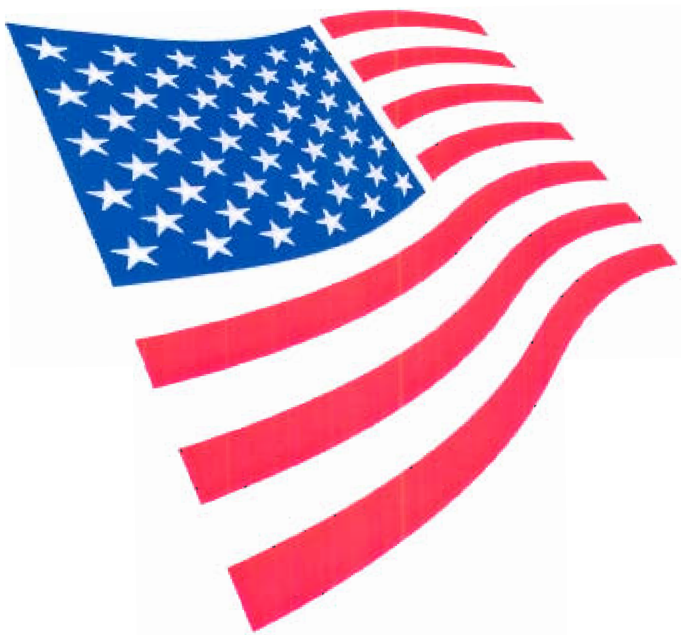
AR 05-062

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2004



OFFICE OF INSPECTOR GENERAL

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FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Chairman Majoras:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 2004 and 2003, 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, 2004 and 2003, 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 2004 and 2003 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.

- Performance measurement information contained in the Management Discussion and Analysis and Program Performance sections of the Commission's annual financial statements contains additional 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 this additional 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 and Program Performance sections, 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 control 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 05-062A).

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 statements;
- 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 solely 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.
October 29, 2004

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 44,627	$ 40,900
Accounts Receivable, Net (Note 4)	121	231
Total Intragovernmental Assets	44,748	41,131
Advances and Prepayments	-	9
Property, Plant, and Equipment, Net (Note 5)	14,270	9,138
Total Entity Assets	59,018	50,278
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	19,531	6,355
Cash and Other Monetary Assets (Note 3)	111,489	101,391
Accounts Receivable, Net (Note 4)	62,879	241,895
Total Non-Entity Assets	193,899	349,641
Total Assets	$ 252,917	$ 399,919

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	$ 645	$ 463
Accounts Payable	1,510	1,605
Total Intragovernmental Liabilities	2,155	2,068
With the Public:		
Accounts Payable	7,867	7,726
Accrued Salaries	3,625	2,727
Total Liabilities Covered by Budgetary Resources	13,647	12,521
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Undisbursed Premerger Filing Fees	6,530	1,600
Other Liabilities (Note 6)	1,380	2,538
Total Intragovernmental Liabilities	7,910	4,138
Actuarial FECA Liabilities	1,948	2,089
Accrued Annual Leave	7,496	7,183
With the Public (Note 6)	186,384	345,936
Total Liabilities Not Covered by Budgetary Resources	203,738	359,346
Total Liabilities	217,385	371,867
Net Position: (Note 7)		
Balances:		
Unexpended Appropriations	36	142
Cumulative Results of Operations	35,496	27,910
Total Net Position	35,532	28,052
Total Liabilities and Net Position	$ 252,917	$ 399,919

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF NET COST
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
Program Costs		
Maintaining Competition Mission:		
Intragovernmental gross costs	$ 19,692	$ 20,443
Less: Intragovernmental earned revenue	(722)	(1,011)
Intragovernmental net costs	18,970	19,432
Gross costs with the public	62,083	61,688
Less: Earned revenue with the public (Note 12)	(83,598)	(56,015)
Net costs with the public	(21,515)	5,673
Net Cost Maintaining Competition Mission	(2,545)	25,105
Consumer Protection Mission:		
Intragovernmental gross costs	25,063	23,052
Less: Intragovernmental earned revenue	(86)	(148)
Intragovernmental net costs	24,977	22,904
Gross costs with the public	79,015	69,563
Less: Earned revenue with the public (Note 12)	(13,984)	(5,239)
Net costs with the public	65,031	64,324
Net Cost Consumer Protection Mission	90,008	87,228
Net Cost of Operations	$ 87,463	$ 112,333

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, 2004 and 2003
(Dollars in thousands)

