AR 01-050

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2000

OFFICE OF INSPECTOR GENERAL

TABLE OF CONTENTS

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 2000 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 2000 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.

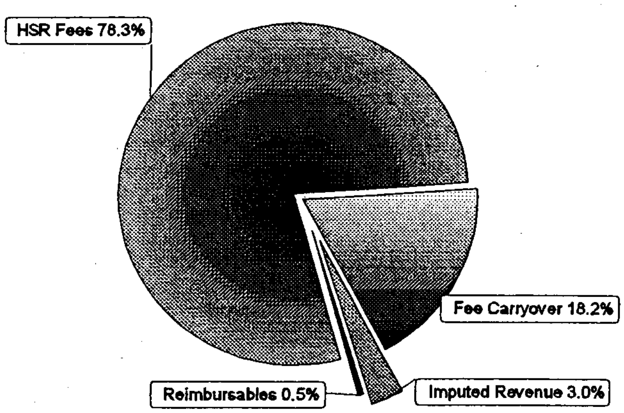
Financial Resources and Results of Operations

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, 2000 and 1999.

The FTC had total assets of $74.9 million and $115.5 million as of September 30, 2000 and 1999 respectively. Approximately $48.4 million and $44.4 million of the 2000 and 1999 assets, respectively, were funds collected or to be collected for consumer redress. Another $0.5 million in 2000 and $26.6 million in 1999 represent undisbursed Hart-Scott-Rodino (HSR) premerger filing fees, and the remainder represents fund balances in appropriated accounts, account receivables and net capital assets.

The gross cost of operations during the 2000 fiscal year was approximately $130.1 million, a 10.7 percent increase over 1999. The majority of this increase was associated with increased costs in the Consumer Protection Mission. Several financing sources were received which funded these expenses, including premerger filing fees, reimbursements received from other government agencies, prior-year unobligated carryover amounts, and imputed revenue to cover unfunded benefits. The FTC did not receive amounts from the general fund of the Treasury in FY 2000. The FTC also did not receive additional funding from transfers from other agencies. Last year the agency received $2.6 million for the Y2K Contingent Emergency Fund in accordance with the Omnibus Consolidated and Emergency Supplemental Appropriation Act. Only $70 thousand of this amount remained unexpended at year end. The accompanying pie chart details the percentages of these various financing sources.

FTC Financing Sources for FY 2000



During 2000, $106.9 million in fees were collected under the premerger notification program as required by the HSR Act. This was a $9.4 million increase over the previous year fee collection of $97.5 million. Fee collections, to include carryover fees from prior years, funded approximately 97 percent and 86 percent of agency operations in 2000 and 1999, respectively. The FTC collects a filing fee from each acquiring business entity that files a Notification and Report form transaction. The $45,000 fee, which is set by law, is divided equally between the FTC and the Antitrust Division of the Department of Justice (DOJ). The amounts collected for DOJ are shown as nonexchange revenue on the Statements of Custodial Activity.

Of the $130.1 million in gross operating costs, $125.3 million was funded through budget authority. The remaining $4.8 million represents costs which will be funded in a future period. During 2000, expenses for salaries and related benefits totaled $88.7 million, or 68.2 percent of the total expenses incurred. Lease space rental amounted to $11.0 million, or 8.5 percent, and the remaining $30.4 million, or 23.3 percent, included travel, facility maintenance, utilities, Y2K compliance, depreciation, future funded expenses, and other items. This supported 985 staff-years which were employed in fulfilling the FTC's mission. In fiscal year 2000, the net cost of operations, was $22.6 million, compared to $19.5 million for 1999.

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. Consumer Protection works to ensure that consumer information in the marketplace is not deceptive or misleading. Maintaining Competition 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 2000 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 the cumulative number of consumer complaints and inquiries in the Consumer Information System. The Commission uses the complaints in this database to identify problem areas as reported by the public. This enables the Commission to rapidly detect and respond to fraud, deception, and other illegal practices, resulting in effective targeting of our law enforcement resources. The Commission also shares complaints about fraud and deception relating to telemarketing, direct mail and the Internet with over 250 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 activities. The target for fiscal year 2000 was to have at least 600,000 entries in the database. The year ended with 833,659 entries. In recognition of the need to collect and use fresh information, FTC will start reporting the number of consumer complaints and inquiries added to our database on an annual basis instead of as a cumulative count of the total number of entries in the database in fiscal year 2001. 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 to this objective, with a performance measure for each component. The Commission measures the effectiveness of its law enforcement efforts to stop fraud by estimating the amount of money saved by consumers based on the annual fraudulent sales of defendants. Saving consumers money is the ultimate goal of our anti-fraud efforts. Consumers save money each time a fraudulent operator is stopped by successful litigation or settlement with the agency. The agency also increases these consumer savings by leading joint law enforcement initiatives with federal, state, and international partners. The target for fiscal year 2000 was to save consumers $250 million. The Commission ended the year saving consumers approximately $401.1 million.

