AR 09-001

FEDERAL TRADE COMMISSION

Office of Inspector General

Financial Statement Audit for Fiscal Year 2008

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Office of Inspector General

November 14, 2008

TO: William E. Kovacic
Chairman

FROM: John M. Seeba
Inspector General

SUBJECT: *Federal Trade Commission's FY 2008 Financial Statements,* Audit Report No. AR-09-001

I am please to provide you with the attached audit report required by the Accountability of Tax Dollars Act of 2002, which presents an unqualified opinion on the Federal Trade Commission's FY 2008 financial statements. The audit results indicate that the Commission has established an internal control structure that facilitates the preparation of reliable financial information. We commend the Commission for the noteworthy accomplishment of once again attaining an unqualified opinion-the 12th consecutive year.

The independent public accounting firm of Dembo, Jones, Healy, Pennington & Marshall, P.C. (DJHPM) performed the audit of the Commission's financial statements for the year ended September 30, 2008. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements.*

In its audit of the Commission, DJHPM found

- the financial statement were fairly presented, in all material respects and in conformity with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control[1];
- no reportable noncompliance with laws and regulations tested.

---

1 Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Generally Accepted Accounting Principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

My office oversaw the audit performance and delivery. We reviewed DJHPM's report and related documentation and made inquiries of its representatives. Our review disclosed no instances where DJHPM did not comply, in all material respects, with U.S. generally accepted government auditing standards. However, our review cannot be construed as an audit in accordance with U.S. generally accepted government auditing standards. It was not intended to express, and we do not express, any opinion on the Commission's financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. DJHPM is solely responsible for the attached audit report and the conclusions expressed in the report.

If you wish to discuss the contents of this report, please call me on (202) 326-2020. We appreciate the cooperation and courtesies the Commission extended to both DJHPM and my staff during the audit.

Attachment

cc: All Commissioners
Executive Director
Bureau Directors
Chief Financial Officer

Dembo, Jones, Healy, Pennington & Marshall, P.C.
Certified Public Accountants and Consultants

Chairman Kovacic:

In accordance with the Accountability of Tax Dollar Act of 2002, this report presents the results of our audits of the financial statements of the **Federal Trade Commission**. In our audits of the **Federal Trade Commission** for the fiscal years **September 30, 2008 and 2007**, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis and other supplementary information, and (3) our audit objectives, scope, and methodology.

Opinion on Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, **Federal Trade Commission's** assets, liabilities, and net position as of **September 30, 2008 and 2007**; and net costs; changes in net position; budgetary resources; and custodial activity for the years then ended.

Consideration of Internal Control

In planning and performing our audit, we considered **Federal Trade Commission's** internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis. However, for the controls we tested, we found no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance. A material weakness is a control deficiency that results in more than a remote likelihood that the design or operation of one or more internal controls will not allow management or employees, in the normal course of performing their duties, to promptly detect or prevent errors, fraud, or noncompliance in amounts that would be material to the financial statements. Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies.

6010 Executive Boulevard • Suite 900 • Rockville, Maryland 20852
301 770-5100 • 888 283-5472 • Fax 301 770-5202 • djhpm@djhpm.com

Compliance With Laws and Regulations

Our tests of the **Federal Trade Commission's** compliance with selected provisions of laws and regulations for fiscal year 2008 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

The **Federal Trade Commission's** Management's Discussion and Analysis, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with **Federal Trade Commission's** officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

Objectives, Scope, and Methodology

Federal Trade Commission's management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Statement.

In order to fulfill these responsibilities, we

- 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;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);

- tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act;
- tested compliance with selected provisions of laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the **Federal Trade Commission**. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the **Federal Trade Commission's** financial statements for the fiscal year ended **September 30, 2008**. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Dembo, Jones, Healy, Pennington & Marshall, P.C.

Rockville, Maryland
November 14, 2008

FEDERAL TRADE COMMISSION
BALANCE SHEET
As of September 30, 2008 and 2007
(Dollars shown in thousands)

	2008	2007
Assets (Note 2):		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 86,792	$ 85,848
Investments (Note 5)	117,514	-
Accounts receivable, net (Note 6)	48	23
Total intragovernmental	204,354	85,871
Cash and other monetary assets (Note 4)	10,485	123,309
Accounts receivable, net (Note 6)	87,982	125,185
General property and equipment, net (Note 7)	15,098	11,655
Total assets	$ 317,919	$ 346,020
Liabilities:		
Intragovernmental:		
Accounts payable	$ 21	$ 1,557
Other (Note 9)	17,028	2,651
Total intragovernmental	17,049	4,208
Accounts payable	15,591	5,879
Accrued redress receivables due to claimants	87,800	123,974
Redress collected but not yet disbursed	85,021	80,180
Divesture fund due	45,485	44,570
Other (Note 9)	16,897	14,606
Total liabilities (Note 8 and Note 9)	267,843	273,417
Net position:		
Unexpended appropriations - other funds	-	-
Cumulative results of operations - other funds	50,076	72,603
Total net position	$ 50,076	$ 72,603
Total liabilities and net position	$ 317,919	$ 346,020

