AR 02-052

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2001

OFFICE OF INSPECTOR GENERAL

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Federal Trade Commission
Management Discussion and Analysis

FTC and Its Mission

The Federal Trade Commission (FTC) was created by the Federal Trade Commission Act of 1914. The FTC's mandate is to enforce federal antitrust, competition and consumer protection laws. To this end, the FTC's mission implements a core function of government: to protect consumers and enhance competition by eliminating unfair or deceptive acts or practices in the marketing of goods and services, and ensuring that consumer markets function competitively.

The FTC's work is based on the belief that competition among producers, and accurate information in the hands of consumers, bring the best products and lowest prices to the marketplace, spur innovation, and strengthen the economy.

Limitations of the Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements rests with FTC management. The accompanying financial statements have been prepared in conformity with the hierarchy of accounting principles approved by the principals of the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Bulletin 97-01, *Form and Content of Agency Financial Statements*. FTC is fully committed to the principles and objectives of both the Chief Financial Officers (CFOs) Act of 1990 and the Federal Financial Management Improvement Act of 1996. The fiscal year 2001 financial statements have been prepared with full consideration of the requirements of both acts. Comparative data for the prior fiscal year is presented. The statements should be read with the realization that they are for a component of the U.S. Government, i.e., a sovereign entity.

Audit of FTC's 2001 Principal Statements

The Office of Inspector General of the Federal Trade Commission has examined the agency's financial statements. The Inspector General's report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the statements.

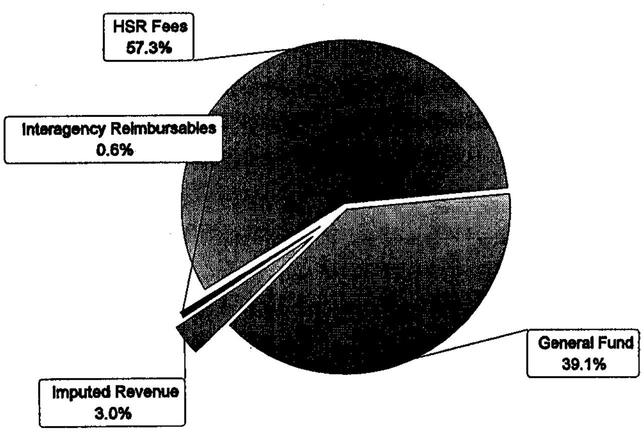
Financial Resources and Results of Operations

The accompanying statements summarize the FTC's financial position, disclose the net cost of operations and changes in net position, provide information on budgetary resources and financing, and present the sources and disposition of custodial revenue for the years ended September 30, 2001 and 2000.

The FTC had total assets of $167.0 million and $74.9 million as of September 30, 2001 and 2000 respectively. Approximately $79.5 million and $48.4 million of the 2001 and 2000 assets, respectively, were funds collected or to be collected and distributed under the consumer redress program, under the agency's consumer protection mission. In fiscal year 2001 $40.6 million was collected into a divestiture fund and will be subsequently disbursed per the terms of the divestiture agreement under the agency's maintaining competition mission. Another $5.9 million in fiscal year 2001 and $0.5 million in fiscal year 2000 represent undisbursed Hart-Scott-Rodino (HSR) premerger filing fees. In addition, $2.4 million in fiscal year 2001 and $0.7 in fiscal year 2000 represent civil penalties due. The remaining assets represent fund balances in appropriated accounts, account receivables, and net capital assets.

Revenue and financing sources received in fiscal year 2001 included exchange revenue derived from the collection of premerger notification filing fees and reimbursements received from other government agencies, direct appropriated amounts from the general fund of the Treasury, and imputed revenue to cover unfunded benefits. The accompanying pie chart details the percentages of these various financing sources. Financing sources not needed to fund the gross cost of operations are added to Cumulative Results of Operations.

FTC Financing Sources for FY 2001



During 2001, $86.3 million in fees were collected for the FTC under the premerger notification program as required by the Hart-Scott-Rodino (HSR) Anti-Trust Improvement Act. This was $20.6 million less revenue collected for the FTC than was collected the previous year. In fiscal year 2000, the statutory filing fee was $45,000 per qualifying filing. In February 2001, the filing fee structure for qualifying filings was changed to a three-tier structure: $45,000, $125,000, and $280,000. The transaction amount of a qualifying merger was also increased from $15 million total assets to $50 million total assets. In fiscal year 2001 2,257 qualifying filings were received, a significant decrease from the 4,752 filings received the previous year. The FTC collects a filing fee from each acquiring business entity required to file a Notification and Report form transaction. The fee is divided equally between the FTC and the Antitrust Division of the Department of Justice (DOJ). The disposition of amounts collected for DOJ are reported on the Statements of Custodial Activity.

The budgetary authority appropriated from the general fund was reduced by the amount of offsetting collections (HSR fees) received, which resulted in a net financing source from the general fund of $58.9 million, or 39.1 percent of total funding sources for 2001. In fiscal year 2000 offsetting collections from HSR fees were sufficient to completely offset the general fund appropriation.

The gross cost of operations during the 2001 fiscal year was approximately $141.1 million, an 8.5 percent increase over fiscal year 2000. Of the $141.1 million in gross operating costs, $136.6 million was funded through budget authority. The remaining $4.5 million represents costs which will be funded in a future period. During 2001, expenses for salaries and related benefits totaled $96.3 million, or 68.2 percent of the total expenses incurred. Lease space rental amounted to $12.7 million, or 9.0 percent, and the remaining $32.1 million, or 22.8 percent, included travel, facility maintenance and equipment rental, utilities, imputed benefit costs, depreciation, future funded expenses, and other items. This supported 1010 staff-years which were employed in fulfilling the FTC's mission. In fiscal year 2001, the net cost of operations, was $53.9 million, compared to $22.6 million for 2000.

Systems and Control

The FTC maintains a system of internal controls to provide reasonable assurance that its assets are protected from fraud and abuse, transactions are properly executed and recorded, and operations are conducted in accordance with established policies and procedures. The FTC's accounting system conforms in all material respects with the principles, standards, and related requirements specified in the Federal Financial Management Improvement Act of 1996.

The FTC's accounting, personnel, payroll, and accounts payable processing is performed under contract by the Department of Interior's (DOI) National Business Center in Denver, Colorado. FTC has controls in place to ensure the integrity of both payment and payroll processing.

Strategic and Performance Information

The FTC's work is carried out through two missions: the Consumer Protection mission works to ensure that consumer information in the marketplace is not deceptive or misleading; and the Maintaining Competition mission works to ensure that the marketplace is free from anticompetitive mergers and other anticompetitive business practices. Economic analysis, technical support, and management and administration are provided to each mission by support organizations. Each mission's objectives and most significant FY 2001 accomplishments are described below.

Consumer Protection

The goal of the Consumer Protection Mission is to prevent fraud, deception, and unfair business practices in the marketplace. The Mission works to accomplish this goal through three objectives: (1) identify fraud, deception, and unfair practices that cause the greatest consumer injury; (2) stop fraud, deception, and unfair practices through law enforcement; and (3) prevent consumer injury through education.

Objective 1: Identify fraud, deception, and unfair practices that cause the greatest consumer injury.

The FTC measures performance in this objective by determining the number of consumer complaints and inquiries that are added annually to the Consumer Information System. This is the first fiscal year in which the FTC used this performance measure. In past years, FTC identified the cumulative total of all entries in the database. In recognition of the need to collect and use fresh information, the agency started reporting the number of consumer complaints and inquiries added to the database on an annual basis instead of as a cumulative count of the total number of entries in the database in fiscal year 2001. The complaints in this database were used to identify problem areas as reported by the public. This enabled the agency to detect and respond rapidly to fraud, deception, and other illegal practices, resulting in effective targeting of the agency's law enforcement resources. FTC also shared complaints about fraud and deception relating to telemarketing, direct mail, and the Internet with more than 400 external partners through *Consumer Sentinel*. *Sentinel* can now be accessed by law enforcers in the United States, Canada, and Australia through an encrypted Web site to determine whether a particular fraudulent scheme is local, national, or cross-border in nature, and also to help spot larger trends for law enforcement action. Constantly adding fresh information to the database is critical to its effectiveness and its value to law enforcement, and the more information available, the better the job that FTC can do. The target for fiscal year 2001 was to add at least 350,000 entries in the database. At the end of the fiscal year, 430,000 entries had been added. In addition, *Consumer Sentinel* has been enhanced to provide a variety of tools to help law enforcers investigate fraud and ultimately prosecute illegal activity. New *Sentinel* features include analysis of data to determine trends in fraud, an index of fraudulent telemarketing sales pitches available from the National Tape Library, a compilation of companies already sued for fraud, and a catalogue of companies currently under investigation. *Sentinel* also will offer a contact list as well as how-to information to help agencies coordinate effective joint action.

