AR 04-057

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2003

OFFICE OF INSPECTOR GENERAL

FY 2003 FTC FINANCIAL STATEMENTS

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OFFICE OF
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Chairman Muris:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 2003 and 2002, 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, 2003 and 2002, 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 2003 and 2002 principal financial statements of the Commission taken as a whole. The information discussed below is presented for purposes of additional analysis and is not a required part of the principal financial statements.

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

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

Opinion on Internal Control

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

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

Reportable Conditions

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

We noted certain other matters involving the internal control over financial reporting that we have reported to the Commission's management in a separate letter (Management Letter AR 04-057A).

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

Washington, D.C.
January 15, 2004

Inspector General
Federal Trade Commission

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 Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Bulletin 01-09, *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. 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 2003 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, 2003 and 2002. Additional information for the year ended September 30, 2001 is also presented for financing sources on the next page. The FTC had total assets of $399.9 million and $237.4 million as of September 30, 2003 and 2002, respectively. Approximately $304.6 million and $155.9 million of the 2003 and 2002 assets, respectively, were funds collected or to be collected and distributed under the consumer redress program, under the agency's Consumer Protection mission. In addition, $41.2 million in fiscal year 2003 and $41.0 million in fiscal year 2002 is held in a divestiture fund and will be subsequently disbursed per the terms of the divestiture agreement under the agency's Maintaining Competition mission. Another $1.6 million in fiscal year 2003 and $1.7 million in fiscal year 2002 represent undisbursed Hart-Scott-Rodino (HSR) premerger fees to be transferred to the Department of Justice (DOJ) and the FTC in a future period. In addition, $52.5 million in fiscal year 2003 and $38.8 million in fiscal year 2002 in assets represent fund balances in appropriated accounts, account receivables, and net capital assets.

Revenue and financing sources received in fiscal years 2003 and 2002 totaled $184.4 and $160.9 million, respectively. Exchange revenue, classified as earned revenue on the financial statements, was received from three sources; the collection of premerger notification filing fees, Do-Not-Call (DNC) user fees, and reimbursements received for services from other government agencies. Financing sources were received through direct appropriations, appropriation transfers and imputed for costs absorbed by others.

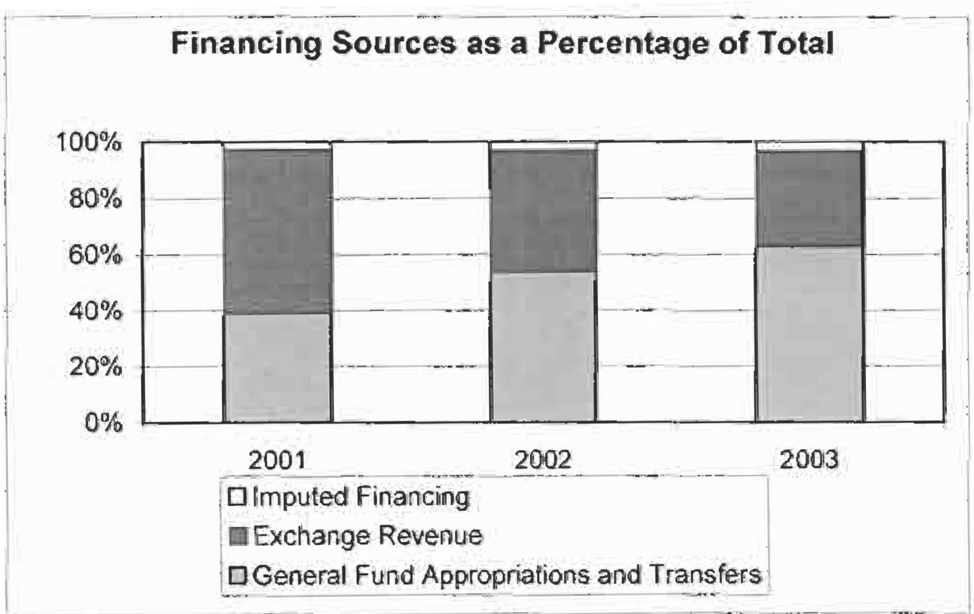
Exchange revenue was $62.4 million and $69.2 million for fiscal years 2003 and 2002, respectively. The primary source of exchange revenue collected, $56.0 million in fiscal year 2003 and $67.9 million in fiscal year 2002, was premerger filing fees. The FTC collects a filing fee from each business entity that files a *Notification and Report form* transaction, as required by the Hart-Scott-Rodino (HSR) Anti-Trust Improvement Act. Qualifying mergers with a transaction amount over $50 million in total assets are charged a filing fee. The fee is based on a three-tiered structure: $45,000, $125,000, and $280,000, depending upon the combined total of assets of the merger transaction. The fee is divided equally between the FTC and the Antitrust Division of the DOJ. The disposition of amounts collected for DOJ is reported on the Statements of Custodial Activity. Due to the combination of changing economic conditions and the restructure of the filing fee reporting threshold in fiscal year 2001, merger activity over the past 3 years has slowed. In fiscal year 2003, 968 reportable filings were received and processed, 174 less than in 2002. Earned revenue from HSR filing fees dropped $11.9 million from fiscal year 2002. As a percentage of total financing sources, HSR fees dropped from 42.2 percent of total revenue in fiscal year 2002 to 30.4 percent in fiscal year in 2003.

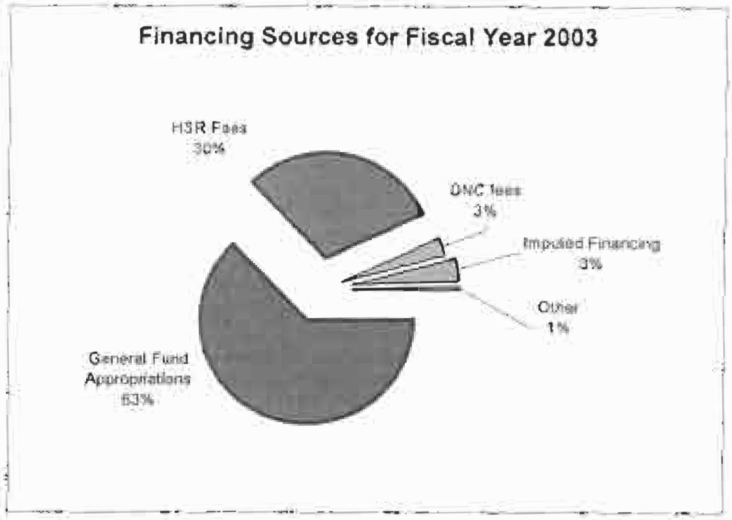
The second source of exchange revenue was Do-Not-Call fees. In September 2003 the FTC began collecting fees associated with the implementation and enforcement of the national Do-Not-Call registry. This registry operates under Section 5 of the FTC Act, which enforces the Telemarketing Sales Rule (TSR). Telemarketers under FTC's jurisdiction are required to pay a user fee and download from the DNC database a list of consumer's telephone numbers who do not wish to receive calls. Fees are based on the number of area codes downloaded. The fees range from $25 for one telephone call to $7,375 for all telephone calls within the United States. $5.2 million in fees were earned in fiscal year 2003, representing 2.9 percent of the total financing sources for the year.

