- Commitment to Excellence

Goals

- **Enforce compliance with federal securities laws**
  The Commission seeks to detect problems in the securities markets, prevent and deter violations of federal securities laws, and alert investors to possible wrongdoing. When violations occur, the SEC aims to take prompt action to halt the misconduct, sanction wrongdoers effectively, and, where possible, return funds to harmed investors.

- **Promote healthy capital markets through an effective and flexible regulatory environment**
  The savings and investments of every American are dependent upon healthy capital markets. The Commission seeks to sustain an effective and flexible regulatory environment that will facilitate innovation, competition, and capital formation to ensure that our economy can continue to grow and create jobs for our nation's future. Enhancing the productivity of America is a key goal that the SEC works to achieve by increasing investor confidence in the capital markets.

- **Foster informed investment decision making**
  An educated investing public ultimately provides the best defense against fraud and costly mistakes. The Commission works to promote informed investment decisions through two main approaches: reviewing disclosures of companies and mutual funds to ensure that clear, complete, and accurate information is available to investors; and implementing a variety of investor education initiatives.

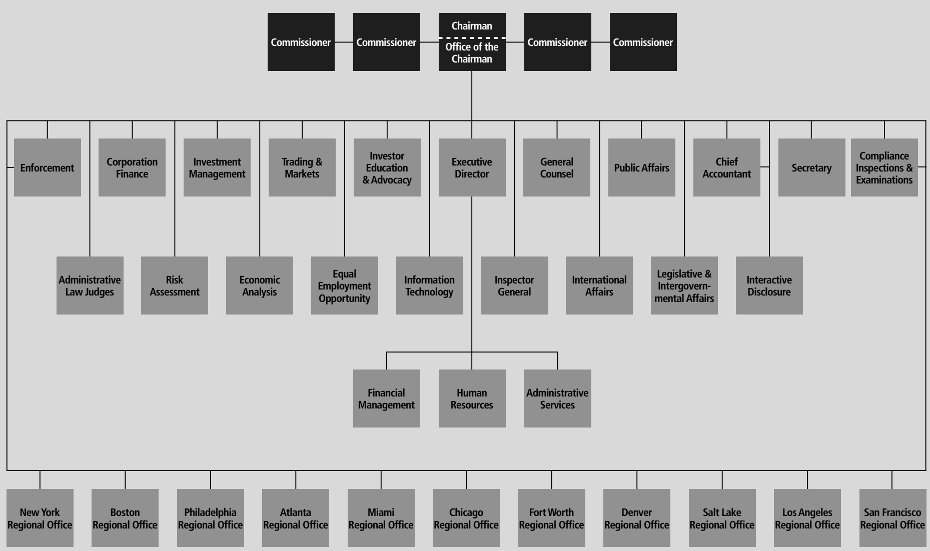
- **Maximize the use of SEC resources**
  The investing public and the securities markets are best served by an efficient, well-managed, and proactive SEC. The Commission strives to improve its organizational effectiveness by making sound investments in human capital and new technologies, and by enhancing internal controls.

Organizational Structure and Resources

The SEC is an independent federal agency established pursuant to the Securities Exchange Act of 1934 (Exchange Act). It is headed by a bipartisan five-member Commission, comprised of the Chairman and four Commissioners, who are appointed by the President and confirmed by the Senate (see *Appendix A: Chairman and Commissioners).* The Chairman serves as the chief executive officer (CEO). The SEC is organized into four main divisions: Corporation Finance, Enforcement, Investment Management, and Trading and Markets. The SEC's headquarters are in Washington, D.C., and it has 11 regional offices located throughout the country. In Fiscal Year (FY) 2008, the SEC received budget authority of $906 million consisting of current-year offsetting collections in the amount of $843 million plus $63 million in funds carried over from prior fiscal years. At September 30, 2008, the agency employed 3,511 Full-time Equivalents (FTE), including 3,442 permanent and 69 temporary FTE.

CHART 1.1

SEC Organization Chart



FY 2008 Highlights

Responses to Market Turmoil

In 2008, the subprime mortgage crisis and the resulting turmoil in the credit markets led to rapid and dramatic changes in U.S. financial markets. Once the crisis began with the deterioration of mortgage origination standards, the rise of abusive lending practices, and the spillover into the capital markets through securitization, the SEC used its law enforcement and regulatory powers to combat fraud and market manipulation and sustain orderly and liquid markets. During 2008 the agency moved aggressively in four main areas: investigating and prosecuting violations of the securities laws; releasing accounting and disclosure guidance to uncover hidden risk; using recent authority granted by Congress to regulate credit rating agencies; and using emergency and permanent rule-making authority to maintain orderly markets. The SEC's work in these areas has been both national and international.

Among its many areas of focus, the SEC worked to oversee the financial markets and protect investors. The SEC continued to pursue those who would use hidden manipulation, illegal naked short selling, or illegitimate trading tactics to drive market behavior and undermine confidence. And the Commission used its regulatory authority to strengthen disclosure, provide needed accounting guidance, and prevent market manipulation.

Key examples of the agency's actions during the subprime mortgage crisis include:

Investigating fraud and market manipulation. The SEC devoted significant resources to hold accountable those whose violations of the law contributed to the subprime crisis and the loss of confidence in the markets. Led by the Division of Enforcement's subprime working group, which was formed in 2007, the agency aggressively investigated possible fraud, market manipulation, and breaches of fiduciary duty. For example, in 2008 the enforcement staff launched investigations into whether mortgage lenders properly accounted for the loans in their portfolios and established appropriate loan loss reserves. The division also began investigating the role of the various parties involved in the securitization of mortgage-backed securities and collateralized debt obligations. Enforcement staff also worked to determine whether investment banks and broker-dealers defrauded retail customers by making false representations, or by putting investors into unsuitable mortgage-backed investments. As of the end of FY 2008, the SEC had over 50 pending law enforcement investigations in the subprime area.

The Enforcement Division undertook a sweeping investigation into market manipulation of financial institutions, focusing on broker-dealers and institutional investors with significant trading activity in financial issuers and with positions in credit default swaps. The division reached the largest settlements in the SEC's history—over $50 billion—on behalf of investors in auction rate securities (ARS) from Merrill Lynch, Wachovia, UBS, Citigroup, Bank of America and RBC Capital Markets. The division also brought a landmark enforcement action against a trader who spread false rumors designed to drive down the price of stock, and charged two Wall Street brokers with defrauding their customers when making more than $1 billion in unauthorized purchases of subprime-related auction rate securities.

In July 2008, the Office of Compliance Inspections and Examinations (OCIE) conducted examinations to prevent the spread of false information intended to manipulate securities prices. Examiners focused on the supervisory and compliance controls of broker-dealers and investment advisers.

Penalties against naked short selling. The Commission adopted new rules that strictly enforce the ban on abusive naked short selling contained in Regulation SHO, and impose significant penalties for its violation. A broker-dealer that does not deliver securities by the close of business on the settlement date (three days after the sale transaction date, or T+3) is banned from any short sales in that issuer until the failure is cured. New antifraud Rule 10b-21 expressly targets fraudulent short selling transactions. The Commission unanimously approved an additional measure to make it easier for issuers to repurchase their own shares on the open market, in order to provide liquidity in fragile market conditions. The Commission also voted unanimously to require weekly reporting by hedge funds and other large investment managers of their daily short positions, as part of a comprehensive investigation of possible market manipulation.

Guidance to support money market funds. In September 2008, the Office of the Chief Accountant (OCA) provided guidance to clarify how banks should treat, for purposes of their balance sheets, the financial support they provide to money market funds within the same financial services complex. This helped clarify for banks the appropriate accounting treatment for any assistance they render to money market funds, helping to protect investors in these funds.

Guidance on fair value accounting. The credit market crisis that deepened in September 2008 made questions about the determination of fair value particularly challenging for preparers, auditors, and users of financial information, as the concept of fair value measurement assumes an orderly transaction between market participants. OCA and the Financial Accounting Standards Board (FASB) jointly provided timely clarification, based on the guidance issued by OCA and FASB staff in FASB Statement No. 157, *Fair Value Measurements.* The clarification addressed questions cited as most urgent while the FASB prepared to propose additional interpretative guidance on fair value measurement under U.S. generally accepted accounting principles (GAAP). Among other issues, OCA and FASB addressed the use of management's internal assumptions and broker quotes to measure fair value when an active market for a security does not exist.

Study on fair value accounting. The Emergency Economic Stabilization Act of 2008 called for the SEC to conduct a study of mark-to-market accounting standards, considering the effects of such standards on the balance sheets of financial institutions, on bank failures in 2008, and on the quality of financial information available to investors. The agency has dedicated substantial resources to this study.

Implementation of the Troubled Asset Relief Program. The Chairman serves as one of five members of the Financial Stability Oversight Board, which oversees the U.S. Department of the Treasury's (Treasury) implementation of the $700 billion Troubled Asset Relief Program. The SEC brings to this role its unique perspective on investor protection, the maintenance of orderly markets, and the promotion of capital formation.

Regulation of credit rating agencies. The Commission began regulating credit rating agencies in the last month of FY 2007. In FY 2008 the agency examined the three largest rating agencies. These examinations uncovered serious shortcomings at these firms, including a lack of disclosure to investors and the public, a lack of policies and procedures to manage the rating process, and insufficient attention to conflicts of interest. The rating agencies all agreed to implement broad reforms to address these problems. In addition, the Commission proposed sweeping new rules for rating agencies to bring increased transparency to the credit ratings process and curb practices that contributed to the turmoil in the credit markets. The rules are designed to improve investor understanding of credit ratings through enhanced disclosure of the agencies' methods and performance data, reduce undue reliance on credit ratings, and promote investor confidence in credit ratings by minimizing conflicts of interest.

Formal Cooperation with the Federal Reserve Board. In July 2008, the SEC signed a Memorandum of Understanding with the Federal Reserve Board to cooperate and share information related to anti-money laundering, bank brokerage activities under the Gramm-Leach-Bliley Act, clearance and settlement in the banking and securities industries, the regulation of transfer agents, and other key areas. In addition to giving both organizations continued insight during the deepening credit crisis, the memorandum also enhanced SEC oversight of the broker-dealer subsidiaries of bank holding companies. The information from the bank holding company level that the SEC now receives under the memorandum will strengthen the agency's ability to protect the customers of the broker-dealers and the integrity of the broker-dealer firms.

Ending the CSE Program. The Consolidated Supervised Entities (CSE) program was created in 2004 in an effort to fill a regulatory hole regarding the lack of oversight for major investment bank holding companies under the Gramm-Leach-Bliley Act of 1999. Due to the lack of statutory authority from Congress, however, the program was voluntary in nature. In addition, the program's use of the Basel standards for holding company capital and the Federal Reserve's 10 percent "well capitalized" standard was found inadequate when Bear Stearns nearly failed in March 2008. The SEC ended the voluntary CSE program in September 2008. Broker-dealer subsidiaries of former participants in the program continue to be monitored vigorously.

Enforcement and Examination

The SEC vigorously pursued potential violations of the federal securities laws, highlighted by the second-highest number of enforcement actions in agency history in FY 2008. The Commission brought 671 enforcement actions during the fiscal year, with the number of insider trading and market manipulation cases up more than 25 percent and 45 percent respectively over the previous year.

In addition to the cases described above, the Commission also brought major cases related to hedge fund fraud, insider trading, financial fraud, options backdating, and other areas. For example, the SEC successfully prosecuted the head of two Connecticut-based hedge funds, whose fraudulent actions caused investor losses of approximately $500 million. The Commission also charged the former Chairman and CEO of Enron Energy Services with selling Enron stock on the basis of material, nonpublic information, and he agreed to pay $32 million in disgorgement, penalties, and prejudgment interest. In a major financial fraud case, the former Chairman and CEO of DHB Industries, a major supplier of body armor to the U.S. military and law enforcement agencies, was charged with engaging in a pervasive accounting fraud between 2003 and 2005, violating insider trading laws in 2004, and using millions of dollars in corporate funds to pay personal expenses. The SEC filed options backdating cases against Broadcom, the Chairman and CEO of UnitedHealth Group, Brooks Automation, and executives with Monster Worldwide, among others. In all, the disgorgements and penalties ordered in SEC cases amounted to more than $1 billion in FY 2008.