Objective 2: Stop fraud, deception, and unfair practices through law enforcement.

There are fraud and non-fraud components of this objective, with a performance measure for each component. The FTC measures the effectiveness of its law enforcement efforts to stop fraud by estimating the amount of money it has saved consumers based on the annual fraudulent sales of defendants. Saving consumers money is the ultimate goal of the anti-fraud efforts. Consumers save money each time a fraudulent operator is stopped by successful litigation or settlement with the agency. Savings to consumers are increased by the agency leading joint law enforcement initiatives with federal, state, and international partners. The target for fiscal year 2001 was to save consumers $400 million. The year ended with savings to consumers at approximately $487 million or almost 122 percent of our target.

The non-fraud measure is a new measure that was first implemented in FY 2001 and based on data from the previous year. This measure was based on the assumption that advertisers seek to increase sales by at least as much as they spend on advertising; thus, this measure is intended to help evaluate the impact of stopping deceptive advertisements. The base year, FY 2000, included orders halting several large national advertising campaigns.

The fiscal year 2001 goal in the non-fraud area was to stop $300 million in deceptive or unfair advertising campaigns. The agency stopped $86 million, or 29 percent of the goal.

Those results, and the industry in general, have been studied, and the agency has reset its target to $100 million in fiscal year 2002 and 2003 for the following reasons. First, since this measure was established, the FTC has increased its emphasis on taking action against deceptive Internet advertising claims. Internet advertising is very broadly disseminated, but is considerably less expensive than traditional advertising. Second, a number of traditional advertisers are now using public relations campaigns as an alternative to traditional advertising campaigns and it is difficult, if not impossible, for the agency to measure the value of the publicity that results from these public relations efforts. Finally, better monitoring has increased the FTC's effectiveness at stopping some large advertising campaigns early on.

Objective 3: Prevent consumer injury through education.

Consumer and business education is the first line of defense against fraud, deception, and unfair practices. All FTC law enforcement initiatives include a consumer and/or business education component aimed at preventing consumer injury and unlawful business practices. Public education programs benefit consumers by alerting them to their rights under various consumer protection laws and providing practical tips on how to recognize and avoid scams and rip-offs. To reach the broadest possible audience, FTC makes maximum use of the national media and outreach to lead more consumers to the FTC's Web site (www.ftc.gov) and the "one-stop" government Web site for consumer information (www.consumer.gov). Messages also reach the public through the Consumer Response Center, and hundreds of partners who distribute FTC materials, link to the Web site, or post FTC's messages on their Web sites. The goal in fiscal year 2001 was to reach an audience of at least 10 million with FTC education messages. At year end 15 million education messages had been distributed. And for the second consecutive year, more messages were distributed online (more than 9.6 million) than in print (5.4 million). In fiscal year 2002, the agency will continue to focus consumer and business education efforts on areas where fraud, deception, unfair practices, and information gaps cause the greatest injury such as, globalization, Internet scams, online privacy, identity theft, etc. The agency will creatively use technology, including new interactive media, to extend the reach of consumer and business education. Finally, during this fiscal year, the FTC will assess the consumer education needs of the Spanish-speaking population in the United States and identify and provide consumer education materials where Spanish language materials are not already provided by other government agencies.

Maintaining Competition

The goal of the Maintaining Competition mission is to prevent anticompetitive mergers and other anticompetitive business practices in the marketplace. The mission works to accomplish its goal through three objectives:

Objective 1: Identify anticompetitive mergers and practices that cause the greatest consumer injury.

For the past several years, a high level of merger activity has dominated the Mission's agenda, with the number, size, and scope of proposed mergers increasing year after year. While the pace of merger activity remained at a very high level, by historic standards, in fiscal 2001, an abatement in merger-driven demands on staff resources permitted us to enlarge our efforts in other very important priorities outside the merger arena.

The Commission uses premerger notification reports required under the HSR Act as its primary means for identifying potentially anticompetitive mergers. The FTC's Premerger Notification Office reviews all filings made for proposed mergers, acquisitions, and joint ventures and performs preliminary antitrust review for every reportable transaction that is filed with the FTC. The staff works to complete these reviews as quickly and as efficiently as possible, both to conserve available resources to devote to other work, and to minimize the delay imposed on businesses as a result of the HSR requirements.

Amendments to the HSR Act effective on February 1, 2001 reduced the number of premerger notification reports filed under the Act by raising the filing thresholds. Because the underlying standard of legality remains unchanged, however, the FTC now makes greater use of trade press articles, consumer and competitor complaints, and other means to identify possibly illegal mergers that are not subject to the HSR reporting requirement. At the same time, the trend toward larger and more complex transactions continues. Antitrust review of large, multifaceted transactions is generally much more resource-intensive, as these transactions almost always involve many more separate antitrust markets, each of which requires a separate analysis.

The easing of the pace of merger activity has enabled the FTC to increase the resources devoted to nonmerger investigations and cases, making the balance between merger and nonmerger activities more consistent with historic allocations. The staff used the same resources that it relies upon in identifying problematic but non-reportable mergers, as well as hearings, economic studies and other means to identify potentially anticompetitive practices other than mergers that may harm consumers. In particular, the FTC focuses on emerging trends in the economy, technology, and the marketplace.

The mission also measures its success in identifying anticompetitive practices that cause consumer injury by counting the number of nonmerger investigations opened during the year. The FTC established a goal of opening 45 to 70 nonmerger investigations over the course of the year. Due to the resource demands imposed by merger activity, the agency was able to open only 25 nonmerger investigations in Fiscal 2000. In Fiscal 2001, however, a restoration of historic resource allocations between merger and nonmerger efforts resulted in the opening of 56 new nonmerger investigations.

Objective 2: Stop anticompetitive mergers and practices through law enforcement.

Once having identified an anticompetitive merger or business practice, the FTC takes enforcement action under the antitrust laws to prevent it, either through an administrative challenge or in federal court. In many instances, the agency is able to reach a consent agreement with the affected parties that prevents similar anticompetitive activity in the future.

The FTC employs its law enforcement authority to stop anticompetitive mergers and practices both directly and indirectly. Through direct legal challenges to specific anticompetitive transactions, it saves consumers millions of dollars annually by preventing such transactions from taking place or by arranging for restructuring of the transaction to eliminate the anticompetitive effects. In addition, such challenges indirectly accomplish the FTC's objective by serving as legal precedent and demonstrating to the business and legal communities that the agency can and will successfully take legal action to block anticompetitive transactions. This deterrent effect prevents many anticompetitive mergers and acquisitions from even being proposed. The business community puts greater planning efforts into decisions concerning marketing and expansion and will many times consult with the antitrust authorities before proposing certain transactions or agreeing to enter into business practices that may be anticompetitive.

Under the Mergers and Joint Ventures Enforcement Program, the Commission authorized staff to initiate 23 enforcement actions, issue 27 "second requests" under the HSR Act for additional information or documentary materials, and the Bureau opened 195 investigations under Section 7 of the Clayton Act.

The Commission provisionally accepted 18 consent agreements for public comment during fiscal year 2001. In addition, four transactions were abandoned after the Commission began second request investigations to explore the possibility of an antitrust violation.

In the nonmerger area, the Commission provisionally accepted two proposed consent orders. The Commission also issued two administrative complaints, and the staff litigated two matters in federal court, including one in which the court approved a settlement that will return $100 million to consumers.