The third source of exchange revenue was earned through reimbursable agreements with other federal agencies. Total earnings were $1.2 million and $1.3 million, representing 0.6 percent and 0.8 percent for fiscal years 2003 and 2002, respectively.

Financing sources were received from direct appropriations from the General Fund of the Treasury and transfers in the amount of $115.6 million in fiscal year 2003 and $86.6 million in fiscal year 2002. The budgetary authority appropriated from the General Fund was reduced by the amount of offsetting collections (HSR and DNC fees) received during the year to arrive at the final amount of resources appropriated from the General Fund, In fiscal years 2003, and 2002 the amount of direct appropriations and transfers that were recorded as a net financing source was 62.7 percent and 53.8 percent of total funding sources received.

Another financing source included an imputed revenue source to cover unfunded employee benefits in the amount of $6.4 million for fiscal year 2003, and $5.1 million in fiscal year 2002. This represented 3.4 percent and 3.2 percent of total financing sources for fiscal years 2003 and 2002, respectively. Financing sources not needed to fund the gross cost of operations are added to Cumulative Results of Operations and Net Position. The accompanying chart details the percentages of these various financing sources for the past three years and a detail of the funding sources for fiscal year 2003.





The gross cost of operations during the 2003 fiscal year was approximately $174.7 million, an 8.8 percent increase over fiscal year 2002. During 2003, expenses for salaries and related benefits totaled $114.3 million, or 65.4 percent of the gross cost of operations. Lease space rental amounted to $16.8 million, or 9.6 percent, and the remaining $43.6 million, or 25.0 percent, included travel, facility maintenance and equipment rental, utilities, imputed benefit costs, depreciation, future funded expenses, and other items. This supported 1,051 staff-years which were employed in fulfilling the FTC's mission. In fiscal year 2003, the net cost of operations was $112.3 million, compared to $91.5 million for 2002.

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 the Interior's National Business Center in Denver, Colorado. FTC has controls in place to ensure the integrity of both payment and payroll processing.

Custodial Activity

Fighting consumer fraud is one of the FTC'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 FTC files actions in federal district court to bring an immediate halt to ongoing business activities and freeze defendants' assets. The FTC 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 FTC seeks federal district court orders permanently barring future violations and requiring payment of civil penalties. These agency enforcement activities generate substantial amounts of non-exchange revenue; a Statement of Custodial Activity (SCA) forms part of the FTC's financial statement package.

The SCA is a required financial statement under *Statement of Federal Financial Accounting Concepts (SFFAC) No. 2* for those federal agencies that collect non-exchange revenues (e.g., taxes, duties, fines, and penalties) for the general fund of the Treasury, a trust fund, or other recipient entities.

In addition to the fines and penalties collected and transferred to the general fund of the Treasury, DOJ receives, as offsetting revenue, one-half of the Hart-Scott-Rodino premerger filing fees collected during the year.

Strategic and Performance Information

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

Programs, Operations, and Financial Performance Overview

Consumer Protection Mission

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

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

The FTC measures performance in this objective by determining the number of consumer complaints and inquiries that are added annually to its Consumer Information System database. The complaints in this database are used to identify problem areas as reported by the public. This enables the agency to detect and respond rapidly to fraud, deception, and other illegal practices, resulting in effective targeting of the agency's law enforcement resources. The continuous input of new complaints into the database helps the FTC and its enforcement partners determine where and how the latest incidents of fraud may be occurring. The target for fiscal year 2003 was to add at least 450,000 entries into the database. At the end of the fiscal year, 944,000 entries had been added, including 321,000 relating to identity theft, 166,000 over the target of 155,000.

The FTC also shares complaints about fraud and deception relating to telemarketing, direct mail, and the Internet with its law enforcement partners through Consumer Sentinel, a secure Web site that provides access to nearly 1.4 million fraud and identity theft complaints. Consumer Sentinel is accessed by more than 835 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. The number of law enforcement partners grew by nearly 300 during fiscal year 2003, and the FTC will continue to expand Consumer Sentinel's reach in the law enforcement community.

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

The FTC measures the effectiveness of its law enforcement efforts to stop fraud by estimating the amount of money it has saved consumers based on the annual fraudulent sales of defendants. Saving consumers money is the ultimate goal of these efforts. Consumers save money each time a fraudulent operator is stopped by successful litigation or settlement with the agency. Savings to consumers are increased when the agency leads joint law enforcement initiatives with federal, state, and international partners. The target for fiscal year 2003 was to save consumers $400 million. The year ended with savings to consumers of approximately $606.3 million, exceeding the target by 52 percent.

In fiscal year 2003, the FTC established two new performance measures under this objective – to report the number of data searches by FTC and other law enforcement personnel of the FTC's Consumer Sentinel complaints and the number of data searches by law enforcement personnel of the FTC's identity theft complaints. The actual number of Consumer Sentinel searches was 27,675 (exceeding our goal of 20,000 by 38 percent.) The actual number of identity theft searches by law enforcement personnel was 2,167 (exceeding our goal of 1,400 by 55 percent.) These new measures will be used, along with the identity theft survey results, to refine our enforcement and education efforts relating to identity theft. The FTC, along with the Secret Service and Department of Justice, initiated a training program in March 2002 to provide local and state law enforcement officers with practical tools to enhance our combined efforts to combat identity theft, including information about accessing Consumer Sentinel data. Through September 2003, the FTC and our partners held 9 seminars and trained more than 1,000 persons from more than 165 agencies. Additional training is planned and likely will result in increased use of the Consumer Sentinel system.

Objective 3: Prevent consumer injury through education.