Office of Collections and Distributions. In FY 2007, the SEC created the office to manage the collection of penalties and disgorgements and speed the process of returning funds back to harmed investors. The agency also continued to use the Phoenix system, deployed in 2007, which has significantly improved the tracking of dollars ordered to be paid to the SEC, courts, or other appointed trustees. Between FY 2004 and FY 2008, the total amount ordered was approximately $12.9 billion. About 75 percent of this total has been either collected or otherwise satisfied as of the end of FY 2008. The SEC also succeeded in distributing approximately $1 billion to injured investors in FY 2008, bringing total distributions since the passage of Sarbanes-Oxley to an estimated $4.3 billion. The SEC continues to streamline the process and return funds to investors as quickly as possible.[1]

Internet enforcement, microcap fraud, municipal fraud. In FY 2008, the SEC continued to fight fraudulent activity conducted via the Internet and in the sale of microcap and municipal securities. The SEC obtained an emergency court order freezing the assets of the alleged perpetrator of an Internet fraud scheme that reaped approximately $72 million from more than 3,000 investors in all 50 states and at least 30 foreign countries. In four separate enforcement actions, the Commission charged six microcap companies, four company officers, and several market professionals who, according to the Commission's allegations, engaged in a scheme to raise millions of dollars in capital through improperly registered stocks.

Additionally, the SEC charged the mayor of Birmingham, Alabama, and others with fraud related to municipal bond offerings and swap agreement transactions he directed. The Commission also filed a settled civil fraud action against the independent auditor of San Diego, California, in connection with the city's false and misleading financial statements in five 2002 and 2003 bond offerings.

Enhancing enforcement and examination systems. In FY 2008, the agency focused on improving and strengthening the agency's internal enforcement and examinations systems. The Division of Enforcement's new system, called "The Hub," gives all enforcement staff access to the entire inventory of investigations and provides senior managers with a wealth of data about those activities. As a result, enforcement leadership's ability to direct the resources of the entire national enforcement program quickly and effectively has been enhanced significantly.

The Risk Assessment Database for Analysis and Reporting (RADAR) automates OCIE's risk assessment and mapping process, which helps the office identify and respond quickly to new or resurgent forms of fraudulent, illegal, or questionable behavior or products. Using RADAR, examiners nationwide can identify and prioritize risks to investors, registrants, and markets, which the SEC analyzes to determine examination priorities and

1 The figures reflect balances associated with amounts paid to the SEC, courts, or other appointed trustees, whereas the financial statements and notes reflect only amounts ordered or paid to the SEC.

develop appropriate regulatory responses. In FY 2008, OCIE expanded the information it collects and analyzes using RADAR, and the office plans to enhance the system further in FY 2009.

In FY 2008, the agency began developing the Risk Assessment Documentation and Inspection Umbrella System (RADIUS), a new over-arching examination platform that will allow staff to conduct, plan, and coordinate examinations more easily and effectively. Ultimately, RADIUS will serve as the central platform for the examination program through which examiners will perform program-wide risk assessment, document management, data tracking and reporting, and program-wide planning.

***CCOutreach* Program.** During the year, the SEC fully implemented a new *CCOutreach* program for broker-dealers, with the SEC and Financial Industry Regulatory Authority (FINRA) conducting 14 regional seminars. The seminars focused on the SEC's examination priorities, FINRA's examination findings, and other important issues to assist chief compliance officers (CCO) in developing and enhancing effective compliance programs. Additionally, the SEC continued to host seminars for compliance officers at investment advisers and funds, and the agency issued a new *ComplianceAlert* letter identifying common deficiencies and weaknesses that SEC examiners found during their examinations of firms.

Enhanced Protection, Outreach, and Disclosure for Investors

Expanded SEC office focusing on investor protection. The SEC significantly improved and expanded its investor education and advocacy functions in 2007, establishing the Office of Investor Education and Advocacy (OIEA). With an expanded staff, OIEA undertook new initiatives in FY 2008, focusing on assessing the views and needs of retail investors, ensuring those views inform the SEC's regulatory policies and disclosure programs, improving financial literacy, and helping investors make informed investment decisions.

Protecting seniors from fraudulent activities and abusive sales practices. The SEC continued to focus on protecting the savings and investments of seniors, who hold the vast majority of the nation's savings, making them prime targets for fraud. The SEC, FINRA, and the North American Securities Administrators Association (NASAA) announced in 2006 a multi-year national initiative to protect seniors from investment fraud and sales of unsuitable securities. A key component of the initiative has been the Seniors Summit. The third annual summit, which was held in September, focused on helping older investors make difficult financial decisions and learn ways to protect their assets as they age. This year, the three regulators also launched an initiative to identify effective practices used by financial services firms in dealing with senior investors and to disseminate information about these best practices throughout the industry.

Additionally, the Commission proposed a new rule that would protect seniors from fraudulent and abusive sales of equity indexed annuities, which are often sold to seniors but may be unsuitable for them because of high early surrender charges that lock up investors' money for many years. The proposed rule establishes the standards for determining when the annuities are subject to the investor protections afforded by the securities laws.

Improved access to municipal securities information. In July 2008, the Commission proposed measures that would for the first time enable investors to access complete financial information about municipal bonds for free on the Internet. Approximately two-thirds of the $2.5 trillion in municipal securities are owned directly or indirectly by retail investors. Currently, issuers of municipal bonds submit their disclosures to a variety of for-profit information repositories that then sell the disclosures to the public, severely limiting the availability of this information to retail investors. The proposed amendments would designate the Municipal Securities Rulemaking Board as the central repository for ongoing disclosures by municipal issuers.

Enhancement of Global Accounting Standards. The increasing integration of the world's capital markets, which has resulted in two-thirds of U.S. investors directly or indirectly owning securities issued by foreign companies that report their financial information using International Financial Reporting Standards (IFRS), has made the establishment of a single set of high quality accounting standards a matter of growing importance. In 2008, the SEC took several major steps to encourage the development of IFRS as a uniform and high-quality global standard, which would help U.S. investors who own foreign securities better analyze and more readily compare their investments. The Commission aided the record number of U.S. investors who own the securities of foreign companies by approving rule amendments encouraging foreign private issuers in the U.S. to use the version of IFRS issued by the International Accounting Standards Board (IASB). The rule amendments eliminate the GAAP reconciliation requirement for foreign private issuers that use the version of IFRS issued by the IASB. In addition, the Commission voted on a proposed "roadmap" that could lead to the use of IFRS rather than GAAP by U.S. issuers beginning in 2014. The Commission will make a decision in 2011 on whether adoption of IFRS is in the public interest and would benefit investors. Finally, the SEC worked with other securities authorities to enhance the governance of the International Accounting Standards Committee Foundation, which oversees the IASB.

Report of the SEC's Advisory Committee on Improvements to Financial Reporting. In FY 2008, the Advisory Committee released its final report identifying ways to reduce complexity in the U.S. financial reporting system and make financial reports clearer to investors. The report has 25 recommendations for the SEC, FASB, and the Public Company Accounting Oversight Board (PCAOB). The SEC also considered how best to implement these recommendations in future rulemaking actions.

Proposals allowing summary prospectuses for mutual funds. In November 2007, the Commission proposed rule amendments that would allow all mutual fund investors to receive a clear, concise summary of key information needed to make an informed decision. The proposed rules are intended to enable investors to use and compare mutual fund information more effectively. The SEC published a prototype summary prospectus on its Web site and actively sought investor input.

Information sharing agreements. In FY 2008, the SEC entered into a MOU with the Commodity Futures Trading Commission (CFTC) to establish a permanent regulatory liaison between the two agencies and provide for enhanced information sharing. The agreement establishes a process to better address the regulatory issues that cross regulatory boundaries established decades ago. The SEC also signed protocols to share information on the application of IFRS, as issued by the IASB, with financial regulators in four European countries—Belgium, Bulgaria, Norway, and Portugal.

Small business cost and benefits study of Section 404. The SEC commenced a cost-benefit study of the auditor attestation requirement for smaller companies under Section 404(b) of the Sarbanes-Oxley Act of 2002. The study will collect and analyze extensive "real world" cost and benefit data from a broad array of companies currently complying with Section 404, under the new Auditing Standard by the PCAOB and the management guidance the agency provides. The new audit standard and management guidance were intended to reduce the compliance costs of Section 404, while strengthening its focus on material controls. In addition to assessing the Section 404 cost reductions resulting from the Commission's recent actions, the final report also will inform any decision to improve the efficiency and effectiveness of Section 404 implementation. To allow time for completion of the study, the Commission proposed a one-year extension of the Section 404(b) auditor attestation requirement for smaller public companies, with the requirement first applying to companies whose fiscal years end on or after December 15, 2009.

Electronic shareholder forums. In FY 2008, the Commission adopted amendments to facilitate the use of electronic shareholder forums. The amendments allow the use of technology to help shareholders communicate with each other and express their concerns to companies in more cost-effective ways, while removing legal concerns.

Information security. The Commission proposed new rules that provide more detailed standards for information security programs, including safeguarding information and responding to information security breaches. The proposed rules are intended to protect investor privacy and prevent security breaches at the financial institutions and other entities the SEC regulates.

Improving Transparency for Investors

Interactive Data Electronic Applications (IDEA). In FY 2008 the SEC unveiled a new system—IDEA—as the successor to the agency's 1980s-era Electronic Data Gathering Analysis, and Retrieval system (EDGAR) database. IDEA marks the SEC's transition from collecting and disseminating whole forms to making each item of information on the forms individually searchable. The Office of Interactive Disclosure also led the implementation of a new electronic data-based filing system and free Web-based analytical tools for investors.

Taxonomies for GAAP. In FY 2008, the SEC released for public comment the computer labels, or "tags," that will enable public companies to make financial reports available in interactive data form instead of text form. The financial reporting taxonomy is the resulting standardized list of computer codes used to represent GAAP. The Commission will use the initial financial statements prepared using the new taxonomy to develop IDEA to seamlessly accept and render the filings.

Financial Explorer, Mutual Fund Reader, and Executive Compensation Reader. The SEC launched Web-based applications that allow investors to find, view, download, and analyze financial and other information that public companies and mutual funds submit in interactive data format. Using these applications investors can compare key financial information about companies and mutual funds. In addition, one year of data on executives' compensation at 500 of the largest American companies is also available on the SEC's Web site.

Rule proposals requiring companies and mutual funds to use interactive data. The Commission proposed in May 2008 a requirement that U.S. reporting companies provide their financial statements and footnotes in interactive data. The Commission also proposed that mutual fund investors be given access to key information about fees, performance, and strategies through interactive data for more than 8,000 mutual funds.

Interactive data roundtables. As the SEC continued to make the transition from a data collection system that is form-based to one that is dynamic, accessible, and better organized around core company and mutual fund information, the agency continued its efforts to consult with outside organizations to learn from their efforts to use interactive data. The SEC hosted the International Roundtable on Interactive Data for Public Financial Reporting in June 2008. Topics included the experience in countries that have already adopted interactive data and the views of countries currently considering adopting interactive data. Another roundtable in October 2008 focused on the data, technology, and processes that companies use in satisfying their SEC disclosure obligations, as well as how the SEC could improve its disclosure system so that companies enjoy efficiencies and investors have better access to high-quality information, especially in light of the current credit crisis.

Financial and Performance Highlights

- In FY 2008, the SEC was authorized by Congress to spend $906 million, a 2.8 percent increase over the $881.6 million authorized in FY 2007. Funding was offset by fees collected by the SEC. Of the total authority, $843 million was new budgetary authority and the remaining $63 million was carried over from prior year unobligated balances, as illustrated in *Chart 1.2.*
- In FY 2008, the SEC reduced its year-end unobligated balance over previous levels through rigorous oversight and management of budgetary resources made possible by improvements in technology such as the agency's budget and performance tool.
- The SEC employed 3,511 FTE in FY 2008. This represents an increase of 46 FTE over FY 2007.
- In 2002, Congress set by law the aggregate amounts the SEC is to collect annually through fees. These target amounts generally exceed the level of funding appropriated to the SEC, and are used by Congress to offset SEC and other federal spending.
- In order to meet the offsetting collections target in FY 2008, the SEC lowered the rates of fees it collects on securities transactions on the exchanges and certain over-the-counter markets. Additional discussion of the fees collected by the SEC can be found in *Note 1.L. Accounts Receivable and Allowance for Uncollectible Accounts* on page 66, and *Note 1.S. Revenue and Other Financing Sources* on page 68.
- While the transaction fee rate was cut by more than half from this time last year, there was significantly more transactional volume compared to last year. Therefore, the total collections dropped only 36 percent. In accordance with law, the SEC collected fees in excess of its appropriations from Congress. However, the excess amount is declining, as illustrated in *Chart 1.3*.