The FTC established as a goal a positive outcome in 80 percent of the enforcement actions brought by the agency to challenge anticompetitive mergers or practices. Positive outcomes include abandonment of an anticompetitive transaction following an FTC challenge, a consent agreement to resolve antitrust concerns, or a successful challenge in court. A negative outcome occurs when parties refuse to settle antitrust concerns raised by the agency, and the agency is unsuccessful in obtaining relief through the courts. The Commission significantly exceeded this goal in 2001, reaching a successful settlement agreement or persuading parties not to proceed with an anticompetitive acquisition in approximately 94 percent of the matters challenged.

Another goal was to obtain direct dollar savings to consumers of at least $800 million as a result of prevention of anticompetitive mergers that would have raised prices by that amount. In calculating these savings, the mission takes into consideration the size of the markets involved, the percentage increase in price that would likely have resulted from the merger, and the likely duration of the price increase. The agency exceeded this goal in 2001, preventing mergers that would have cost consumers $2.5 billion had they been allowed to proceed.

Another goal was to obtain direct dollar savings to consumers of at least $200 million as a result of prevention of anticompetitive practices that would cost consumers that amount. The agency came close to this goal in 2001, achieving $157 million in consumer savings. Since relatively few nonmerger investigations were begun in the previous year, fewer were concluded in fiscal 2001. Thus, notwithstanding the target, the level of savings achieved is impressive.

Objective 3: Prevent consumer injury through education.

The Commission increases awareness of antitrust law through guidance to the business community; outreach efforts to federal, state and local agencies, business groups and consumers; development and publication of antitrust guidelines and policy statements; and speeches and publications. Through these mechanisms, the Commission publicizes the antitrust law and our enforcement intentions, with the likely result of deterring future anticompetitive behavior.

The FTC established two new performance measures for Fiscal 2001. The first is based on the number of initiatives (including speeches, testimony, reports, policy statements, etc.) to educate the public during the year. The second new performance measure is based on the number of times that members of the public visit antitrust related content on the FTC's Web Site. Since the FTC did not consistently collect data on these measures in earlier years, the agency will use data from Fiscal 2001 to establish baselines for comparison of future year's activities.

Custodial Activity

Fighting fraud is one of the Commission's highest priorities; consumers are bilked out of billions of dollars a year by perpetrators of traditional fraud and fraud on the Internet. In fraud cases, the Commission files actions in federal district court to bring an immediate halt to ongoing business activities and freeze defendants' assets. The Commission then pursues court orders that permanently ban the fraudulent activities and provide redress to consumers. In non-fraud cases, usually involving advertising claims, redress may be obtained for consumers in settlement of administrative complaints. In addition, when a company or individual violates an FTC Trade Regulation Rule, a statute enforced by the agency, or a prior agency order, the Commission seeks Federal district court orders permanently barring future violations and requiring payment of civil penalties. As these agency enforcement activities generate substantial amounts of nonexchange revenue, a Statement of Custodial Activity (SCA) forms part of the FTC's financial statement package.

In addition to the fines and penalties collected and transferred to the general fund of the Treasury, the agency transfers one-half of the Hart-Scott-Rodino premerger filing fees collected during the year to the Antitrust Division of the Department of Justice.

The SCA is a required financial statement under *Statement of Federal Financial Accounting Concepts (SFFAC) No. 2* for those Federal agencies that collect nonexchange revenues (e.g., taxes, duties, fines, and penalties) for the general fund of the Treasury, a trust fund, or other recipient entities. The fiscal years 2001 and 2000 nonexchange revenue were \$183.1 and \$147.8 million, respectively, for activities performed by the agency under its two major enforcement missions: maintaining competition and consumer protection.

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

OFFICE OF
INSPECTOR GENERAL

Chairman Muris:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 2001 and 2000, and the related Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Financing, and Statements of Custodial Activity for the years then ended, and has considered internal control over financial reporting and the FTC's compliance with laws and regulations.

Opinion on Financial Statements

In our opinion, the financial statements referred to above, including the notes thereto, present fairly, in all material respects, the Commission's assets, liabilities and net position as of September 30, 2001 and 2000, and the net costs and changes in net position, its budgetary resources, financing and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States.

Other Accompanying Information

Our audits were conducted for the purpose of forming an opinion on the FY 2001 and 2000 principal financial statements of the Commission taken as a whole. The information discussed below is presented for purposes of additional analysis and is not a required part of the principal financial statements.

- The information in the Required Supplementary Information section has been subjected to the auditing procedures applied in the audit of the Commission's principal financial statements and, in our opinion, is fairly stated in all material respects in relation to the principal financial statements taken as a whole.

- The information in the Management Discussion and Analysis of the Commission's annual financial statements is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. This information is, however, addressed in our assessment of internal control discussed below.

Opinion on Internal Control

In planning and performing our audits, we considered the Federal Trade Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, *"Audit Requirements for Federal Financial Statements."* We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

With respect to internal control related to performance measures reported in the Management Discussion and Analysis section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Reportable Conditions

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal controls and its operation that we considered to be material weaknesses as defined above.

We noted certain other matters involving the internal control over financial reporting that we have reported to the Commission's management in a separate letter (Management Letter AR 02-052A).

Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Commission. However, the objective of our audit of these financial statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes and regulations, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the statement of financial position referred to above or that sensitivity warrants disclosure thereof.

The results of our test of compliance disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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

With respect to items not tested, nothing came to our attention to cause us to believe the Commission had not complied, in all respects, with those provisions.

Responsibilities and Methodology

Management has the responsibility for:

- preparing the financial statements in conformity with generally accepted accounting principles described in Note 1 to the financial statements;
- establishing and maintaining an effective internal control over financial reporting; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on these financial statements based on our audit. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misrepresentation and presented fairly in accordance with the generally accepted accounting principles. We performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on these financial statements and not to provide an opinion on the internal control over financial reporting. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- obtained an understanding of the design of relevant internal controls and determined whether they had been placed in operation;
- assessed control risk;
- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statement;
- tested compliance with selected provisions of the laws and regulations that may materially affect the financial statements; and
- performed other procedures that we considered necessary in the circumstances.

Our audits were conducted in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards,* as issued by the Comptroller General of the United States; and OMB Bulletin No. 01-02. We believe that our audits provide a reasonable basis for our opinion.

While this report is intended for the information and use of the Federal Trade Commission, the Office of Management and Budget and the Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

Frederick J. Zirkel

Inspector General
Federal Trade Commission

Washington, D.C.
February 22, 2002

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2001 and 2000

	2001	2000
Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 35,760,720	$ 24,034,784
Accounts Receivable, Net (Note 4)	178,730	93,485
Total Intragovernmental Assets	35,939,450	24,128,269
Cash and Other Monetary Assets (Note 3)	11,020	5,510
Property, Plant, and Equipment, Net (Note 5)	2,726,901	1,098,169
Total Entity Assets	38,677,371	25,231,948
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	10,683,855	5,098,642
Cash and Other Monetary Assets (Note 3)	81,827,457	36,994,159
Accounts Receivable, Net (Note 4)	35,855,876	7,536,645
Total Non-Entity Assets	128,367,188	49,629,446
Total Assets	$ 167,044,559	$ 74,861,394

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2001 and 2000

	2001	2000
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	$ 866,385	$ 752,773
Accounts Payable	610,596	26,751
Total Intragovernmental Liabilities	1,476,981	779,524
Accounts Payable	6,896,423	3,904,575
Accrued Salaries	3,424,521	2,854,603
Total Liabilities Covered by Budgetary Resources	11,797,925	7,538,702
Liabilities Not Covered by Budgetary Resources (Note 6):		
Intragovernmental Liabilities:		
Undisbursed Premerger Filing Fees	5,921,233	464,981
Other Liabilities	2,150,405	741,030
Total Intragovernmental Liabilities	8,071,638	1,206,011
Actuarial FECA Liabilities	1,927,381	2,304,000
Accrued Annual Leave	6,238,991	6,159,640
With the Public	120,586,955	48,694,113
Total Liabilities Not Covered by Budgetary Resources	136,824,965	58,363,764
Total Liabilities	148,622,890	65,902,466
Net Position: (Note 7)		
Balances:		
Unexpended Appropriations	-	70,230
Cumulative Results of Operations	18,421,669	8,888,698
Total Net Position	18,421,669	8,958,928
Total Liabilities and Net Position	$ 167,044,559	$ 74,861,394