Consumer and business education represents the first line of defense against fraud, deception, and unfair practices. Most 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 FTC makes maximum use of the national media and outreach to lead more consumers to the FTC's Web site (www.ftc.gov) and the "one-stop" government Web site for consumer information (www.consumer.gov). Messages also reach the public through the Consumer Response Center (at 1-800-FTC-HELP), and hundreds of partners who distribute FTC materials, link to the Web site, or post the FTC's messages on their Web sites. The goal in fiscal year 2003 was to reach an audience of at least 14 million with FTC education publications. At year end, 28 million publications had been distributed, double our goal. The large number of consumers accessing Do Not Call Registry information on our Web site contributed to this dramatic increase in distribution. For the fourth consecutive year, more publications were distributed online (22.6 million) than in print (5.3 million). Of the 28 million publications distributed, 458,000 were in Spanish. The goal for 2003 was to distribute 2.5 million identity theft publications; we exceed our goal by distributing 3 million publications.

To reach the expanding population of Hispanic consumers in the U.S., the FTC instituted a Hispanic Outreach Program in 2002. This effort includes the creation of a dedicated Spanish-language page on the FTC Web site to mirror the English-language page and translation of more than 60 consumer publications. The program also includes significant media outreach, with FTC staff speaking about important consumer protection issues on major Spanish-language networks' news shows and the FTC disseminating public service announcements to the Spanish-language media.

Maintaining Competition

The increasingly worldwide scope of antitrust enforcement and the proliferation of differing regulatory mechanisms governing mergers can impose significant costs on companies, and ultimately, on consumers. Thus, the FTC and the Department of Justice are involved in several formal and informal efforts to increase and improve bilateral and multilateral cooperation in antitrust enforcement.

In addition, the growing significance of technology and intellectual property typifies the evolutionary nature of the economy, to which the FTC must continuously adapt. Moreover, industrial organization economics, which underpins antitrust law and policy, also continuously requires new learning. Thus, a key part of the FTC's ongoing responsibilities is to ensure that it remains at the leading edge of knowledge of both economic theory and the real-world developments in the economy. The agency does so in a variety of ways, including sponsorship of workshops, conferences, and hearings, and conducting its own research.

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 by (1) identifying mergers and business practices that harm consumers by restricting competition, (2) using its law enforcement powers to stop anticompetitive mergers and business practices, and (3) working to increase knowledge and understanding of the antitrust laws and the benefits of competition among consumers, the business community, and other government officials. These three endeavors represent the FTC's objectives under its Maintaining Competition Mission.

During most of the last decade, unprecedented levels of merger activity in the marketplace dominated the FTC's Maintaining Competition agenda, with the number, size, and scope of proposed mergers increasing year after year. While the level of merger activity is down considerably from its peak in 2000, the current level volume of merger transactions remains significant by historic standards. Moreover, evidence suggests a continuing long term trend toward larger and more complex merger transactions, which typically require broader and more time consuming antitrust review than is necessary for smaller transactions.

During FY 2003, the FTC continued its recent emphasis on the nonmerger portion of its Maintaining Competition Mission, begun in 2001 as the merger wave started to ebb. In addition, the agency has focused attention to the educational aspect of the Maintaining Competition Mission, a key responsibility since the FTC's inception.

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

The FTC uses premerger notification reports required under the Hart-Scott-Rodino (HSR) Act as its primary means for identifying potentially anticompetitive mergers. Over the past two years, a less active economy and revised HSR filing thresholds have kept the number of transactions reported to the antitrust agencies at moderate levels. The modified reporting thresholds did not alter the standard of legality for mergers under Section 7 of the Clayton Act, however, so the FTC has increased efforts to identify mergers not reported under HSR, that might harm competition. These efforts have included monitoring trade press and Internet resources, as well as following up on information from Congressional offices, other Executive Branch agencies, state and local governments, consumers, businesses, and the antitrust bar about possibly anti-competitive mergers. The FTC uses similar means to identify business practices that may harm consumers.

The FTC determined its success in identifying anticompetitive mergers and business practices by measuring (1) the percentage of significant merger investigations (defined by the issuance of a formal request for additional information (a "second request") from the parties under the HSR Act) that result in enforcement action, and (2) the number of new nonmerger investigations opened.

The agency seeks to balance its available resources and the need for careful review of all potentially anticompetitive merger transactions, so that between 60 percent and 80 percent of HSR requests for additional information result in enforcement action. A percentage below 60 percent may suggest that the FTC is targeting enforcement resources ineffectively and unduly burdening businesses by investigating too many competitively benign transactions, while a percentage higher than 80 percent could suggest that the agency may be allowing anticompetitive mergers to go forward by focusing its review too narrowly. In 2003, the percentage of completed second request investigations resulting in enforcement action was 70 percent, exactly at the midpoint of the targeted range of 60 to 80 percent.

The Mission determined its success in identifying anticompetitive business practices by counting the number of nonmerger investigations opened during the year, with a goal of 45 to 70 new investigations. This figure fluctuates based on the demands of the agency's merger caseload, which is subject to statutory time constraints, and the status of investigations already underway at the beginning of the year. In 2003, the Maintaining Competition Mission opened 50 new nonmerger investigations. This figure, representing a modest decline from the 59 nonmerger investigations opened in 2002, reflects the greater proportion of resources devoted to litigating significant nonmerger matters identified and developed during the past two years.

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

The FTC employs its law enforcement authority to stop anticompetitive mergers and practices both directly and indirectly. Through federal court or administrative litigation or by negotiated settlement, the agency saves consumers millions of dollars annually by preventing harmful mergers from taking place, by arranging for restructuring of transactions to eliminate anticompetitive effects, or by stopping unlawful business practices. In addition to these direct actions, an effective FTC enforcement presence indirectly serves its objective by demonstrating to the business and legal communities that the agency can and will take successful legal action to stop anticompetitive transactions and practices.

In 2003, the FTC undertook 44 antitrust enforcement actions, almost equally divided between merger (21) and nonmerger matters (23). This total represents an increase of 33 percent over the 33 enforcement actions in 2002, and an increase of 63 percent over the 27 enforcement actions in 2001. In the merger area, the FTC authorized the staff to seek preliminary injunctions in three matters, issued one administrative complaint, and accepted seven consent agreements for comment. In addition, merger parties abandoned ten merger transactions in the face of likely FTC action. The FTC issued seven nonmerger administrative complaints and accepted 16 nonmerger consent agreements for comment.