The fiscal year 2000 goal in the non-fraud area was to increase compliance with the laws against deceptive and unfair practices, and thereby ensure that consumers have more accurate and complete information for their purchasing decisions. One of the primary strategies was to target areas where misleading or unfair practices are widespread, and to improve significantly the level of compliance and consumer protection through law enforcement or self-regulatory programs. Compliance in targeted industries increased during the year by 83%. In fiscal year 2001, the agency will measure efforts in the non-fraud law enforcement areas by reporting the size in dollars of deceptive and unfair advertising campaigns that are stopped through FTC action.

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, the Commission 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). The FTC's messages also reach the public through the Consumer Response Center, and hundreds of partners who distribute FTC materials, link to its Web site, or post FTC messages on their Web sites. The goal in fiscal year 2000 was to reach an audience of at least 8.7 million with FTC education messages. The agency distributed 11.0 million education messages during the year, and for the first time, more messages were distributed online than in print. In fiscal year 2001, 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 Commission will continue to creatively use technology, including new interactive media, to extend the reach of consumer and business education.

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

An unprecedented wave of corporate merger activity continued into its eleventh straight year during 2000. The number of reported transactions increased from 1,529 in 1991 to 4,926 in 2000, representing a threefold increase over that period. The 4,926 reported transactions in 2000 also represents an increase of approximately 6 percent over fiscal year 1999.

The Commission uses premerger notification reports required under the Hart-Scott-Rodino (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 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.

The staff also uses trade press and other news articles, consumer and competitor complaints, 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.

Despite a high volume of reported transactions, the agency has continued its emphasis on expediting our preliminary reviews. The FTC established as a goal an average review time of 20 days for transactions reported under HSR. The mission was able to exceed that goal in 2000, completing its review of HSR reported actions in an average of 18 days, an improvement of one day over fiscal year 1999.

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. Two factors kept that goal from being met. First, the record-setting pace of corporate mergers and acquisitions accelerated further in fiscal year 2000, both quantitatively (number of filings) and qualitatively (complexity of transactions). This merger activity demanded that the mission shift significant resources away from nonmerger activity. Second, the resources remaining for nonmerger investigation and enforcement were devoted substantially to the advancement and conclusion of cases that were already underway. The resulting accomplishments, not reflected in the number of new investigations opened, included 14 consent orders involving a broad range of consumer goods markets, including pharmaceuticals, compact discs, spices, women's shoes, and health care. Moreover, the mission devoted significant resources to pretrial litigation in the *Mylan Laboratories* matter, which led to a settlement after the close of the fiscal year resulting in $100 million in consumer redress - a direct, tangible return to consumers that substantially exceeds the entire annual cost of the Maintaining Competition mission. Despite these significant circumstances, the Mission still opened 25 nonmerger investigations during 2000, more than half the goal set for the year.

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 the anticompetitive activity.

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 serve 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.

Under the Mergers and Joint Ventures Enforcement Program, the Commission authorized staff to initiate 23 enforcement actions, issue 43 "second requests" under the HSR Act for additional information or documentary materials, and the Bureau opened 211 initial and full phase investigations (51 investigations were converted to full phase -- 45 of those were opened as initial phase during fiscal year 2000) under Section 7 of the Clayton Act. The staff also filed complaints in federal court seeking preliminary injunctions to block five separate mergers in a wide variety of industries.

The Commission provisionally accepted eighteen consent agreements for public comment during fiscal year 2000, one of which, the *Exxon-Mobil* consent, involved the most extensive divestiture package in the Commission's history. In addition, nine 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 fourteen proposed consent orders involving nine different parties for public comment. The Commission also issued an administrative complaint alleging a conspiracy to create a monopoly for an important prescription drug, and continued its litigation of two matters in federal court.

The FTC established as a goal a positive outcome in 80% 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 2000, reaching a successful settlement agreement or persuading parties not to proceed with an anticompetitive acquisition in approximately 95% of the matters challenged.

Another goal was to obtain direct dollar savings to consumers of at least $500 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 by a factor of 6 in 2000, preventing mergers that would have cost consumers approximately $3 billion had they been allowed to proceed.

