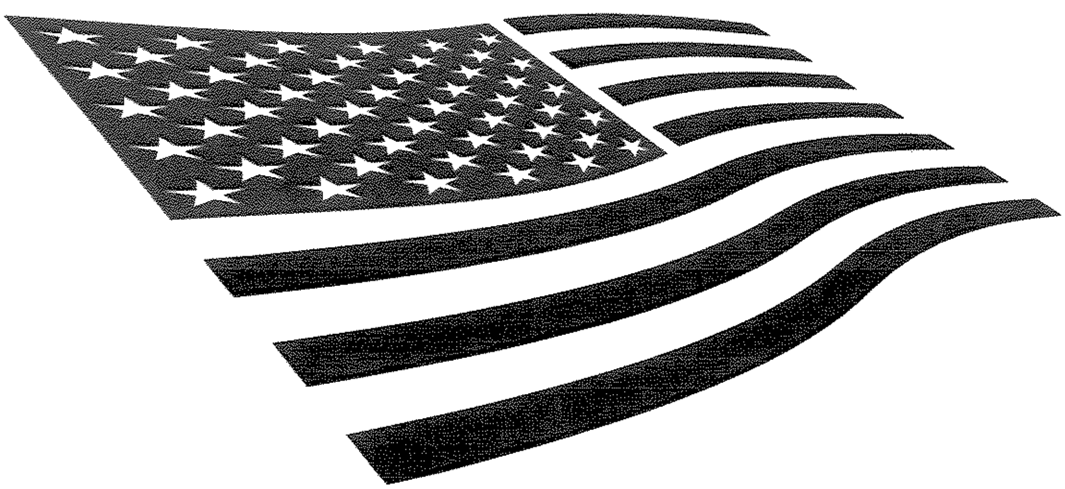
AR 06-069

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2005



OFFICE OF INSPECTOR GENERAL

FEDERAL TRADE COMMISSION

AUDITED FINANCIAL STATEMENTS
Fiscal Year 2005

TABLE OF CONTENTS

OFFICE OF
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Chairman Majoras:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 2005 and 2004, 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, 2005 and 2004, 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 2005 and 2004 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 and Program Performance sections 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 and Program Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Reportable Conditions

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

We noted certain other matters involving the internal control over financial reporting that we have reported to the Commission's management in a separate letter (Management Letter AR 06-069A).

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 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.

Inspector General
Federal Trade Commission

Washington, D.C.
October 28, 2005

FEDERAL TRADE COMMISSION
BALANCE SHEETS
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 60,571	$ 44,627
Accounts Receivable, Net (Note 4)	87	121
Total Intragovernmental Assets	60,658	44,748
Property and Equipment, Net (Note 5)	15,096	14,270
Total Entity Assets	75,754	59,018
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	17,642	19,531
Cash and Other Monetary Assets (Note 3)	81,468	111,489
Accounts Receivable, Net (Note 4)	84,355	62,879
Total Non-Entity Assets	183,465	193,899
Total Assets	$ 259,219	$ 252,917

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	$ 716	$ 645
Accounts Payable	2,468	1,510
Total Intragovernmental Liabilities	3,184	2,155
With the Public		
Accounts Payable	7,731	7,867
Accrued Salaries	3,918	3,625
Total Liabilities Covered by Budgetary Resources	14,833	13,647
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Undisbursed Premerger Filing Fees	9,389	6,530
Other Liabilities (Note 6)	702	1,380
Total Intragovernmental Liabilities	10,091	7,910
Actuarial FECA Liabilities	2,018	1,948
Accrued Annual Leave	7,583	7,496
With the Public (Note 6)	173,744	186,384
Total Liabilities Not Covered by Budgetary Resources	193,436	203,738
Total Liabilities	208,269	217,385
Net Position: (Note 7)		
Balances:		
Unexpended Appropriations	14	36
Cumulative Results of Operations	50,936	35,496
Total Net Position	50,950	35,532
Total Liabilities and Net Position	$ 259,219	$ 252,917