The FTC determined its success in stopping anticompetitive mergers and practices in 2003 by measuring (1) the percentage of positive outcomes obtained in antitrust enforcement actions, (2) the estimated savings to consumers resulting from FTC merger enforcement actions, and (3) the estimated savings to consumers resulting from FTC nonmerger enforcement actions.[1]

A "positive outcome" for an enforcement action includes abandonment of an anticompetitive transaction following an FTC challenge, a consent agreement to resolve antitrust concerns, or a successful result in court after all proceedings, including appeals, have concluded. 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 its goal of positive outcomes in 80 percent of its enforcement actions, achieving a positive result in all 37 of the enforcement actions it concluded during the year.

As part of its 2000 - 2005 Strategic Plan, the FTC set a goal of $4 billion in consumer savings from merger enforcement over the five-year period. The reason for using an aggregate figure for the period rather than yearly goals was that external factors cause significant fluctuations in merger activity. Because this measure is being discontinued before the end of the five year period covered under the previous Strategic Plan, the FTC has revised the goal proportionately to $2.4 billion over the three year period 2001-2003. During those years, the estimated consumer savings from FTC merger enforcement was about $3.495 billion, exceeding the target by over 45 percent.

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[1] The FTC has adopted revised measures to replace two of these measures, beginning in 2004.

The FTC also set a goal of $1 billion in consumer savings from nor
enforcement over the same 5-year strategic plan period, and similarly
proportionately to $600 million over three years. Over the three
agency's nonmerger enforcement resulted in approximately $606 m
the target. Moreover, the combined three-year merger and nonm
savings exceeded $4.1 billion, a figure 37 percent higher than the con
billion for the period.

Objective 3: Prevent consumer injury through education.

The Commission increases awareness of antitrust law and policy
compliance with the antitrust laws by educating the public about i
communicating its enforcement intentions. The agency's methods
public include development and publication of antitrust guidelir
statements; press releases and public dissemination of document
formal actions; well-publicized testimony, speeches and publications

The FTC determined its success in educating the public about antitrus
by measuring 1) the number of initiatives (including speeches, test
policy statements, etc.) undertaken to educate the public during the y
extent to which members of the public visited antitrust related conte
Web site.

In 2003, agency representatives undertook 306 antitrust outreach e
speeches, testimony, written comments on regulatory proposals, pol
etc. This figure represents more than twice the number reported for 2C
percent more than the number reported for 2002. Although improvem
methodology likely accounted for some of the gain, the result still sho
expansion in the FTC's public outreach efforts during 2003.

The FTC's Web site recorded more than 10 million hits on antitrust-re
2003, a significant increase from 4.3 million hits in 2002 and 2.6 milli
This measure is significant in that it represents initiative taken by the
out FTC information, rather than merely reflecting agency activities.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2003 and 2002

	2003	2002
Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 40,899,989	$ 29,599,234
Accounts Receivable, Net (Note 4)	231,303	154,688
Total Intragovernmental Assets	41,131,292	29,753,922
Advances and Prepayments	8,397	6,816
Property, Plant, and Equipment, Net (Note 5)	9,137,713	7,208,183
Total Entity Assets	50,277,402	36,968,921
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	6,355,106	3,328,634
Cash and Other Monetary Assets (Note 3)	101,390,757	102,250,342
Accounts Receivable, Net (Note 4)	241,895,259	94,830,347
Total Non-Entity Assets	349,641,122	200,409,323
Total Assets	$ 399,918,524	$ 237,378,244

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2003 and 2002

	2003	2002
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	$ 463,044	$ 436,839
Accounts Payable	1,605,130	2,467,457
Total Intragovernmental Liabilities	2,068,174	2,904,296
With the Public		
Accounts Payable	7,725,519	3,944,604
Accrued Salaries	2,726,784	2,112,010
Total Liabilities Covered by Budgetary Resources	12,520,477	8,960,910
Liabilities Not Covered by Budgetary Resources (Note 6):		
Intragovernmental Liabilities:		
Undisbursed Premerger Filing Fees	1,600,110	1,683,147
Other Liabilities	2,538,063	2,190,737
Total Intragovernmental Liabilities	4,138,173	3,873,884
Actuarial FECA Liabilities	2,088,920	2,329,046
Accrued Annual Leave	7,182,788	6,666,408
With the Public	345,936,012	196,917,176
Total Liabilities Not Covered by Budgetary Resources	359,345,893	209,786,514
Total Liabilities	371,866,370	218,747,424
Net Position: (Note 7)		
Balances:		
Unexpended Appropriations	142,475	350,000
Cumulative Results of Operations	27,909,679	18,280,820
Total Net Position	28,052,154	18,630,820
Total Liabilities and Net Position	$ 399,918,524	$ 237,378,244

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF NET COST
For the Years Ended September 30, 2003 and 2002

	2003	2002
Program Costs		
Maintaining Competition Mission:		
Intragovernmental gross costs	$ 20,442,515	$ 20,148,026
Less: Intragovernmental earned revenue	(1,158,929)	(1,258,756)
Intragovernmental net costs	19,283,586	18,889,270
Gross costs with the public	61,687,915	57,462,886
Less: Earned revenue with the public (Note 12)	(56,015,066)	(67,945,000)
Net costs with the public	5,672,849	(10,482,114)
Net Cost Maintaining Competition Mission	24,956,435	8,407,156
Consumer Protection Mission:		
Intragovernmental	23,052,197	20,545,531
Gross costs with the public	69,562,968	62,501,386
Less: Earned revenue with the public (Note 12)	(5,238,950)	-
Net costs with the public	64,324,018	62,501,386
Net Cost of Consumer Protection Mission	87,376,215	83,046,917
Net Cost of Operations	$ 112,332,650	$ 91,454,073

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, 2003 and 2002

	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 18,280,820	$ 350,000	$ 18,421,669	$ -
Budgetary Financing Sources:				
Appropriations Received	-	115,298,557	-	86,203,217
Appropriations Transferred-In/Out	-	110,000	-	350,000
Appropriations Used	115,616,082	(115,616,082)	86,203,217	(86,203,217)
Other Financing Sources:				
Imputed Financing (Note 9)	6,345,427	-	5,110,007	-
Total Financing Sources	121,961,509	(207,525)	91,313,224	350,000
Net Cost of Operations	(112,332,650)	-	(91,454,073)	-
Ending Balances	$ 27,909,679	$ 142,475	$ 18,280,820	$ 350,000