	2004		2003	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 27,910	$ 142	$ 18,281	$ 350
Budgetary Financing Sources:				
Appropriations Received	-	88,435	-	115,299
Appropriations Transferred-In/Out	-	67	-	110
Other Adjustments (Rescissions)	-	(536)	-	-
Appropriations Used	88,072	(88,072)	115,617	(115,617)
Other Financing Sources:				
Imputed Financing (Note 9)	6,977	-	6,345	-
Total Financing Sources	95,049	(106)	121,962	(208)
Net Cost of Operations	(87,463)	-	(112,333)	-
Ending Balances	$ 35,496	$ 36	$ 27,910	$ 142

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
Budgetary Resources:		
Budget authority		
Appropriation	$ 88,435	$ 115,299
Net Transfers - Current Year Authority	68	110
Net Transfers - Prior Year Balances	(1)	-
Unobligated Balance:		
Beginning of Period	8,642	7,813
Spending Authority from Offsetting Collections		
Earned		
Collected	98,500	62,336
Receivable from Federal Sources	(110)	77
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	40	(362)
Anticipated for rest of year, without advances		
Recoveries of Prior Year Obligation	2,306	624
Temporary Not Available pursuant to Public Law		
Enacted Reductions		
Rescissions - New Budget Authority	(536)	-
Total Budgetary Resources	$ 197,344	$ 185,897
Status of Budgetary Resources:		
Obligations incurred		
Direct	89,213	106,257
Reimbursable	99,704	70,998
Subtotal	188,917	177,255
Unobligated Balance		
Available	1,027	444
Not Available	7,400	8,198
Total Status of Budgetary Resources	$ 197,344	$ 185,897
Summary of Obligations and Outlays:		
Obligated balance net beginning of period	32,257	21,786
Obligated balance net end of period:		
Accounts receivable	(121)	(240)
Unfilled customer orders from federal sources	(55)	(15)
Undelivered orders	22,729	19,992
Accounts payable	13,647	12,520
Total obligated balance net end of period	$ 36,200	$ 32,257
Outlays:		
Disbursements	182,739	166,444
Collections	(98,500)	(62,336)
Net Outlays	$ 84,239	$ 104,108

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 188,917	$ 177,255
Less: Spending authority from offsetting collections and recoveries	(100,736)	(62,675)
Obligations net of offsetting collections and recoveries	88,181	114,580
Other Resources		
Imputed financing from costs absorbed by others	6,977	6,345
Total Resources Used to Finance Activities	95,158	120,925
Resources Used to Finance Items not Part of the Cost of Operations:		
Change in budgetary resources obligated for goods and services ordered but not yet received or provided	(2,697)	(6,991)
Resources that finance the acquistion of assets	(7,063)	(4,217)
Total resources used to finance items not part of the net cost of operations	(9,760)	(11,208)
Total Resources Used to Finance the Net Cost of Operations	85,398	109,717
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	313	516
(Decrease) increase in FECA liability	(179)	(189)
Total components of the net cost of operations that will not require or generate resources in future periods	134	327
Components not Requiring or Generating Resources:		
Depreciation and amortization	1,931	1,421
Change in accounting estimates (Note 15)	-	758
Loss on disposition of asset	-	110
Total components of the Net Cost of Operations that will not require or generate resources	1,931	2,289
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period	2,065	2,616
Net Cost of Operations	$ 87,463	$ 112,333

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

(Refer to Note 11)

	MC Mission	CP Mission	2004 Total	2003 Total
Sources of Collections:				
Cash Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 82,190	$ -	$ 82,190	$ 57,600
Civil Penalties and Fines (b)	756	5,786	6,542	8,506
Redress (c)	-	337,585	337,585	101,768
Divestiture Fund (d)	184	-	184	216
Funeral Rule Violations	-	30	30	13
Net Collections	83,130	343,401	426,531	168,103
Accrual Adjustments (e)	-	(179,016)	(179,016)	147,065
Total Non-exchange Revenues	$ 83,130	$ 164,385	$ 247,515	$ 315,168
Disposition of Revenue Collected:				
Amounts Transferred to:				
Treasury General Fund	756	20,176	20,932	22,573
Department of Justice	77,259	-	77,259	57,683
Receivers (f)	-	161	161	112
Redress to Claimants (g)	-	294,058	294,058	69,566
Contractor Fees Net of Interest Earned (h)	-	7,638	7,638	4,932
Attorney Fees (h)	-	3,208	3,208	11,071
Net Disbursements	78,015	325,241	403,256	165,937
Change in Liability Accounts (i)	5,115	(160,856)	(155,741)	149,231
Total Disposition of Revenues Collected	$ 83,130	$ 164,385	$ 247,515	$ 315,168
Net Custodial Collections	$ -	$ -	$ -	$ -