CHART 1.2

Spending Authority by Source

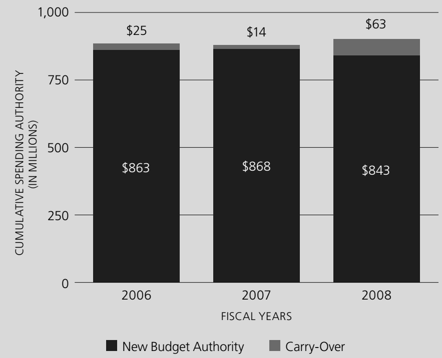
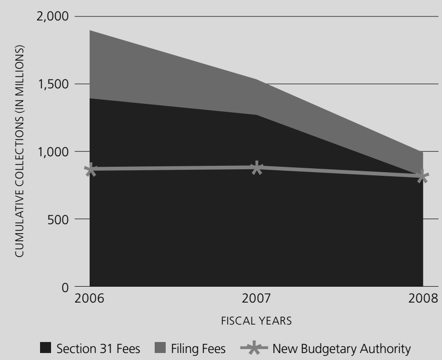


CHART 1.3

Offsetting Collections vs. New Budgetary Authority



- Decreases in the fee rates are reflected in line item variances from the prior year for: Accounts Receivable shown on the Balance Sheet on page 59; Earned Revenue per the Statement of Net Cost on page 60; and Spending Authority from Offsetting Collections and Temporarily not Available Pursuant to Public Law on the Statement of Budgetary Resources on page 62.
- The continued accumulation of offsetting collections is reflected in the increase to Fund Balance with Treasury (FBWT) and a corresponding increase in Cumulative Results of Operations as reported on the Balance Sheet on page 59.
- Due to the aggressive and sustained efforts of SEC staff, approximately 74 percent of the agency's planned performance levels were either met or exceeded in FY 2008 *(Chart 1.4).* The FY 2008 performance level is approximately 18 percentage points greater than the FY 2007 performance level.
- The SEC dedicated a majority of its resources to *Goal 1: Enforce Compliance with Federal Securities Laws.* As reported in the Statement of Net Cost on page 60, nearly 64 percent of agency resources, including two-thirds of the agency's FTE, were focused on detecting and prosecuting securities violations *(Chart 1.5).*
- In FY 2008, the SEC undertook the second highest number of enforcement actions in agency history. The Commission returned approximately $1 billion to harmed investors through Disgorgement and Fair Fund distributions, $738.5 million of which stemmed from 11 major cases *(Table 1.1).*
- The market turmoil in FY 2008 required the Division of Investment Management to provide an extraordinary number of no-action responses on an emergency basis. Staff increased their efforts and significantly surpassed the FY 2008 timeliness goal for responding to no-action letter and interpretive requests for guidance about federal securities laws *(Performance Section, Table 2.21).*
- The Divisions of Corporation Finance and Investment Management exceeded their performance targets for the review of Exchange Act reporting company disclosures in FY 2008 *(Performance Section, Table*

CHART 1.4

FY 2008 Results by Performance Level

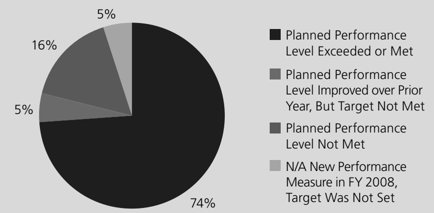


CHART 1.5

FY 2008 Cost by Goal

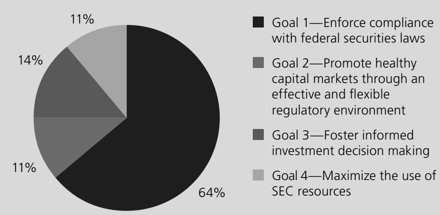


TABLE 1.1

Major SEC Distributions to Harmed Investors during FY 2008*

(DOLLARS IN THOUSANDS)	
Massachusetts Financial Services Company	$307,698
Banc of America Capital Management LLC	$147,169
Knight Securities	$ 53,217
Columbia Management Advisors, Inc.	$ 49,616
Franklin Advisors Inc.	$ 49,123
Janus Capital Corporation	$ 42,261
Ameriprise Financial Services	$ 31,771
RS Investment Management Inc. et al	$ 27,048
Bank of America Securities Distribution Fund	$ 26,619
International Equity Advisors	$ 3,420
Commonwealth Equity Services Fund	$ 537

*The SEC does not report on its financial statements any amounts another government entity such as a court, or a non-governmental entity, such as a receiver has collected or will collect and will subsequently disburse.

2.25). This level of review allows the SEC to continue to meet the requirements of the Sarbanes-Oxley Act by reviewing material financial and other information of all corporations and investment company portfolios at least once every three years.

- In FY 2008, the Commission proposed rules to respond to the market turmoil, as well as to improve the quality of disclosures for investors. For a discussion of key rules and other Commissions efforts, see the *FY 2008 Highlights* on page 10.
- In FY 2008, the OIEA met its targets for responding to new investment-related complaints and questions from investors who contact the SEC. Nearly 81,000 investor contacts were received during FY 2008, an almost 5 percent increase over FY 2007. OIEA is exploring process changes and improved information management (e.g., updating topical information on SEC.gov) in order to resolve investor matters even more quickly in the future *(Table 1.2* and *Performance Section, Table 2.31).*
- In FY 2008, the SEC upgraded its core financial management system and implemented an automated time and attendance system capable of collecting information on the activities staff performed in support of the SEC's mission.
- Outlays for property and equipment decreased this year from prior year highs related to Washington D.C. and New York office leasehold improvements, and the accumulated amortization on the prior balances contributed to the net decrease of Property and Equipment reported on the Balance Sheet on page 59. See *Table 1.3.*

TABLE 1.2

Percentage of investor complaints and inquiries completed within seven and thirty business days

	FY 2007	FY 2008
Closed within 7 days		
Phone calls	98%	99%
Other contacts	64%	70%
Total	82%	85%
Closed within 30 days		
Phone calls	99%	99%
Other contacts	88%	91%
Total	94%	95%

TABLE 1.3

Change in Property Balance

(IN THOUSANDS)	FY 2008	FY 2007
Total Property Acquisitions	$ 16,809	$ 31,511
Depreciation/Amortization	(29,626)	(35,912)
Disposals	(1,456)	(950)
Total Reductions in Property	(31,082)	(36,862)
Total Change	$(14,273)	$ (5,351)

Limitations of the Financial Statements

The principal financial statements included in this report have been prepared to report the financial position and results of operations of the SEC, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the SEC in accordance with U.S. GAAP for federal entities and the formats prescribed by the Office of Management and Budget (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 understanding that they are for a component of the U.S. Government, a sovereign entity.

Performance Results Summary

In FY 2008, the SEC exceeded or met 43 planned performance levels on 36 performance measures. A comparison of the SEC's performance levels for FY 2007 and FY 2008, organized by goal, is presented in *Table 1.4.* A discussion of the agency's program achievements and detailed performance results is located in the *Performance Section.*

TABLE 1.4
PERFORMANCE RESULTS SUMMARY

KEY: LEVEL OF PERFORMANCE ATTAINED
+ Performance level exceeded or met
✓ Performance level improved over prior year, but target not met
– Performance level not met
N/A New performance measure in FY 2008, target was not set

	PERFORMANCE LEVEL	
GOAL 1 ENFORCE COMPLIANCE WITH THE FEDERAL SECURITIES LAWS	FY07	FY08
1. Percentage of advisers deemed "high risk" examined during the year	+	+
2. Percentage of firms receiving deficiency letters that stated they took or would take corrective action in response to all exam findings	–	–
3. Percentage of registrant population examined during the year:		
Investment advisers	+	+
Investment companies	+	+
Broker-dealers	+	+
4. Percentage of (non-sweep) exams that are concluded within 120 days	–	–
5. Percentage of attendees at *CCOutreach* that rated the program as "Useful" or "Extremely Useful" in their compliance efforts	+	+
6. Percentage of exams with "significant" findings*		
7. Percentage of first enforcement cases filed within two years	–	+
8. Maintaining an effective distribution of cases across core enforcement areas	+	+
9. Percentage of enforcement cases successfully resolved	+	+
10. Percentage of debts where either a payment has been made, or a collection activity has been initiated within six months of the due date of the debt	N/A	+
11. Percentage of Fair Funds and disgorgement dollars designated for distribution that are distributed to investors within 12 months	N/A	N/A
12. Volume of enforcement activity: investigations opened, cases filed, and investigations closed*		
13. Assets frozen abroad in SEC cases through coordination with foreign regulators*		
GOAL 2 PROMOTE HEALTHY CAPITAL MARKETS THROUGH AN EFFECTIVE AND FLEXIBLE REGULATORY ENVIRONMENT		
14. Percentage of SRO rule filings closed in less than 60 days from filing	+	+
15. Average daily share volume (in billions of shares) on the NYSE and Nasdaq exchanges:		
NYSE	+	–
Nasdaq	–	+
16. Percentage of transaction dollars settled on time each year	N/A	+
17. Percentage of market outages at SROs and ECNs that are corrected within targeted timeframes:		
Within 2 hours	+	+
Within 4 hours	+	+
Within 24 hours	+	+
18. Equity portfolio holdings of U.S. investment companies as a percentage of total U.S. stock market capitalization	+	+
19. Number of new foreign private issuers and dollar amount of registered securities*		
20. Percentage of regulated entities representing a single point of failure that meet the continuity of operations standards of the White Paper, the Policy Statement, and the Automated Review Program:		
White Paper analysis	N/A	+
Policy Statement analysis	N/A	–

TABLE 1.4
PERFORMANCE RESULTS SUMMARY (CONTINUED)

	PERFORMANCE LEVEL	
GOAL 2 PROMOTE HEALTHY CAPITAL MARKETS THROUGH AN EFFECTIVE AND FLEXIBLE REGULATORY ENVIRONMENT (CONTINUED)		
21. Timeliness of SEC responses to written no-action letter, exemptive applications, and interpretive requests:		
Trading and Markets: No-action letter, exemptive, and interpretive requests (combined figure)	+	–
Investment Management: No-action letter and interpretive requests	+	+
Investment Management: Exemptive applications	N/A	+
Corporation Finance: No-action letter and interpretive requests	–	–
Corporation Finance: Shareholder proposals	+	+
22. Percentage of U.S. households owning mutual fund shares	+	+
23. Percentage of U.S. households investing in the securities market either through direct share ownership or ownership of mutual funds	N/A	N/A
24. Mutual fund share of total retirement assets	+	+
GOAL 3 FOSTER INFORMED INVESTMENT DECISION MAKING		
25. Percentage of Exchange Act reporting companies reviewed by the SEC:		
Corporations	+	+
Investment company portfolios	+	+
26. Average time to issue initial comments on Securities Act filings	+	+
27. Percentage of investment company disclosure reviews for which initial comments are completed within timeliness goals:		
Initial registration statements	+	+
Post-effective amendments	+	+
Preliminary proxy statements	+	+
28. Percentage of forms and submissions filed electronically and in a structured format:		
Forms: Total percentage in electronic format	–	+
Filings received: Total percentage in electronic format	–	+
29. Number of searches for EDGAR filings on www.sec.gov	+	–
30. Demand for investor education information, and average cost per thousand investors reached:		
Total number of investors reached (in millions, with Web visits)	N/A	N/A
Average cost per thousand investors reached (with Web visits)	N/A	N/A
31. Percentage of investor complaints and inquiries completed within 7 and 30 business days:		
Closed within 7 days	+	+
Closed within 30 days	N/A	+
32. Investor assistance and public information telephone inquiries:		
Investor assistance	N/A	+
Public information	N/A	+
33. Responses to Freedom of Information Act requests	N/A	+
GOAL 4 MAXIMIZE THE USE OF SEC RESOURCES		
34. Staff turnover rate	–	+
35. Maintain a top five ranking among the Best Places to Work in Government	+	+
36. Human resources productivity	Discontinued	
37. Percentage of the time that SEC.gov and EDGAR are operable:		
SEC.gov	+	+
EDGAR	+	+
38. Number of OIG and GAO information security-related recommendations outstanding for more than 18 months:		
GAO recommendations	–	✓
OIG recommendations	–	+
39. Percentage of major systems that have been certified and accredited, and given a privacy impact assessment, within required timeframes:		
Major systems certified and accredited	–	–
Major systems with privacy impact assessment completed	–	–
40. Financial audit results:		
Unqualified opinion	+	+
Material weaknesses	–	+
Significant deficiency	–	+

**Denotes an indicator and will not have performance targets.*

Note: Since the FY 2007 PAR, the SEC has adopted new performance measures. These new measures and corresponding data are included in the agency's FY 2009 Congressional Justification and the Performance Section *of this report.*

Management Assurances

Chairman's Assurance Statement

The management of the SEC is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. Internal control is an integral component of the agency's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The SEC is able to provide reasonable assurance that the internal controls and financial management systems meet the objectives of FMFIA.