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2003 and 2002

	2003	2002
Budgetary Resources:		
Budget authority		
Appropriation	$ 115,298,557	$ 86,203,217
Net Transfers	110,000	350,000
Unobligated Balance:		
Beginning of Period	7,813,356	6,619,335
Spending Authority from Offsetting Collections		
Earned		
Collected	62,336,330	69,227,799
Receivable from Federal Sources	76,615	(24,042)
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	(362,337)	238,124
Recoveries of Prior Year Obligation	624,466	2,230,632
Total Budgetary Resources	$ 185,896,987	$ 164,845,065
Status of Budgetary Resources:		
Obligations incurred		
Direct	106,257,322	87,580,125
Reimbursable	70,997,645	69,451,584
Subtotal	177,254,967	157,031,709
Unobligated Balance		
Available	444,323	447,126
Not Available	8,197,697	7,366,230
Total Status of Budgetary Resources	$ 185,896,987	$ 164,845,065
Summary of Obligations and Outlays		
Obligated balance net beginning of period	21,785,878	29,152,405
Obligated balance net end of period:		
Accounts receivable	(239,700)	(161,504)
Unfilled customer orders from federal sources	(15,033)	(377,370)
Undelivered orders	19,992,225	13,363,842
Accounts payable	12,520,477	8,960,910
Total obligated balance net end of period	32,257,969	21,785,878
Outlays:		
Disbursements	166,444,133	161,953,522
Collections	(62,336,330)	(69,227,799)
Net Outlays	$ 104,107,803	$ 92,725,723

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the Years Ended September 30, 2003 and 2002

	2003	2002
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 177,254,967	$ 157,031,709
Less: Spending authority from offsetting collections and recoveries	(62,675,074)	(71,672,513)
Obligations net of offsetting collections and recoveries	114,579,893	85,359,196
Other Resources		
Imputed financing from costs absorbed by others	6,345,427	5,110,007
Total Resources Used to Finance Activities	120,925,320	90,469,203
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	(6,990,720)	4,546,738
Resources that finance the acquistion of assets	(4,217,234)	(5,199,034)
Total resources used to finance items not part of the net cost of operations	(11,207,954)	(652,296)
Total Resources Used to Finance the Net Cost of Operations	109,717,366	89,816,907
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	516,380	427,417
(Decrease) increase in FECA liability	(188,801)	491,997
Total components of the net cost of operations that will not require or generate resources in the current period	327,579	919,414
Components not requiring or generating resources:		
Depreciation and amortization	1,419,952	717,752
Change in accounting estimates (Note 15)	758,403	-
Loss on disposition of asset	109,350	-
Total Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	2,615,284	1,637,166
Net Cost of Operations	$ 112,332,650	$ 91,454,073

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2003 and 2002

(Refer to Note 11)

	MC Mission	CP Mission	2003 Total	2002 Total
Sources of Collections:				
Cash Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 57,600,060	$ -	$ 57,600,060	$ 67,945,000
Civil Penalties and Fines (b)	6,828,800	1,677,463	8,506,263	1,258,769
Redress (c)	-	101,768,298	101,768,298	42,712,886
Divestiture Fund (d)	216,366	-	216,366	382,464
Funeral Rule Violations	-	12,107	12,107	206,045
Net Collections	64,645,226	103,457,868	168,103,094	112,505,164
Accrual Adjustments (e)	-	147,064,912	147,064,912	58,974,471
Total Non-exchange Revenues	$ 64,645,226	$ 250,522,780	$ 315,168,006	$ 171,479,635
Disposition of Revenue Collected:				
Amounts Transferred to:				
Treasury General Fund	6,828,800	15,744,050	22,572,850	8,270,286
Department of Justice	57,683,147	-	57,683,147	72,183,085
Receivers (f)	-	112,362	112,362	162,955
Redress to Claimants (g)	-	69,565,545	69,565,545	17,293,247
Contractor Fees Net of Interest Earned (h)	-	4,931,514	4,931,514	1,527,926
Attorney Fees (h)	-	11,070,840	11,070,840	-
Net Disbursements	64,511,947	101,424,311	165,936,258	99,437,499
Change in Liability Accounts (i)	133,279	149,098,469	149,231,748	72,042,136
Total Disposition of Revenues Collected	$ 64,645,226	$ 250,522,780	$ 315,168,006	$ 171,479,635
Net Custodial Collections	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements

FEDERAL TRADE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
As of September 30, 2003 and 2002

Intragovernmental Assets:

Trading Partner Agency:	Fund Balance with Treasury Entity	Fund Balance with Treasury Non-Entity	Accounts Receivable	Total 2003	Total 2002
Treasury	$ 40,899,989	$ 6,355,106	$ -	$ 47,255,095	$ 32,927,868
Agency for International Development	-	-	85,603	85,603	142,544
Other Government Agencies	-	-	145,700	145,700	12,144
Total Intragovernmental Assets	$ 40,899,989	$ 6,355,106	$ 231,303	$ 47,486,398	$ 33,082,556

Intragovernmental Liabilities:

Trading Partner Agency:	Accrued Benefits	Accounts Payable	NA	Total 2003	Total 2002
Covered by Budgetary Resources:					
Department of Commerce	$ -	$ 2,253	$ -	$ 2,253	$ -
Department of Agriculture	-	-	-	-	138,576
U.S. Postal Inspection Service	-	7,568	-	7,568	-
Department of Health and Human Services	-	-	-	-	131,850
Department of Justice	-	6,172	-	6,172	32,500
Government Printing Office	-	-	-	-	36,286
General Services Administration	-	1,410,629	-	1,410,629	2,119,211
Office of Personnel Management	343,167	-	-	343,167	442,589
National Archives and Records Administration	-	-	-	-	3,284
Department of Treasury	119,877	178,508	-	298,385	-
Total Covered by Budgetary Resources	$ 463,044	$ 1,605,130	$ -	$ 2,068,174	$ 2,904,296
Not Covered by Budgetary Resources:					
Department of Justice (1)	$ -	$ 1,600,110	$ -	$ 1,600,110	$ 1,683,147
Department of Labor	-	433,063	-	433,063	381,737
Department of Treasury	-	2,105,000	-	2,105,000	1,809,000
Total Not Covered by Budgetary Resources	$ -	$ 4,138,173	$ -	$ 4,138,173	$ 3,873,884

(1) Figure includes amounts due to DOJ and FTC.

