AR 99-041

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 1998

OFFICE OF INSPECTOR GENERAL

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Federal Trade Commission
Management Overview

FTC and Its Mission

The Federal Trade Commission (FTC) was created by the Federal Trade Commission Act of 1914. The statutory role of the FTC is to enforce federal antitrust, competition and consumer protection laws. To this end, the FTC's mission implements a core function of government: to prevent business practices that are anticompetitive, deceptive, or unfair to consumers; to enhance informed consumer choice and public understanding of the competitive process; and to accomplish its mission without unduly burdening legitimate business activity.

The FTC mission is managed through two bureaus. The Bureau of Competition works to ensure that the market place is free from anticompetitive mergers and other anticompetitive business practices. The Bureau of Consumer Protection works to ensure that consumer information in the marketplace is not deceptive or misleading. Economic analysis, technical support, and management and administration are provided to each bureau by support organizations.

Limitations of the Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements rests with FTC management. The accompanying financial statements have been prepared in conformity with the hierarchy of accounting principles approved by the principals of the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Bulletin 97-01, *Form and Content of Agency Financial Statements*. FTC is fully committed to the principles and objectives of both the Chief Financial Officers (CFOs) Act of 1990, and the Federal Financial Management Act of 1996. The fiscal year 1998 financial statements have been prepared with full consideration of the requirements of both acts. Comparative data for the prior fiscal year is presented. The statements should be read with the realization that they are for a component of the U.S. Government, i.e., a sovereign entity.

Audit of FTC's 1998 Principal Statements

The Office of Inspector General of the Federal Trade Commission has examined the agency's financial statements. The Inspector General's report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the statements.

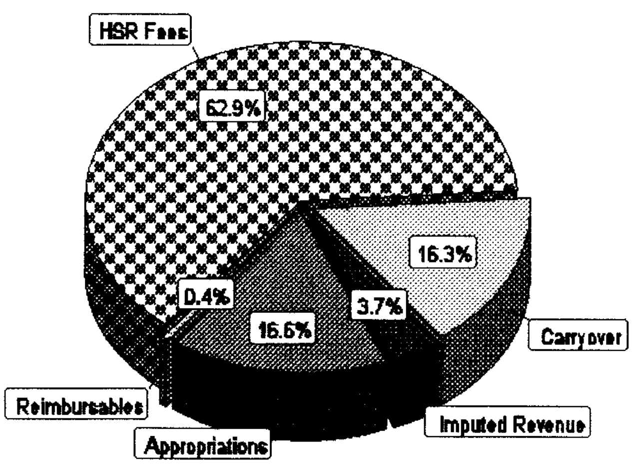
Financial Resources and Results of Operations

The accompanying statements summarize the FTC's financial position, disclose the cost of operations and changes in net position for the years ended September 30, 1998 and 1997, and provide a reconciliation of budget resources and the net cost of operations.

The FTC had total assets of $99.2 million and $100.8 million as of September 30, 1998 and 1997 respectively. Approximately $25.0 million of the 1998 assets are funds collected or to be collected for consumer redress and will eventually be disbursed to consumers, another $27.1 million represents undisbursed Hart-Scott-Rodino (HSR) premerger filing fees, and the remainder represents fund balances in appropriated accounts, account receivables and net capital assets.

The gross cost of operations during the 1998 fiscal year was approximately $110.1 million, a two million dollar increase over 1997. All of this increase was associated with the maintaining competition mission. Several financing sources were received which funded these expenses, including premerger filing fees, direct appropriations provided by Congress, reimbursements received from other government agencies, prior-year unobligated carryover amounts and imputed revenue to cover unfunded benefits. The accompanying pie chart details the percentages of these various financing sources.

FTC Financing Sources for FY 1998



During 1998, there was a significant increase in the amount of fees collected under the premerger notification program as required by the HSR Act. Fee collections, to include carryover fees from prior years, funded approximately 80 percent and 70 percent of agency operations in 1998 and 1997, respectively. The FTC collects a filing fee from each acquiring business entity that files a Notification and Report form transaction. The $45,000 fee, which is set by law, is divided equally between the FTC and the Antitrust Division of the Department of Justice (DOJ). The amounts collected for DOJ are shown as nonexchange revenue on the Statement of Custodial Activity.

Of the $110.1 million in gross operating costs, $105.3 million was funded through budget authority. The remaining $4.8 million represents costs which will be funded in a future period.