The SEC's Financial Management Oversight Committee (FMOC) assured prompt implementation and proper resolution of corrective actions addressing the previously identified material weakness in internal control over financial reporting. Based upon the results of the actions taken, the SEC can provide reasonable assurance that internal control over financial reporting as of September 30, 2008 was operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

The SEC conducted its evaluation of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123. In its review, the SEC found no material weakness or material non-conformance in the design or operation of its internal controls.

Chris Cox

Christopher Cox
Chairman
November 14, 2008

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 is implemented by the OMB Circular No. A-123, revised, *Management's Responsibility for Internal Control.*

Section 2 of the FMFIA requires federal agencies to report, on the basis of annual assessments, any material weaknesses that have been identified in connection with its internal and administrative controls. The reviews that took place during FY 2008 provide reasonable assurance that SEC systems and management controls comply with the requirements of the FMFIA.

Section 4 of the FMFIA requires that agencies annually evaluate and report on whether financial management systems conform to government-wide requirements. The SEC evaluated its financial management systems for the fiscal year ending September 30, 2008 in accordance with the FMFIA and OMB Circular No. A-127, *Financial Management Systems,* as applicable. The financial management systems are in substantial compliance with federal financial management system requirements.

Internal control over financial reporting was evaluated by the SEC's independent auditors, the Government Accountability Office (GAO). GAO concluded that although certain controls could be improved, SEC had effective internal control over financial reporting as of September 30, 2008.

The SEC conducted its annual assessment of the effectiveness of internal control in accordance with the requirement of OMB Circular No. A-123, *Management's Responsibility for Internal Control.*

In accordance with guidance issued by the SEC's Office of the Executive Director, 33 office heads conducted reviews of their financial, administrative, and program management controls in FY 2008. The offices range in size from 8 to 487 positions, with an average of 115 positions at the end of FY 2008. This segmentation ensures comprehensive coverage of SEC offices.

Each office head prepared an annual assurance statement that identified any control deficiencies meriting the attention of the Chairman. These statements were based on information gathered from various sources, including, among other things:

- Management's personal knowledge gained from the daily operation of the office;
- Internal management reviews and self-assessments;
- GAO and Office of Inspector General reports;
- Annual performance plans and reports;
- Audits of the agency's financial statements;
- Reports and other information from Congress or the Office of Management and Budget; and
- Additional reviews relating to the office's operations, including those discussed in the *Other Reviews* section below.

Each year, the agency's FMOC evaluates the Section 2 and 4 submissions, recommendations from the Office of the Inspector General (OIG), and other supplemental sources of information. Based on this review, the FMOC advises the Chairman as to whether the SEC had any internal control or system design deficiencies serious enough to be reported as a material weakness or non-conformance.

Other Reviews

Also during the year, the OIG and the Office of Information Technology (OIT) conducted a combined total of 21 additional reviews. The reviews covered 16 of the 33 assessable units (48 percent). Some components had multiple reviews.

Further, OIT, in conjunction with system owners, completed the certification and accreditation of 21 major systems in FY 2008. As a result, the SEC has now certified and accredited a total of 45 systems in accordance with the appropriate guidance from OMB and National Institute of Standards and Technology. OIT also completed contingency testing on the majority of the SEC's accredited systems in conjunction with several of its disaster recovery exercises.

Finally, GAO audited the Commission's financial statements. GAO's procedures included audits of the FY 2008 financial statements, internal control over financial reporting and compliance with selected laws and regulations material to SEC's financial statements, and actions taken in response to prior GAO audit recommendations.

Eliminating Material Weakness in Internal Controls over Financial Reporting

Description of FY 2007 Material Weakness. GAO's audit of the SEC's financial statements for FY 2007 found a material weakness in internal controls over financial reporting, stemming from the combination of four control deficiencies. These four deficiencies related to the SEC's period-end financial reporting process, disgorgements and penalties accounts receivable, accounting for transaction fee revenue, and preparing financial statement disclosures.

The first two deficiencies, related to the period-end financial reporting process and the disgorgements and penalties accounts receivable, were attributed to the same underlying condition: lack of an integrated financial system forcing reliance on manual processes. With manual processes, the risk of error is inherently greater. GAO found that SEC processes for recording transaction fee revenue and preparing financial statement disclosures were subject to error because the agency did not have documented procedures.

Corrective Actions Taken. The SEC was successful in eliminating in FY 2008 the material weakness in internal controls over financial reporting that was cited in the FY 2007 audit. Developing a fully integrated financial management system was the keystone of the SEC's FY 2008 Corrective Action Plan for remediation of the material weakness and system non-conformance. The first step toward full integration of the SEC's financial management systems was the upgrade of the agency's core financial system, Momentum, which was accomplished in FY 2008. The upgraded system provides full integration of accounts payable; accounts receivable, including disgorgements and penalties; purchasing; and property, plant, and equipment (PP&E) transactions with the general ledger. The system improvements eliminated a significant amount of manual data handling of material financial balances, resulting in enhanced timeliness, accuracy, and reliability of financial information, and greater transparency in financial processes.

To address the lack of documented procedures cited by GAO as the cause for deficiencies related to transaction fee revenues and preparing financial statement disclosures, the SEC improved process documentation for financial reporting and period-end closes. The SEC's first quarter 2008 financial statements were the first to be prepared using the newly documented methodologies.

In addition, beginning in the first quarter, the SEC eliminated the labor-intensive use of multiple spreadsheets by automating the generation of financial statements and analytical reports. Consistency and quality assurance checking and the identification of abnormalities or inconsistencies were automated through rule-based validation and data integrity checks.

Utilizing best practices, several other changes to SEC financial management business processes were made, improving the effectiveness and efficiency of internal control and increasing transparency. Foremost among these, disgorgement and penalty disbursements are now accomplished through Momentum using standard disbursement processes. Previously the disbursements were made using an exception process, bypassing the framework of controls available through both Momentum and the standard Treasury certification and disbursement processes.

These and other improvements substantially reduced the risks associated with the material weakness identified by GAO last year.

Additional Corrective Actions Planned. The SEC will continue to strengthen internal control and fully integrate its financial management systems, including addressing the three significant deficiencies identified by the GAO. Full integration will be achieved through automating the manual interfaces currently in place for accounts receivable and PP&E, and the manual process for investments and financial statements generation, and footnotes disclosure. Fully integrating these processes will increase control efficiency essential to ensure sustainable processes. The SEC will continue this effort as a top priority in FY 2009, and expects to complete this project in 2010.

Financial Management System Conformance

Although the SEC is not required to comply with the Federal Financial Management Improvement Act, the agency assesses its financial management systems annually for conformance with the requirements of OMB Circular A-127 and other federal financial system requirements.

Description of FY 2007 Non-conformance. In the past, SEC systems did not conform to the fundamental requirements for federal financial management systems to be fully integrated and comply with the U.S. Standard General Ledger (SGL) at the transaction level.

Corrective Actions Taken. As described above, the upgrade accomplished in FY 2008, was an essential step in moving toward full integration. The new system (including accounts receivable and fixed asset modules) is compliant with the standards established by the Financial System Integration Office (FSIO), which requires conformance with all federal financial system requirements. The SEC addressed the issue of non-compliance with the SGL at the transaction level through the data conversion process and deployment of accounts receivable and PP&E modules in FY 2008. Business processes were refined and a manual interface at the transaction level was implemented for disgorgement and penalty accounts receivable. All Commission enforcement receivables are now recorded at the transaction level in the SEC financial management system of record (Momentum), eliminating the past use of spreadsheet and summary level general ledger adjustments posted on a monthly basis. Previously, data was manually entered at a summary level, whereas compliance with SGL is required at the transaction, or detail, level. Similarly, in FY 2008 the SEC also implemented the fixed asset module to automate and integrate accounting processes related to PP&E using standard SGL compliant transactions.

Additional Corrective Actions Planned. As a result of the corrective actions taken over the past year, the SEC is in substantial compliance with federal financial management system requirements. However, additional improvements, mentioned above, are planned to achieve full integration of financial management systems resulting in greater efficiency, effectiveness, and risk mitigation by minimizing reliance on detective controls.

Federal Information Security Management Act (FISMA)

FISMA requires federal agencies to conduct an annual self-assessment of their IT security and privacy programs, to develop and implement remediation efforts for identified weaknesses and vulnerabilities, and to report compliance to OMB. The SEC's Inspector General, Chief Information Officer, and Privacy Officer performed a joint review of the agency's compliance with FISMA requirements during 2008, and submitted the report to OMB on October 1, 2008, as required. The report showed that the agency continued to make progress in mitigating information security risk and complying with FISMA requirements, and that no significant deficiencies were identified.

During the year, additional steps were taken to enhance the overall information security and privacy programs at the SEC, including developing a comprehensive set of policies and procedures related to information security management, conducting a review of 54 Privacy Act Systems of Record, and revising several privacy-related policies and procedures in accordance with requirements to reflect the importance of protecting personally identifiable information. The agency strengthened a range of technical controls including intrusion monitoring, password management, access control, patch management, system change control, and database security. The SEC also established a process designed to allow the security team to scan the systems for adherence to security requirements in lieu of self-assessments by system owners. This new process also enhanced physical security monitoring at the SEC primary data center and made improvements in the timeliness and accuracy of user access reports provided to system owners. The agency achieved 99 percent compliance with annual information security and privacy awareness training, and its OIT and regional offices completed tabletop exercises to train the regional disaster recovery teams.

Financial Statements

Financial Section

This section of the Performance and Accountability Report contains the Agency's financial statements, required supplementary information and related Independent Auditor's Report, as well as other information on the Agency's financial management. Information presented here satisfies the reporting requirements of OMB Circular A-136, *Financial Reporting Requirements,* as well as the Accountability of Tax Dollars Act of 2002.

The first portion of this section contains Principal Financial Statements. The statements provide a comparison of FY 2008 and 2007 data. SEC prepares the following required statements:

- **Balance Sheet**—presents, as of a specific time, amounts of future economic benefits owned or managed by the reporting entity exclusive of items subject to stewardship reporting (assets), amounts owed by the entity (liabilities), and amounts which comprise the difference (net position).
- **Statement of Net Cost**—presents the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. SEC also prepares a Statement of Net Cost by Goal to provide cost information at the strategic goal level.
- **Statement of Changes in Net Position**—reports the change in net position during the reporting period. Net position is affected by changes to Cumulative Results of Operations.
- **Statement of Budgetary Resources**—provides information about how budgetary resources were made available as well as their status at the end of the period.
- **Statement of Custodial Activity**—reports collection of non-exchange revenue for the General Fund of the Treasury. SEC, as the collecting entity, does not recognize these collections as revenue. Rather, the Agency accounts for sources and disposition of the collections as custodial activities on this statement.

The accompanying *Notes to Financial Statements* provide a description of significant accounting policies as well as detailed information on select statement lines. These notes and the principal statements are audited by the GAO.

Message from the Chief Financial Officer

Kristine M. Chadwick
Chief Financial Officer and
Associate Executive Director,
Finance

I am pleased to join Chairman Cox in presenting the Commission's FY 2008 PAR. I am grateful for the dedication and hard work of the SEC staff during the past year that resulted in an unqualified audit opinion with no material weaknesses. This accomplishment reflects the success of our continuous improvement strategy. During the past fiscal year, the SEC made significant progress in enhancing accountability and transparency by expanding the use of technology.

We resolved the material weakness in internal control over financial reporting found last year by taking targeted corrective actions to address the prior years' audit recommendations, enhancing both the effectiveness and efficiency of our framework of internal control. The SEC's lack of automated system integration was the underlying cause of the system non-conformance previously reported, as well as the deficiencies that contributed to the finding of a material weakness. Accordingly, integration of financial management systems was the cornerstone of the SEC's corrective action plan to remediate the deficiencies identified by the GAO.

As part of the SEC's commitment to implementing a fully integrated financial management system compliant with federal financial system requirements, we successfully upgraded our core financial management system to the current, FSIO-certified version. In July, we deployed the upgrade and implemented two fully integrated modules to record, track, process, and report PP&E and accounts receivable transactions. In addition, as part of the modernization and integration of financial management systems, we implemented a new travel system under the government-wide e-gov initiative and an automated time and attendance system capable of collecting information on the activities staff perform in support of the SEC's mission.

Concurrent with the financial system upgrades, we used technology to improve internal controls and streamline business processes. For example, now business rules relative to transactions, such as capitalization of fixed assets, are automatically enforced, which promotes consistency and minimizes the risk of errors. The system improvements also allowed us to achieve substantial compliance with SGL at the transaction level, a fundamental requirement for federal financial management systems. In doing so, we strengthened our ability to verify the completeness and accuracy of our balances, and established a formalized, disciplined basis to support balances reported to our stakeholders.