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2003 and 2002

Exchange Revenue from Reimbursable Agreements

Trading Partner:	**2003**	**2002**
Department of Justice	$ 502,658	$ 577,816
U.S. Agency for International Development	562,972	600,306
Department of Commerce	3,259	-
Federal Mine Safety & Health Review Commission	51,822	-
Medicare Payment Advisory Commission/GSA	24,747	-
U.S. Environmental Protection Agency	1,364	-
U.S. Patent and Trademark Office	1,813	-
U.S. Postal Inspection Service	7,568	-
U.S. Trade and Development Agency	2,726	-
Consumer Product Safety Commission	-	2,474
Commodity Futures Trading Commission	-	738
Federal Deposit Insurance Corporation	-	738
National Credit Union Administration	-	738
Office of the Comptroller of the Currency	-	738
Office of Thrift Supervision	-	738
Securities Exchange Commission	-	738
Federal Reserve Board	-	775
New York State	-	10,912
University of Rochester	-	62,045
Total Exchange Revenue from Reimbursable Agreements	$ 1,158,929	$ 1,258,756

Related Costs:

Budget Function Classification:	**2003**	**2002**
Other Advancement of Commerce	$ 1,158,929	$ 1,258,756
Total Related Costs	$ 1,158,929	$ 1,258,756

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2003 and 2002

Intragovernmental Expenses:

Trading Partner:	2003	2002
Office of Personnel Management	$ 18,479,004	$ 17,009,230
General Services Administration	17,121,495	16,443,252
Social Security Administration	4,858,089	4,560,260
Government Printing Office	853,508	229,815
Department of the Interior	769,868	752,163
Department of Transportation	755,003	552,579
United States Postal Service	293,688	246,332
Department of the Treasury	185,923	(8,167)
Department of Labor	183,461	192,795
Department of Justice	30,518	192,867
Department of State	27,614	72,761
Library of Congress	24,525	34,686
Department of Commerce	4,650	779
Veterans Administration	338	-
Department of Agriculture	-	138,576
Equal Employment Opportunity	-	729
Office of Government Ethics	-	-
National Archives and Records Administration	(6,268)	3,284
Department of Health and Human Services	(86,704)	271,616
Total Intragovernmental Expenses	$ 43,494,712	$ 40,693,557

Mission:		
Maintaining Competition	$ 20,442,515	$ 20,148,026
Consumer Protection	23,052,197	20,545,531
Total Intragovernmental Expenses	$ 43,494,712	$ 40,693,557

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

Deposit Funds These funds consist of monies held temporarily by FTC as an agent for others.

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.

Miscellaneous Receipt Accounts The FTC collects civil penalties and other miscellaneous receipts which by law are not retained by the FTC. The U.S. Department of the Treasury automatically transfers all cash balances in these receipt accounts 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 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 expense 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 and for 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 receivables 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 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 three to fifteen 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 which 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 the amount of fees collected under the Hart-Scott-Rodino Act which are to be distributed to either the FTC or the Department of Justice (DOJ) 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 paid 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. 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 2003 and 2002, the cost factors relating to FEHBP were $3,766 and $3,473, respectively, per employee enrolled. During fiscal years 2003 and 2002, 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 the CSRS. Approximately 29 percent of FTC employees participate in the CSRS. For employees participating in CSRS, the FTC contributes 8.5 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 8 percent of earnings for 2003, 7 percent for 2002, to TSP, but do not receive a matching contribution from the FTC. FERS participating employees may contribute up to 13 percent and 12 percent of earnings for the years 2003 and 2002, 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 FTC contributes a portion for pension benefits and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee's retirement benefits, or the retirement plan assets. Therefore, the FTC financial statements do not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

However, the FTC recognizes the full cost of providing future pension benefits to covered employees at the time the employee's 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 25.0 percent of basic pay for CSRS covered employees and 12.0 percent of basic pay for FERS covered employees during fiscal years 2003 and 2002. 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 (HSR) Antitrust Improvement Act of 1976. 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. The FTC retains one-half of the HSR pre-merger filing fees collected. 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 DOJ. The filing fees are based on the transaction amount of the merger and follow a three-tiered structure: $45,000, $125,000, and $280,000. Transaction amounts over $50 million require the acquiring party to pay a filing fee.

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 who are under FTC's jurisdiction are required to pay user fees and download the list of consumer telephone numbers on the national registry. Fees collected are deposited and credited as offsetting collections to the agency's salaries and expense account and are available until expended. Transaction amounts range from $25 to $7,375.

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. Amounts are earned at the time the expenditures are incurred against the reimbursable order. 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 2003 and 2002, the FTC received a financing source in the form of a direct appropriation which represented approximately 63 percent and 54 percent of total revenues and financing sources realized and which funded approximately 66 percent and 54 percent of gross operating expenses, respectively.

(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.

NOTE 2 -- FUND BALANCES WITH TREASURY

Fund balances with Treasury consisted of the following at September 30, 2003 and 2002:

	Obligated	Unobligated Available	Unobligated Not available	2003 Total	2002 Total
General Funds	$ 32,257,969	$ 444,323	$ 8,197,697	$ 40,899,989	$ 29,599,234
Suspense Funds:					
Undisbursed Pre-merger Filing Fees	-	-	-	1,600,110	1,683,147
Deposit Funds - Redress	-	-	-	4,754,996	1,645,487
Total	$ 32,257,969	$ 444,323	$ 8,197,697	$ 47,255,095	$ 32,927,868

The obligated balance includes accounts payable and undelivered orders which 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 deposits in transit for pre-merger filing fees, redress judgment amounts on deposit with FTC's distribution agents, and divestiture fund deposits. A corresponding liability is recorded for these assets.

Cash and other monetary assets consisted of the following as of September 30, 2003 and 2002:

	2003	2002
Non-entity:		
Redress contractors	60,199,120	61,275,071
Divestiture Fund (See Note 11(d))	41,191,637	40,975,271
Total Non-entity	$ 101,390,757	$ 102,250,342

NOTE 4 -- ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of September 30, 2003 and 2002:

	Currently Due	Allowance	2003 Net	2002 Net
Entity Assets:				
Intragovernmental-Accounts Receivable	$ 231,303	$ -	$ 231,303	$ 154,688
Non-Entity Assets:				
Consumer Redress	$ 395,894,056	$ 156,216,159	$ 239,677,897	$ 90,851,786
Due from Receivers	112,362	-	112,362	2,169,561
Civil Penalties	2,105,000	-	2,105,000	1,809,000
Total Non-Entity Assets	$ 398,111,418	$ 156,216,159	$ 241,895,259	$ 94,830,347

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, 2003 and 2002:

Asset Class	Service Life	Acquisition Value	Accumulated Depreciation	2003 Net Book Value	2002 Net Book Value
Equipment & Furniture	5-10 Yrs	$ 5,035,383	$ 1,705,815	$ 3,329,568	$ 2,353,465
Leasehold Improvements	10-15 Yrs	3,533,952	418,455	3,115,497	2,720,305
Software	3 years	2,247,228	843,414	1,403,814	2,134,413
Software-in-Development		1,288,834	-	1,288,834	-
Total		$ 12,105,397	$ 2,967,684	$ 9,137,713	$ 7,208,183

Property and equipment are depreciated using the straight-line method. Depreciation expense was $1,419,952 and $717,752 for fiscal years ending September 30, 2003 and 2002, respectively. *See Note 15 – Change in Accounting Estimates* for additional information regarding reclassification of assets during the year.