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF NET COST
For the years ended September 30, 2001 and 2000

	2001	2000
Costs:		
Maintaining Competition Mission:		
Intragovernmental	$ 16,886,230	$ 16,308,993
With the public	49,454,298	47,472,653
Total Mission Cost	66,340,528	63,781,646
Less Exchange Revenues (Note 9)		
Intragovernmental	(832,557)	(576,524)
With the public	(86,340,113)	(106,908,778)
Total Exchange Revenues	(87,172,670)	(107,485,302)
Net Mission Revenue	(20,832,142)	(43,703,656)
Consumer Protection Mission:		
Intragovernmental	18,322,500	16,506,197
With the public	56,443,560	49,807,373
Total Mission Cost	74,766,060	66,313,570
Net Cost of Operations	$ 53,933,918	$ 22,609,914

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2001 and 2000

	2001	2000
Cost of Operations	$ (53,933,918)	$ (22,609,914)
Financing Sources:		
(Other than exchange revenue)		
Appropriations	58,946,915	1,548,136
Imputed financing (Note 1f)	4,519,974	4,077,286
Net Results of Operations	9,532,971	(16,984,492)
Decrease in Unexpended Appropriations	(70,230)	(2,931,588)
Changes In Net Position	9,462,741	(19,916,080)
Net Position - Beginning of Period	8,958,928	28,875,008
Net Position - End of Period	$ 18,421,669	$ 8,958,928

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2001 and 2000

	2001	2000
Budgetary Resources:		
Budget authority	$ 58,876,685	$ -
Unobligated balances-beginning of period	6,647,412	25,691,784
Spending authority from offsetting collections		
Hart-Scott-Rodino fees:		
For current year apportionment	86,340,113	104,024,000
To be apportioned in subsequent fiscal year	-	2,884,778
Total Hart-Scott-Rodino fees	86,340,113	106,908,778
Reimbursable Authority	644,955	576,524
Adjustments	791,733	(574,189)
Total Budgetary Resources	$ 153,300,898	$ 132,602,897
Status of Budgetary Resources:		
Obligations incurred		
Maintaining Competition Mission	68,500,290	59,325,034
Consumer Protection Mission	78,181,273	66,630,451
Total obligations incurred	146,681,563	125,955,485
Unobligated balances available	6,619,335	6,647,412
Unobligated balances - not available	-	-
Total Status of Budgetary Resources	$ 153,300,898	$ 132,602,897
Outlays:		
Obligations incurred	146,681,563	125,955,485
Less: Spending authority from offsetting collections and adjustments	(87,776,801)	(108,351,712)
Obligated balance, net - beginning of period	17,392,883	17,494,075
Less: Obligated balance, net - end of period	(29,152,406)	(17,392,883)
Total Outlays	$ 47,145,239	$ 17,704,965

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the years ended September 30, 2001 and 2000

	2001	2000
Obligations and Nonbudgetary Resources:		
Obligations incurred	$ 146,681,563	$ 125,955,485
Less: Spending authority from offsetting collections and adjustments	(87,776,801)	(108,351,712)
Financing imputed for cost subsidies (Note 1f)	4,519,974	4,077,286
Other	-	57,148
Total obligations and nonbudgetary resources	63,424,736	21,738,207
Resources That Do Not Fund Net Cost of Operations:		
Change in amount of goods, services, and benefits ordered but not yet received or provided	(7,585,546)	1,198,644
Increase in Costs Capitalized on Balance Sheet	(1,940,465)	(1,231,971)
Costs That Do Not Require Resources:		
Depreciation and amortization	311,734	175,891
Financing Sources Yet to be Provided	(276,541)	729,143
Net Cost of Operations	$ 53,933,918	$ 22,609,914

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the years ended September 30, 2001 and 2000

(Refer to Note 11)

	MC Mission	CP Mission	2001 Total	2000 Total
Sources of Collections:				
Cash Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 86,340,113	$ -	$ 86,340,113	$ 106,908,778
Civil Penalties and Fines (b)	-	1,065,953	1,065,953	10,255,388
Redress (c)	-	26,685,566	26,685,566	32,814,171
Divestiture Fund (d)	40,592,806	-	40,592,806	-
Funeral Rule Violations	-	86,265	86,265	98,219
Net Collections	126,932,919	27,837,784	154,770,703	150,076,556
Accrual Adjustments (e)	-	28,319,231	28,319,231	(2,267,693)
Total Non-exchange Revenues	$ 126,932,919	$ 56,157,015	$ 183,089,934	$ 147,808,863
Disposition of Revenue Collected:				
Amounts Transferred to:				
Treasury General Fund	-	4,737,920	4,737,920	13,499,733
Department of Justice	81,131,361	-	81,131,361	133,140,025
Receivers (f)	-	2,006,606	2,006,606	-
Redress to Claimants (g)	-	15,672,236	15,672,236	23,981,332
Contractor Fees Net of Interest Earned (h)	-	804,069	804,069	(315,066)
Net disbursements	81,131,361	23,220,831	104,352,192	170,306,024
Change in Liability Accounts (i)	45,801,558	32,936,184	78,737,742	(22,497,161)
Total Disposition of Revenues Collected	$ 126,932,919	$ 56,157,015	$ 183,089,934	$ 147,808,863
Net Custodial Collections	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
Notes to the Financial Statements
For the years ended September 30, 2001 and 2000

Note 1 - Organization and Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements have been prepared from the books and records of FTC in accordance with the form and content requirements of OMB Bulletin 97-01, as amended, and FTC's accounting policies, as summarized in Note 1(b). These statements are different from the financial reports also prepared by FTC pursuant to OMB directives, used to monitor the use of budgetary resources.

In addition, the accompanying statements include information on the activities of the agency's consumer redress program. Independent agents are contracted to administer the program under the oversight of FTC program offices, which maintain the financial records for consumer redress activity. The consumer redress program is subject to independent audit and review by the Office of Inspector General.

(b) Basis of Accounting

On October 19, 1999 the Council of the American Institute of Certified Public Accountants (AICPA) recognized the Federal Accounting Standards Advisory Board (FASAB) as the body designated to establish generally accepted accounting principles (GAAP) for Federal governmental entities under Rule 203, "Accounting Principles," of the AICPA's Code of Professional Conduct. The FTC financial statements are prepared in accordance with GAAP for Federal government entities.

Transactions are recorded on an accrual accounting basis as well as a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

(c) Reporting Entity

The FTC was created by the Federal Trade Commission Act of 1914. The FTC enforces a variety of federal anti-trust and consumer protection laws. The FTC seeks to ensure that the nation's markets function competitively, and are vigorous, efficient, and free of undue restrictions. The FTC also works to enhance the smooth operation of the marketplace by eliminating acts or practices that are unfair or deceptive. In general, FTC's efforts are directed toward stopping actions that threaten consumers' opportunities to exercise informed choice. Finally, the FTC undertakes economic analysis to support its law enforcement efforts and to contribute to the policy deliberations of the Congress, the Executive Branch, other independent agencies, and state and local governments when requested.

The accompanying financial statements include the accounts for appropriated funds and other fund groups described below for which the FTC maintains financial records, and for the consumer redress accounts for which the agency has management oversight.

General Funds These funds consist of salaries and expense appropriation accounts used to fund agency operations and capital expenditures.

Deposit and Suspense Funds These funds are maintained to account for receipts awaiting proper classification, or held in escrow, until ownership is established and proper distributions can be made.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Receipt Accounts The FTC collects civil penalties and other miscellaneous receipts, which are not retained by the FTC. These receipts are deposited directly to an U. S. Treasury receipt account.

(d) Budgets and Budgetary Accounting

Congress annually passes appropriations that provide FTC with authority to obligate funds for necessary expenses to carry out mandated program activities. These funds are available until expended. The funds appropriated are subject to OMB apportionment of funds in addition to Congressional restrictions on the expenditure of funds. Also, FTC places internal restrictions to ensure the efficient and proper use of all funds. Appropriated funding is derived from various revenues and financing sources.