FEDERAL TRADE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
As of September 30, 2004 and 2003
(Dollars in thousands)

Intragovernmental Assets:

Trading Partner Agency:	**Fund Balance with Treasury** Entity	Non-Entity	**Accounts Receivable**	**Total 2004**	**Total 2003**
Treasury	$ 44,627	$ 19,531	$ -	$ 64,158	$ 47,255
Agency for International Development	-	-	59	59	86
Other Government Agencies	-	-	62	62	145
Total Intragovernmental Assets	$ 44,627	$ 19,531	$ 121	$ 64,279	$ 47,486

Intragovernmental Liabilities:

Trading Partner Agency:	**Accrued Benefits**	**Accounts Payable**	**NA**	**Total 2004**	**Total 2003**
Covered by Budgetary Resources:					
Department of Commerce	$ -	$ -	$ -	$ -	$ 2
Department of Labor	18	-	-	18	-
U.S. Postal Inspection Service	-	12	-	12	8
Department of Justice	-	-	-	-	6
Government Printing Ofice	-	7	-	7	-
General Services Administration	-	1,370	-	1,370	1,411
Office of Personnel Management	470	43	-	513	343
Department of Treasury	157	78	-	235	298
Total Covered by Budgetary Resources	$ 645	$ 1,510	$ -	$ 2,155	$ 2,068
Not Covered by Budgetary Resources:					
Department of Justice	$ -	$ 6,530	$ -	$ 6,530	$ 1,600
Department of Labor	-	395	-	395	433
Department of Treasury	-	985	-	985	2,105
Total Not Covered by Budgetary Resources	$ -	$ 7,910	$ -	$ 7,910	$ 4,138

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

Exchange Revenue from Reimbursable Agreements

Trading Partner:	**2004**	**2003**
U.S. Agency for International Development	$ 429	$ 563
U.S. Department of State	142	-
Department of Justice	90	503
Federal Mine Safety & Health Review Commission	41	52
Department of the Treasury	39	-
U.S. Trade and Development Agency	36	3
Medicare Payment Advisory Commission/GSA	20	25
U.S. Postal Inspection Service	8	7
Department of Commerce	3	3
U.S. Environmental Protection Agency	-	1
U.S. Patent and Trademark Office	-	2
Total Exchange Revenue from Reimbursable Agreements	$ 808	$ 1,159

Related Costs:

Budget Function Classification:	**2004**	**2003**
Other Advancement of Commerce	$ 808	$ 1,159
Total Related Costs	$ 808	$ 1,159

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2004 and 2003
(Dollars in thousands)

Intragovernmental Expenses:

Trading Partner:	2004	2003
General Services Administration	$ 18,331	$ 17,121
Office of Personnel Management	18,117	18,479
Social Security Administration	5,151	4,858
Department of the Interior	864	770
Department of Transportation	724	755
Government Printing Office	646	853
Department of Labor	258	183
Department of Health and Human Services	218	(87)
United States Postal Service	214	294
Department of Justice	107	31
National Archives and Records Administration	39	(6)
Veterans Administration	37	-
Department of State	33	28
Department of the Treasury	15	186
Other	1	30
Total Intragovernmental Expenses	$ 44,755	$ 43,495

Mission:		
Maintaining Competition	$ 19,692	$ 20,443
Consumer Protection	25,063	23,052
Total Intragovernmental Expenses	$ 44,755	$ 43,495

FEDERAL TRADE COMMISSION
Notes to the Financial Statements
For the Years Ended September 30, 2004 and 2003

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Federal Trade Commission (FTC) was created by the Federal Trade Commission Act of 1914. The FTC enforces a variety of federal antitrust 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, the 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.

(b) Fund Accounting Structure

The FTC's financial activities are accounted for by federal account symbol. They include the accounts for appropriated funds and other fund groups described below for which the FTC maintains financial records, and consumer redress accounts for which the agency has management oversight.

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

Deposit Funds Consist of monies held temporarily by the FTC as an agent for others.

Suspense Funds Represent receipts awaiting proper classification, or held in escrow, until ownership is established and proper distributions can be made.

Receipt Accounts Reflect civil penalties and other miscellaneous receipts that are collected but not retained by the FTC. Cash balances are automatically transferred to the general fund of the Treasury at the end of each fiscal year.

(c) Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, financing, and custodial activities of the FTC, in accordance with accounting principles generally accepted in the United States of America and the form and content requirements of OMB Bulletin 01-09. They have been prepared from the books and records of the FTC and include the accounts of all funds under the control of the FTC. Accounting principles generally accepted in the United States of America encompass both accrual and budgetary transactions. 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.