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF NET COST
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
Program Costs		
Maintaining Competition Mission:		
Intragovernmental gross costs	$ 21,833	$ 19,692
Less: Intragovernmental earned revenue	(864)	(722)
Intragovernmental net costs	20,969	18,970
Gross costs with the public	62,653	62,083
Less: Earned revenue with the public (Note 12)	(99,511)	(83,598)
Net costs with the public	(36,858)	(21,515)
Net Cost Maintaining Competition Mission	(15,889)	(2,545)
Consumer Protection Mission:		
Intragovernmental gross costs	28,941	25,063
Less: Intragovernmental earned revenue	(117)	(86)
Intragovernmental net costs	28,824	24,977
Gross costs with the public	83,051	79,015
Less: Earned revenue with the public (Note 12)	(18,052)	(13,984)
Net costs with the public	64,999	65,031
Net Cost of Consumer Protection Mission	93,823	90,008
Net Cost of Operations	$ 77,934	$ 87,463

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 35,496	$ 36	$ 27,910	$ 142
Budgetary Financing Sources:				
Appropriations Received	-	87,838	-	88,435
Appropriations Transferred-In/Out	-	-	-	67
Other Adjustments (Rescissions)	-	(1,106)	-	(536)
Appropriations Used	86,754	(86,754)	88,072	(88,072)
Other Financing Sources:				
Imputed Financing (Note 9)	6,620	-	6,977	-
Total Financing Sources	93,374	(22)	95,049	(106)
Net Cost of Operations	(77,934)	-	(87,463)	-
Ending Balances	$ 50,936	$ 14	$ 35,496	$ 36

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
Budgetary Resources:		
Budget authority		
Appropriation	$ 87,838	$ 88,435
Net Transfers - Current Year Authority	-	68
Net Transfers - Prior Year Balances	-	(1)
Unobligated Balance:		
Beginning of Period	8,427	8,642
Spending Authority from Offsetting Collections		
Earned		
Collected	118,579	98,500
Receivable from Federal Sources	(34)	(110)
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	258	40
Anticipated for rest of year, without advances	-	-
Recoveries of Prior Year Obligation	773	2,306
Enacted Reductions		
Rescissions - New Budget Authority	(1,106)	(536)
Total Budgetary Resources	$ 214,735	$ 197,344
Status of Budgetary Resources:		
Obligations incurred		
Direct	82,007	89,213
Reimbursable	118,802	99,704
Subtotal	200,809	188,917
Unobligated Balance		
Available	5,287	1,027
Not Available	8,639	7,400
Total Status of Budgetary Resources	$ 214,735	$ 197,344
Summary of Obligations and Outlays		
Obligated balance net beginning of period	$ 36,200	$ 32,257
Obligated balance net end of period:		
Accounts receivable	(87)	(121)
Unfilled customer orders from federal sources	(313)	(55)
Undelivered orders	32,212	22,729
Accounts payable	14,833	13,647
Total obligated balance net end of period	$ 46,645	$ 36,200
Outlays:		
Disbursements	189,366	182,739
Collections	(118,579)	(98,500)
Net Outlays	$ 70,787	$ 84,239

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 200,809	$ 188,917
Less: Spending authority from offsetting collections and recoveries	(119,576)	(100,736)
Obligations net of offsetting collections and recoveries	81,233	88,181
Other Resources		
Imputed financing from costs absorbed by others	6,620	6,977
Total Resources Used to Finance Activities	87,853	95,158
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	(9,225)	(2,697)
Resources that finance the acquistion of assets	(4,127)	(7,063)
Total resources used to finance items not part of the net cost of operations	(13,352)	(9,760)
Total Resources Used to Finance the Net Cost of Operations	74,501	85,398
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	87	313
(Decrease) increase in FECA liability	45	(179)
Total components of the net cost of operations that will not require or generate resources in future periods	132	134
Components not Requiring or Generating Resources:		
Depreciation and amortization	3,301	1,931
Total components of the Net Cost of Operations that will not require or generate resources	3,301	1,931
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period	3,433	2,065
Net Cost of Operations	$ 77,934	$ 87,463