(e) Revenues and Other Financing Sources

In fiscal year 2001 the FTC received a financing source in the form of a direct appropriation from the general fund of the Treasury, which represented approximately 39.1 percent of total revenues and financing sources realized and which funded approximately 41.6 percent of gross operating expenses. In fiscal year 2000 the FTC did not receive a revenue source directly from the general fund of the Treasury.

Additional revenues are earned through the collection of fees under the Hart-Scott-Rodino (HSR) Anti-Trust Improvement Act of 1976. This Act, in part, requires the filing of premerger notifications with the FTC and the Anti-Trust Division of the Department of Justice and establishes a waiting period before certain acquisitions may be consummated. The FTC retains one half of the HSR pre-merger filing fees collected. This fee revenue funded approximately 55.1 percent and 97.0 percent for 2001 and 2000, respectively, of the agency's operations. Revenue is recognized when earned, i.e. all required documentation under the HSR Act has been received by the agency. Fees not retained by the FTC are not reported as revenue and are maintained in a suspense fund until transferred to the Department of Justice.

The FTC also earns revenue through reimbursement for services performed for other Federal agencies, typically to provide technical assistance on anti-trust laws and competition policy. Revenue is recognized when the services have been provided under the reimbursable agreement.

(f) Imputed Financing

FTC recognizes costs of pensions and other retirement benefits during employees' active years of service, but does not fully recognize the cost for the pensions, health benefits, or life insurance that employees receive once they retire. Consequently, an imputed financing source is recognized in an amount equal to the current year unfunded pension and other retirement benefit costs which are subsidized by the Office of Personnel Management. Associated costs are also included in the Statement of Net Cost. Factors used in the calculation of these benefit expenses were provided by the Office of Personnel Management in accordance with Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government.*

An additional imputed financing source is recognized for costs associated with settlements paid from the Federal Judgment Fund administered by the Department of the Treasury. The Treasury Judgment Fund was established by Congress and funded at 31 U.S.C. 1304 to pay all or in part the courtroom judgments and settlement agreements negotiated by federal agencies, as well as certain types of administrative

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

awards. Interpretation of SFFAS No. 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS No. 4 and 5* requires agencies to recognize liabilities and expenses when settlements occur and to recognize an intra-governmental financing source.

(g) Fund Balances with the U.S. Treasury

With the exception of cash held in consumer redress custodial accounts by FTC's contracted agents, FTC does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Fund balances with Treasury consist of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, and restricted funds, which include deposit and suspense funds. The FTC's fund balances with Treasury are carried forward until goods or services are received and payment is made, or until such time as funds are returned to the U.S. Treasury.

(h) Accounts Receivable

Entity accounts receivable include amounts due from other Federal entities, and from current and former employees and vendors. Non-Entity accounts receivable are for civil monetary penalties imposed as a result of the FTC's enforcement activities and for uncollected redress judgments and amounts due from receivers. Since FTC does not retain these receipts, a corresponding liability is also recorded for these accounts receivable.

Opening judgment receivable balances reflect the FASAB standard for the recognition of losses using the collection criterion of "more likely than not". This criterion results in receivable balances that are more conservatively stated than those valued by the private sector under generally accepted accounting principles. In SFFAS No. 1, the Board states that it is appropriate to recognize the nature of federal receivables which, unlike trade accounts of private firms or loans made by banks, are not created through credit screening procedures. Rather, these receivables arise because of the assessment of fines from regulatory violations. In these circumstances, historical experience and economic factors indicate that these types of claims are frequently not fully collectible.

The FTC recognizes an allowance for uncollectible accounts receivable by individual account analysis based on the debtor's ability to pay, willingness to pay, and the probable recovery of amounts from secondary sources, including liens, garnishments, and other applicable collection tools. Federal receivables are considered fully collectible and therefore no allowance is recorded.

(i) Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received. Advances are principally advances to FTC employees for official travel.

(j) Property and Equipment

Commercial vendors and the General Services Administration, which charges FTC a Standard Level Users Charge (SLUC) which approximates the commercial rental rates for similar properties, provide the land and buildings in which FTC operates.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Property and equipment consists of equipment, leasehold improvements and software. All items with an acquisition value greater than $100,000 and a useful life over two years are capitalized using the straight-line method. Service lives range from 5 to 15 years. Internal use software acquisitions or development costs of $100,000 and over are capitalized and the costs are amortized using the straight-line method over the estimated useful life of 3 years. Items purchased which do not meet these criteria are expensed. During fiscal year 1997, the FTC began capitalizing equipment in accordance with SFFAS Number 6, *Accounting for Property, Plant and Equipment.*

(k) Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted, and liabilities resulting from the agency's custodial activities (see Note 11). Also, the Government, acting in its sovereign capacity can abrogate FTC liabilities (other than contracts).

(l) Actuarial FECA Liability and Accrued FECA Claims

The FTC records an estimated liability for future workers' compensation claims based on data provided from the Department of Labor (DOL). FTC also records a liability for actual claims paid on its behalf by the DOL.

(m) Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the liability is reduced as leave is taken. At year-end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued annual leave is unfunded, and accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed when incurred.

(n) Post-Retirement Health Benefits and Life Insurance

As required by SFFAS No. 5, *Accounting for Liabilities of the Federal Government,* the FTC is recognizing its share of the future cost of post-retirement health benefits and life insurance for FTC employees while they are still employed. OPM has provided the FTC with certain cost factors that estimates the true cost of providing the post retirement benefit to current employees. During fiscal years 2001 and 2000, the cost factors relating to health benefits were $2,999 and $2,733 per employee enrolled in the Federal Employees Health Benefits program, respectively. The total cost recognized during fiscal years 2001 and 2000 were $2,510,913 and $2,192,549, respectively.

During fiscal years 2001 and 2000, the cost factor relating to life insurance was 0.02% of basic pay for employees enrolled in the Federal Employee Group Life Insurance program. The total costs recognized for the years ended September 30, 2001 and 2000 were $10,278 and $9,092, respectively.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

(o) Retirement Plans

Approximately 36 percent of FTC's employees participate in the Civil Service Retirement System (CSRS), to which FTC makes matching contributions equal to 8.5 percent of pay. On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. FERS and Social Security automatically cover employees hired after December 31, 1983, while employees hired prior to January 1, 1984 may elect to either join FERS or remain in the CSRS. The FTC also contributes to FERS on behalf of its employees.

One primary difference between FERS and CSRS is the government contribution to the Thrift Savings Plan (TSP) that FERS employees receive. FERS covered employees may contribute up to 11 percent and 10 percent for the years 2001 and 2000, respectively, of earnings to the TSP plan. FTC automatically contributes one percent of basic pay, in addition to matching employee's contributions up to an additional four percent of pay. CSRS covered employees may contribute up to six percent and five percent for the years 2001 and 2000, respectively, of earnings to TSP but do not receive a matching contribution. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which FTC contributes a matching amount to the Social Security Administration.

Although FTC contributes a portion for pension benefits and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee's retirement benefits, or the retirement plan assets. Therefore, the FTC financial statements do not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

However, as required by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, beginning in fiscal year 1997, FTC began recognizing its share of the cost of providing a pension benefit to eligible employees. OPM has provided FTC with certain cost factors that estimate the true service cost of providing the pension benefits to covered employees. The cost factors range from 24.2 percent of basic pay for CSRS covered employees and 11.5 percent of basic pay for FERS covered employees during fiscal years 2001 and 2000. The pension expense recognized in the financial statements equals this service cost to covered employees, less amounts contributed by these employees. If the pension expense exceeds the amount contributed by FTC as employer, this excess must be financed by OPM and is recognized as an imputed financing cost. FTC recognized approximately $1,973,290 and $1,875,645 in imputed financing costs for pension expense during fiscal years 2001 and 2000 respectively.

(p) Net Position

FTC's net position is comprised of the following:

1. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation and undelivered orders.