Another goal was reduction of the average time needed to complete divestitures required by consent orders to nine months from approval of a proposed consent order to completion of the divestiture. This measure is important because delay in the divestiture of assets that are the subject of a consent decree often results in a decline in the competitive viability of the assets. To avoid delay, the mission increasingly seeks either "up-front" purchase and sales agreements or divestiture orders that limit the time in which divestiture relief is accomplished to the minimum necessary. This approach enabled the mission to exceed this goal, achieving the completion of needed divestitures in an average of 5 months in fiscal year 2000, down from an average of 15 months in 1996.

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.

In addition to these activities, the staff drafted a report on slotting allowances and is continuing to study this important subject. The staff also conducted a workshop on business to business ("B2B") electronic marketplaces and completed its investigation of the Covisint joint venture, the first B2B venture to be reviewed by the Commission. Finally, Commission representatives provided testimony and other information to Congressional committees on a number of antitrust subjects, including slotting allowances, telecommunications mergers, petroleum industry mergers, and gasoline prices.

The agency's success in educating the business community about the antitrust laws is also determined in part by the timeliness with which it provides needed advice. Accordingly, one measure in accomplishing this objective is the length of time required to provide advisory opinions related to issues in the health care industry. The mission exceeded its goal of providing such advisory opinions within 90 days of our receipt of a request, by providing those opinions in an average of 84 days in 2000.

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 year 2000 nonexchange revenue is $147.8 million for activities performed by the agency under its two major enforcement missions: maintaining competition and consumer protection.

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OFFICE OF
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Chairman Pitofsky:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 2000 and 1999, 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, 2000 and 1999, and the net costs and changes in net position, its budgetary resources, financing and custodial activities for the years then ended, in conformity with generally accepted accounting principles.

Other Accompanying Information

Our audits were conducted for the purpose of forming an opinion on the FY 2000 and 1999 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 not a required part of the basic financial statements but 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 their 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 01-050A).

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. In addition, we noted certain nonmaterial instances of noncompliance that we have reported to management.

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 application 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 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 generally accepted auditing standards; *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 21, 2001

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2000 and 1999

	2000	1999
Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 24,034,784	$ 43,180,350
Accounts Receivable, Net (Note 4)	93,485	129,727
Total Intragovernmental Assets	24,128,269	43,310,077
Cash and Other Monetary Assets (Note 3)	5,510	5,510
Property, Plant, and Equipment, Net (Note 5)	1,098,169	42,090
Total Entity Assets	25,231,948	43,357,677
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	5,098,642	32,235,572
Cash and Other Monetary Assets (Note 3)	36,994,159	30,086,699
Accounts Receivable, Net (Note 4)	7,536,645	9,804,337
Total Non-Entity Assets	49,629,446	72,126,608
Total Assets	$ 74,861,394	$ 115,484,285

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2000 and 1999

	2000	1999
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	$ 250,233	$ 299,239
Total Intragovernmental Liabilities	250,233	299,239
Accounts Payable	3,931,326	2,165,700
Accrued Salaries	3,357,143	4,012,557
Total Liabilities Covered by Budgetary Resources	7,538,702	6,477,496
Liabilities Not Covered by Budgetary Resources (Note 6):		
Intragovernmental Liabilities:		
Undisbursed Premerger Filing Fees	464,981	26,628,753
Other Liabilities	741,030	870,569
Total Intragovernmental Liabilities	1,206,011	27,499,322
Future Worker's Compensation	2,304,000	2,114,961
Accrued Annual Leave	6,159,640	5,650,321
With the Public	48,694,113	44,867,177
	57,157,753	52,632,459
Total Liabilities Not Covered by Budgetary Resources	58,363,764	80,131,781
Total Liabilities	65,902,466	86,609,277
Net Position: (Note 7)		
Balances:		
Unexpended Appropriations	70,230	3,001,818
Cumulative Results of Operations	8,888,698	25,873,190
Total Net Position	8,958,928	28,875,008
Total Liabilities and Net Position	$ 74,861,394	$ 115,484,285

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF NET COST
For the years ended September 30, 2000 and 1999

	2000	1999
Costs:		
Maintaining Competition Mission:		
Intragovernmental	$ 16,308,993	$ 15,380,502
With the public	47,472,653	41,860,835
Total mission cost (Note 1q)	63,781,646	57,241,337
Less exchange revenues (Note 9)		
Intragovernmental	(576,524)	(521,134)
With the public	(106,908,778)	(97,469,991)
Total exchange revenues	(107,485,302)	(97,991,125)
Net mission revenue	(43,703,656)	(40,749,788)
Consumer Protection Mission:		
Intragovernmental	16,506,197	15,778,504
With the public	49,807,373	44,450,165
Total mission cost (Note 1q)	66,313,570	60,228,669
Net Cost of Operations	$ 22,609,914	$ 19,478,881