NOTE 6 -- LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources consisted of the following as of September 30, 2003 and 2002:

(a) Intragovernmental and With the Public

	2003	2002
Intragovernmental		
Other Liabilities:		
Civil Penalty Collections Due	$ 2,105,000	$ 1,809,000
Accrued FECA Claims	433,063	381,737
Total	$ 2,538,063	$ 2,190,737
With the Public		
Undisbursed Redress	$ 64,954,116	$ 62,920,558
Divestiture Fund Due	41,191,637	40,975,271
Redress Net Collections Due	239,677,897	90,851,786
Receiver Distributions Due	112,362	2,169,561
Total	$ 345,936,012	$ 196,917,176

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 will be transferred to the general fund of the Treasury upon receipt. Accrued FECA Claims consists of workers compensation claims payable to the Department of Labor (DOL) which will be funded in a future period.

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

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

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

Receiver Distributions Due represents the liability not covered by budgetary resources for funds sent to receivers for distribution to consumers. A corresponding receivable, Due from Receivers, is recorded.

Other consists primarily of deposits in transit and undisbursed cash in the suspense liability account for 2003 and 2002.

NOTE 7 -- NET POSITION

Net position consisted of the following as of September 30, 2003 and 2002:

	2003	2002
Unexpended Appropriations:		
Unobligated - Available	$ 113,289	$ 350,000
Undelivered Orders	29,186	-
Total Unexpended Appropriations	142,475	350,000
Cumulative Results of Operations:		
Invested Capital	9,137,713	7,208,183
Retained Fees:		
Unobligated	8,528,731	7,463,356
Undelivered Orders	19,948,006	12,986,472
Future Funding Requirements	(9,704,771)	(9,377,191)
Total Cumulative Results of Operations	27,909,679	18,280,820
Total Net Position	$ 28,052,154	$ 18,630,820

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Commitments The FTC is committed under obligations for goods and services which have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders were $19,977,192 and $12,986,472 as of September 30, 2003 and 2002, 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. According to the agency's General Counsel, the circumstances underlying the DOJ case vary significantly from the circumstances for attorneys and other FLSA-exempt employees at the FTC, and that 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 567,481 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 11 government-owned properties and 9 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, 2003 and 2002 were approximately $16.8 million and $13.9, respectively. This amount is net of a GSA credit of approximately $1.9 million for each of the fiscal years 2003 and 2002, relating to the main headquarters building.

Note 8 - Commitments and Contingencies (continued)

Future minimum lease payments due under leases of government-owned property as of September 30, 2003 are as follows:

Fiscal Year	
2004	$ 5,603,573
2005	13,941
Total future minimum lease payments	$ 5,617,514

Future minimum lease payments under leases of commercial property due as of September 30, 2003 are as follows:

Fiscal Year	
2004	$ 11,129,962
2005	11,061,769
2006	10,777,581
2007	10,957,571
2008	11,304,466
Thereafter	11,507,507
Total future minimum lease payments	$ 66,738,856

NOTE 9 -- IMPUTED FINANCING

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

	2003	2002
FEHB	$ 3,439,300	$ 3,063,186
FEGLI	12,663	11,624
Pension benefits	2,893,464	2,035,197
Total imputed costs	$ 6,345,427	$ 5,110,007

NOTE 10 -- PENSION EXPENSE

Pension expenses in 2003 and 2002 consisted of the following:

	Employer Contributions	Accumulated Imputed Costs	2003 Total Pension Expense	2002 Total Pension Expense
Civil Service Retirement System	$ 1,941,505	$ 2,756,362	$ 4,697,867	$ 4,441,304
Federal Employee's Retirement System	6,633,669	137,102	6,770,771	5,873,658
Thrift Savings Plan	2,760,583	-	2,760,583	2,646,959
Total	$ 11,335,757	$ 2,893,464	$ 14,229,221	$ 12,961,921

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 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 2003 and 2002, respectively, FTC collected $113,427,612 and $135,890,000 in HSR fees. Total collections in the amount of $57,600,060 were retained for distribution, of which $56,000,000 was transferred to DOJ in 2003 and $67,945,000 in 2002. As of September 30, 2003 the undistributed collections remaining in the amount of $1,600,110 represent amounts to be transferred to DOJ and FTC 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 three percent of amounts collected before remitting them to the agency. The agency then deposits these collections into the U.S. Treasury. Civil penalties collected also include amounts collected for undecided civil penalty cases held in suspense until final disposition of the case.

Note 11 - Custodial Activities (continued)

(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 $101,768,298 and $42,712,886 during fiscal years 2003 and 2002, respectively.

The sources of these collections are as follows:

Source	2003	2002
Contractors	$ 71,428,456	$ 35,839,218
Receivers	6,290,819	1,115,119
FTC	24,049,023	5,758,549
Total	$ 101,768,298	$ 42,712,886

(d) Divestiture Fund

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

(e) Accrual Adjustments

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

(f) Receivers

This amount represents the funds forwarded to receivers during the year for distribution

Note 11 - Custodial Activities (continued)

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 FTC, one of its contracted agents, the court appointed receiver, or by the defendant. In fiscal year 2003 a total of $69,565,545 was distributed to consumers: $63,274,726 was paid by FTC and its contracted agents, and $6,290,819 was paid by receivers. In fiscal year 2002, a total of $17,293,247 was distributed to consumers: $16,178,128 was paid by the FTC and its contracted agents, and $1,115,119 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 $5,285,789 and $2,280,653 during the years ended September 30, 2003 and 2002, respectively. Interest earned was $354,275 and $752,727 during fiscal years 2003 and 2002, respectively, with the difference of $4,931,514 and $1,527,926 representing net expense.