2. Cumulative results of operations represent the net results of operations since inception, the

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

cumulative amount of prior period adjustments, the remaining book value of capitalized assets, and future funding requirements.

(q) Methodology for Assigning Cost

Total costs were allocated to each mission based on two components: a) direct costs to each mission, and b) indirect costs based on the percentage of direct FTE used by each mission.

(r) Comparative Data

Certain 2000 financial statement line items have been reclassified to conform with the current year's presentation.

Note 2 - Fund Balances with Treasury

Fund balances with Treasury consisted of the following at September 30, 2001 and 2000:

	Obligated	Unobligated Available	2001 Total	2000 Total
General Funds	$ 29,141,365	$ 6,619,355	$ 35,760,720	$ 24,034,784
Suspense Funds:				
Undecided Civil Penalty Cases	-	-	467,431	31,492
Undisbursed Pre-merger Filing Fees due DOJ	-	-	5,921,233	464,981
Deposit Funds - Redress	-	-	4,295,191	4,444,669
Other	-	-	-	157,500
Total	$ 29,141,365	$ 6,619,355	$ 46,444,575	$ 29,133,426

The obligated balance includes accounts payable and undelivered orders that have drawn down on unexpended appropriations but have not yet decreased the cash balance on hand.

During fiscal years 2001 and 2000, the FTC returned $37,202 and $1,227,599, respectively to the U.S. Treasury from the expired appropriations 299/10100 and 2950100.

Other Information Deposit and suspense funds amounting to $10,683,855 and $5,098,642 as of September 30, 2001 and 2000, respectively, stated above are not available to finance FTC activities and are classified as non-entity assets and a corresponding liability is also recorded.

Note 3 - Cash and Other Monetary Assets

Cash and other monetary assets held as entity assets consist of cash held in imprest funds. Cash and other monetary assets held as non-entity assets consist of deposits in transit for pre-merger filing fees, redress judgment amounts on deposit with FTC's distribution agents, and divestiture fund deposits. A corresponding liability is recorded for these assets.

Note 3 - Cash and Other Monetary Assets (continued)

Cash and other monetary assets consisted of the following at September 30, 2001 and 2000:

	2001	2000
Entity	$ 11,020	$ 5,510
Non-Entity - Deposits in transit	-	90,000
Redress contractors	41,234,651	36,904,159
Divestiture Fund (See Note 11d)	40,592,806	-
Total Non-Entity	$ 81,827,457	$ 36,994,159

Note 4 - Accounts Receivable

Accounts receivable consisted of the following, as of September 30, 2001 and 2000:

	Currently Due	Allowance	2001 Net	2000 Net
Entity Assets:				
Intragovernmental-				
Accounts Receivable	$ 178,730	$ -	$ 178,730	$ 93,485
Non-Entity Assets:				
Consumer Redress	$ 242,988,933	$ 210,998,663	$ 31,990,270	$ 7,066,293
Due from Receivers	2,006,606	-	2,006,606	-
Civil Penalties	1,964,401	105,401	1,859,000	470,352
Total Non-Entity Assets	$ 246,959,940	$ 211,104,064	$ 35,855,876	$ 7,536,645

For more detailed information on non-entity receivables see Exhibit A.

Note 5 - Property, Plant, and Equipment, Net

Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2001 and 2000:

Asset Class	Service Life	Acquisition Value	Accumulated Depreciation	2001 Net Book Value	2000 Net Book Value
Equipment & Furniture	5-10 Yrs	$ 1,886,528	$ 692,305	$ 1,194,223	$ 409,585
Leasehold Improvements	10-15 Yrs	846,223	56,782	789,441	462,361
Software	3 years	860,580	117,343	743,237	226,223
Total		$ 3,593,331	$ 866,430	$ 2,726,901	$ 1,098,169

Note 5 - Property, Plant, and Equipment, Net (continued)

Property and equipment are depreciated using the straight-line method. Depreciation expense was $311,734 and $175,891 for fiscal years ending September 30, 2001 and 2000, respectively.

Note 6 - Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources consisted of the following as of September 30, 2001 and 2000:

(a) Intragovernmental and With the Public

	2001	2000
Intragovernmental		
Other Liabilities:		
Civil Penalty Collections Due	$ 1,859,000	$ 470,352
Accrued FECA Claims	291,405	270,678
Total	$ 2,150,405	$ 741,030
With the Public		
Undisbursed Redress	$ 45,529,842	$ 41,348,828
Divestiture Fund Due	40,592,806	-
Redress Net Collections Due	31,990,270	7,066,293
Receiver Distributions Due	2,006,606	-
Other	467,431	278,992
Total	$ 120,586,955	$ 48,694,113

(b) Other Information

Civil Penalty Collections Due represents the contra account for accounts receivable due for civil monetary penalties, which will be transferred to the general fund of the Treasury upon receipt.

Accrued FECA Claims consists of workers compensation claims payable to the Department of Labor (DOL) which will funded in a future period.

Undisbursed Redress includes redress in FTC's Treasury deposit account, or with FTC redress contractors.

Divestiture Fund Due represents the contra account for the divestiture fund held by one of FTC's contractors until distribution of the funds are ordered per terms of the agreement.

Redress Net Collections Due represents the contra account for accounts receivable due from judgements obtained as a result of the agency's consumer redress litigation.

Receiver Distributions Due represents the liability not covered by budgetary resources for funds sent to

Note 6 - Liabilities Not Covered by Budgetary Resources (continued)

receivers for distribution to consumers. A corresponding receivable, Due from Receivers is recorded.

Other consists primarily of deposits in transit and undisbursed cash in the suspense liability account for 2001 and 2000.

Note 7 - Net Position

Net position consisted of the following as of September 30, 2001 and 2000:

	2001	2000
Unexpended Appropriations:		
Unobligated - Available	$ -	$ 17,967
Undelivered Orders	-	52,263
Total Unexpended Appropriations	-	70,230
Cumulative Results of Operations:		
Invested Capital	2,726,901	1,098,169
Retained Fees:		
Unobligated	6,619,335	6,629,445
Undelivered Orders	17,533,210	9,895,402
Future Funding Requirements	(8,457,777)	(8,734,318)
Total Cumulative Results of Operations	18,421,669	8,888,698
Total Net Position	$ 18,421,669	$ 8,958,928

Note 8 – Commitments and Contingencies

Commitments The FTC is committed under obligations for goods and services which have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders were $17,533,210 and $9,947,664 as of September 30, 2001 and 2000, respectively.

Contingencies The FTC is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of FTC management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operation of the FTC.

Leases The FTC rents approximately 491,246 square feet of space in both commercial and government-owned properties for use as offices, storage and parking. Space leases for government-owned property are made with the General Services Administration (GSA). Leases of commercial property are made through and managed by GSA. The Commission has leases on seven government-owned properties and 10 commercial properties. The FTC's current leases expire at various dates through 2012. Two leases provide for tenant improvement allowances totaling $7.1 million, and provide that these costs be amortized over the length of the leases. Under the terms of the leases, the FTC agrees to reimburse the landlord for the principal balance of the unamortized portion of the tenant improvement allowance in the event the agency vacates the space before lease expiration. The leases expire in 2005 and 2012.

Note 8 - Commitments and Contingencies (continued)

Rent expenditures for the years ended September 30, 2001 and 2000 were approximately $12.7 million and $11.0 million each year. This amount is net of a GSA credit of approximately $1.9 million and $1.8 million for the fiscal years 2001 and 2000, respectively, relating to the main headquarters building.