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.

(d) Budget Authority

Congress annually passes appropriations that provide the 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, the 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) Fund Balances with the U.S. Treasury

With the exception of cash held in consumer redress custodial accounts by FTC's contracted agents, the 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 to finance authorized purchase commitments, and restricted funds, which include deposit and suspense funds. The FTC's fund balances with Treasury are carried forward until such time as goods or services are received and payment is made, or until the funds are returned to the U.S. Treasury.

(f) Advances and Prepayments

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

(g) Accounts Receivable

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

Opening judgment receivable balances reflect the Federal Accounting Standards Advisory Board (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. 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 non-entity accounts receivable by individual account analysis based on the debtor's ability and willingness to pay, and the probable recovery of amounts from secondary sources, including liens, garnishments, and other applicable collection tools. Entity accounts receivable are considered fully collectible, and therefore no allowance is recorded.

(h) Property and Equipment

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

Property and equipment consist 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 three to twenty years.

Internal use software development and acquisition costs of $100,000 are capitalized as software development in progress until the development stage has been completed and the software successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over the estimated useful life of three years. Purchased commercial software that does not meet the capitalization criteria is expensed.

(i) 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).

(j) Undisbursed Premerger Filing Fees

A liability is recorded for undisbursed filing fees collected under the Hart-Scott-Rodino (HSR) Antitrust Improvements Act of 1976, which are due to the Department of Justice in a subsequent period.

(k) Federal Employees' Compensation Act (FECA) Actuarial 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). The FTC also records a liability for actual claims paid on its behalf by the DOL.

(l) Accrued Leave

A liability for annual leave is accrued as leave is earned and reduced when 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 paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

(m) Employee Health Benefits and Life Insurance

FTC employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). The FTC matches the employee contributions to each program to pay for current benefits.

(n) Post-Retirement Health Benefits and Life Insurance

FTC employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. The Office of Personnel Management (OPM) has provided the FTC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The FTC recognizes a current cost for these and other retirement benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the FTC through the recognition of an imputed financing source on the Statement of Financing. During fiscal years 2004 and 2003, the cost factors relating to FEHBP were $4,420 and $3,766, respectively, per employee enrolled. During fiscal years 2004 and 2003, the cost factor relating to FEGLIP was 0.02 percent of basic pay per employee enrolled. *See Note 9, Imputed Financing.*

(o) Employee Retirement Benefits

FTC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Employees hired after December 31, 1983, are covered by FERS and Social Security, while employees hired prior to January 1, 1984, may elect to either join FERS or remain in CSRS. Approximately 27 percent of FTC employees participate in CSRS. For employees participating in CSRS, the FTC contributes 7 percent of the employee's gross earnings to the CSRS Retirement and Disability Fund. For employees participating in FERS, the FTC contributes 10.7 percent to the Federal Employees' Retirement Fund. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which the FTC contributes a matching amount to the Social Security Administration. FTC contributions are recognized as current operating expenses.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participating employees may contribute up to 9 percent of earnings for 2004, 8 percent for 2003, to TSP, but do not receive a matching contribution from the FTC. FERS participating employees may contribute up to 14 percent and 13 percent of earnings for the years 2004 and 2003, respectively, to the TSP plan. For FERS employees, the FTC contributes 1 percent of the employee's gross pay to the TSP. The FTC also matches 100 percent of the first 3 percent contributed and 50 percent of the next 2 percent contributed. FTC contributions are recognized as current operating expenses. Although the 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 OPM.

However, the FTC recognizes the full cost of providing future pension benefits to covered employees at the time the employees' services are rendered. OPM has provided the FTC with certain cost factors that estimate the true service cost of providing the pension benefits to covered employees. The cost factors used to arrive at the service cost are 25 percent of basic pay for CSRS-covered employees and 12 percent of basic pay for FERS-covered employees during fiscal years 2004 and 2003. 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 the FTC as employer, the excess is recognized as an imputed financing cost. The excess total pension expense over the amount contributed by the agency must be financed by OPM and is recognized as an imputed financing source, non-exchange revenue.

(p) Net Position

The FTC's net position is composed of the following:

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

Cumulative results of operations represent the net results of operations since inception, the cumulative amount of prior period adjustments, the remaining book value of capitalized assets, and future funding requirements.

(q) Exchange Revenues

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.