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, 2000 and 1999

	2000	1999
Cost of Operations	$ (22,609,914)	$ (19,478,881)
Financing Sources:		
(Other than exchange revenue)		
Appropriations	1,548,136	10,978,074
Imputed financing (Note 1f)	4,077,286	4,254,497
Total Financing Resources	5,625,422	15,232,571
Net Results of Operations	(16,984,492)	(4,246,310)
Increase (Decrease) in Unexpended Appropriations	(2,931,588)	1,020,657
Changes In Net Position	(19,916,080)	(3,225,653)
Net Position - Beginning of Period	28,875,008	32,100,661
Net Position - End of Period	$ 8,958,928	$ 28,875,008

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2000 and 1999

	2000	1999
Budgetary Resources:		
Budget authority	$ -	$ 12,770,000
Unobligated balances-beginning of period	25,691,784	33,981,699
Spending authority from offsetting collections		
Hart-Scott-Rodino fees		
-- For current year apportionment	104,024,000	76,500,000
-- To be apportioned in subsequent fiscal year	2,884,778	20,969,991
Total Hart-Scott-Rodino fees	106,908,778	97,469,991
Reimbursable authority	576,524	521,134
Adjustments	(574,189)	1,060,144
Total Budgetary Resources	$ 132,602,897	$ 145,802,968
Status of Budgetary Resources:		
Obligations incurred		
Maintaining Competition Mission	59,325,034	58,253,924
Consumer Protection Mission	66,630,451	61,857,260
Total obligations incurred	125,955,485	120,111,184
Unobligated balances available	6,647,412	24,580,985
Unobligated balances-not available	-	1,110,799
Total Status of Budgetary Resources	$ 132,602,897	$ 145,802,968
Outlays:		
Obligations incurred	125,955,485	120,111,184
Less: spending authority from offsetting collections and adjustments	(108,351,712)	(99,760,681)
Obligated balance, net - beginning of period	17,494,075	12,244,438
Less: obligated balance, net - end of period	(17,392,883)	(17,494,075)
Total Outlays	$ 17,704,965	$ 15,100,866

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the years ended September 30, 2000 and 1999

	2000	1999
Obligations and Nonbudgetary Resources:		
Obligations incurred	$ 125,955,485	$ 120,111,184
Less: Spending authority from offsetting collections and adjustments	(108,351,712)	(99,760,681)
Financing imputed for cost subsidies (Note 1f)	4,077,286	4,254,497
Other	57,148	(61,857)
Total obligations and nonbudgetary resources	21,738,207	24,543,143
Resources That Do Not Fund Net Cost of Operations:		
Change in amount of goods, services, and benefits ordered but not yet received or provided	1,198,644	(4,773,822)
Increase in costs capitalized on balance sheet	(1,231,971)	-
Costs That Do Not Require Resources:		
Depreciation and amortization	175,891	84,179
Financing Sources Yet to be Provided	729,143	(374,619)
Net Cost of Operations	$ 22,609,914	$ 19,478,881

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the years ended September 30, 2000 and 1999

(Refer to Note 11)

	MC Mission	CP Mission	2000 Total	1999 Total
Sources of Collections:				
Cash Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 106,908,778	$ -	$ 106,908,778	$ 97,469,991
Civil Penalties and Fines (b)	-	10,255,388	10,255,388	4,039,298
Redress (c)	-	32,814,171	32,814,171	21,631,516
Funeral Rule Violations	-	98,219	98,219	57,736
Net Collections	106,908,778	43,167,778	150,076,556	123,198,541
Accrual Adjustments (d)	-	(2,267,693)	(2,267,693)	7,304,806
Total Non-exchange Revenues	$ 106,908,778	$ 40,900,085	$ 147,808,863	$ 130,503,347
Disposition of Revenue Collected:				
Amounts Transferred to:				
Treasury General Fund		13,499,733	13,499,733	6,229,221
Department of Justice	133,140,025	-	133,140,025	97,998,781
Redress to Claimants (e)	-	23,981,332	23,981,332	6,554,676
Contractor Fees Net of Interest Earned (f)	-	(315,066)	(315,066)	275,516
Net disbursements	133,140,025	37,165,999	170,306,024	111,058,194
Change in Liability Accounts (g)	(26,231,247)	3,734,086	(22,497,161)	19,445,153
Total Disposition of Revenues Collected	$ 106,908,778	$ 40,900,085	$ 147,808,863	$ 130,503,347
Net Custodial Collections	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

*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 in 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.