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

(Refer to Note 11)

	MC Mission	CP Mission	2005	2004
Sources of Collections:				
Cash Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 99,511	$ -	$ 99,511	$ 82,190
Civil Penalties and Fines (b)	-	6,479	6,479	6,542
Redress (c)	-	62,181	62,181	337,585
Divestiture Fund (d)	708	-	708	184
Funeral Rule Violations	-	7	7	30
Net Collections	100,219	68,667	168,886	426,531
Accrual Adjustments (e)	-	21,476	21,476	(179,016)
Total Non-exchange Revenues	$ 100,219	$ 90,143	$ 190,362	$ 247,515
Disposition of Revenue Collected:				
Amounts Transferred to:				
Treasury General Fund	-	20,095	20,095	20,932
Department of Justice	96,652	-	96,652	77,259
Receivers (f)	-	182	182	161
Redress to Claimants (g)	-	66,109	66,109	294,058
Contrator Fees Net of Interest Earned (h)	-	6,291	6,291	7,638
Attorney Fees (h)	-	8,712	8,712	3,208
Court Registry	-	2,755	2,755	-
Net Disbursements	96,652	104,144	200,796	403,256
Change in Liability Accounts (i)	3,567	(14,001)	(10,434)	(155,741)
Total Disposition of Revenues Collected	$ 100,219	$ 90,143	$ 190,362	$ 247,515
Net Custodial Collections	$ -	$ -	$ -	$ -

FEDERAL TRADE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

Intragovernmental Assets:

Trading Partner Agency:	**Fund Balance with Treasury** Entity	Non-Entity	**Accounts Receivable**	**2005**	**2004**
Treasury	$ 60,571	$ 17,642	$ -	$ 78,213	$ 64,158
Agency for International Development	-	-	33	33	59
Other Government Agencies	-	-	54	54	62
Total Intragovernmental Assets	$ 60,571	$ 17,642	$ 87	$ 78,300	$ 64,279

Intragovernmental Liabilities:

Trading Partner Agency:	**Accrued Benefits**	**Accounts Payable**	**NA**	**Total 2005**	**Total 2004**
Covered by Budgetary Resources:					
Department of Labor	$ 4	$ -	$ -	$ 4	$ 18
U.S. Postal Inspection Service	-	125	-	125	12
Government Printing Office	-	1,274	-	1,274	7
General Services Administration	-	416	-	416	1,370
Office of Personnel Management	549	44	-	593	513
U.S. Environmental Protection	-	100	-	100	-
Homeland Security	-	416	-	416	-
Department of Treasury	163	93	-	256	235
Total Covered by Budgetary Resources	$ 716	$ 2,468	$ -	$ 3,184	$ 2,155
Not Covered by Budgetary Resources:					
Department of Justice	$ -	$ 9,389	$ -	$ 9,389	$ 6,530
Department of Labor	-	370	-	370	395
Department of Treasury	-	332	-	332	985
Total Not Covered by Budgetary Resources	$ -	$ 10,091	$ -	$ 10,091	$ 7,910

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

Exchange Revenue from Reimbursable Agreements

Trading Partner:	**2005**	**2004**
U.S. Department of State	$ 401	$ 142
U.S. Agency for International Development	332	429
Department of Justice	42	90
Federal Mine Safety & Health Review Commission	38	41
U.S. Trade and Development Agency	29	36
Board of Governors of the Federal Reserve System	21	-
Federal Deposit Insurance Corp.	21	-
Securities and Exchange Commission	21	-
Office of the Comptroller of the Currency	21	-
Medicare Payment Advisory Commission/GSA	19	20
U.S. Postal Inspection Service	17	8
National Credit Union Admin	15	-
Department of Commerce	4	3
U.S. Patent and Trademark Office	-	39
Total Exchange Revenue from Reimbursable Agreements	$ 981	$ 808