Exchange revenues are earned through the collection of fees under the Hart-Scott-Rodino Act. This Act, in part, requires the filing of premerger notifications with the FTC and the Antitrust Division of the Department of Justice (DOJ) and establishes a waiting period before certain acquisitions may be consummated. Mergers with transaction amounts over $50 million require the acquiring party to pay a filing fee. The filing fees are based on the transaction amount and follow a three-tiered structure: $45,000, $125,000, and $280,000. The FTC retains one-half of the HSR premerger filing fees collected. Revenue is recognized when all required documentation under the HSR Act has been received by the agency. Fees not retained by the FTC are maintained in a suspense fund until transferred to the DOJ and not reported as revenue to the FTC.

Exchange revenues are also earned through the collection of fees for the national Do Not Call Registry. This registry operates under Section 5 of the FTC Act, which enforces the Telemarketing Sales Rule (TSR). The Do Not Call Implementation Act, P.L. 108-010, gives the FTC authority to establish fees for fiscal years 2003 through 2007 sufficient to offset the implementation and enforcement of the provisions relating to the Do Not Call Registry. Fees collected over expenses are retained for use in other FTC missions. Authority to create the registry was ratified in Public Law 108-082. Consumers may register a preference not to receive telemarketing calls. Telemarketers are required to pay an annual subscription fee and download from the Do Not Call database a list of telephone numbers of consumers who do not wish to receive calls. Fees are based on the number of area codes downloaded. The minimum charge was $25 for downloading one area code. The maximum charge was $7,375 for all area codes within the United States. Effective September 1, 2004, the new minimum charge is $40 and the maximum charge is $11,000.

Exchange revenue is also earned for services provided to other Government agencies through reimbursable agreements. The FTC recovers the full cost of services, primarily salaries and related expenses. Revenue is earned at the time the expenditures are incurred against the reimbursable order. All exchange revenues are deducted from the full cost of the FTC's programs to arrive at net program cost.

(r) Appropriations Used

In addition to exchange revenue, the FTC receives financing sources through direct appropriation from the general fund of the Treasury to support its operations. A financing source, appropriations used, is recognized to the extent these appropriated funds have been consumed. In fiscal years 2004 and 2003, the FTC received a financing source in the form of a direct appropriation that represented approximately 46 percent and 63 percent of total revenues and financing sources realized.

(s) 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.

(t) Comparative Data

Certain 2003 line items on the Statements of Net Cost 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, 2004 and 2003:

(Dollars in thousands)	Obligated	Unobligated Available	Unobligated Not available	2004 Total	2003 Total
General Funds Entity	$ 36,200	$ 1,027	$ 7,400	$ 44,627	$ 40,900
General Funds Non-Entity:					
Undisbursed Premerger Filing Fees	-	-	-	6,530	1,600
Deposit Funds - Redress	-	-	-	13,001	4,755
Total Non-Entity	-	-	-	19,531	6,355
Total	$ 36,200	$ 1,027	$ 7,400	$ 64,158	$ 47,255

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

<u>Other Information</u> Deposit and suspense funds stated above are not available to finance FTC activities and are classified as non-entity assets, and a corresponding liability is recorded.

NOTE 3 -- CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets held as non-entity assets consist of redress judgment amounts on deposit with the FTC's distribution agents, receivers and divestiture fund deposits. A corresponding liability is recorded for these assets.

Cash and other monetary assets consisted of the following as of September 30, 2004 and 2003:

(Dollars in thousands)	2004	2003
Non-Entity:		
Redress Contractors	$ 70,113	$ 60,199
Divestiture Fund (Note 11(d))	41,376	41,192
Total Non-Entity	$ 111,489	$ 101,391

NOTE 4 -- ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of September 30, 2004 and 2003:

(Dollars in thousands)			2004	2003
	Currently Due	Allowance	Net	Net
Entity Assets:				
Intragovernmental-				
Accounts Receivable	$ 121	$ -	$ 121	$ 231
Non-Entity Assets:				
Consumer Redress	$ 501,187	$ 439,293	$ 61,894	$ 239,790
Civil Penalties	985	-	985	2,105
Total Non-Entity Assets	$ 502,172	$ 439,293	$ 62,879	$ 241,895

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, 2004 and 2003:

(Dollars in thousands)				2004	2003
	Service	Acquisition	Accumulated	Net	Net
Asset Class	Life	Value	Depreciation	Book Value	Book Value
Equipment & Furniture	5-20 yrs	$ 5,433	$ 2,592	$ 2,841	$ 3,329
Leasehold Improvements	10-15 yrs	4,683	715	3,968	3,116
Software	3 years	2,542	1,591	951	1,404
Software-in-Development		6,510	-	6,510	1,289
Total		$ 19,168	$ 4,898	$ 14,270	$ 9,138

Property and equipment are depreciated using the straight-line method. Depreciation expense was $1.9 million and $1.4 million for fiscal years ending September 30, 2004 and 2003, respectively and is contained in the accumulated depreciation.