In 2008 the SEC received the Association of Government Accountants' Certificate of Excellence in Accountability Reporting award for our FY 2007 PAR. This is the second year that the Commission has received this prestigious award.

I am proud of the remarkable progress and success achieved this year. Though there is more to accomplish, I am confident that our objective to continually improve will successfully support us in meeting these challenges.

Sincerely,

Kristine M. Chadwick
Chief Financial Officer and
Associate Executive Director, Finance
November 14, 2008

Balance Sheet

U.S. SECURITIES AND EXCHANGE COMMISSION

Balance Sheet

As of September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$6,011,310	$5,888,039
Investments, Net (Notes 4 and 12)	2,982,542	3,602,666
Accounts Receivable (Note 5)	45	—
Advances and Prepayments	3,936	1,198
Total Intragovernmental	8,997,833	9,491,903
Accounts Receivable, Net (Note 5)	135,470	138,693
Advances and Prepayments	1,032	902
Property and Equipment, Net (Note 6)	84,007	98,280
Total Assets	$9,218,342	$9,729,778
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts Payable	$ 15,588	$ 6,153
Employee Benefits	4,433	2,699
Unfunded FECA and Unemployment Liability	1,340	1,109
Custodial Liability, Net (Note 16)	2	4
Total Intragovernmental	21,363	9,965
Accounts Payable	39,122	43,096
Accrued Payroll and Benefits	22,970	18,176
Accrued Leave	38,829	35,296
Registrant Deposits	51,793	61,689
Actuarial FECA Liability (Note 8)	5,604	5,080
Liability for Disgorgement and Penalties (Note 12)	3,108,367	3,679,370
Other Accrued Liabilities (Note 9)	27,005	23,338
Total Liabilities	3,315,053	3,876,010
Commitments and Contingencies (Note 11)		
NET POSITION		
Cumulative Results of Operations—Earmarked Funds (Note 12)	5,903,289	5,853,768
Total Net Position	$5,903,289	$5,853,768
Total Liabilities and Net Position	$9,218,342	$9,729,778

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

Statements of Net Cost

U.S. SECURITIES AND EXCHANGE COMMISSION

Statement of Net Cost

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
COSTS BY STRATEGIC GOAL (Note 13)		
Enforce compliance with federal securities laws		
Total Gross Cost	$ 595,327	$ 529,454
Promote healthy capital markets through an effective and flexible regulatory environment		
Total Gross Cost	102,822	79,704
Foster informed investment decision making		
Total Gross Cost	133,487	135,917
Maximize the use of SEC resources		
Total Gross Cost	99,267	97,466
Total Entity		
Total Gross Program Cost	930,903	842,541
Less: Earned Revenue Not Attributed to Programs (Note 14)	956,317	1,507,750
Net (Income) from Operations (Note 17)	$ (25,414)	$ (665,209)

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

Statements of Changes in Net Position

U.S. SECURITIES AND EXCHANGE COMMISSION

Statement of Changes in Net Position

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
CUMULATIVE RESULTS OF OPERATIONS—EARMARKED FUNDS		
Beginning Balance	$5,853,768	$5,152,921
Budgetary Financing Sources:		
Appropriations Used	—	9,201
Other Financing Sources		
Imputed Financing (Note 10)	24,107	26,437
Total Financing Sources	24,107	35,638
Net Income from Operations	25,414	665,209
Net Change	49,521	700,847
Cumulative Results of Operations (Note 12)	$5,903,289	$5,853,768
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ —	$ 9,201
Budgetary Financing Sources:		
Appropriations Used	—	(9,201)
Total Unexpended Appropriations	—	—
Net Position, End of Period	$5,903,289	$5,853,768

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

Statements of Budgetary Resources

U.S. SECURITIES AND EXCHANGE COMMISSION

Statement of Budgetary Resources

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	$ 90,012	$ 186,669
Recoveries of Prior-Year Unpaid Obligations	38,384	23,030
Budget Authority:		
Spending Authority from Offsetting Collections		
Earned		
Collected	985,997	1,538,749
Change in Receivables from Federal Sources	45	(131)
Change in Unfilled Customer Orders without Advance Received	122	(663)
Subtotal	986,164	1,537,955
Temporarily Not Available Pursuant to Public Law	(141,039)	(781,047)
Total Budgetary Resources	$ 973,521	$ 966,607
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct (Note 15)	$ 915,422	$ 876,274
Reimbursable (Note 15)	403	321
Unobligated Balance Available:		
Realized and Apportioned for Current Period	687	6,068
Unobligated Balance Not Available	57,009	83,944
Total Status of Budgetary Resources	$ 973,521	$ 966,607
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 254,660	$ 230,102
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	—	(794)
Total Unpaid Obligated Balance, Net	254,660	229,308
Obligations Incurred Net	915,825	876,595
Gross Outlays	(881,127)	(829,006)
Recoveries of Prior-Year Unpaid Obligations, Actual	(38,384)	(23,030)
Change in Uncollected Customer Payments from Federal Sources	(167)	793
Obligated Balance, Net, End of Period		
Unpaid Obligations	250,974	254,660
Uncollected Customer Payments from Federal Sources	(167)	—
Total, Unpaid Obligated Balance, Net, End of Period (Note 11)	$ 250,807	$ 254,660
NET OUTLAYS		
Net Outlays:		
Gross Outlays	$ 881,127	$ 829,006
Offsetting Collections	(985,997)	(1,538,749)
Distributed Offsetting Receipts	(3,779)	(1,105)
Net Outlays/(Collections)	$(108,649)	$ (710,848)

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

Statements of Custodial Activity

U.S. SECURITIES AND EXCHANGE COMMISSION

Statement of Custodial Activity

For the years ended September 30, 2008 and 2007

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
REVENUE ACTIVITY		
Sources of Cash Collections:		
Disgorgement and Penalties	$193,069	$496,524
Accrual Adjustments	(2)	(7,931)
Total Custodial Revenue (Note 16)	193,067	488,593
DISPOSITION OF COLLECTIONS		
Amounts Transferred to:		
Department of the Treasury	$193,069	$496,524
Change in Liability Accounts	(2)	(7,931)
Total Disposition of Collections	193,067	488,593
NET CUSTODIAL ACTIVITY	$ —	$ —

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

Notes to the Financial Statements

Notes to Financial Statements

As of September 30, 2008 and 2007

NOTE 1. Summary of Significant Accounting Policies

A. Reporting Entity

The SEC is an independent agency of the United States government established pursuant to the Exchange Act. The SEC's mission is to protect investors; maintain fair, orderly, and efficient securities markets; and facilitate capital formation. The SEC works with Congress, other executive branch agencies, Self-Regulatory Organizations (SRO) (e.g., stock exchanges and FINRA), the PCAOB, state securities regulators, and many other organizations in support of the agency's mission.

These financial statements report on the SEC's strategic goals. The agency's programs promote the public interest by promoting compliance through examinations of regulated entities; facilitating capital formation through full disclosure; enforcing the federal securities laws; regulating investment companies and investment advisers; overseeing the operations of the nation's securities markets and participants; promoting technological innovation in the securities markets; encouraging international regulatory and enforcement cooperation; and educating and assisting investors.

B. Basis of Presentation and Accounting

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the SEC's core business activities as required by the Accountability of Tax Dollars Act of 2002. They may differ from other financial reports submitted pursuant to the OMB directives for the purpose of monitoring and controlling the use of the SEC budgetary resources. The SEC's books and records serve as the source of the information presented in the accompanying financial statements. The agency classified assets, liabilities, revenues, and costs in these financial statements according to the type of entity associated with the transactions. Intragovernmental assets and liabilities are those due from or to other federal entities. Intragovernmental earned revenues are collections or accruals due from other federal entities. Intragovernmental costs are payments or accruals due to other federal entities.

The SEC's financial statements have been prepared on the accrual basis of accounting in conformity with GAAP for the federal government. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary accounting and reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities. The statements were also prepared in conformity with OMB Circular No. A-136, *Financial Reporting Requirements*.

C. Change in Methodology

Effective for FY 2008, the SEC changed its accounting methodology for bulk purchases of equipment. The SEC changed its capitalization threshold to $50,000 in order to be consistent with the policy in the SEC's Office of Administrative Services. In the prior year, the SEC's capitalization threshold was $500,000. Refer to *Note 6. Property and Equipment, Net.*

D. Changes in Presentation

The SEC receives collections from civil injunctive and administrative proceedings that order the disgorgement and pre-judgment interest of ill-gotten gains, payment of civil monetary penalties, and post-judgment interest against violators of federal securities laws.

The SEC changed its method of presentation for the receipt, accounting, and disposition of all disgorgement-related assets stemming from actions against violators of federal securities laws. Historically, the SEC treated disgorgement-related receivables as custodial activity and the collection and investment of disgorgements and penalties as fiduciary activity. Beginning in FY 2008, the SEC treated all activity related to disgorgement and penalties as non-entity assets under control of the SEC with an equal and offsetting liability on the balance sheet. Also effective in FY 2008, the SEC did not include receivables for amounts the SEC expects to distribute to the public or collections it expects to forward to the public in the Statement of Custodial Activity (SCA). The SCA only includes collections the SEC anticipates forwarding to the Treasury's general fund. As the current presentation reflects a change from one that was acceptable to another that is a preferred presentation, prior period financial statement and related information was presented as previously reported. Additional details regarding disgorgement and penalties and the SCA are presented in *Note 1.U. Disgorgement and Penalties, Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds, and Note 16. Custodial Revenues and Liabilities*.

In the SEC's FY 2007 Performance and Accountability Report, *Note 4. Investments* is presented differently to conform with reporting requirements in OMB Circular A-136.

E. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates and assumptions include the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

F. Intra- and Inter-Agency Relationships

The SEC does not have transactions among its own operating units, and therefore, intra-entity eliminations are not necessary. The SEC has certain oversight responsibilities with respect to the FASB, the Securities Investor Protection Corporation (SIPC) (refer to *Note 11. Commitments and Contingencies),* and PCAOB; however, these entities are not subject to consolidation.

G. Fund Accounting Structure

The SEC accounts for financial activities by Treasury Appropriation Fund Symbol (TAFS), summarized as follows:

- **General Fund—Salaries and Expenses** (0100 and X0100) consist of earmarked funds for use in carrying out the SEC's mission and functions and revenues collected by the SEC in excess of appropriated funds for FY 2003 through FY 2004 (0100) and FY 2005 through FY 2008 (X0100) (refer to *Note 1.H. Earmarked Funds, Note 3. Fund Balance with Treasury,* and *Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds).*

Other Funds:

- **Deposit and Suspense Funds** (X6563, X6561, F3875, and F3880) carry disgorgement, penalties, and interest collected and held on behalf of harmed investors, registrant monies held temporarily until earned by the SEC, and collections awaiting disposition or reclassification.
- **Miscellaneous Receipt Accounts** (1099 and 3220) hold non-entity receipts and accounts receivable from custodial activities that the SEC cannot deposit into funds under its control. These include amounts received pursuant to cases that the SEC will send to the Treasury.

The SEC does not have lending or borrowing authority, except as discussed in N*ote 11. Commitments and Contingencies*. The SEC has custodial responsibilities, as described in *Note 16. Custodial Revenues and Liabilities.*

H. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. The SEC collects such funds, which statutes require the SEC to use for designated activities, benefits or purposes; and to account for them separately from the government's general revenues. The SEC accounts for these as offsetting collections and deposits amounts collected in TAFS 0100, Salaries and Expense as detailed in *Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds.*

I. Entity/Non-Entity Assets

Assets that an agency is authorized to use in its operations are entity assets. Assets that an agency holds on behalf of another federal agency or a third party and are not available for the agency's use are non-entity assets. The SEC's non-entity assets include the following: (i) disgorgement, penalties, and interest collected or to be collected and held or invested by the SEC pending distribution to harmed investors (disgorgement funds); (ii) custodial accounts receivable; and (iii) excess filing fees remitted by registrants (registrant deposits).

J. Fund Balance with Treasury

FBWT includes certain funds held on behalf of third parties. These include registrant deposits and uninvested disgorgement funds. FBWT also includes undisbursed account balances with Treasury and balances in excess of appropriated amounts that are unavailable to the SEC.

The SEC conducts all of its banking activity in accordance with directives issued by Treasury's Financial Management Service (FMS). The SEC deposits all revenue and receipts in commercial bank accounts maintained by the FMS or wires them directly to a Federal Reserve Bank. Treasury processes all disbursements made by the SEC. The Federal Reserve Bank transfers all monies maintained in commercial bank accounts on the business day following the day of deposit.