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF NET COST
For the years ended September 30, 2008 and 2007
(Dollars shown in thousands)

	2008	2007
Program costs:		
Maintain Competition (MC) Strategic Goal:		
Gross costs (Note 12)	$ 104,853	$ 97,916
Less: earned revenue (Note 13)	(103,192)	(145,285)
Net program costs (revenue)	1,661	(47,369)
Consumer Protection (CP) Strategic Goal:		
Gross costs (Note 12)	140,705	126,662
Less: earned revenue (Note 13)	(16,202)	(21,675)
Net program costs (revenue)	124,503	104,987
Net cost of operations	$ 126,164	$ 57,618

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF CHANGES IN NET POSITION
For the years ended September 30, 2008 and 2007
(Dollars shown in thousands)

	2008	2007
Cumulative Results of Operations:		
Beginning balance, adjusted	$ 72,603	$ 49,121
Budgetary Financing Sources:		
Appropriations used	96,226	73,688
Other Financing Sources (non-exchange):		
Imputed financing	7,411	7,412
Total Financing Sources	103,637	81,100
Less: Net Cost of Operations	126,164	57,618
Net Change	(22,527)	23,482
Cumulative Results of Operations	50,076	72,603
Unexpended Appropriations:		
Beginning balance, adjusted	-	14
Budgetary Financing Sources:		
Appropriations received	96,226	74,608
Less: Appropriations transferred out		14
Less: Other adjustments (recissions)	-	920
Less: Appropriations used	96,226	73,688
Total Budgetary Financing Sources	-	(14)
Total Unexpended Appropriations	-	-
Net Position	$ 50,076	$ 72,603

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2008 and 2007
(Dollars shown in thousands)

	2008	2007
Budgetary Resources: (Note 15)		
Unobligated balance, brought forward, October 1:	$ 11,068	$ 10,875
Recoveries of prior year unpaid obligations	1,322	8,299
Budget authority		
Appropriation	96,226	74,608
Spending authority from offsetting collections		
Earned		
Collected	134,728	166,992
Change in receivables from Federal sources	25	(32)
Change in unfilled customer orders		
Without advance from Federal sources	(53)	84
Previously unavailable	28,561	-
Subtotal	259,487	241,652
Nonexpenditure transfers, net, anticipated and actual	-	(14)
Temporarily not available pursuant to public law	(15,357)	(28,561)
Permanently not available	-	(920)
Total Budgetary Resources	$ 256,520	$ 231,331
Status of Budgetary Resources:		
Obligations incurred		
Direct	243,186	219,376
Reimbursable	271	887
Subtotal	243,457	220,263
Unobligated balance		
Apportioned	13,063	4,238
Unobligated balance not available	-	6,830
Total status of budgetary resources	$ 256,520	$ 231,331
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 44,815	$ 47,250
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(252)	(201)
Total unpaid obligated balance, net	44,563	47,049
Obligations incurred, net	243,457	220,263
Less: Gross outlays	(230,862)	(214,399)
Less: Recoveries of prior year unpaid obligations, actual	(1,322)	(8,299)
Change in uncollected customer payments from Federal sources (+/-)	28	(52)
Obligated balance, net , end of period		
Unpaid obligations	56,088	44,815
Uncollected customer payments from Federal sources	(224)	(253)
Total, unpaid obligated balance, net, end of period	55,864	44,562
Net Outlays		
Net Outlays:		
Gross outlays	230,862	214,399
Less: Offsetting collections	(134,728)	(166,992)
Less: Distributed offsetting receipts	(55,014)	(5,962)
Net Outlays	$ 41,120	$ 41,445

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF CUSTODIAL ACTIVITY
For the years ended September 30, 2008 and 2007
(Dollars in thousands)

	MC	CP	2008	2007
Revenue Activity: (Note 17)				
Sources of Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 102,916	$ -	$ 102,916	$ 144,561
Civil Penalties and Fines (b)	-	13,475	13,475	5,562
Redress (c)	-	101,859	101,859	71,748
Investment Interest	-	412	412	-
Divestiture Fund (d)	915	-	915	1,516
Funeral Rule Violations	-	187	187	31
Court Registry	-	3,072	3,072	359
Total Cash Collections	103,831	119,005	222,836	223,777
Accrual Adjustments (e)	-	(37,212)	(37,212)	(11,783)
Total Custodial Revenue	$ 103,831	$ 81,793	$ 185,624	$ 211,994
Disposition of Collections: (Note 17)				
Transferred to Others:				
Treasury General Fund	215	68,459	68,674	11,436
Department of Justice	87,559	-	87,559	154,787
Receivers (f)	-	-	-	3
Redress to Claimants (g)	-	33,313	33,313	41,304
Contractor Fees Net of Interest Earned (h)	-	12,119	12,119	3,826
Investment Expense	-	37	37	-
Attorney Fees	-	236	236	19
Court Registry	-	-	-	199
(Increase)/Decrease in Amounts Yet to be Transferred	(16,057)	32,371	16,314	(420)
Net Custodial Activity	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements

Exhibit A

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2008 and 2007
(Dollars in thousands)

	CP			2008	2007
Part 1	**Civil Penalty**	**Redress**	**Subtotal CP**	**Total**	**Total**
Judgments Receivable - Net Beginning	$ 1,211	$ 123,974	$ 125,185	$ 125,185	$ 136,968
Add:					
Current Year Judgments (Note 17j)	14,399	151,706	166,105	166,105	256,019
Prior Year Recoveries (Note 17k)	-	3,865	3,865	3,865	857
Less:					
Collections by FTC/Contractors/ Receivers	(13,475)	(101,859)	(115,334)	(115,334)	(77,310)
Collections by Court Registry		(3,072)	(3,072)	(3,072)	-
Collections by DOJ for Litigation Fees/Other	(416)	-	(416)	(416)	(169)
Less:					
Adjustments to Allowance (Note 17 l)	(1,546)	(86,814)	(88,360)	(88,360)	(191,180)
Judgments Receivable - Net, Ending	$ 173	$ 87,800	$ 87,973	$ 87,973	$ 125,185
Part 2					
Judgments Receivable - Net Ending	$ 173	$ 87,800	$ 87,973	$ 87,973	$ 125,185
Judgments Receivable - Net Beginning	1,211	123,974	125,185	125,185	136,968
Accrual Adjustment	$ (1,038)	$ (36,174)	$ (37,212)	$ (37,212)	$ (11,783)

Exhibit B

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Change in Liability
September 30, 2008 and 2007
(Dollars in thousands)

	MC				CP			
	Pre-Merger	**Divestiture**	**Civil Penalty**	**Subtotal MC**	**Civil Penalty**	**Redress**	**Subtotal-CP**	**Total**
Liabilities @ 09/30/08	$ 15,357	$ 45,485	$ -	$ 60,842	$ 173	$ 172,821	$ 172,994	$ 233,836
Liabilities @ 09/30/07	215	44,570	-	44,785	1,211	204,154	205,365	250,150
Change in Liability Accounts	$ 15,142	$ 915	$ -	$ 16,057	$ (1,038)	$ (31,333)	$ (32,371)	$ (16,314)

Note 1 – Summary of Significant Accounting Policies

(a) Reporting Entity

The Federal Trade Commission (FTC) is an independent United States (U.S.) Government agency, established by the Federal Trade Commission Act of 1914. The FTC enforces a variety of federal antitrust and consumer protection laws. The agency is headed by five Commissioners, nominated by the President and confirmed by the Senate, each serving a seven-year term. The President chooses one Commissioner to act as Chairman. No more than three Commissioners can be of the same political party.

The FTC has three major bureaus: The Bureau of Competition (BC), which supports the strategic goal of maintaining competition; the Bureau of Consumer Protection (BCP), which supports the strategic goal of protecting consumers, and the Bureau of Economics (BE), which supports both bureaus and strategic goals. Additionally, various Offices provide mission support functions and services.

The majority of FTC staff is located in Washington DC; however, the FTC's regions cover seven geographic areas. The regional offices work with the BC and BCP to conduct investigations and litigation; provide advice to state and local officials on the competitive implications of proposed actions; recommend cases; provide local outreach services to consumers and business persons; and coordinate activities with local, state, and regional authorities. The regional offices frequently sponsor conferences for small businesses, local authorities, and consumer groups.

The financial statements include the accounts of all funds under the FTC’s control. As further described throughout these notes, in addition to appropriations received for salaries and necessary expenses, the FTC maintains control over funds that are primarily comprised of proceeds derived from court ordered judgments and settlements held for subsequent distribution to approved claimants. These proceeds are considered non-entity and are reported as such on the Balance Sheet and related activity is reported on the Statement of Custodial Activity.

(b) Fund Accounting Structure

The FTC’s financial activities are accounted for using various funds (i.e., Treasury Account Symbols (TAS)). They include the following for which the FTC maintains financial records:

<u>General Fund</u> TAS 29X0100 consists of salaries and expense appropriation accounts used to fund agency operations and capital expenditures. Offsetting collections received during the year are also recorded in the general fund. (See Note 13 - Exchange Revenues.)

<u>Deposit Fund</u> TAS 29X6013 consists of monies held temporarily by the FTC as an agent for others (e.g. redress funds) prior to distribution through the consumer redress program.

Suspense Fund TAS 29F3875 represent receipts awaiting proper classification, or held in escrow, until ownership is established and proper distributions can be made. This fund was discontinued in fiscal year 2008 due to new Treasury regulations.