Related Costs:

Budget Function Classification:	**2005**	**2004**
Other Advancement of Commerce	$ 981	$ 808
Total Related Costs	$ 981	$ 808

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ending September 30, 2005 and 2004
(Dollars in thousands)

Intragovernmental Expenses:

Trading Partner:	2005	2004
Office of Personnel Management	$ 21,109	$ 18,117
General Services Administration	18,422	18,331
Social Security Administration	5,254	5,151
Government Printing Office	2,270	646
Department of Homeland Security	1,038	-
Department of the Interior	865	864
Department of Transportation	709	724
Department of Labor	265	258
United States Postal Service	247	214
Department of Health and Human Services	229	218
U.S. Environmental Protection	185	-
Department of State	64	33
Department of Justice	53	107
National Archives and Records Administration	46	39
Department of the Treasury	14	15
Department of Commerce	4	-
Veterans Administration	-	37
Other	-	1
Total Intragovernmental Expenses	$ 50,774	$ 44,755

Mission:		
Maintaining Competition	$ 21,833	$ 19,692
Consumer Protection	28,941	25,063
Total Intragovernmental Expenses	$ 50,774	$ 44,755

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

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

(b) Fund Accounting Structure

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

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

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

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

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

(c) Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, financing, and custodial activities of the FTC, in accordance with accounting principles generally accepted in the United States of America and the form and content requirements of Office of Management and Budget (OMB) Circular A-136. 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 under current contract with the FTC administer the program and 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, subject to OMB apportionment and to Congressional restrictions on the expenditure of funds. Also, the FTC places internal restrictions on fund expenditures 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

Fund balances with Treasury consist of appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments, and restricted funds, which include deposit and suspense funds. The FTC's fund balances with Treasury are carried forward until such time as goods or services are received and payment is made or until the funds are returned to the U.S. Treasury. 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.

(f) Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and prepayments and recognized as an expense when the related goods and services are received.

(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 uncollected civil monetary penalties imposed as a result of the FTC's enforcement activities and uncollected redress judgments. 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 realities indicate that these types of claims are frequently not fully collectible.

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

(h) *Property and Equipment*

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

Property and equipment 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 and depreciated using the straight-line method of depreciation. Service lives range from three to twenty years.

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

(i) *Liabilities*

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

(j) Undisbursed Premerger Filing Fees Liability

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

(k) Federal Employees' Compensation Act (FECA) Actuarial Liability and Accrued FECA Claims

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

(l) Accrued Leave

A liability for annual leave is accrued as leave is earned and reduced when leave is taken. At year end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

(m) Employee Health Benefits and Life Insurance

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

(n) Post-Retirement Health Benefits and Life Insurance

FTC employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. The Office of Personnel Management (OPM) has provided the FTC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The FTC recognizes a current cost for these and other retirement benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the FTC through the recognition of an imputed financing source on the Statement of Financing. During fiscal years 2005 and 2004, the cost factors relating to FEHBP were \$4,903 and \$4,420, respectively, per employee enrolled. During fiscal years 2005 and 2004, the cost factor relating to FEGLIP was 0.02 percent of basic pay per employee enrolled. *See Note 9, Imputed Financing.*

(o) Employee Retirement Benefits

FTC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Employees hired after December 31, 1983, are covered by FERS and Social Security, while employees hired prior to January 1, 1984, may elect to either join FERS or remain in CSRS. Approximately 24 percent of FTC employees participate in CSRS. For employees participating in CSRS, the FTC contributes seven percent of the employee's gross earnings to the CSRS Retirement and Disability Fund. For employees participating in FERS, the FTC contributes 11.2 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 10 percent of earnings for 2005, nine percent for 2004, to TSP, but do not receive a matching contribution from the FTC. FERS participating employees may contribute up to 15 percent and 14 percent of earnings for the years 2005 and 2004, respectively, to the TSP plan. For FERS employees, the FTC contributes one percent of the employee's gross pay to the TSP. The FTC also matches 100 percent of the first three percent contributed and 50 percent of the next 2 percent contributed. FTC contributions are recognized as current operating expenses. Although the FTC contributes a portion for pension benefits and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee's retirement benefits, or the retirement plan assets. Therefore, the FTC financial statements do not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to employees. Such reporting is the responsibility of the OPM.