Future minimum lease payments due under leases of government-owned property as of September 30, 2001 are as follows:

Fiscal Year	
2002	$ 5,700,559
2003	5,871,576
2004	6,047,724
2005	6,229,155
2006	6,416,030
Thereafter	6,608,511
Total future minimum lease payments	$ 36,873,555

Future minimum lease payments under leases of commercial property due as of September 30, 2001 are as follows:

Fiscal Year	
2002	$ 9,053,056
2003	10,411,226
2004	10,723,563
2005	11,045,270
2006	11,376,628
Thereafter	11,717,926
Total future minimum lease payments	$ 64,327,669

Note 9 - Exchange Revenue

The Federal Accounting Standards Advisory Board defines exchange revenue as inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return. (SFFAS No. 7.) At the FTC, exchange revenue is recognized for premerger filing fees paid under the HSR Act. Filing fee amounts are set by law. In fiscal year 2000, the statutory filing fee was $45,000 per qualifying filing. In February 2001, the filing fee structure for qualifying filings was changed to a three-tier structure: $45,000, $125,000 and $280,000. The new fees are based on the transaction amount. The transaction amount limit was raised from $15 million to $50 million. Amounts are earned when the premerger filing is accepted by the agency. Filing fees in the amount of $86,340,113 and $106,908,778 were earned during fiscal years ended September 30, 2001 and 2000, respectively.

Note 9 – Exchange Revenue (continued)

Exchange revenue is also earned for services provided to other government agencies through reimbursable agreements. FTC recovers the full cost of services, primarily salaries and related expenses. Amounts are earned at the time the expenditures are incurred against the reimbursable order. During fiscal years 2001 and 2000, FTC earned $383,797 and $206,136 under agreements with the Department of Justice. During fiscal years 2001 and 2000, FTC earned $367,300 and $301,814 under agreements with the U.S. Agency for International Development to provide technical assistance on competition and antitrust laws to countries in the Former Soviet Union, Ukraine, Eastern Europe and South America. The FTC also earned $81,460 under miscellaneous reimbursable agreements with the New York State Attorney General's Office during fiscal year 2001. An additional $68,574 was earned for miscellaneous reimbursable agreements with the Federal Communications Commission and Equal Employment Opportunity Commission during fiscal year 2000 only.

Note 10 - Pension Expense

Pension expenses in 2001 and 2000 consisted of the following:

	Employer Contributions	Accumulated Imputed Costs	2001 Total Pension Expense	2000 Total Pension Expense
Civil Service Retirement System	$ 2,247,029	$ 2,145,711	$ 4,392,740	$ 4,348,067
Federal Employee's Retirement System	5,139,742	(172,421)	4,967,321	4,330,296
Thrift Savings Plan	2,485,905	-	2,485,905	1,771,686
Total	$ 9,872,676	$ 1,973,290	$ 11,845,966	$ 10,450,049

Note 11 - Custodial Activities

The FTC functions in a custodial capacity with respect to revenue transferred or transferable to recipient government entities or the public. These amounts are not reported as revenue to the FTC. The major components of the FTC's custodial activities are discussed below.

(a) Pre-Merger Filing Fees

All Hart-Scott-Rodino (HSR) premerger filing fees are collected by the FTC pursuant to section 605 of P.L. 101-162, as amended, and are divided evenly between the FTC and the Department of Justice. The collected amounts are then credited to the appropriations accounts of the two agencies (FTC's "Salaries and Expenses" and DOJ's "Salaries and Expenses, Antitrust Division"). During fiscal years 2001 and 2000, respectively, FTC collected $172,680,224 and $213,817,566 in HSR fees. Half of this amount, $86,340,112 in 2001, and $106,908,778 in 2000, was held for transfer to DOJ. As of September 30, 2001 and 2000 collections not transferred to DOJ total $5,921,233 and $464,981, respectively.

Note 11 - Custodial Activities (continued)

(b) Civil Penalties and Fines

Civil penalties collected in connection with the settlement or litigation of the FTC's administrative or federal court cases are collected by either the FTC or DOJ as provided for by law. DOJ assesses a fee equivalent to three percent of amounts collected before remitting them to the agency. The agency then deposits these collections into the U.S. Treasury. Civil penalties collected also include amounts collected for undecided civil penalty cases held in suspense until final disposition of the case.

(c) Redress

The Commission obtains consumer redress in connection with the settlement or litigation of both its administrative and its federal court cases. The Commission attempts to distribute funds thus obtained to consumers whenever possible. If consumer redress is not practical, the funds are paid (disgorged) to the U. S. Treasury, or on occasion, other alternatives, such as consumer education, are explored. Major components of the program include eligibility determination, disbursing redress to claimants, and accounting for the disposition of these funds. Collections made against court-ordered judgments totaled $26,685,566 and $32,814,171 during fiscal years 2001 and 2000, respectively.

The sources of these collections are as follows:

Source	2001	2000
Contractors	$13,840,450	$ 12,826,895
Receivers	4,046,300	13,269,357
FTC	8,798,816	6,717,919
Total	$26,685,566	$ 32,814,171

(d) Divestiture Fund

One judgment obtained by the agency on behalf of its maintaining competition mission stipulates the divestiture of assets by the defendants into an interest bearing account to be monitored by the agency. The balance of the account represents principal and related interest held at one of FTC's contractor accounts as stipulated in the judgment. A corresponding liability is recorded.

(e) Accrual Adjustments

These adjustments represent the difference between the agency's opening and closing accounts receivable balances. Accounts receivable are the funds owed to the agency (as a custodian) and ultimately to consumers or other entities. See Exhibit A for computation of accrual adjustments to the Statement of Custodial Activity.

Note 11 - Custodial Activities (continued)

(f) Receivers

This amount represents the funds forwarded to receivers during the year for distribution by receivers to consumers. The agency has recorded an asset, Due from Receivers, and a corresponding liability, Receivers Distributions Due, which will be reduced as the distributions to consumers are confirmed.

(g) Redress to Claimants

Redress to claimants consists of amounts distributed to consumers by FTC, one of its contracted agents, the court appointed receiver, or by the defendant. In fiscal year 2001 a total of $15,672,236 was distributed to consumers: $11,625,936 was paid by FTC and its contracted agents, and $4,046,300 was paid by receivers. In fiscal year 2000, a total of $23,981,332 was distributed to consumers: $10,492,322 was paid by the FTC and its contracted agents, and $13,489,010 was distributed by receivers and defendants which consisted of cash and non-cash instruments, such as company coupons.

(h) Contractor Fees Net of Interest Earned

Collections against monetary judgments are often deposited with one of the agency's three redress contractors until distributions to consumers occur. Funds are deposited in interest bearing accounts, and the interest earnings are used to fund administrative expenses. Contractor expenses for the administration of redress activities and funds management amounted to $2,184,562 and $1,368,384 during the years ended September 30, 2001 and 2000, respectively.

Interest earned was $1,380,493 and $1,683,450 during fiscal years 2001 and 2000, respectively, with the difference of $804,069 representing net expense and $315,066 representing earnings in excess of expenses.

(i) Change in Liability Accounts

Liability accounts contain funds that are in the custody of the agency or its agents, and are owed to others (consumers, receivers for fees, and/or the Department of Justice). See Exhibit B for the computation of liability account changes.

(j) Current Year Judgments

A judgment is a formal decision handed down by a court. Redress judgments include amounts that defendants have agreed, or are ordered, to pay, for the purpose of making restitution to consumers deemed to have been harmed by the actions of the defendant(s) in the case. For purposes of presentation in Exhibit A, redress judgments include cases in which the FTC, or one of its agents, is directly involved in the collection or distribution of consumer redress. In fiscal years 2001 and 2000, the agency obtained and reported in Exhibit A monetary redress judgments against defendants totaling $252 million and $107 million, respectively.

The FTC does not include in the presentation of Exhibit A current redress judgment cases in which the FTC, or one of its agents, is not directly involved with the collection or distribution of consumer redress. These are cases in which the defendant, or other third party, has been ordered to pay redress directly to

Note 11 - Custodial Activities (continued)

the consumers. There were 10 such cases in fiscal year 2001 in which the FTC obtained a judgment. In most of these cases, the judgment has ordered redress in the form of refunds or credits. One additional case, brought about by anti-competition litigation, resulted in FTC obtaining a judgment order of $100 million dollars to be paid directly to state agencies for distribution.

The agency also obtained civil penalty judgments of $2 million and $10 million in fiscal years 2001 and 2000, respectively.