K. Investments

The SEC invests disgorgement funds in short-term Treasury securities, whenever practicable. Disgorgement funds may also include civil penalties collected under the "Fair Fund" provision of the Sarbanes-Oxley Act of 2002. As the funds are collected, the SEC holds them in a deposit fund account and may invest them in overnight and short-term market-based Treasury bills through a facility provided by the Bureau of the Public Debt, pending their distribution to investors. The SEC adds interest earned to the funds and these funds are subject to taxation under Treasury Regulation section 1.468B-2. Additional details regarding SEC investments are provided in *Note 4. Investments.*

L. Accounts Receivable and Allowance for Uncollectible Accounts

Both SEC's entity and non-entity accounts receivable consist primarily of amounts due from the public. Entity accounts receivable are amounts that the SEC will retain upon collection. These generally include claims arising from: (i) securities transaction fees paid by exchanges, (ii) filing fees paid by registrants, (iii) goods or services that the SEC has provided to another federal agency pursuant to an inter-agency agreement, (iv) host reimbursement of employee travel, and (v) employee-related debt. Entity accounts receivable represent a small volume of the SEC's business activities because agency fee legislation generally requires payment of filing fees at the time of filing, and SRO transaction fees are payable to the SEC twice a year: in March for the period September through December, and in September for the period January through August. Accordingly, the year-end accounts receivable accrual generally represents fees payable by the SROs to the SEC for activity during the month of September.

Non-entity accounts receivable are amounts that the SEC will not retain upon collection. These mainly include disgorgement, penalties, and interest assessments. The SEC recognizes these accounts receivable when an order of the Commission or a court designates it to collect the assessed disgorgement, penalties, and interest. The SEC does not recognize interest as accounts receivable, unless a court or administrative order specifies the amount of pre- and post-judgment interest.

The SEC is also party to orders directing violators of federal securities laws to pay the court or a receiver to collect the disgorgement, penalties, and interest assessed against them. These orders are not recognized as accounts receivable by the SEC because the debts are payable to another party. However, these debts are subject to change based on, for example, future orders issued by the presiding court that could result in the SEC recognizing a receivable. In the cases where the court order or other legally binding instrument requires the debtor to remit funds to the SEC, a receivable is recorded.

The SEC bases the allowance for uncollectible amounts and the related provision for estimated losses for disgorgement, penalties, and FOIA accounts receivable on a collectability analysis. The analysis consists of the evaluation of the individual account balances for the largest debts, allowing for historical collection data, to determine on a percentage basis the value of gross accounts receivable that are likely to be collected by the SEC. The SEC applies this percentage to the remaining disgorgement, penalties, and FOIA accounts receivable to reflect the balances at their estimated net realizable value.

The SEC bases the allowance for uncollectible amounts and the related provision for estimated losses for filing fees and other accounts receivable on analysis of historical collection data. No allowance for uncollectible amounts or related provision for estimated losses have been established for fees payable by SROs, as these gross accounts receivable are deemed to represent their net realizable value based on historical experience.

M. Advances and Prepayments

The SEC may prepay amounts in anticipation of receiving future benefits such as training and supplemental health benefits for SEC employees. The agency expenses these payments when the goods are received or services are performed. The SEC also may advance funds to its personnel for travel costs. The SEC expenses these amounts when the expense voucher is processed.

N. Property and Equipment, Net

The SEC's property and equipment consists of software, general-purpose equipment used by the agency, capital improvements made to buildings leased by the SEC for office space, and internal-use software development costs for projects in development. The SEC reports property and equipment purchases and additions at cost. The agency expenses property and equipment acquisitions that do not meet the capitalization criteria, normal repairs, and maintenance when received or incurred by the SEC.

The SEC depreciates property and equipment over their estimated useful lives using the straight-line method of depreciation. The agency removes property and equipment from its asset accounts in the period of disposal, retirement, or removal from service. The SEC recognizes the difference between the book value and the amount realized as a gain or loss in the same period that the asset is removed.

During FY 2008, the SEC discontinued recording a salvage value for capitalized personal property and removed the assigned salvage values from existing capitalized personal property. The reason for the change is that historically the SEC has not recovered any value from used property or equipment when removed or scrapped. As a result of this action the agency recorded additional accumulated depreciation and the related expense in FY 2008.

O. Liabilities

The SEC records liabilities for amounts that are likely to be paid as a result of events that have occurred as of the relevant balance sheet dates. The SEC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, registrant deposit accounts, liabilities for disgorgement and penalties, and custodial liabilities for amounts held on behalf of Treasury.

Liabilities for distribution of disgorgement and penalties represent the largest portion of the SEC's liabilities. A liability for disgorgement and penalties arises when an order is issued for the SEC to collect disgorgement, penalties, and interest from securities law violators, which may be returned to harmed investors. When the Commission or court issues an order, the SEC establishes an account receivable due to the SEC. When collected, the SEC holds receipts in FBWT or invests in Treasury securities pending distribution to harmed investors. The SEC reports an equal and offsetting liability for assets held at Treasury as a non-entity liability on the balance sheet.

The SEC recognizes liabilities covered by three types of resources: realized budgetary resources, unrealized budgetary resources that become available without further congressional action, and amounts held that do not require the use of budgetary resources. Realized budgetary resources include obligated balances that fund existing liabilities and unobligated balances as of the relevant balance sheet dates. Unrealized budgetary resources represent fee collections in excess of amounts appropriated for current fiscal year spending. The SEC uses these resources to cover liabilities when appropriation language makes these unrealized budgetary resources available in the fiscal year without further congressional action.

P. Employee Retirement Systems and Benefits

The SEC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), depending on when they start working for the federal government. Pursuant to Public Law 99-335, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees who are rehired after a break in service of more than one year and who had five years of federal civilian service prior to 1987 are eligible to participate in the CSRS offset retirement system or may elect to join FERS.

The SEC does not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees in its financial statements. The U.S. Office of Personnel Management (OPM) reports them. Although the SEC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs. The SEC does not fund post-retirement benefits such as the Federal Employees Health Benefit Program (FEHB) and the Federal Employees Group Life Insurance Program (FEGLI). The SEC is also not required to fully fund CSRS pension liabilities. Instead, the financial statements of the SEC recognize an imputed financing source and corresponding expense that represent the SEC's share of the cost to the federal government of providing pension, post-retirement health, and life insurance benefits to all eligible SEC employees. For the fiscal year ended September 30, 2008, the SEC made contributions based on OPM cost factors equivalent to approximately 6.77 percent and 11.52 percent of the employee's basic pay for those employees covered by CSRS and FERS, respectively. For the fiscal year ended September 30, 2007, the SEC made contributions based on OPM cost factors equivalent to approximately 6.74 percent and 10.87 percent of the employee's basic pay for those employees covered by CSRS and FERS, respectively. All employees are eligible to contribute to a thrift savings plan. For those employees participating in FERS, a thrift savings plan is automatically established, and the SEC makes a mandatory one percent contribution to this plan. In addition, the SEC matches contributions ranging from one to four percent for FERS-eligible employees who contribute to their thrift savings plan. The SEC contributes a matching amount to the Social Security Administration under the Federal Insurance Contributions Act, which fully covers FERS participating employees. Employees participating in CSRS do not receive matching contributions to their thrift savings plans.

Q. Injury and Post-employment Compensation

The Federal Employees' Compensation Act (FECA), administered by the U.S. Department of Labor (DOL), addresses all claims brought by SEC employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment on these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the SEC terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims.

R. Annual, Sick, and Other Leave

The SEC accrues annual leave and compensatory time as earned and reduces the accrual when leave is taken. Each month, the SEC makes an adjustment so that the balances in the accrued leave accounts reflect current leave balances and pay rates. No portion of this liability has been obligated. Future financing sources provide funding to the extent that current or prior year funding is not available to pay for leave earned but not taken. The SEC expenses sick leave and other types of non-vested leave as used.

S. Revenue and Other Financing Sources

Exchange revenue transactions and non-exchange revenues that arise from the government's ability to demand payment generate the SEC's revenue and financing sources. The SEC's exchange revenue mainly consists of fees collected from SROs and registrants.

The SEC's funding is primarily through the collection of securities transaction fees from SROs and securities registration, tender offer, merger, and other fees from registrants. The fee rates are established by the SEC in accordance with federal law and are applied to volumes of activity reported by SROs or to filings submitted by registrants. When received, the SEC records these fees as exchange revenue. The SEC is permitted by law to include these amounts in its obligational authority or to offset its expenditures and liabilities upon collection, up to authorized limits. The SEC records all amounts remitted by registrants in excess of the fees for specific filings as liabilities in deposit accounts until earned by the SEC from registrant filings or returned to the registrant pursuant to the SEC's policy, which calls for the return of registrant deposits when an account is dormant for six months.

The SEC also receives collections from proceedings that result in the assessment of disgorgement, penalties, and interest against violators of federal securities laws. When the SEC collects these funds, it transfers the funds to Treasury. The SEC reports an equal and offsetting liability for the disgorgement and penalties held by the SEC on the Balance Sheet. The SEC does not record amounts collected and held by another government entity, such as a court registry, or a non-government entity, such as a receiver.

T. Budgets and Budgetary Accounting

The SEC is subject to certain restrictions on its use of statutory fees. The SEC deposits all fee revenues in a designated account at Treasury. However, the SEC may use funds from this account only as authorized by Congress, made available by OMB apportionment, and upon issuance of a Treasury warrant. Revenue collected in excess of appropriated amounts is restricted for use by the SEC.

The SEC can use fees other than the restricted excess fees from its operations, subject to an annual congressional limitation of $842.7 million and $867.5 million for the budget FYs 2008 and 2007, respectively. In addition, Congress made available approximately $63 million and $14 million for fiscal years 2008 and 2007, respectively. Funds appropriated that the SEC does not use in a given fiscal year are maintained in a designated account for use in future periods, as appropriated by Congress.

Each fiscal year, the SEC receives Category A apportionments, which are quarterly distributions of budgetary resources made by OMB. The SEC also receives a small amount of Category B funds for reimbursable activity, which are exempt from quarterly apportionment.

U. Disgorgement and Penalties

The SEC maintains non-entity assets related to disgorgements and penalties ordered pursuant to civil injunctive and administrative proceedings and which, upon collection and further order, the SEC may distribute to harmed investors. The SEC also recognizes an equal and offsetting liability for these assets as discussed in *Note 1.O. Liabilities.*

These assets consist of disgorgement, penalties, and interest assessed against securities law violators where the Commission, administrative law judge, or in some cases, a court, has determined that the SEC should return such funds to harmed investors. The SEC holds such funds as non-entity assets pending distribution to harmed investors pursuant to an approved distribution plan. The SEC does not record on its financial statements any asset amounts another government entity such as a court, or a non-governmental entity, such as a receiver, has collected or will collect. Additional details regarding disgorgement and penalties are presented in *Note 1.D. Changes in Presentation* and *Note 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds.*

NOTE 2. Non-entity Assets

At September 30, non-entity assets of the SEC consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Registrant Deposits (Fund Balance with Treasury)	$ 51,793	$ 61,689
Disgorgement and Penalties		
Fund Balance with Treasury	37,707	13,094
Investments	2,982,542	3,602,666
Accounts Receivable	88,118	63,610
Custodial Assets (Accounts Receivable)	2	4
Total Non-entity Assets	3,160,162	3,741,063
Total Entity Assets	6,058,180	5,988,715
Total Assets (Note 12)	$9,218,342	$9,729,778

Effective in FY 2008, the SEC changed its method of presenting the receipt, accounting, and disposition of disgorgement and penalties-related assets stemming from actions against violators of federal securities laws. The SEC previously treated disgorgement and penalties-related receivables as custodial activity. Beginning in FY 2008, these receivables are treated as non-entity disgorgement and penalties assets; consequently, $63.6 million of accounts receivable that was treated as a custodial asset in FY 2007 is reported as a non-entity disgorgement and penalties asset in FY 2008. Refer to *Note 1.D. Changes in Presentation.*

NOTE 3. Fund Balance with Treasury

FBWT by type of fund as of September 30, are as follows:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Fund Balance:		
General Funds	$5,921,810	$5,813,256
Other Funds	89,500	74,783
Total Fund Balance with Treasury	6,011,310	5,888,039
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	687	6,068
Unavailable	57,009	83,944
Obligated Balance not yet Disbursed	250,807	254,660
Non-Budgetary Fund Balance with Treasury	5,702,807	5,543,367
Total Fund Balance with Treasury	$6,011,310	$5,888,039

NOTE 4. Investments

At September 30, 2008, investments consisted of the following:

(DOLLARS IN THOUSANDS)	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENT NET	MARKET VALUE DISCLOSURE
Non-Marketable Market Based Securities	$2,976,912	S/L	$5,630	$ —	$2,982,542	$2,988,672

At September 30, 2007, investments consisted of the following:

(DOLLARS IN THOUSANDS)	COST	AMORTIZATION METHOD	AMORTIZED (PREMIUM) DISCOUNT	INTEREST RECEIVABLE	INVESTMENT NET	MARKET VALUE DISCLOSURE
Non-Marketable Market Based Securities	$3,588,309	S/L	$14,202	$155	$3,602,666	$3,605,239

The SEC invests these funds in overnight and short-term market-based Treasury bills. Treasury bills are securities traded in the primary and secondary U.S. Treasury market. Originally, the U.S. government auctions Treasury bills directly in the primary U.S. Treasury market and subsequently investors trade them in the secondary U.S. Treasury market. In accordance with GAAP, the SEC records the value of its investments in Treasury bills at cost and amortizes the discount on a straight-line basis through the maturity date of these securities. The market value is determined by the secondary U.S. Treasury market and represents the value an individual investor is willing to pay for these securities, at a given point in time.