However, the FTC recognizes the full cost of providing future pension benefits to covered employees at the time the employees' services are rendered. OPM has provided the FTC with certain cost factors that estimate the true service cost of providing the pension benefits to covered employees. The cost factors used to arrive at the service cost are 25.0 percent of basic pay for CSRS covered employees and 12.0 percent of basic pay for FERS covered employees during fiscal years 2005 and 2004. The pension expense recognized in the financial statements equals this service cost to covered employees less amounts contributed by these employees. If the pension expense exceeds the amount contributed by the FTC as employer, the excess is recognized as an imputed financing cost. The excess total pension expense over the amount contributed by the agency must be financed by OPM and is recognized as an imputed financing source, non-exchange revenue.

(p) *Net Position*

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

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

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

(q) *Exchange Revenues*

The Federal Accounting Standards Advisory Board defines exchange revenue as inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return.

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

Exchange revenues are also earned through the collection of fees for the national Do Not Call Registry. This registry operates under Section 5 of the FTC Act, which enforces the Telemarketing Sales Rule (TSR). The Do Not Call Implementation Act, P.L. 108-010, gives the FTC authority to establish fees for fiscal years 2003 through 2007 sufficient to offset the implementation and enforcement of the provisions relating to the Do Not Call Registry. Telemarketers are required to pay an annual subscription fee and download from the Do Not Call Registry database a list of telephone numbers of consumers who do not wish to receive calls. Fees are based on the number of area codes downloaded. The minimum charge was $40 to download one area code. The maximum charge was $11,000 for all area codes within the United States. Effective September 1, 2005, the new minimum charge is $56 and the maximum charge is $15,400. Fees collected over expenses are retained for use in other FTC missions.

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

(r) Appropriations Used

In addition to exchange revenue, the FTC receives financing sources through direct appropriation from the general fund of the Treasury to support its operations. A financing source, appropriations used, is recognized to the extent these appropriated funds have been consumed. In fiscal years 2005 and 2004, the FTC received a financing source in the form of a direct appropriation that represented approximately 41 percent and 46 percent of total revenues and financing sources realized.

(s) Methodology for Assigning Cost

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

(t) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 -- FUND BALANCES WITH TREASURY

Fund balances with Treasury consisted of the following at September 30, 2005 and 2004:

(Dollars in thousands)	Obligated	Unobligated Available	Unobligated Not available	2005 Total	2004 Total
General Funds Entity	$ 46,645	$ 5,287	$ 8,639	$ 60,571	$ 44,627
Non-Entity Funds					
Undisbursed Premerger Filing Fees	-	-	-	9,389	6,530
Deposit Funds - Redress	-	-	-	8,253	13,001
Total Non-Entity	-	-	-	17,642	19,531
Total	$ 46,645	$ 5,287	$ 8,639	$ 78,213	$ 64,158

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

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

NOTE 3 -- CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets held as non-entity assets consist of redress judgment amounts on deposit with 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, 2005 and 2004:

(Dollars in thousands)	2005	2004
Non-Entity:		
Redress Contractors	$ 39,384	$ 70,113
Divestiture Fund (Note 11(d))	42,084	41,376
Total Non-Entity	$ 81,468	$ 111,489

NOTE 4 -- ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of September 30, 2005 and 2004:

(Dollars in thousands)	Currently Due	Allowance	2005 Net	2004 Net
Entity Assets:				
Intragovernmental-				
Accounts Receivable	$ 87	$ -	$ 87	$ 121
Non-Entity Assets:				
Consumer Redress	$ 1,270,723	$ 1,186,700	$ 84,023	$ 61,894
Civil Penalties	971	639	332	985
Total Non-Entity Assets	$ 1,271,694	$ 1,187,339	$ 84,355	$ 62,879