Attorney fees were $11,070,840, related to one class action case, and zero during fiscal years 2003 and 2002, respectively.

(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 2003 and 2002, the agency obtained and reported in

Note 11 - Custodial Activities (continued)

Exhibit A monetary redress judgments against defendants totaling $379.8 million and $155.5 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 three such cases in fiscal year 2003 in which the FTC obtained a judgment. In most of these cases, the judgment has ordered redress in the form of refunds or credits. In addition there was one case in which the defendants were ordered to forgive an estimated amount of $500 million of outstanding consumer charges and to return all un-cashed checks to consumers.

The agency also obtained civil penalty judgments of $9.3 million and $1.7 million in fiscal years 2003 and 2002, 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 2003 and 2002, $88,261 and $10,129 (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, in bankruptcy or foreign debt. During 2003 and 2002, $5,857,130 and $32,989,720 were referred to the DMS for collection.

Prior year recoveries include amounts collected on cases which were written off in a previous year. In fiscal years 2003 and 2002, $10,232,426 and $1,056,775 were collected.

(l) Adjustments to the Allowance

Adjustments to the allowance for redress, totaling $141,530,206, represent amounts formally written off during the year in the amount of $30,271,786 and adjustments to the provision for uncollectible amounts of $111,258,420.

NOTE 12 -- EARNED REVENUES

Earned revenue with the public consisted of the following:

	2003	2002
HSR Premerger filing fees	$ 56,015,066	$ 67,945,000
Do-Not-Call registry fees	5,238,950	-
Total	$ 61,254,016	$ 67,945,000

HSR premerger filing fees earned represent one-half of fees collected under the provisions of the Hart-Scott-Rodino Antitrust Improvements Act. *See Note 1 (p), 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 fees for the national Do-Not-Call Registry. The Do-Not-Call Implementation Act, P. L. 108-010, authorizes the FTC to collect fees for the implementation and enforcement of the Do-Not-Call- registry. Telemarketers who are under the FTC's jurisdiction are required to pay a user fee and download from the do-not-call database a list of consumer's telephone numbers who do not wish to receive calls. Fees are based on the number of area codes downloaded. The minimum charge is $25 for downloading one area code. The maximum charge is $7,375 for all area codes within the United States. 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.

Note 13 – Statement of Net Cost (continued)

Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2003	376	$ 174,745,595	$ (62,412,945)	$ 112,332,650
FY 2002	376	$ 160,657,829	$ (69,203,756)	$ 91,454,073

Intragovernmental Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2003	376	$ 43,494,712	$ (1,158,929)	$ 42,335,783
FY 2002	376	$ 40,693,557	$ (1,258,756)	$ 39,434,801

NOTE 14 – STATUS OF BUDGETARY RESOURCES

(a) Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in 2003 and 2002 consisted of the following:

	2003	2002
Direct Obligations:		
Category A	$ 106,257,322	$ 87,580,125
Reimbursable Obligations:		
Category A	70,201,053	67,954,703
Category B	796,592	1,496,881
Total reimbursable obligations	70,997,645	69,451,584
Total	$ 177,254,967	$ 157,031,709

(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, 2003 has not been published as of the issue date of these financial statements. This document will be available in February 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 is a $758,403 charge to expense. This is 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.*

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2003 and 2002

	MC Mission	CP Mission			2003	2002
Part 1	Civil Penalty	Civil Penalty	Redress	Subtotal CP	Total	Total
Judgments Receivable - Net Beginning	$ -	$ 1,809,000	$ 93,021,347	$ 94,830,347	$ 94,830,347	$ 35,855,876
Add:						
Current Year Judgments (Note 11j)	7,040,000	2,343,597	379,834,990	382,178,587	389,218,587	157,233,387
Due From Receivers (Note 11f)	-	-	-	-	-	162,955
Prior Year Recoveries (Note 11k)	-	-	10,232,426	10,232,426	10,232,426	1,056,775
Less:						
Collections by FTC/Contractors Receivers	(6,828,800)	(1,677,463)	(101,768,298)	(103,445,761)	(110,274,561)	(44,439,086)
Collections by DOJ for Litigation Fees/Other	(211,200)	(51,134)	-	(51,134)	(262,334)	(33,858)
Less:						
Adjustments to Allowance (Note 11 l)	-	(319,000)	(141,530,206)	(141,849,206)	(141,849,206)	(55,005,702)
Judgments Receivable - Net, Ending	$ -	$ 2,105,000	$ 239,790,259	$ 241,895,259	$ 241,895,259	$ 94,830,347
Part 2						
Judgments Receivable - Net Ending	$ -	$ 2,105,000	$ 239,790,259	$ 241,895,259	$ 241,895,259	$ 94,830,347
Judgments Receivable - Net Beginning	-	1,809,000	93,021,347	94,830,347	94,830,347	35,855,876
Accrual Adjustment	$ -	$ 296,000	$ 146,768,912	$ 147,064,912	$ 147,064,912	$ 58,974,471

Exhibit B

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Change in Liability Accounts
September 30, 2003 and 2002

	MC Mission				CP Mission			
	Pre-Merger	**Divestiture**	**Civil Penalty**	**Subtotal MC**	**Civil Penalty**	**Redress**	**Subtotal-CP**	**Total**
Liabilities @ 09/30/03	$ 1,600,060	$ 41,191,637	$ -	$ 42,791,697	$ 2,105,000	$ 304,744,375	$ 306,849,375	$ 349,641,072
Liabilities @ 09/30/02	$ 1,683,147	$ 40,975,271	$ -	$ 42,658,418	$ 1,809,000	$ 155,941,906	$ 157,750,906	$ 200,409,324
Change in Liability Accounts	$ (83,087)	$ 216,366	$ -	$ 133,279	$ 296,000	$ 148,802,469	$ 149,098,469	$ 149,231,748

	MC Mission				CP Mission			
	Pre-Merger	Divestiture	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/02	$ 1,683,147	$ 40,975,271	$ -	$ 42,658,418	$ 1,809,000	$ 155,941,906	$ 157,750,906	$ 200,409,324
Liabilities @ 09/30/01	5,921,233	40,592,806	-	46,514,039	2,326,431	79,526,718	81,853,149	128,367,188
Change in Liability Accounts	$ (4,238,086)	$ 382,465	$ -	$ (3,855,621)	$ (517,431)	$ 76,415,188	$ 75,897,757	$ 72,042,136