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

During fiscal year 1999, the FTC underwent a reorganization resulting in the following eight offices in seven regions: Northeast (New York, New York); Southeast (Atlanta, Georgia); Midwest (Chicago, Illinois); East Central (Cleveland, Ohio); West (San Francisco & Los Angeles, California); Southeast (Dallas, Texas); and Northwest (Seattle, Washington).

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 the 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.

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. Prior to fiscal year 1996, Congress passed appropriations of one-year for FTC operations. These one-year funds are available for obligation for one year and are canceled and cannot be used for disbursements after five years have elapsed from the year in which the appropriation was available for obligation.

(e) Revenues and Other Financing Sources

The FTC received no funding from the general fund of the Treasury during fiscal year 2000 and approximately 10 percent during fiscal year 1999. During fiscal year 2000, operational capital expenditures were financed by amounts 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 premerger filing fees collected. This fee revenue funded approximately 97 percent and 86 percent of agency operations for 2000 and 1999, respectively. 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 obtains funds 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.

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

(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 the amount of $4,077,286 and $4,254,497 as of September 30, 2000 and 1999, respectively. The amount recognized is equal to the amount of current year unfunded pension and other retirement benefits 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 *Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government.*

(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 are primarily 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 for 2000 only. Non-Entity accounts receivable are for civil monetary penalties imposed as a result of the FTC's enforcement activities and for uncollected redress judgments. 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 represents a more stringent criterion than used in the private sector under generally accepted accounting principles (GAAP). 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.

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

(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.

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 3 to 15 years. Items purchased which do not meet these criteria are expensed. During fiscal year 1997, the FTC began capitalizing equipment in accordance with, *SFFAS No 6, Accounting for Selected Assets and Liabilities.*

(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) Future Worker's Compensation and Accrued FECA

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. All 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 2000 and 1999, the cost factors relating to health benefits were $2,733 and

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

$2,731 per employee enrolled in the Federal Employees Health Benefits program, respectively. The total costs recognized during fiscal years 2000 and 1999 were $2,192,549 and $2,195,041, respectively.

During fiscal years 2000 and 1999, 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, 2000 and 1999 were $9,092 and $8,604, respectively.

(o) Retirement Plans

Approximately 39 percent of FTC's employees participate in the Civil Service Retirement System (CSRS) to which FTC makes matching contributions equal to 7.25 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 ten percent of pay to the TSP plan. FTC automatically contributes one percent of basic pay, in addition to matching employees contributions up to an additional four percent of pay. CSRS covered employees may contribute up to five percent 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, employees 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 19.3% of basic pay for CSRS covered employees and 11.5% of basic pay for FERS covered employees during fiscal years 2000 and 1999. 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 $1,875,645 and $2,050,852 in imputed financing costs for pension expense during fiscal years 2000 and 1999, respectively (see Note 10).

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

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

(q) ***Methodology for Assigning Cost***

In fiscal year 1999, total costs were allocated to each mission based on the percentage of direct full time equivalents (FTE) used by each mission. In fiscal year 2000, 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.

Note 2 - Fund Balances with Treasury

Fund balances with Treasury consisted of the following at September 30, 2000 and 1999:

		Unobligated		2000	1999
	Obligated	Available	Restricted	Total	Total
General Funds	$17,392,882	$6,641,902	-	$24,034,784	$43,180,350
Suspense Funds:					
Undecided Civil Penalty Cases	-	-	-	31,492	130,509
Undisbursed Pre-merger Filing Fees due DOJ	-	-	-	464,981	26,628,753
Deposit Funds – Redress	-	-	-	4,444,669	5,318,854
Other	-	-	-	157,500	157,456
Total	$17,392,882	$6,641,902	$ -	$29,133,426	$75,415,922

The obligated balance represents fund balances reserved to pay for outstanding accounts payable and undelivered orders.

During fiscal years 2000 and 1999, the FTC returned $1,227,599 and $754,750, respectively to the U.S. Treasury from the expired appropriations 2950100 and 2940100.

Other Information Deposit and suspense funds amounting to $5,098,642 and $32,235,572 as of September 30, 2000 and 1999, 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 premerger filing fees and redress judgment amounts on deposit with FTC's distribution agents. A corresponding liability is recorded for these assets.