NOTE 6 -- LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources consisted of the following as of September 30, 2004 and 2003:

(a) Intragovernmental and With the Public

(Dollars in thousands)	2004	2003
Intragovernmental		
Other Liabilities:		
Civil Penalty Collections Due	$ 985	$ 2,105
Accrued FECA Claims	395	433
Total	$ 1,380	$ 2,538
With the Public		
Undisbursed Redress	$ 83,114	$ 64,954
Divestiture Fund Due	41,376	41,192
Redress Net Collections Due	61,894	239,790
Total	$ 186,384	$ 345,936

(b) Other Information

<u>Civil Penalty Collections Due</u> 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.

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

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

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

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

NOTE 7 -- NET POSITION

Net position consisted of the following as of September 30, 2004 and 2003:

(Dollars in thousands)	2004	2003
Unexpended Appropriations:		
Unobligated - Available	$ 20	$ 113
Undelivered Orders	16	29
Total Unexpended Appropriations	36	142
Cumulative Results of Operations:		
Invested Capital	14,270	9,138
Retained Fees:		
Unobligated - Available	1,027	444
Unobligated - Unavailable	7,380	8,085
Undelivered Orders	22,658	19,948
Future Funding Requirements	(9,839)	(9,705)
Total Cumulative Results of Operations	35,496	27,910
Total Net Position	$ 35,532	$ 28,052

NOTE 8 -- COMMITMENTS AND CONTINGENCIES

Commitments The FTC is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders were $22.7 million and $20.0 million as of September 30, 2004 and 2003, 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 the results of operation of the FTC.

On November 14, 2002, the Court of Federal Claims granted the plaintiffs' motion for a summary judgment in a case brought by Department of Justice (DOJ) trial attorneys seeking overtime pay. The ruling indicated the attorneys were entitled to additional overtime pay, but did not establish either an amount of damages or methodology for calculating such an amount. On January 17, 2003, the court granted the DOJ's motion to stay the proceedings and allow an interlocutory appeal under 28 U.S.C. Sec. 1292 to the United States Court of Appeals for the Federal Circuit. A three-judge panel at the Federal Circuit found that the DOJ attorneys were not entitled to overtime pay. The DOJ attorneys have filed a petition for a rehearing of the case by the full Federal Circuit.

According to the FTC's General Counsel, the circumstances underlying the DOJ case differ significantly from the circumstances for attorneys and other FLSAexempt employees at the FTC, and the FTC's ultimate potential exposure in such a case would be limited and in any event would turn on individual, not class action, claims.

Leases The FTC rents approximately 568,000 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 4 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.

Rent expenditures for the years ended September 30, 2004 and 2003, were approximately $17.1 million and $16.8, respectively. The $16.8 million of rent expenditures is net of a GSA credit of approximately $1.9 million for fiscal year 2003, relating to the main headquarters building. In fiscal year 2004 GSA discontinued the rent discount program that it provided to federal agencies.

Future minimum lease payments due under leases of government-owned property as of September 30, 2004, are as follows:

(Dollars in thousands)	
Fiscal Year	
2005	$ 6,275
2006	1,618
2007	1,193
2008	1,133
2009	589
Total Future Minimum Lease Payments	$ 10,808

Future minimum lease payments under leases of commercial property due as of September 30, 2004 are as follows:

(Dollars in thousands)	
Fiscal Year	
2005	$ 11,226
2006	10,678
2007	10,825
2008	11,025
2009	11,032
Thereafter	22,095
Total Future Minimum Lease Payments	$ 76,881

NOTE 9 -- IMPUTED FINANCING

Imputed financing recognizes actual costs of future benefits, which include the FEHBP, FEGLI, and pension benefits that are paid by other federal entities. Imputed financing was composed of the following:

(Dollars in thousands)	2004	2003
FEHBP	$ 4,049	$ 3,439
FEGLIP	13	13
Pension Benefits	2,915	2,893
Total Imputed Costs	$ 6,977	$ 6,345

NOTE 10 -- PENSION EXPENSE

Pension expenses in 2004 and 2003 consisted of the following:

(Dollars in thousands)	Employer Contributions	Imputed Costs	2004 Total Pension Expense	2003 Total Pension Expense
Civil Service Retirement System	$ 1,906	$ 2,785	$ 4,691	$ 4,697
Federal Employee Retirement System	7,217	130	7,347	6,771
Thrift Savings Plan	2,998	-	2,998	2,761
Total	$ 12,121	$ 2,915	$ 15,036	$ 14,229

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) Premerger 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 (DOJ). 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 2004 and 2003, respectively, FTC collected $167.4 million and $113.4 million in HSR fees. Total collections in the amount of $83.6 million were retained for distribution, of which $77.3 million was transferred to DOJ in 2004 and $56.0 million in 2003. As of September 30, 2004 the undistributed collections remaining in the amount of $6.5 million represent amounts to be transferred to DOJ in a future period.