Effective in FY 2008, the SEC disclosed its interest receivable related to investments in accordance with guidance provided by OMB Circular A-136. Previously, the SEC presented its disclosures regarding receivables related to interest on investments in *Note 5. Accounts Receivable,* in the non-entity intragovernmental accounts receivable section. Beginning in FY 2008, disclosures regarding the interest receivable are reported with the investments; consequently, $155,000 of interest receivable that was reported as accounts receivable in FY 2007 is reported in the table above. Refer to *Note 1.D. Changes in Presentation*.

NOTE 5. Accounts Receivable, Net

At September 30, 2008, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	GROSS RECEIVABLES	ALLOWANCE	NET RECEIVABLES
Entity Intragovernmental Assets:			
Reimbursable Activity	$ 45	$ —	$ 45
Subtotal Intragovernmental Assets	45	—	45
Entity Accounts Receivable:			
Exchange Fees	46,480	—	46,480
Filing Fees	569	66	503
Other	368	1	367
Non-entity Accounts Receivable:			
Disgorgement and Penalties	434,193	346,075	88,118
FOIA	2	—	2
Subtotal Non-Intragovernmental Assets	481,612	346,142	135,470
Total Accounts Receivable	$481,657	$346,142	$135,515

At September 30, 2007, accounts receivable consisted of the following:

(DOLLARS IN THOUSANDS)	GROSS RECEIVABLES	ALLOWANCE	NET RECEIVABLES
Entity Accounts Receivable:			
Exchange Fees	$ 74,422	$ —	$ 74,422
Filing Fees	355	11	344
Other	318	5	313
Non-entity Accounts Receivable:			
Disgorgement and Penalties	329,584	265,974	63,610
FOIA Fees	6	2	4
Total Accounts Receivable	$404,685	$265,992	$138,693

The SEC writes off debt aged two or more years by removing the debt amounts from the gross accounts receivable and any related allowance for uncollectible accounts. Refer to *Note 1.L. Accounts Receivable and Allowance for Uncollectible Accounts* for methods used to estimate allowances.

NOTE 6. Property and Equipment, Net

At September 30, 2008, property and equipment consisted of the following:

CLASS OF PROPERTY (DOLLARS IN THOUSANDS)	DEPRECIATION/ AMORTIZATION METHOD	CAPITALIZATION THRESHOLD FOR INDIVIDUAL PURCHASES	CAPITALIZATION THRESHOLD FOR BULK PURCHASES	SERVICE LIFE (YEARS)	ACQUISITION COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET BOOK VALUE
Furniture	S/L	$ 15	$ 50	5	$ 10,844	$ 6,395	$ 4,449
Equipment	S/L	15	50	3	50,000	44,139	5,861
Software	S/L	300	300	3–5	76,069	57,046	19,023
Leasehold Improvements	S/L	300	N/A	10	76,700	22,026	54,674
Total					$213,613	$129,606	$84,007

At September 30, 2007, property and equipment consisted of the following:

CLASS OF PROPERTY (DOLLARS IN THOUSANDS)	DEPRECIATION/ AMORTIZATION METHOD	CAPITALIZATION THRESHOLD FOR INDIVIDUAL PURCHASES	CAPITALIZATION THRESHOLD FOR BULK PURCHASES	SERVICE LIFE (YEARS)	ACQUISITION COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET BOOK VALUE
Furniture	S/L	$ 15	$ 50	5	$ 9,975	$ 4,227	$ 5,748
Equipment	S/L	15	500	3	48,509	37,866	10,643
Software	S/L	300	300	3–5	68,119	47,117	21,002
Leasehold Improvements	S/L	300	N/A	10	74,167	13,280	60,887
Total					$200,770	$102,490	$98,280

During FY 2008, the SEC recorded a software disposal for the Strategic Acquisition Manager system. The software was removed from production in September 2008. The net loss due to the disposal is $1.4 million. Effective FY 2008, the SEC changed its methodology of accounting for bulk purchases of equipment. In the prior year, the SEC's capitalization threshold was $500,000; this amount was changed to $50,000. Refer to *Note 1.C. Change in Methodology.*

NOTE 7. Liabilities Not Covered by Budgetary Resources

At September 30, liabilities consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Liabilities Not Covered by Budgetary Resources		
Intragovernmental		
Unfunded FECA and Unemployment Liability	$ 1,340	$ 1,109
Total Intragovernmental Liabilities	1,340	1,109
Accrued Leave	38,829	35,296
Actuarial Liability	5,604	5,080
Other Accrued Liabilities—Recognition of Lease Liability (Note 9)	15,768	16,865
Total Liabilities Not Covered by Budgetary Resources	61,541	58,350
Liabilities Not Requiring Budgetary Resources		
Intragovernmental		
Custodial Liability	2	4
Total Intragovernmental Liabilities	2	4
Registrant Deposits	51,793	61,689
Liability for Disgorgement and Penalties	3,108,367	3,679,370
Total Liabilities Not Requiring Budgetary Resources	3,160,162	3,741,063
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	15,588	6,153
Employee Benefits	4,433	2,699
Total Intragovernmental Liabilities	20,021	8,852
Accounts Payable	39,122	43,096
Accrued Payroll and Benefits	22,970	18,176
Other Accrued Liabilities	11,237	6,473
Total Liabilities Covered by Budgetary Resources	93,350	76,597
Total Liabilities	$3,315,053	$3,876,010

The SEC's liabilities include amounts that will never require the use of a budgetary resource. These liabilities consist of registrant deposit accounts; accounts receivable for disgorgement, penalties, and interest assessed against securities laws violators; and invested and uninvested assets held by the SEC on behalf of harmed investors.

NOTE 8. Actuarial FECA Liability

FECA provides income and medical cost protection to covered federal civilian employees harmed on the job or who have contracted an occupational disease, and dependents of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under FECA for the SEC's employees are administered by the DOL and ultimately paid by the SEC when funding becomes available.

The SEC bases its estimate for FECA actuarial liability on the DOL's FECA model. The model considers the average amount of benefit payments incurred by the SEC for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid (LBP) ratio for the whole FECA program, estimated at approximately 11 times the annual payments. To capture variability, the model estimates the liability using three sets of LBP ratios, summarized below.

For FY 2008, the LBP ratios were as follows:

LBP CATEGORY	MEDICAL	COMPENSATION
Highest	9.30%	12.50%
Overall Average	8.00%	11.70%
Lowest	7.10%	11.40%

For FY 2007, the LBP ratios were as follows:

LBP CATEGORY	MEDICAL	COMPENSATION
Highest	9.50%	12.20%
Overall Average	8.00%	11.80%
Lowest	7.20%	11.50%

For FY 2008 and FY 2007, the SEC used the overall average LBP ratios to calculate the $5.6 million and $5.1 million FECA actuarial liabilities for those years, respectively.

NOTE 9. Leases

The SEC has the authority to negotiate long-term leases for office space. At September 30, 2008, the SEC leased office space at 17 locations under operating lease agreements that expire between 2009 and 2021. The SEC paid $83 million and $85.5 million for rent for FY 2008 and 2007, respectively. In FY 2008, the SEC signed supplemental lease agreements that led to an increase in future lease payments. Under existing commitments, minimum lease payments through FY 2013 and thereafter are as follows:

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	MINIMUM LEASE PAYMENTS
2009	$ 78,822
2010	76,984
2011	76,902
2012	67,813
2013	60,151
2014 and thereafter	343,532
Total Future Minimum Lease Payments	$704,204

The total future minimum lease payments summarized above include a liability the SEC has recognized for office space leased in New York.

FISCAL YEAR *(DOLLARS IN THOUSANDS)*	REQUIRED LEASE PAYMENTS NEW YORK
2009	$2,722
2010	2,722
2011	2,469
2012	1,192
Total Future Estimated Lease Payments	$9,105

During FY 2005, the SEC entered into a lease agreement for new office space in New York. The SEC and GSA entered into separate agreements with the lessor of the previously occupied space. GSA agreed to rent the office space from the lessor for the next five years of the SEC's lease, at which time GSA has the option to renew the agreement for the remaining 15 months of the SEC's lease. As part of the SEC's agreement with the lessor, the SEC was responsible for the estimated $18 million difference between its annual lease liability and the annual lease liability negotiated by GSA with the lessor. As of FY 2008, the SEC is responsible for two years of the lease and two option years. As of September 30, 2008, this liability amounts to $9.1 million of lease payments which end in FY 2012.

At September 30, 2008 and 2007, the SEC recognized an unfunded liability of $15.8 million and $16.9 million, respectively to cover the lease obligation. Refer to *Note 7. Liabilities Not Covered by Budgetary Resources.*

NOTE 10. Imputed Financing

The SEC recognizes an imputed financing source and corresponding expense to represent its share of the cost to the federal government of providing pension and post-retirement health and life insurance benefits (Pension/Other Retirements Benefits (ORB)) to all eligible SEC employees. For September 30, 2008 and 2007, the components of the imputed financing sources and corresponding expenses were as follows:

PENSION/ORB CATEGORY *(DOLLARS IN THOUSANDS)*	FY 2008	FY 2007
CSRS	$ 5,551	$ 6,113
FERS	1,188	1,386
FEHB	17,270	18,838
FEGLI	90	89
Other	8	11
Total Pension/ORB	$24,107	$26,437

NOTE 11. Commitments and Contingencies

A. Commitments

The Securities Investor Protection Act of 1970 (SIPA), as amended, created the SIPC to provide certain financial protections to customers of insolvent registered securities brokers, dealers, firms, and members of national securities exchanges for up to $500,000 per customer. SIPA authorizes the SIPC to create a fund to maintain all monies received and disbursed by the SIPC. SIPA also gives the SIPC the authority to borrow funds from the SEC in an amount not to exceed, in the aggregate, $1 billion in the event that the SIPC fund is or may appear insufficient for purposes of SIPA. If necessary, Treasury would make these funds available to the SEC through the purchase by Treasury of notes or other obligating instruments issued by the SEC. Such notes or other obligating instruments would bear interest at a rate determined by the Secretary of the Treasury. As of September 30, 2008, the SEC had not loaned any funds to the SIPC, and there are no outstanding notes or other obligating instruments issued by the SEC.

In addition to future lease commitments discussed in *Note 9. Leases,* the SEC is obligated for the purchase of goods and services that have been ordered, but not received. As of September 30, 2008, net obligations for all of SEC's activities were $250.8 million, of which $93.5 million was delivered and unpaid. As of September 30, 2007, net obligations for all of SEC's activities were $254.7 million, of which $80.7 million was delivered and unpaid.

B. Contingencies

The SEC recognizes contingent liabilities when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

The SEC is party to various routine administrative proceedings, legal actions, and claims brought against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the federal government. As of September 30, 2008, the SEC does not owe for any claims.

NOTE 12. Earmarked, Disgorgement and Penalties, and Non-Entity Funds

SEC's earmarked funds arise from offsetting collections from securities transaction fees, registration fees, and other fees authorized by the Securities Act of 1933 ("the Securities Act") and the Exchange Act. As such, the SEC identified and separately displayed activity in this fund on the Statement of Changes in Net Position and the Balance Sheet in accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds. Note 1.H. Earmarked Funds* displays additional details regarding SEC earmarked funds.