Miscellaneous Receipt Accounts TAS 29 1040 and 29 3220 reflect civil penalties and other miscellaneous receipts that by law are 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 accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the FTC. As noted above, the FTC maintains a single fund to account for salaries and all necessary expenses. Further, there are no intra-entity transactions with any other fund (e.g. deposit fund) that would require eliminating entries to present consolidated statements. Accordingly the statements are not labeled consolidated nor is the Statement of Budgetary Resources presented as combined. The financial statements have been prepared from the accounting records of the FTC on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and with the form and content of financial statements specified by the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements* (as revised June 2008). GAAP for Federal entities incorporate the standards prescribed by the Federal Accounting Standards Advisory Board.

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.

Certain amounts have been reclassified to reflect the change in method of classifying obligations from budgetary resources derived from offsetting collections of user fees from non-federal sources. Obligations incurred attributable to resources from user fees are categorized as direct obligations. The change is consistent with OMB guidance for reporting offsetting collections as specified in OMB Circular A-11. The change is reflected in external reports resulting in a change in the amount of obligations reported as direct and reimbursable on the Statement of Budgetary Resources and accompanying notes. Other reclassifications to prior-year balances have been made in the accompanying financial statements to make disclosures consistent with those of the current year.

(d) Budget Authority

Congress passes appropriations annually 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. The Statement of Budgetary Resources reflects the single general fund (e.g. TAS 29X0100) for which the FTC has budget authority.

(e) Fund Balance with Treasury

The FTC's Fund Balance with Treasury includes appropriated funds and amounts that are not invested but held in the deposit fund TAS 29X6013 for subsequent disbursement to claimants. Amounts are carried forward until such time as goods or services are received and payment is made or until the funds are returned to the Treasury (relative to miscellaneous receipts or redress disgorgement). All cash receipts are deposited with Treasury and all disbursements for payroll and vendor invoices are disbursed by the Department of Treasury.

(f) Investments

In protecting consumers, the FTC collects proceeds from defendants in accordance with court ordered judgments and settlement agreements for consumer redress and holds these proceeds in a deposit fund TAS 29X6013 established with the Department of Treasury. The FTC also holds monies in its deposit fund in connection with a judgment that stipulates the divestiture of assets by the defendant. Under an agreement with the Department of Treasury, the portion of such judgments and settlements that are not immediately needed for cash disbursements are invested in Treasury securities. (See Note 5 Investments.)

(g) Cash and Other Monetary Assets

The FTC's consumer redress agents process claims and disburse redress proceeds to approved claimants. Upon approval of the redress office, amounts necessary to cover current disbursement schedules are held as cash in interest bearing custodial accounts. (See accompanying Statement of Custodial Activity.)

(h) Accounts Receivable

Accounts receivable consist of 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 redress receipts, a corresponding liability is also recorded for these non-entity accounts receivable. Gross receivables are reduced to net realizable value by an allowance for uncollectible accounts. (See Note 6 Accounts Receivable.)

(i) Accrued Liabilities and Accounts Payable

Accrued Liabilities and Accounts Payable represent a probable future outflow or other sacrifices of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by budgetary resources. Liabilities can not be liquidated without legislation that provides the resources to do so. Also, the government, acting in its sovereign capacity, can abrogate FTC liabilities (other than contracts). (See Note 8 for information on "Liabilities Not Covered by Budgetary Resources" and Note 9 for information on "Other Liabilities").

(j) 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.

(k) 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 19 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. Participating employees may contribute any dollar amount or percentage of basic salary to TSP, not to exceed an annual dollar amount of $15,500, for 2008. CSRS participating employees do not receive a matching contribution from the FTC. FERS employees receive an agency automatic one percent contribution of gross pay to the TSP. The FTC also matches 100 percent of the first three percent contributed and 50 percent of the next two percent contributed. Such 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 managing 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

(Dollars shown in thousands)

Personnel Management (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 25.2 percent of basic pay for CSRS covered employees and 12 percent of basic pay for FERS covered employees during fiscal years 2008 and 2007. 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.

Pension expenses in 2008 and 2007 consisted of the following:

	2008 Total Pension Expense	2007 Total Pension Expense
Civil Service Retirement System	$ 3,474	$ 3,774
Federal Employees Retirement System	10,949	9,617
Thrift Savings	4,276	3,707
	$ 18,699	$ 17,098

(l) Other Post-Employment Benefits

FTC employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. The 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. During fiscal years 2008 and 2007, the cost factors relating to FEHBP were $5,220 and $5,572, respectively, per employee enrolled. During fiscal years 2008 and 2007, the cost factor relating to FEGLIP was 0.02 percent of basic pay per employee enrolled.

(m) 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 budgetary 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.

(n) Revenues and Other Financing Sources

The FTC's revenues are derived from spending authority from offsetting collections and from direct appropriation. Spending authority from offsetting collections is comprised of amounts received for services performed under reimbursable agreements with other Federal agencies and amounts received from the collection of fees under the authority of the Hart-Scott-Rodino Antitrust Improvements (HSR) Act of 1976 and the Do-Not-Call Implementation Act. Revenue is recognized (accrued) when services are performed under reimbursable agreements. Revenues from fees are recognized when collected. All of FTC's offsetting collections are exchange revenues. (See Note 13 Exchange Revenues.)