(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 3 percent of amounts collected before remitting them to the FTC. The FTC 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 FTC obtains consumer redress in connection with the settlement or litigation of both its administrative and its federal court cases. The FTC 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 $337.6 million and $101.8 million during fiscal years 2004 and 2003, respectively.

The sources of these collections are as follows:

(Dollars in thousands)	2004	2003
Contractors	$ 259,031	$ 71,428
Receivers	1,085	6,291
FTC	77,469	24,049
Total	$ 337,585	$ 101,768

(d) Divestiture Fund

One judgment obtained by the FTC 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 in one of the FTC's contractor accounts as stipulated in the judgment. A corresponding liability is recorded.

Divestiture Fund activity in fiscal years 2004 and 2003 consisted of the following:

(Dollars in thousands)	2004	2003
Beginning Balance	$ 41,192	$ 40,975
Interest	261	341
Expense	(77)	(124)
Ending Balance	$ 41,376	$ 41,192

(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.

(f) Receivers

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

(g) Redress to Claimants

Redress to claimants consists of amounts distributed to consumers by the FTC, one of its contracted agents, the court appointed receiver, or the defendant. In fiscal year 2004 a total of $294.1 million was distributed to consumers: $293.0 million was paid by the FTC and its contracted agents, and $1.1 million was paid by receivers. In fiscal year 2003, a total of $69.6 million was distributed to consumers: $63.3 million was paid by the FTC and its contracted agents, and $6.3 million was distributed by receivers.

(h) Contractor Fees Net of Interest Earned

Collections against monetary judgments are often deposited with one of the agency's two 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 $8.0 million and $5.3 million during the years ended September 30, 2004 and 2003, respectively. The significant increase in expense is due to one case in which approximately 2 million claims notifications were sent and 846,000 consumer checks were issued. Expense also includes costs for a consumer education campaign in lieu of distributions to consumers for one redress case. Interest earned was $367,000 and $354,000 during fiscal years 2004 and 2003, respectively, with the difference of $7.6 million and $4.9 million representing net expense.

Attorney fees of $3.2 million related to three cases during fiscal year 2004 and $11.1 million related to one case during fiscal year 2003.

(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 2004 and 2003, the agency obtained and reported in Exhibit A monetary redress judgments against defendants totaling $445.5 million and $379.8 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 the consumers. There were five such cases in fiscal year 2004, of which judgments totaled $626,000. In most of these cases, the judgment has ordered redress in the form of refunds or credits.

The agency also obtained civil penalty judgments of $6.0 million and $9.3 million in fiscal years 2004 and 2003, respectively.

(k) Treasury Referrals and Prior Year Recoveries

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 2004 and 2003, $41,000 and $88,000 (net of fees) were collected based on FTC referrals and are reported as collections on the Statements of Custodial Activity. The FTC refers to DMS only those cases as defined in DCIA. This excludes cases that are in receivership, or bankruptcy or foreign debt. During 2004 and 2003, $2.0 million and $5.9 million were referred to the DMS for collection.

Prior year recoveries include amounts collected on cases that were written off in a previous year. In fiscal years 2004 and 2003, $914,000 and $10.2 million were collected, which includes the DMS collections.

(l) Adjustments to the Allowance

Adjustments to the allowance for redress, totaling $286.7 million represent amounts formally written off during the year in the amount of $3.7 million and adjustments to the provision for uncollectible amounts of $283.0 million.

NOTE 12 -- EARNED REVENUES

Earned revenue with the public consisted of the following:

(Dollars in thousands)	2004	2003
HSR Premerger filing fees	$ 83,598	$ 56,015
Do Not Call Registry fees	13,984	5,239
Total	$ 97,582	$ 61,254

HSR premerger filing fees earned represent one-half of fees collected under the provisions of the Hart-Scott-Rodino Act. *See Note 1 (q), Exchange Revenues.* Revenue is recognized when earned; i.e., all required documentation under the HSR Act has been received by the agency.