For FY 2008, the assets, liabilities, net position, and net income from operations relating to earmarked, disgorgement and penalties, and non-entity funds consisted of the following:

(DOLLARS IN THOUSANDS)	EARMARKED	DISGORGEMENT AND PENALTIES	NON-ENTITY FUNDS	TOTAL
Balance Sheet as of September 30, 2008				
ASSETS				
Fund Balance with Treasury	$5,921,810	$ 37,707	$51,793	$6,011,310
Investments	—	2,982,542	—	2,982,542
Accounts Receivable	47,395	88,118	2	135,515
Advances and Prepayments	4,968	—	—	4,968
Property and Equipment, Net	84,007	—	—	84,007
Total Assets (Note 2)	$6,058,180	$3,108,367	$51,795	$9,218,342
LIABILITIES				
Accounts Payable	$ 54,710	$ —	$ —	$ 54,710
Accrued Payroll and Benefits	27,403	—	—	27,403
FECA and Unemployment Liability	6,944	—	—	6,944
Accrued Leave	38,829	—	—	38,829
Custodial Liability	—	—	2	2
Registrant Deposits	—	—	51,793	51,793
Liability for Disgorgement and Penalties	—	3,108,367	—	3,108,367
Other Accrued Liabilities	27,005	—	—	27,005
Total Liabilities	$ 154,891	$3,108,367	$51,795	$3,315,053
NET POSITION				
Cumulative Results of Operations	$5,903,289	$ —	$ —	$5,903,289
Total Net Position	5,903,289	—	—	5,903,289
Total Liabilities and Net Position	$6,058,180	$3,108,367	$51,795	$9,218,342
Statement of Net Cost				
For the Year Ended September 30, 2008				
Gross Program Costs	$ 930,903	$ —	$ —	$ 930,903
Net Program Costs	930,903	—	—	930,903
Less Earned Revenues Not Attributable to Program Costs	956,317	—	—	956,317
Net (Income) from Operations	$ (25,414)	$ —	$ —	$ (25,414)
Statement of Changes in Net Position				
For the Year Ended September 30, 2008				
Net Position Beginning of Period	$5,853,768	$ —	$ —	$5,853,768
Imputed Financing	24,107	—	—	24,107
Net Income from Operations	25,414	—	—	25,414
Net Change	49,521	—	—	49,521
Net Position End of Period	$5,903,289	$ —	$ —	$5,903,289

For FY 2007, the assets, liabilities, net position, and net income from operations relating to earmarked, disgorgement and penalties, and non-entity funds consisted of the following:

(DOLLARS IN THOUSANDS)	EARMARKED	DISGORGEMENT AND PENALTIES	NON-ENTITY FUNDS	TOTAL
Balance Sheet as of September 30, 2007				
ASSETS				
Fund Balance with Treasury	$5,813,256	$ 13,094	$61,689	$5,888,039
Investments	—	3,602,666	—	3,602,666
Accounts Receivable	75,079	63,610	4	138,693
Advances and Prepayments	2,100	—	—	2,100
Property and Equipment, Net	98,280	—	—	98,280
Total Assets (Note 2)	$5,988,715	$3,679,370	$61,693	$9,729,778
LIABILITIES				
Accounts Payable	$ 49,249	$ —	$ —	$ 49,249
Accrued Payroll and Benefits	20,875	—	—	20,875
FECA and Unemployment Liability	6,189	—	—	6,189
Accrued Leave	35,296	—	—	35,296
Custodial Liability	—	—	4	4
Registrant Deposits	—	—	61,689	61,689
Liability for Disgorgement and Penalties	—	3,679,370	—	3,679,370
Other Accrued Liabilities	23,338	—	—	23,338
Total Liabilities	$ 134,947	$3,679,370	$61,693	$3,876,010
NET POSITION				
Cumulative Results of Operations	$5,853,768	$ —	$ —	$5,853,768
Total Net Position	5,853,768	—	—	5,853,768
Total Liabilities and Net Position	$5,988,715	$3,679,370	$61,693	$9,729,778
Statement of Net Cost				
For the Year Ended September 30, 2007				
Gross Program Costs	$ 842,541	$ —	$ —	$ 842,541
Net Program Costs	842,541	—	—	842,541
Less Earned Revenues Not Attributable to Program Costs	1,507,750	—	—	1,507,750
Net (Income) from Operations	$ (665,209)	$ —	$ —	$ (665,209)
Statement of Changes in Net Position				
For the Year Ended September 30, 2007				
Net Position Beginning of Period	$5,152,921	$ —	$ —	$5,152,921
Appropriations Used	9,201	—	—	9,201
Imputed Financing	26,437	—	—	26,437
Net Income from Operations	665,209	—	—	665,209
Net Change	700,847	—	—	700,847
Net Position End of Period	$5,853,768	$ —	$ —	$5,853,768

NOTE 13. Intragovernmental Costs and Exchange Revenue

The SEC assigned all costs incurred for FY 2008 and FY 2007 to specific goals, but exchange revenue is not directly assignable to a specific goal and is presented in total. Total intragovernmental and public costs for the years ended September 30, 2008 and 2007 are summarized below.

PROGRAM GOALS *(DOLLARS IN THOUSANDS)*	FY 2008	FY 2007
Enforce Compliance with Federal Securities Laws		
Intragovernmental Costs	$116,189	$ 82,118
Public costs	479,138	447,336
Subtotal—Enforce Compliance with Federal Securities Laws	595,327	529,454
Promote Healthy Capital Markets through an Effective and Flexible Regulatory Environment		
Intragovernmental Costs	20,068	12,362
Public Costs	82,754	67,342
Subtotal—Promote Healthy Capital Markets through an Effective and Flexible Regulatory Environment	102,822	79,704
Foster Informed Investment Decision Making		
Intragovernmental Costs	26,052	21,081
Public Costs	107,435	114,836
Subtotal—Promote Informed Investment Decision Making	133,487	135,917
Maximize the Use of SEC Resources		
Intragovernmental Costs	19,374	15,117
Public Costs	79,893	82,349
Subtotal—Maximize the Use of SEC Resources	99,267	97,466
Total Entity		
Intragovernmental Costs	181,683	130,678
Public Costs	749,220	711,863
Total Costs	930,903	842,541
Less: Exchange Revenues	956,317	1,507,750
Net (Income) from Operations	$ (25,414)	$ (665,209)

NOTE 14. Exchange Revenues

For the fiscal years ended September 30, exchange revenues consisted of the following:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Securities Transactions Fees	$794,672	$1,249,019
Securities Registration, Tender Offer, and Merger Fees	161,377	258,490
Other	268	241
Total Exchange Revenues	$956,317	$1,507,750

NOTE 15. Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

The distinction between Category A and B funds is the time of apportionment. Category A funds are subject to quarterly apportionment by OMB. Category B funds represent budgetary resources distributed by a specified time period, activity, project, object, or a combination of these categories. The SEC's Category B funds represent amounts apportioned at the beginning of the fiscal year for the SEC's reimbursable activity. As of September 30, 2008 and 2007, obligations incurred as reported on the Statement of Budgetary Resources (SBR) consisted of the following:

OBLIGATIONS INCURRED *(DOLLARS IN THOUSANDS)*	FY 2008	FY 2007
Direct Obligations		
Category A	$915,422	$876,274
Total Direct Obligations	915,422	876,274
Reimbursable Obligations		
Category B	403	321
Total Reimbursable Obligations	403	321
Total Obligations Incurred	$915,825	$876,595

In addition, the amounts of budgetary resources obligated for undelivered orders include $157.5 million and $173.9 million as of September 30, 2008 and 2007, respectively.

B. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

A comparison between the FY 2008 SBR and the actual FY 2008 data in the President's budget cannot be presented, as the FY 2010 President's budget is not yet available; the comparison will be presented in next year's financial statements. A comparison between the FY 2007 SBR and the FY 2007 data in the FY 2009 President's budget is as follows:

(DOLLARS IN MILLIONS)	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	DISTRIBUTED OFFSETTING RECEIPTS	NET OUTLAYS
Combined Statement of Budgetary Resources	$967	$877	$ (1)	$(711)
Expired Accounts	(2)	(1)	—	—
Other			(1)	1
Budget of the U.S. Government	$965	$876	$ (2)	$(710)

The SBR reports on both expired and unexpired amounts while the budget excludes expired accounts that are no longer available for new obligations. Other differences are due to rounding.

NOTE 16. Custodial Revenues and Liabilities

As of September 30, 2008 and 2007 the source of custodial revenues is disgorgement and penalties which included the following amounts:

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
Cash Collections	$193,069	$496,524
Increase/(Decrease) in Amounts to Be Collected	(2)	(7,931)
Total Non-Exchange Revenues	$193,067	$488,593

Starting in FY 2008, the SEC changed its method of presenting the receipt, accounting, and disposition of disgorgement and penalties-related assets stemming from actions against violators of federal securities laws. In prior years, the SEC treated disgorgement and penalties-related receivables as custodial activity. Beginning in FY 2008, the SEC treats these receivables as disgorgement and penalties assets. Consequently, $63.6 million of custodial receivables that the SEC presented as custodial liabilities in FY 2007 are presented as disgorgement and penalties assets in FY 2008. Refer to *Note 1.D. Changes in Presentation* for additional disclosure for these receivables.

NOTE 17. Reconciliation of Net Cost of Operations (Proprietary) to Budget (formerly the Statement of Financing)

(DOLLARS IN THOUSANDS)	FY 2008	FY 2007
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred (Note 15)	$ 915,825	$ 876,595
Less: Spending Authority from Offsetting Collections and Recoveries	(1,024,548)	(1,560,985)
Net Obligations	(108,723)	(684,390)
Other Resources:		
Imputed Financing from Cost Absorbed by Others (Note 10)	24,107	26,437
Total Resources Used to Finance Activities	(84,616)	(657,953)
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	13,721	(35,123)
Resources That Finance the Acquisition of Assets Capitalized on the Balance Sheet	(16,520)	(31,793)
Net Decrease in Revenue Receivables Not Generating Resources until Collected	27,678	30,855
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	24,879	(36,061)
Total Resources Used to Finance the Net Cost of Operations	(59,737)	(694,014)
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Costs That Will Be Funded by Resources in Future Periods	3,533	2,322
Change in Lease Liability	(1,097)	(10,776)
Change in Unfunded Liability	754	385
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	3,190	(8,069)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	29,626	35,912
Revaluation of Assets or Liabilities	1,457	950
Other Costs That Will Not Require Resources	50	12
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Future Periods	31,133	36,874
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	34,323	28,805
Net (Income) from Operations	$ (25,414)	$ (665,209)

Appendix I

Comments from the Securities and Exchange Commission

Management's Response to Audit Opinion

CHRISTOPHER COX
CHAIRMAN

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WASHINGTON, DC 20549

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

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SAN FRANCISCO

November 14, 2008

Jeanette M. Franzel
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Franzel:

Thank you for the opportunity to respond to the Government Accountability Office's draft report on the SEC's fiscal year 2008 & 2007 Financial Statements (GAO-09-173). I would like to personally acknowledge and commend you and the GAO staff for your hard work and dedication in working with the SEC again this year to meet the reporting deadline for our audited financial statements.

I am pleased that the audit found that the statements and notes are presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles; that the SEC had effective internal controls over financial reporting and compliance with laws and regulations; and that there were no instances of reportable noncompliance with laws and regulations tested by GAO.

The SEC made substantial progress in strengthening its internal controls over financial reporting during fiscal year 2008. I am pleased that GAO found that the SEC was successful in remedying several control deficiencies that last fiscal year were found to collectively constitute a material weakness in internal control over financial reporting.

This result is testimony to the SEC's commitment to constantly improving our internal control environment and operational efficiencies so that the agency can lead by example in financial reporting. In July of this fiscal year, we upgraded our core financial accounting system and deployed two new modules that laid the foundation for full financial system integration, supported implementation of U.S. Standard General Ledger (SGL) compliant posting models, and enhanced the efficiency and effectiveness of our internal controls. Our work is not yet done, but I am very proud of what the SEC was able to accomplish in such a short period of time. I am also very appreciative of GAO's diligent efforts to complete its review, in a very compressed timeframe, of an essentially new framework of internal control over financial reporting. These accomplishments are as commendable as they are unprecedented.

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Jeanette M. Franzel
Page 2

The SEC will continue working over the course of this fiscal year to enhance our internal controls and ensure the reliability of our financial reporting, soundness of operations, and public confidence in the agency's mission. I appreciate your support of these efforts and look forward to continuing our productive dialogue on the issues addressed in the 2008 audit.

If you have any questions relating to our response, please contact Kristine Chadwick, Chief Financial Officer, at (202) 551-7840.

Sincerely,

Chris Cox

Christopher Cox
Chairman

92 2008 Performance and Accountability Report

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