Cash and other monetary assets consisted of the following at September 30, 2000 and 1999:

	2000	1999
Entity	$ 5,510	$ 5,510
Non-Entity - deposits in transit	90,000	157,519
- redress contractors	36,904,159	29,929,180
	$36,994,159	$30,086,699

Note 4 - Accounts Receivable

Accounts receivable consisted of the following, as of September 30, 2000 and 1999:

			2000	1999
Entity Assets:	Currently due	Allowance	Net	Net
Intragovernmental - Accounts Receivable	$ 93,485	$ -	$ 93,485	$ 129,727
Non-Entity Assets:				
Consumer Redress	$156,280,992	$149,214,699	$7,066,293	$9,173,662
Civil Penalties	584,690	114,338	470,352	630,675
Total Non-Entity Assets	$156,865,682	$149,329,037	$7,536,645	$9,804,337

For more detailed information on judgments receivable 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, 2000 and 1999:

Asset class	Service Life	Acquisition Value	Accumulated Depreciation	2000 Net Book Value	1999 Net Book Value
Office Equipment & Furniture	5 Years	$ 851,980	$442,395	$ 409,585	$42,090
Leasehold Improvements	15 Years	486,696	24,335	462,361	-
Software	3 Years	314,190	87,967	226,223	-
Total		$1,652,866	$554,696	$1,098,169	$42,090

Property and equipment are depreciated using the straight-line method. Depreciation expense was $175,891 and $84,179 for fiscal years ending September 30, 2000 and 1999, respectively.

Note 6 - Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources consisted of the following as of September 30, 2000 and 1999:

(a) ***Intragovernmental and With the Public***

	2000	1999
Intragovernmental -		
Undisbursed Premerger Filing Fees	$ 464,981	$26,628,753
Civil Penalty Collections Due	470,352	630,676
Accrued FECA Claims	270,678	239,893
Total	$ 741,030	$ 870,569
With the Public -		
Undisbursed Redress	$41,348,828	$35,248,033
Redress Net Collections Due	7,066,293	9,173,662
Other	278,992	445,482
Total	$48,694,113	$44,867,177

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

(b) *Other Information*

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

Undisbursed Premerger Filing Fees represent filing fees collected under the Hart-Scott-Rodino (HSR) Antitrust Improvements Act of 1976 that are held in suspense until distribution to the Justice Department or the FTC.

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

Other consists primarily of deposits in transit and undisbursed cash in the suspense liability account for 2000 and 1999.

Future Workers' Compensation is the estimated liability for future workers' compensation claims based on data provided by the DOL. *Refer to Note 1(l).*

Accrued Annual Leave represents the liability not covered by budgetary resources for accrued annual leave of FTC employees. *Refer to Note 1(m).*

Note 7 - Net Position

Net position consisted of the following as of September 30, 2000 and 1999:

Unexpended Appropriations:	2000	1999
Unobligated -		
Available	$ 17,967	$ 354,963
Unavailable	-	1,110,799
Undelivered Orders	52,263	1,536,056
Total Unexpended Appropriations	70,230	3,001,818
Cumulative Results of Operations:		
Invested Capital	1,098,169	42,090
Retained Fees:		
Unobligated	6,629,445	24,226,022
Undelivered Orders	9,895,402	9,610,253
Future Funding Requirements	(8,734,318)	(8,005,175)
Total Cumulative Results of Operations	8,888,698	25,873,190
Total Net Position	$8,958,928	$28,875,008

Note 8 - Commitments and Contingencies

Commitments 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 $9,947,663 and $11,146,309 as of September 30, 2000 and 1999, 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 465,238 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 three government-owned properties and 12 commercial properties. The FTC's current leases expire at various dates through 2003.

Rent expenditures for the years ended September 30, 2000 and 1999 were approximately $11.0 million and $10.7 million each year. This amount is net of a GSA credit of approximately $1.8 million for each of the fiscal years 2000 and 1999, relating to the main headquarters building.

Future minimum lease payments due under leases of government-owned property as of September 30, 2000 are as follows:

Fiscal year	
2001	$ 5,223,475
2002	5,380,179
2003	5,541,585
Thereafter	5,707,832
Total future minimum lease payments	$21,853,071

Future minimum lease payments under leases of commercial property due as of September 30, 2000 are as follows:

Fiscal year	
2001	$ 6,077,723
2002	6,260,055
2003	6,447,856
Thereafter	6,641,292
Total future minimum lease payments	$25,426,926

Note 9 - Exchange Revenue

The Federal Accounting Standards Advisory Board defines exchange revenues 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 years 2000 and 1999, the statutory filing fee was $45,000 per qualifying filing. Amounts are earned when the premerger filing is accepted by the agency. Filing fees in the amount of $106,908,778 and $97,469,991 were earned during fiscal years ended September 30, 2000 and 1999, respectively.