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, 2005 and 2004:

(Dollars in thousands) Asset Class	Service Life	Acquisition Value	Accumulated Depreciation	2005 Net Book Value	2004 Net Book Value
Equipment & Furniture	5-20 yrs	$ 7,173	$ 3,734	$ 3,439	$ 2,841
Leasehold Improvements	10-15 yrs	5,004	965	4,039	3,968
Software	3 yrs	8,702	3,501	5,201	951
Software-in-Development		2,417	-	2,417	6,510
Total		$ 23,296	$ 8,200	$ 15,096	$ 14,270

Property and equipment are depreciated using the straight-line method. Depreciation expense was $3.3 million and $1.9 million for fiscal years ending September 30, 2005 and 2004, respectively and is contained in the accumulated depreciation.

NOTE 6 -- LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

A breakout of Intragovernmental Other Liabilities and Liabilities With the Public as of September 30, 2005 and 2004 are shown below:

(a) Intragovernmental and With the Public

(Dollars in thousands)	2005	2004
Intragovernmental		
Other Liabilities:		
Civil Penalty Collections Due	$ 332	$ 985
Accrued FECA Claims	370	395
Total	$ 702	$ 1,380
With the Public		
Undisbursed Redress	$ 47,637	$ 83,114
Divestiture Fund Due	42,084	41,376
Redress Net Collections Due	84,023	61,894
Total	$ 173,744	$ 186,384

(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.

NOTE 7 -- NET POSITION

Net position consisted of the following as of September 30, 2005 and 2004:

(Dollars in thousands)	2005	2004
Unexpended Appropriations:		
Unobligated - Available	$ 7	$ 20
Undelivered Orders	7	16
Total Unexpended Appropriations	14	36
Cumulative Results of Operations:		
Invested Capital	15,096	14,270
Retained Fees:		
Unobligated - Available	5,280	1,007
Unobligated - Not Available	8,639	7,400
Undelivered Orders, net of unfilled customer orders	31,892	22,658
Future Funding Requirements	(9,971)	(9,839)
Total Cumulative Results of Operations	50,936	35,496
Total Net Position	$ 50,950	$ 35,532

NOTE 8 -- COMMITMENTS AND CONTINGENCIES

Commitments The FTC is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders, net of unfilled customer orders from federal sources, were $31.9 million and $22.7 million as of September 30, 2005 and 2004, 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.

Leases The FTC rents approximately 568,000 square feet of space in both commercial and government-owned properties for use as offices, storage and parking. Space leases for government-owned property are made with the General Services Administration (GSA).

Leases of commercial property are made through and managed by GSA. The Commission has leases on three government-owned properties and nine commercial properties. The FTC's current leases expire at various dates through 2013. 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.

Rent expenditures for the years ended September 30, 2005 and 2004, were approximately $17.3 million and $17.1, respectively.

Future minimum lease payments due under leases of government-owned property as of September 30, 2005, are as follows:

(Dollars in thousands)

Fiscal Year		
2006	$	1,611
2007		1,189
2008		1,133
2009		589
2010		-
Total Future Minimum Lease Payments	$	4,522

Future minimum lease payments under leases of commercial property due as of September 30, 2005 are as follows:

(Dollars in thousands)

Fiscal Year	
2006	$ 10,826
2007	10,800
2008	10,995
2009	11,001
2010	11,079
Thereafter	20,752
Total Future Minimum Lease Payments	$ 75,453

NOTE 9 -- IMPUTED FINANCING

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

(Dollars in thousands)	2005	2004
FEHBP	$ 4,327	$ 4,049
FEGLI	14	13
Pension Benefits	2,279	2,915
Total Imputed Costs	$ 6,620	$ 6,977

NOTE 10 -- PENSION EXPENSE

Pension expenses in 2005 and 2004 consisted of the following:

(Dollars in thousands)	Employer Contributions	Imputed Costs	2005 Total Pension Expense	2004 Total Pension Expense
Civil Service Retirement System	$ 1,773	$ 2,482	$ 4,255	$ 4,691
Federal Employees Retirement System	7,819	(203)	7,616	7,347
Thrift Savings Plan	3,164	-	3,164	2,998
Total	$ 12,756	$ 2,279	$ 15,035	$ 15,036

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 2005 and 2004, respectively, FTC collected $199.0 million and $167.4 million in HSR fees. Total collections in the amount of $99.5 million were retained for distribution, of which $90.3 million of this collection was transferred to DOJ in 2005 and $77.3 million in 2004. As of September 30, 2005 the undistributed collections remaining in the amount of $9.2 million represent amounts to be transferred to DOJ in a future period.

(b) Civil Penalties and Fines

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

(c) Redress

The FTC obtains consumer redress in connection with the settlement or litigation of both its administrative and its federal court cases. The FTC attempts to distribute funds thus obtained to consumers whenever possible. If consumer redress is not practical, the funds are paid (disgorged) to the U. S. Treasury, or on occasion, other alternatives, such as consumer education, are explored. Major components of the program include eligibility determination, disbursing redress to claimants, and accounting for the disposition of these funds. Collections made against court-ordered judgments totaled \$62.2 and \$337.6 during fiscal years 2005 and 2004, respectively.

The sources of these collections are as follows:

(Dollars in thousands)

	2005	2004
Contractors	$ 3,076	$ 259,031
Receivers	25,761	1,085
FTC	33,344	77,469
Total	$ 62,181	$ 337,585

(d) Divestiture Fund

One judgment obtained by the FTC on behalf of its maintaining competition mission stipulates the divestiture of assets by the defendants into an interest-bearing account to be monitored by the agency. The account balance represents principal and related interest held in one of the FTC's contractor accounts as stipulated in the judgment. A corresponding liability is recorded. Net Interest earned in fiscal year 2005 and 2004, was \$708,000 and \$184,000, respectively. Interest earnings were significantly higher in fiscal year 2005 due to a substantial interest rate increase over the period.

Divestiture Fund activity in fiscal years 2005 and 2004 consisted of the following:

(Dollars in thousands)	2005	2004
Beginning Balance	$ 41,376	$ 41,192
Interest	866	261
Expense	(158)	(77)
Net Total	708	184
Ending Balance	$ 42,084	$ 41,376

(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 Statements of Custodial Activity.

(f) *Receivers*

Funds forwarded to receivers for distribution to consumers was $182,000 and $162,000 for fiscal year 2005 and 2004, respectively.

(g) *Redress to Claimants*

Redress to claimants consists of amounts distributed to consumers by the FTC, one of its contracted agents, the court appointed receiver, or the defendant. In fiscal year 2005 a total of $66.1 million was distributed to consumers: $40.3 million was paid by the FTC and its contracted agents, and $25.8 million was paid by receivers. In fiscal year 2004, a total of $294.1 million was distributed to consumers: $293.0 million was paid by the FTC and its contracted agents, and $1.1 million was 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 $6.8 million and $8.0 million during the years ended September 30, 2005 and 2004, respectively. Interest earned was $0.5 million and $0.4 million during fiscal years

2005 and 2004, respectively, with the difference of $6.3 million and $7.6 million representing net expense.

The FTC was required to pay attorney fees of $8.7 million and $3.2 million in fiscal year 2005 and 2004, 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 2005 and 2004, the agency obtained and reported in Exhibit A monetary redress judgments against defendants totaling $835.0 million and $445.5 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. In most of these cases, the judgment has ordered redress in the form of refunds or credits.

The agency also obtained civil penalty judgments of $6.6 million and $6.0 million in fiscal years 2005 and 2004, 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 2005 and 2004, $1.5 million and $41,000 (net of fees) were collected by DMS based on FTC referrals and are reported as collections on the Statements of Custodial Activity. The FTC refers to DMS only those cases as defined in DCIA. This excludes cases that are in receivership, or bankruptcy or foreign debt. During 2005 and 2004, $104.6 million and $2.0 million were referred to the DMS for collection.