(k) Treasury Referrals

Monetary judgments six months or more past due are referred to the Department of Treasury for follow up collection efforts in keeping with the Debt Collection Improvement Act of 1996 (DCIA). Treasury's Debt Management Services (DMS) administers the program, and deducts 18 percent from amounts ultimately collected for its fee. Collections, net of fees, are returned to the FTC for distribution to either consumers, in the form of redress, or to the general fund of the Treasury as disgorged amounts. In fiscal years 2001 and 2000, $2,630,126 and $95,589 (net of fees) were collected based on FTC referrals. FTC refers to DMS only those cases as defined in DCIA. This excludes cases that are in receivership, in bankruptcy or foreign debt. During 2001 and 2000, $86,055,063 and $2,314,562 were referred to the DMS for collection.

(l) Adjustment to Beginning Balances

The adjustment to beginning balance represents the net realizable amount of a fiscal year 2000 redress judgment that was omitted from prior year statements.

(m) Adjustments to the Allowance

Adjustments to the allowance for redress represent amounts formally written off during the year in the amount of $144,199,522 and adjustments to the provision for uncollectible amounts of $61,695,980.

Note 12 - Statements of Net Cost

The Statements of Net Cost are consolidated for the FTC using a Budget Functional Classification (BFC) code. BFC codes are used to classify budget resources presented in the Budget of the United States Government per OMB. FTC is categorized under BFC code 376 – Other Advancement of Commerce. Gross cost and earned revenue for the FTC fall under this code, regardless of whether the fees are intra-governmental or with the public.

Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2001	376	$ 141,106,588	$ (87,172,670)	$ 53,933,918
FY 2000	376	$ 130,095,216	$ (107,485,302)	$ 22,609,914

Intragovernmental Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2001	376	$ 35,208,730	$ (832,557)	$ 34,376,173
FY 2000	376	$ 32,815,190	$ (576,524)	$ 32,238,666

Exhibit A

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2001 and 2000

	CP Mission			2001	2000
Part 1	**Civil Penalty**	**Redress**	**Subtotal CP**	**Total**	**Total**
Judgements Receivable - Net Beginning	$ 470,352	$ 7,066,293	$ 7,536,645	$ 7,536,645	$ 9,804,338
Adjustment to Beginning Balance (Note 11l)	-	1,000,000	1,000,000	1,000,000	-
Add:					
Current Year Judgements (Note 11j)	2,025,352	252,192,683	254,218,035	254,218,035	116,916,985
Due From Receivers (Note 11f)	-	2,006,606	2,006,606	2,006,606	-
Prior Year Recoveries	-	4,312,362	4,312,362	4,312,362	2,594,039
Less:					
Collections by FTC/Contractors Receivers	(630,013)	(26,685,566)	(27,315,579)	(27,315,579)	(43,069,559)
Collections by DOJ for Litigation Fees/Other	(15,627)	-	(15,627)	(15,627)	(311,338)
Less:					
Adjustments to Allowance (Note 11m)	8,936	(205,895,502)	(205,886,566)	(205,886,566)	(78,397,820)
Judgements Receivable - Net, Ending	$ 1,859,000	$ 33,996,876	$ 35,855,876	$ 35,855,876	$ 7,536,645
Part 2					
Judgements Receivable - Net Ending	$ 1,859,000	$ 33,996,876	35,855,876	$ 35,855,876	$ 7,536,645
Judgements Receivable - Net Beginning	470,352	7,066,293	7,536,645	7,536,645	9,804,338
Accrual Adjustment	$ 1,388,648	$ 26,930,584	$ 28,319,231	$ 28,319,231	$ (2,267,693)

Exhibit B

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Change in Liability Accounts
September 30, 2001 and 2000

	MC Mission			CP Mission			
	Pre-Merger	Divestiture	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/01	$ 5,921,233	$ 40,592,806	$ 46,514,039	$ 2,326,431	$ 79,526,718	$ 81,853,149	$ 128,367,188
Liabilities @ 09/30/00	712,481	-	712,481	501,844	48,415,121	48,916,965	49,629,446
Change in Liability Accounts	$ 5,208,752	$ 40,592,806	$ 45,801,558	$ 1,824,587	$ 31,111,597	$ 32,936,184	$ 78,737,742

	MC Mission			CP Mission			
	Pre-Merger	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/00	$ 712,481	$ -	$ 712,481	$ 501,844	$ 48,415,121	$ 48,916,965	$ 49,629,446
Liabilities @ 09/30/99	26,943,728	-	26,943,728	761,184	44,421,695	45,182,879	72,126,607
Change in Liability Accounts	$ (26,231,247)	$ -	$ (26,231,247)	$ (259,340)	$ 3,993,426	$ 3,734,086	$ (22,497,161)

FEDERAL TRADE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
As of September 30, 2001 and 2000

Intragovernmental Assets:

Trading Partner Agency:	**Fund Balance with Treasury Entity**	**Fund Balance with Treasury Non-Entity**	**Accounts Receivable**	**Total 2001**	**Total 2000**
Treasury	$ 35,760,720	$ 10,683,855	$ 53,013	$ 46,444,575	$ 29,133,426
Agency for International Development	-	-	102,669	102,669	52,597
Other Government Agencies	-	-	23,048	23,048	40,888
Total	$ 35,760,720	$ 10,683,855	$ 178,730	$ 46,570,292	$ 29,226,911

Intra-governmental Liabilities:

Trading Partner Agency:	**Accrued Benefits**	**Accounts Payable**	**N/A**	**Total 2001**	**Total 2000**
Covered by Budgetary Resources:					
Department of Agriculture	$ -	$ 90,527	$ -	$ 90,527	$ 20,991
Department of Commerce	-	(3,555)	-	(3,555)	3,555
Department of Defense		-	-	-	36,194
Department of Health and Human Services		-	-	-	382
Department of Justice		-	-	-	252
Government Printing Office	-	(84,959)	-	(84,959)	22,444
General Services Administration	-	608,292	-	608,292	-
Office of Personnel Management	866,385	29,260	-	895,645	752,773
Department of Treasury	-	(28,969)	-	(28,969)	(57,067)
Total Covered by Budgetary Resources	$ 866,385	$ 610,596	$ -	$ 1,476,981	$ 779,524
Not Covered by Budgetary Resources:					
Department of Justice	$ -	$ 5,921,233	$ -	$ 5,921,233	$ 464,981
Department of Labor	-	291,405	-	291,405	270,678
Department of Treasury	-	1,859,000	-	1,859,000	470,352
Total Not Covered by Budgetary Resources	$ -	$ 8,071,638	$ -	$ 8,071,638	$ 1,206,011

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2001 and 2000

Exchange Revenue from Reimbursable Agreements (Note 9):

Trading Partner:	**2001**	**2000**
Department of Justice	$ 383,797	$ 206,136
Equal Employment Opportunity Commission	-	2,518
U.S. Agency for International Development	367,300	301,814
Federal Communications Commission	-	66,056
New York State Attorney General's Office	81,460	-
Total Exhange Revenue from Reimbursable Agreements	$ 832,557	$ 576,524

Related Costs:

Budget Function Classification:	**2001**	**2000**
Other Advancement of Commerce	$ 832,557	$ 576,524
Total Related Costs	$ 832,557	$ 576,524

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2001 and 2000

Intragovernmental Expenses:

Trading Partner:	**2001**	**2000**
Government Printing Office	$ 712,637	$ 772,920
Department of Agriculture	90,527	20,991
Department of Commerce	(2,387)	6,335
Department of the Interior	694,127	692,322
Department of Justice	54,849	14,682
Department of Labor	29,618	27,146
United States Postal Service	332,847	168,930
Department of State	6,694	5,070
Department of the Treasury	(19,939)	3,545
Office of Personnel Management	15,004,965	18,660,457
Social Security Administration	3,852,248	-
Department of the Air Force	-	40,014
General Services Administration	13,697,217	12,275,291
Department of Transportation	599,987	25,702
Department of Health and Human Services	130,787	100,785
National Archives and Records Administration	22,828	-
Office of Government Ethics	1,725	1,000
Total Intragovernmental Expenses	$ 35,208,730	$ 32,815,190

Mission:		
Maintaining Competition	$ 16,886,230	$ 16,308,993
Consumer Protection	18,322,500	16,506,197
Total Intragovernmental Expenses	$ 35,208,730	$ 32,815,190