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. The FTC received a financing source in the form of a direct appropriation that represented approximately 40 percent of total revenues and financing sources realized in fiscal year 2008 and 30 percent in fiscal year 2007.

(o) Methodology for Assigning Cost

Total costs are allocated to each strategic goal based on two components: the direct costs charged to each strategic goal and the indirect costs attributed to each strategic goal, based on the percentage of direct FTE used by each strategic goal.

(Dollars shown in thousands)

Note 2 – Non-entity Assets

The following summarizes non-entity assets as of September 30, 2008 and 2007:

	2008	2007
Intragovernmental:		
Fund balance with Treasury	$ 2,507	$ 1,656
Investments (Note 5)	117,514	-
Total intragovernmental	120,021	1,656
Cash and other monetary assets (Note 4)	10,485	123,309
Accounts receivable	87,982	125,185
Total non-entity assets	218,488	250,150
Total entity assets	99,431	95,870
Total assets	$ 317,919	$ 346,020

Non-entity Fund Balance with Treasury is comprised of undisbursed premerger filing fees (see Note 13) and deposits held for the consumer redress program. Cash and other Monetary Assets consist of amounts on deposit with FTC distribution agents.

Note 3 – Fund Balance with Treasury

Fund balance with Treasury consisted of the following at September 30, 2008 and 2007:

	2008	2007
Fund Balance:		
Appropriated funds (General)	$ 84,285	$ 84,192
Suspense fund - undisbursed premerger filing fees	-	215
Deposit funds - redress	2,507	1,441
Total	$ 86,792	$ 85,848
Status of Fund Balance with Treasury	2008	2007
Unobligated balance		
Apportioned	$ 13,063	$ 4,238
Unavailable	-	6,830
Temporarily not available pursuant to Public Law	15,357	28,561
Obligated balance not yet disbursed	55,865	44,563
Non-Budgetary fund balance with Treasury		
Suspense fund - undisbursed HSR filing fees	-	215
Deposit funds - redress	2,507	1,441
Total	$ 86,792	$ 85,848

(Dollars shown in thousands)

Obligated Balance not yet Disbursed includes accounts payable and undelivered orders that have reduced unexpended appropriations but have not yet decreased the cash balance on hand. Temporarily not available pursuant to Public Law represents offsetting collections in excess of appropriated resources. (The amount reported as obligated balance not yet disbursed for FY 2008 differs from the statement of budgetary resources by $1 due to rounding.)

Other Information The $2.5 million in deposit funds (redress) above are not available to finance FTC activities and are classified as non-entity assets, and a corresponding liability is recorded.

Note 4 – Cash and Other Monetary Assets

In connection with the consumer redress program, cash amounts necessary to cover current disbursement schedules are held at financial institutions in interest bearing accounts pursuant to court orders and are reported as non-entity assets. A corresponding liability is recorded for these assets. The FTC's consumer redress agents process claims and disburse redress proceeds to claimants upon approval of the redress office. (See accompanying Statement of Custodial Activity.)

Cash and other monetary assets consisted of the following as of September 30, 2008 and 2007:

	2008	2007
Other Monetary Assets:		
Redress contractors	$ 10,485	$ 78,739
Divestiture fund	-	44,570
Total other monetary assets	$ 10,485	$ 123,309

Note 5 – Investments

Collections against monetary judgments are deposited in a deposit fund (29X6013) with the Department of Treasury. Funds not needed to cover immediate disbursements are invested in special Government Account Series (GAS) securities under an agreement with the Bureau of Public Debt. The GAS is non-marketable market based Treasury securities that are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market.

Investments consisted of the following as of September 30, 2008:

		Amounts for 2008 Balance Sheet Reporting					
	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investment Net	Other Adjustments	Market Value Disclosure
Intragovernmental:							
Securities:							
Non-Marketable:							
Market-Based	$ 117,514		$ -	$ -	$ 117,514	$ -	$ 117,514
Total	$ 117,514	n/a	$ -	$ -	$ 117,514	$ -	$ 117,514

Note 6 – Accounts Receivable

Opening accounts 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 method used to estimate the allowance for uncollectible receivables consists of individual case analysis by the attorney case manager with respect to the debtor’s ability and willingness to pay, the defendant’s payment record, and the probable recovery amount including the value of the sale of assets. Based on the aforementioned, cases are referred to the Treasury Offset Program for collection activities after the receivable becomes six months delinquent in payment.