Do Not Call Registry fees represent collections of subscription fees paid by telemarketers under the Do Not Call Implementation Act, P. L. 108-010. *See Note 1 (q), Exchange Revenues.* Revenue is recognized when collected and the Telemarketer is given access to download data from the Do Not Call database. The Do Not Call Registry was implemented during fiscal year 2003 and began operations in September 2003.

NOTE 13 -- STATEMENT 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 intragovernmental or with the public.

(Dollars in thousands)				
Gross Cost and Earned Revenue:				
	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2004	376	$ 185,853	$ (98,390)	$ 87,463
FY 2003	376	$ 174,746	$ (62,413)	$ 112,333
Intragovernmental Gross Cost and Earned Revenue:				
	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2004	376	$ 44,755	$ (808)	$ 43,947
FY 2003	376	$ 43,495	$ (1,159)	$ 42,336

NOTE 14 -- STATUS OF BUDGETARY RESOURCES

(a) Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in 2004 and 2003 consisted of the following:

(Dollars in thousands)	2004	2003
Direct Obligations:		
Category A	$ 89,213	$ 106,257
Reimbursable Obligations:		
Category A	98,856	70,201
Category B	848	797
Total Reimbursable Obligations	99,704	70,998
Total	$ 188,917	$ 177,255

(b) Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The Budget of the United States Government with actual amounts for the year ended September 30, 2004, has not been published as of the issue date of these financial statements. This document will be available in December 2004.

NOTE 15 – CHANGE IN ACCOUNTING ESTIMATES

In fiscal year 2003, the FTC changed the percentages estimated for development costs for software expenditures. Accounting standards require that the effects of a change in estimate should be reported in the period of change and subsequent periods. The net effect of this change in estimate for fiscal year 2003 was a $758,403 charge to expense. This was the result of the reclassification from capitalized software to software maintenance expense. The depreciation expense recognized had this change in estimate not been recorded would have been $252,801 in each of fiscal years 2003, 2004 and 2005. *See Note 5 – Property and Equipment, Net.*

Exhibit A

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2004 and 2003
(Dollars in thousands)

	MC Mission	CP Mission				
Part 1	**Civil Penalty**	**Civil Penalty**	**Redress**	**Subtotal CP**	**2004 Total**	**2003 Total**
Judgments Receivable - Net Beginning	$ -	$ 2,105	$ 239,790	$ 241,895	$ 241,895	$ 94,830
Add:						
Current Year Judgments (Note 11j)	756	5,194	445,517	450,711	451,467	389,219
Prior Year Recoveries (Note 11k)	-	-	914	914	914	10,232
Less:						
Collections by FTC/Contractors Receivers	(756)	(5,786)	(337,585)	(343,371)	(344,127)	(110,275)
Collections by DOJ for Litigation Fees/Other	-	(178)	-	(178)	(178)	(262)
Less:						
Adjustments to Allowance (Note 11 l)	-	(350)	(286,742)	(287,092)	(287,092)	(141,849)
Judgments Receivable - Net, Ending	$ -	$ 985	$ 61,894	$ 62,879	$ 62,879	$ 241,895
Part 2						
Judgments Receivable - Net Ending	$ -	$ 985	$ 61,894	$ 62,879	$ 62,879	$ 241,895
Judgments Receivable - Net Beginning	-	2,105	239,790	241,895	241,895	94,830
Accrual Adjustment	$ -	$ (1,120)	$ (177,896)	$ (179,016)	$ (179,016)	$ 147,065

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Change in Liability Accounts
September 30, 2004 and 2003
(Dollars in thousands)

Exhibit B

	MC Mission				CP Mission			
	Pre-Merger	Divestiture	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/04	$ 6,530	$ 41,376	$ -	$ 47,906	$ 985	$ 145,008	$ 145,993	$ 193,899
Liabilities @ 09/30/03	$ 1,600	$ 41,191	$ -	$ 42,791	$ 2,105	$ 304,744	$ 306,849	$ 349,640
Change in Liability Accounts	$ 4,930	$ 185	$ -	$ 5,115	$ (1,120)	$ (159,736)	$ (160,856)	$ (155,741)

	MC Mission				CP Mission			
	Pre-Merger	Divestiture	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/03	$ 1,600	$ 41,191	$ -	$ 42,791	$ 2,105	$ 304,744	$ 306,849	$ 349,640
Liabilities @ 09/30/02	1,683	40,975	-	42,658	1,809	155,942	157,751	200,409
Change in Liability Accounts	$ (83)	$ 216	$ -	$ 133	$ 296	$ 148,802	$ 149,098	$ 149,232