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 year 2000, FTC earned $206,136 and $2,518 under agreements with the Department of Justice and Equal Employment Opportunity Commission. During fiscal years 2000 and 1999, FTC earned $301,814 and $514,572 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 $66,056 and $63,451 under miscellaneous reimbursable agreements with the Federal Communications Commission during fiscal years 2000 and 1999, respectively. An additional $6,562 was earned for miscellaneous reimbursable agreements with the Housing and Urban Development Agency and the U.S. Merit Systems Protection Board during fiscal year 1999 only.

Note 10 - Pension Expense

Pension expense in 2000 and 1999 consisted of the following:

			2000	1999
	Employer Contributions	Accumulated Costs Imputed to OPM	Total Pension Expense	Total Pension Expense
CSRS	$2,243,853	$2,104,214	$ 4,348,067	$4,414,690
FERS	4,558,865	(228,569)	4,330,296	3,925,206
TSP	1,771,686	-	1,771,686	1,623,338
	$8,574,404	$1,875,645	$10,450,049	$9,963,234

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 2000 and 1999, respectively, FTC collected $213,817,556 and $194,939,982 in HSR fees. Half of this amount, $106,908,778 in 2000, and $97,469,991 in 1999, was held for transfer to DOJ. As of September 30, 2000 and 1999 collections not transferred to DOJ total $464,981 and $26,628,753, respectively.

(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. In 1999 collections by DOJ remitted directly to Treasury amounted to an additional $4.0 million, which are not reflected in the financial statements.

(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 $32,814,171 and $21,631,516 during fiscal years 2000 and 1999, respectively. Collections against court-ordered judgments include the value of coupons or rebates distributed by the defendants.

Note 11 - Custodial Activities (continued)

The sources of these collections are as follows:

Source	2000	1999
Contractors	$12,826,895	$11,802,825
Receivers	13,269,357	1,742,579
FTC	6,717,919	8,086,112
Total	$32,814,171	$21,631,516

(d) 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.

(e) Redress to Claimants

Redress to claimants consists of amounts distributed to consumers by FTC, one of its contracted agents, the court appointed receiver or agent, or by the defendant. In fiscal year 2000 a total of $23,981,332 was distributed to consumers: $10,492,322 in cash was paid by 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.

(f) 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 $1,368,384 and $958,581 during the years ended September 30, 2000 and 1999, respectively.

Note 11 - Custodial Activities (continued)

Interest earned was $1,683,450 and $683,065 during fiscal years 2000 and 1999, respectively, with the difference of $315,066 and $(275,526) representing earnings in excess of expenses.

(g) 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.

(h) Current Year Judgments

A judgment is a formal decision handed down by a court. For the purposes of this financial statement, 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. In fiscal years 2000 and 1999, the agency obtained monetary judgments against defendants totaling $107 million and $140 million, respectively. In addition to the $107 million in judgments received during fiscal year 2000, another $267,500 in refunds was ordered to be paid by defendants.

Civil penalty judgments and fines ordered during fiscal year 2000 and 1999 were $10,406,402 and $4,686,000, respectively.

(i) 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 2000 and 1999,$95,589 and $608,356 (net of fees) were collected based on FTC referrals. FTC refers to DMS only those cases as defined in the DCIA. This excludes cases that are in receivership, in bankruptcy or foreign debt. During 2000 and 1999, $2,314,562 and $22,913,153 were referred to the DMS for collection.

(j) Adjustments to the Allowance

Adjustments to the allowance for redress represents amounts formally written off during the year in the amount of $14,010,336 and adjustments to the provision for uncollectible amounts of $64,387,820.

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 to 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
FY00	376	$130,095,216	$ (107,485,302)	$22,609,914
FY99	376	$117,470,006	$ (97,991,125)	$19,478,881

Intra-governmental Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY00	376	$ 32,815,190	$ (576,524)	$32,238,666
FY99	376	$ 31,159,006	$ (521,134)	$30,637,872

Exhibit A

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2000 and 1999

	MC Mission Civil Penalty	Civil Penalty	CP Mission Redress	Subtotal CP	2000 Total	1999 Total
Part 1						
Judgements Receivable - Net Beginning	$ -	$ 630,676	$ 9,173,662	$ 9,804,338	$ 9,804,338	$ 2,499,532
Add:						
Current Year Judgements (Note 11h)	-	10,406,402	106,510,583	116,916,985	116,916,985	145,194,243
Prior Year Recoveries	-	-	2,594,039	2,594,039	2,594,039	3,311,188
Less:	-					
Collections by FTC/Contractors Receivers	-	(10,255,388)	(32,814,171)	(43,069,559)	(43,069,559)	(25,670,814)
Collections by DOJ for Litigation Fees/Other	-	(311,338)	-	(311,338)	(311,338)	(165,811)
Less:						
Adjustments to Allowance (Note 11j)	-	-	(78,397,820)	(78,397,820)	(78,397,820)	(115,364,000)
Judgements Receivable - Net, Ending	$ -	$ 470,352	$ 7,066,293	$ 7,536,645	$ 7,536,645	$ 9,804,338
Part 2						
Judgements Receivable - Net Ending	$ -	$ 470,352	$ 7,066,293	$ 7,536,645	$ 7,536,645	$ 9,804,338
Judgements Receivable - Net Beginning	-	630,676	9,173,662	9,804,338	$ 9,804,338	2,499,532
Accrual Adjustment	$ -	$ (160,324)	$ (2,107,369)	$ (2,267,693)	$ (2,267,693)	$ (7,304,806)