Prior year recoveries include amounts collected on cases that were written off in a previous year. In fiscal years 2005 and 2004, $2.9 million and $914,000 were collected.

(l) Adjustments to the Allowance

Adjustments to the allowance for redress, totaling $753.6 million, represent adjustments to the provision for uncollectible amounts. Adjustments to the allowance for civil penalty, totaling $639 million, represent adjustments to the provision for uncollectible amounts.

NOTE 12 -- EARNED REVENUES

Earned revenue with the public consisted of the following:

(Dollars in thousands)	2005	2004
HSR Premerger filing fees	$ 99,511	$ 83,598
Do-Not-Call registry fees	18,052	13,984
Total	$ 117,563	$ 97,582

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

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

NOTE 13 -- STATEMENTS OF NET COST

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

Note 13 – Statements of Net Cost (continued)

(Dollars in thousands)

Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2005	376	$ 196,478	$ (118,544)	$ 77,934
FY 2004	376	$ 185,853	$ (98,390)	$ 87,463

Intragovernmental Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2005	376	$ 50,774	$ (981)	$ 49,793
FY 2004	376	$ 44,755	$ (808)	$ 43,947

NOTE 14 -- STATUS OF BUDGETARY RESOURCES

(a) Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in 2005 and 2004 consisted of the following:

(Dollars in thousands)	2005	2004
Direct Obligations:		
Category A	$ 82,007	$ 89,213
Reimbursable Obligations:		
Category A	117,563	98,856
Category B	1,239	848
Total Reimbursable Obligations	118,802	99,704
Total	$ 200,809	$ 188,917

(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, 2005, has not been published as of the issue date of these financial statements. This document will be available in December 2005.

Exhibit A

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2005 and 2004
(Dollars in thousands)

	MC Mission	CP Mission			2005	2004
Part 1	Civil Penalty	Civil Penalty	Redress	Subtotal CP	Total	Total
Judgments Receivable - Net Beginning	$ -	$ 985	$ 61,894	$ 62,879	$ 62,879	$ 241,895
Add:						
Current Year Judgments (Note 11 j)	-	6,664	834,985	841,649	841,649	451,467
Prior Year Recoveries (Note 11 k)	-	-	2,921	2,921	2,921	914
Less:						
Collections by FTC/Contractors Receivers	-	(6,479)	(62,181)	(68,660)	(68,660)	(344,127)
Collections by DOJ for Litigation Fees/Other	-	(199)	-	(199)	(199)	(178)
Less:						
Adjustments to Allowance (Note 11 l)	-	(639)	(753,596)	(754,235)	(754,235)	(287,092)
Judgments Receivable - Net, Ending	$ -	$ 332	$ 84,023	$ 84,355	$ 84,355	$ 62,879
Part 2						
Judgments Receivable - Net Ending	$ -	$ 332	$ 84,023	$ 84,355	$ 84,355	$ 62,879
Judgments Receivable - Net Beginning	-	985	61,894	62,879	62,879	241,895
Accrual Adjustment	$ -	$ (653)	$ 22,129	$ 21,476	$ 21,476	$ (179,016)

Exhibit B

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Change in Liability Accounts
September 30, 2005 and 2004
(Dollars in thousands)

	MC Mission				CP Mission			
	Pre-Merger	Divestiture	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/05	$ 9,389	$ 42,084	$ -	$ 51,473	$ 332	$ 131,660	$ 131,992	$ 183,465
Liabilities @ 09/30/04	$ 6,530	$ 41,376	$ -	$ 47,906	$ 985	$ 145,008	$ 145,993	$ 193,899
Change in Liability Accounts	$ 2,859	$ 708	$ -	$ 3,567	$ (653)	$ (13,348)	$ (14,001)	$ (10,434)

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