(Dollars shown in thousands)

Accounts receivable consisted of the following as of September 30, 2008 and 2007:

	Gross Receivables	Allowance for Uncollectible Accounts	2008 Net	2007 Net
Entity assets:				
Intragovernmental -				
Accounts receivable	$ 48	$ -	$ 48	$ 23
Non-entity assets:				
Accounts receivable	$ 9	$ -	$ 9	$ -
Consumer redress	764,508	676,708	87,800	$ 123,974
Civil penalties	1,719	1,546	173	1,211
Total non-entity assets	$ 766,236	$ 678,254	$ 87,982	$ 125,185

Note 7 – General Property and Equipment, Net

FTC capitalizes property and equipment with an initial cost of $100 thousand or greater and a useful life over two years. Such assets are depreciated using the straight-line method of depreciation with service lives range from five to twenty years. Additionally, internal use software development and acquisition costs of $100 thousand or greater 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. Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2008 and 2007:

Asset Class	Service Life	Acquisition Value	Accumulated Depreciation	2008 Net Book Value	2007 Net Book Value
Equipment	5-20 yrs	$ 7,491	$ 6,497	$ 994	$ 1,471
Leasehold improvements	10-15 yrs	11,297	2,334	8,963	5,528
Software	3 yrs	10,612	5,471	5,141	3,656
Software-in-development	5 yrs	-	-	-	1,000
Total		$ 29,400	$ 14,302	$ 15,098	$ 11,655

Amounts reported as Equipment are comprised mostly of computer hardware and other building equipment. The FTC does not own buildings, but rather, in partnership with GSA leases both federally owned (by GSA) and commercial space. (See Note 10 Leases.) The leasehold improvements above consist of improvements made to FTC headquarters building located in Washington DC (which is owned by the GSA), and to FTC commercially leased space also located in Washington DC.

(Dollars shown in thousands)

Depreciation expense was $4,786 and $4,957 for fiscal years ending September 30, 2008 and 2007, respectively and is contained in the accumulated depreciation.

Note 8 – Liabilities Not Covered by Budgetary Resources

Intragovernmental liabilities and liabilities with the public not covered by budgetary resources as of September 30**,** 2008 and 2007 are shown below:

(a) Intragovernmental and With the Public

	2008	2007
Intragovernmental:		
Undisbursed premerger fees liability	$ 15,357	$ 215
Civil penalty collections due to Treasury	173	1,211
FECA liability	361	391
Total intragovernmental liabilities not covered by budgetary resources	15,891	1,817
With the Public:		
Accrued leave	9,058	8,206
Actuarial FECA	1,925	1,965
Undisbursed consumer redress	85,021	80,180
Divestiture fund due	45,485	44,570
Accrued consumer redress due to claimants	87,800	123,974
Total liabilities not covered by budgetary resources	$ 245,180	$ 260,712
Total liabilities covered by budgetary resources	$ 22,663	$ 12,705
Total liabilities	$ 267,843	$ 273,417

(b) Other Information

Undisbursed Premerger Fees Liability represents 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.

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

Federal Employee's Compensation Act (FECA) Liability represents the unfunded liability for workers compensation claims payable to the Department of Labor (DOL) and an actuarial liability for future workers' compensation claims. The actuarial liability is based on the liability to benefits paid ratio provided by DOL multiplied by the average of benefits paid over three years. Fiscal year 2007 liability was reclassified to be consistent with fiscal year 2008 presentation. (See Note 1c.)

Accrued Leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately 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.

Undisbursed Consumer Redress represents a non-entity liability corresponding to amounts reported as non-entity assets (including Cash, Investments and Fund Balance with Treasury for TAS 29X6013). These funds are held until distributed to consumers or returned to Treasury through disgorgement.

Divestiture Fund Due represents the corresponding liability offsetting the amount reported as non-entity assets (investments) held by FTC pending divesture of assets pursuant to a court ordered judgment. These funds are currently invested in Treasury Securities. (See Note 5 Investments.)

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

(Dollars shown in thousands)

Note 9 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2008 and 2007*:*

	2008 Non-Current	2008 Current	2008 Total
Intragovernmental:			
FECA liability	$ 361	$ -	$ 361
Civil penalty collections due to Treasury	35	138	173
Accrued benefits	-	1,137	1,137
Undisbursed premerger fees liability	-	15,357	15,357
Total Intragovernmental	396	16,632	17,028
Accrued leave	-	9,058	9,058
Actuarial FECA	1,925	-	1,925
Accrued salary	-	5,914	5,914
Total other liabilities	$ 2,321	$ 31,604	$ 33,925

	2007 Non-Current	2007 Current	2007 Total
Intragovernmental:			
FECA liability	$ 391	$ -	$ 391
Civil penalty collections due to Treasury	104	1,107	1,211
Accrued benefits	-	834	834
Undisbursed premerger fees liability	-	215	215
Total Intragovernmental	495	2,156	2,651
Accrued leave	-	8,206	8,206
Actuarial FECA	1,965	-	1,965
Accrued salary	-	4,435	4,435
Total other liabilities	$ 2,460	$ 14,797	$ 17,257

For a description of FECA liability see Note 8 (b) and 1 (c).