Exhibit B

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Change in Liability Accounts
September 30, 2000 and 1999

	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)

	MC Mission			CP Mission			
	Pre-Merger	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/99	$ 26,943,728	$ -	$ 26,943,728	$ 761,184	$ 44,421,695	$ 45,182,879	$ 72,126,607
Liabilities @ 09/30/98	27,481,082	-	27,481,082	220,946	24,979,426	25,200,372	52,681,454
Change in Liability Accounts	$ (537,354)	$ -	$ (537,354)	$ 540,238	$ 19,442,269	$ 19,982,507	$ 19,445,153

FEDERAL TRADE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
As of September 30, 2000 and 1999

Intra-governmental Assets:

Trading Partner Agency	Fund Balance with Treasury Entity	Fund Balance with Treasury Non-Entity	Accounts Receivable	Total 2000	Total 1999
Treasury	$ 24,034,784	$ 5,098,642	$ -	$ 29,133,426	$ 75,415,922
Agency for International Development	-	-	52,597	52,597	123,895
Other Government Agencies	-	-	40,888	40,888	5,832
Total	$ 24,034,784	$ 5,098,642	$ 93,485	$ 29,226,911	$ 75,545,649

Intra-governmental Liabilities:

Trading Partner Agency	Accrued Benefits	Accounts Payable	N/A	Total 2000	Total 1999
Covered by Budgetary Resources:					
Office of Personnel Management	$ 250,233	$ -	$ -	$ 250,233	$ 299,239
Total Covered by Budgetary Resources	$ 250,233	$ -	$ -	$ 250,233	$ 299,239
Not Covered by Budgetary Resources:					
Department of Justice	$ -	$ 464,981	$ -	$ 464,981	$ 26,628,753
Department of Labor	-	270,678	-	270,678	239,893
Treasury	-	470,352	-	470,352	630,676
Total Not Covered by Budgetary Resources	$ -	$ 1,206,011	$ -	$ 1,206,011	$ 27,499,322
Total Intra-governmental Liabilities	$ 250,233	$ 1,206,011	$ -	$ 1,456,244	$ 27,798,561

FEDERAL TRADE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ended September 30, 2000 and 1999

Earned Revenue:

Trading Partner	**2000**	**1999**
Department of Justice	$ 206,136	$ -
Equal Employment Opportunity Commission	2,518	-
U.S. Agency for International Development	301,814	514,572
Federal Communications Commission	66,056	-
Housing and Urban Development	-	6,562
Total Earned Revenue	$ 576,524	$ 521,134

Related Costs:

Budget Function Classification	**2000**	**1999**
Other Advancement of Commerce	$ 576,524	$ 521,134
Total Related Costs	$ 576,524	$ 521,134

FEDERAL TRADE COMMISSION
SUPPLEMENTAL INFORMATION
For the Years Ended September 30, 2000 and 1999

Intragovernmental Expenses:

Trading Partner	**2000**	**1999**
Government Printing Office	$ 772,920	$ 698,539
Department of Agriculture	20,991	18,955
Department of Commerce	6,335	2,451
Department of the Interior	692,322	689,176
Department of Justice	14,682	38,728
Department of Labor	27,146	37,347
United States Postal Service	168,930	320,922
Department of State	5,070	7,573
Department of the Treasury	3,545	(59,220)
Office of Personnel Management	18,660,457	17,817,310
Department of the Air Force	40,014	28,151
General Services Administration	12,275,291	11,559,075
Department of Transportation	25,702	-
Department of Health and Human Services	100,785	-
Office of Government Ethics	1,000	-
Total Intragovernmental Expenses	$ 32,815,190	$ 31,159,006

Mission		
Maintaining Competition	$ 16,308,993	$ 15,380,502
Consumer Protection	16,506,197	15,778,504
Total Intragovernmental Expenses	$ 32,815,190	$ 31,159,006