Note 10 – Leases

Leases of commercial property are made through and managed by GSA. The Commission has leases on four government-owned properties and ten commercial properties. The FTC's current leases expire at various dates through 2017. Two leases provide for tenant improvement allowances totaling approximately $7,300 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 FTC rents approximately 595,000 square feet of space in both commercial and government-owned properties for use as offices, storage and parking. All FTC leases are operating leases. Rent expenditures for the years ended September 30, 2008 and 2007**,** were approximately $19,143 and $17,412, respectively.

(Dollars shown in thousands)

Future minimum lease payments due under leases of government-owned property as of September 30, 2008, are as follows:

Fiscal Year	
2009	$ 5,890
2010	303
2011	292
2012	260
2013	206
Total Future Minimum Lease Payments	$ 6,951

Future minimum lease payments under leases of commercial property due as of September 30, 2008 are as follows:

Fiscal	
2009	$ 12,471
2010	12,598
2011	12,799
2012	10,847
2013	1,359
Thereafter	4,938
Total Future Minimum Lease Payments	$ 55,012

Note 11 – Commitments and Contingencies

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.

Note 12 – Intragovernmental Costs and Exchange Revenues

For ‘exchange revenue with the public,’ the buyer of the goods or services is a non-federal entity. For ‘intragovernmental costs' the buyer and seller are both federal entities. If a federal entity purchases goods or services from another federal entity and sells them to the public, the exchange revenue would be classified as 'with the public,' but the related costs would be classified as 'intragovernmental.' The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

(Dollars shown in thousands)

	2008	2007
Maintain Competition Strategic Goal:		
Intragovernmental gross costs	$ 24,696	$ 24,449
Public costs	80,157	73,467
Total Maintaining Competition costs	104,853	97,916
Intragovernmental earned revenue	(276)	(723)
Public earned revenue	(102,916)	(144,562)
Total Maintaining Competition net earned revenue	(103,192)	(145,285)
Maintaining Competition net (revenue) costs	1,661	(47,369)
Consumer Protection Strategic Goal:		
Intragovernmental gross costs	33,140	31,626
Public costs	107,565	95,036
Total Consumer Protection costs	140,705	126,662
Intragovernmental earned revenue	(42)	(73)
Public earned revenue	(16,160)	(21,602)
Total Consumer Protection net earned revenue	(16,202)	(21,675)
Consumer Protection net (revenue) costs	124,503	104,987
Net cost of operations	$ 126,164	$ 57,618

Note 13 – Exchange Revenues

Exchange revenues are earned through the collection of fees under the Hart-Scott-Rodino (HSR) 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 (adjusted annually based on the gross national product) 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, $125 and $280. The FTC collects all HSR premerger fees, retains one-half and remits 50 percent to the DOJ Antitrust Division pursuant to public law. Revenue is recognized upon collection of the appropriate fee and verification of proper documentation.

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

(Dollars shown in thousands)

Telemarketing Sales Rule (TSR). The Do-Not-Call Implementation Act, Public Law No. 108-010, gives the FTC authority to establish fees sufficient to offset enforcement of the provisions related 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. Effective October 1, 2008, the minimum charge decreased from $62 to $54 to download one area code. The maximum charge decreased from $17,050 to $14,850 for all area codes within the United States. Revenue is recognized when collected and the Telemarketer is given access to the requested data.

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.

Exchange revenue consisted of the following:

	2008	2007
HSR premerger filing fees	$ 102,917	$ 144,562
Do Not Call registry fees	16,159	21,602
Reimbursable agreements	318	796
Total	$ 119,394	$ 166,960

(Dollars shown in thousands)

Note 14 – Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in 2008 and 2007 consisted of the following:

	2008	2007
Direct Obligations:		
Category A	$ 243,186	$ 219,376
Reimbursable Obligations:		
Category A	-	-
Category B	271	887
Total Reimbursable Obligations	271	887
Total	$ 243,457	$ 220,263

Prior year direct and reimbursable obligations have been reclassified to reflect a change in the classification of obligations incurred. Obligations incurred attributable to offsetting collections from user fees have been reclassified as direct obligations pursuant to OMB Circular A-11. (See Note 1(c).)

Note 15 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

There are no material differences between amounts reported in the Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government.

Note 16 – Explanation of Differences between Liabilities Not Covered By Budgetary Resources and Components Requiring or Generating Resources in Future Periods

FECA Liability and Accrued Leave The changes in both of these balances between FY 2008 and FY 2007 are reflected as part of Components requiring or Generating Resources in Future Periods in Note 19, Reconciliation of Net Cost of Operations to Budget. The increase in Accrued Leave of $852,000 is included in the increase in Annual Leave Liability line on the Statement of Financing, and the increase in FECA Liability of $70 is included in the “Other” line as part of the resources that fund future periods.

Note 17 – 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. For its custodial activities, FTC accrues accounts receivable and a corresponding liability when a judgment is received from courts or a settlement is reached. Administrative expenses are recognized when incurred.

(a) Premerger Filing Fees

All Hart-Scott-Rodino (HSR) premerger filing fees are collected by the FTC pursuant to section 605 of Public Law No. 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 2008 and 2007 FTC collected $205,833 and $289,122 respectively, in HSR premerger filing fees. Total collections in the amount of $102,916 were retained for distribution, of which $87,559 of this collection was transferred to DOJ in 2008 and $144,561 in 2007. As of September 30, 2008 the undistributed collections remaining in the amount of $15,357 represents 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 Treasury. Civil penalties collected also include amounts collected for undecided civil penalty cases are held 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 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.

(Dollars shown in thousands)

Collections made against court-ordered judgments totaled $101,859 and $71,748 during fiscal years 2008 and 2007, respectively.

The sources of these collections are as follows:

	2008	2007
Agents	$ 22	$ 22,761
Receivers	568	6,740
FTC	101,269	42,247
Total	$ 101,859	$ 71,748

(d) Divestiture Fund

One judgment (obtained by the FTC in support of its strategic goal to maintain competition) 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 the Treasury's Bureau of Public Debt. A corresponding liability is recorded. Net interest earned in fiscal year 2008 and 2007**,** was $915 and $1,516 respectively.

Divestiture Fund activity in fiscal years 2008 and 2007 consisted of the following:

	2008	2007
Beginning Balance	$ 44,570	$ 43,054
Interest	1,547	2,228
Expense	(632)	(712)
Net Total	915	1,516
Ending Balance	$ 45,485	$ 44,570

(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

Funds forwarded to receivers for distribution to consumers was $0 and $3 for fiscal year 2008 and 2007, 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 2008 a total of $33,313 was distributed to consumers: $32,745 was paid by the FTC and its contracted agents, and $568 was paid by receivers. In fiscal year 2007, a total of $41,304 was distributed to consumers: $34,564 was paid by the FTC and its contracted agents, and $6,740 was distributed by receivers.

(h) Contractor Fees Net of Interest Earned

Immediately prior to distribution to claimants, investments in Treasury securities are liquidated and transferred to one of the Agency's redress agents for distribution to consumers. These funds are deposited in interest-bearing custodial accounts at a financial institution approved by Treasury Financial Reserve Board. Earnings on the deposits are used to help fund administrative expenses. Administrative expenses are also paid from judgment proceeds in accordance with court orders. Agent expenses for the administration of redress activities and funds management amounted to $13,273 and $6,896 during the years ended September 30, 2008 and 2007, respectively. Interest earned was $1,154 and $3,070 during fiscal years 2008 and 2007 respectively, with the difference of $12,119 and $3,826 representing net expense.

(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 DOJ). 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 2008 and 2007 the agency obtained and reported in Exhibit A monetary redress judgments against defendants totaling $151,706 and $250,076, respectively. (This amount excludes civil penalties.)

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 $14,369 and $5,943 in fiscal years 2008 and 2007, respectively.

(k) Treasury Referrals and Recoveries

Monetary judgments six months or more past due are referred to the 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 2008 and 2007, approximately $67 and $200 (net of fees) were collected by DMS based on FTC referrals and are reported as collections on the Statement 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 2008 and 2007, approximately $50,951 and $600 were referred to the DMS for collection.

Collections for cases that were written off in a previous year were approximately $3,865 and $857 for fiscal years 2008 and 2007, respectively. (See Exhibit A.)

(l) Adjustments to the Allowance

Adjustments to the allowance for redress, totaling $86,814 represent adjustments to the provision for uncollectible amounts. Adjustments to the allowance for civil penalty, totaling $1,546 represent adjustments to the provision for uncollectible amounts.

Note 18 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at the end of September 30, 2008 and 2007 is $33,427 and $31,634 respectively.

(Dollars shown in thousands)

Note 19 – Reconciliation of Net Cost of Operations to Budget

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 243,457	$ 220,263
Less: Spending authority from offsetting collections and recoveries	(120,693)	(175,344)
Obligations net of offsetting collections and recoveries	122,764	44,919
Other Resources		
Imputed financing from costs absorbed by others	7,411	7,412
Net other resources used to finance activities	7,411	7,412
Total resources used to finance activities	130,175	52,331
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,491)	1,988
Resources that finance the acquistion of assets	(8,512)	(2,495)
Total resources used to finance items not part of the net cost of operations	(10,003)	(507)
Total resources used to finance the net cost of operations	120,172	51,824
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	852	511
Other	70	44
Total components of Net Cost of Operations that will require or generate resources in future periods	922	555
Components not Requiring or Generating Resources:		
Depreciation and amortization	4,786	4,957
Losses on Disposition of Assets - Other	284	282
Total Components of Net Cost of Operations that will not require or generate resources	5,070	5,239
Total components of net cost of operations that will not require or generate resources in the current period	5,992	5,794
Net Cost of Operations	$ 126,164	$ 57,618