During 1998, expenses for salaries and related benefits totaled $78.5 million, or 71 percent, a one percent increase over the previous year. Lease space rental amounted to $9.9 million, and the remaining $16.9 million, or 15 percent, included travel, facility maintenance, utilities, and other items. This supported 965 staff-years which were employed in fulfilling the FTC's mission. In fiscal year 1998, the net cost of operations from direct appropriated funds was just under $8.7 million, compared to $29.9 million for 1997.

Systems and Control

The FTC maintains a system of internal controls to provide reasonable assurance that its assets are protected from fraud and abuse, transactions are properly executed and recorded, and operations are conducted in accordance with established policies and procedures. The FTC's accounting system conforms in all material respects with the principles, standards, and related requirements specified in the Federal Financial Management Improvement Act of 1996.

The FTC's accounting, personnel, payroll, and accounts payable processing is performed under contract by the Department of Interior's Administrative Service Center in Denver, Colorado. FTC has controls in place to ensure the integrity of both payment and payroll processing.

Year 2000 (Y2K) Issues

The FTC began addressing the Y2K issue several years ago as part of its project to modernize the agency's computer equipment and information systems, and it is on target for completing the work on schedule. All critical equipment, including central computer facilities, desktop personal computers, printers, telephone systems, etc., have been examined by the FTC or certified by their vendor as Y2K compliant. Nine of the 11 FTC critical information systems are Y2K compliant, with the remaining two scheduled to be replaced by Spring 1999. These two systems, the Federal Financial System (FFS) and the Federal Personnel Payroll System (FPPS), are used by the agency through its contract with the Department of Interior's Administrative Service Center. FFS is in the process of completing its Y2K upgrade. FPPS has completed the programming phase for Y2K compliance and is in the process of completing the testing phase prior to certification. The only equipment that has been identified that is not compliant is the key card security system used in the headquarters building, and efforts are underway to update that system.

Because the Commission was in the midst of a technology upgrade when the Y2K issue arose, it was addressed through those upgrade processes, thus avoiding any significant additional cost. No separate cost accounting was considered necessary. The present risks for a significant disruption of agency operations are very minimal and at this time no formal contingency plans are deemed to be needed or warranted.

Strategic and Performance Information

The Commission developed its Strategic and Performance plans under the Government Performance and Results Act (GPRA) in 1997. The FTC's fiscal year 1999 annual performance plan was submitted with its fiscal year 1999 budget request to the Congress. The strategic plan, which also was submitted to Congress, includes a total of six objectives for the FTC's two major missions. These objectives are detailed below by mission:

<u>Consumer Protection Mission</u>

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

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

3. Prevent consumer injury through education.

<u>Maintaining Competition Mission</u>

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

2. Stop anticompetitive mergers and practices through law enforcement.

3. Prevent consumer injury.

As presented in the fiscal year 1998 *Statement of Net Cost,* the cost to taxpayers of the agency's pursuit of these strategic objectives was $8.7 million. Performance measures are not provided in the fiscal year 1998 financial statement package. However, for fiscal year 1999 and beyond, performance measures have been developed that will enable the agency to determine its success in meeting its strategic objectives. Consequently, in future statements, the *Statement of Net Cost* will tie to a *Statement of Program Performance Measures.* The performance measures contained in these statements will be identical to those that appear in the agency's congressional budget request. By comparing these statements, the reader will be better able to relate costs to agency accomplishments.

Custodial Activity

To prevent fraud, deception, and unfair business practices in the marketplace, the FTC's enforcement staff seeks to identify practices that cause the greatest consumer injury, stopping these practices through law enforcement, and preventing consumer injury through education. Fighting fraud is one of the Commission's highest priorities; consumers are bilked out of billions of dollars a year by perpetrators of traditional fraud and fraud on the Internet. In fraud cases, the Commission files actions in federal district court to bring an immediate halt to ongoing business activities and freeze defendants' assets. The Commission then pursues court orders that permanently ban the fraudulent activities and provide redress to consumers. In non-fraud cases, usually involving advertising claims, redress may be obtained for consumers in settlement of administrative complaints. In addition, when a company or individual violates an FTC Trade Regulation Rule, a statute enforced by the agency, or a prior agency order, the Commission seeks federal district court orders permanently barring future violations and requiring payment of civil penalties. As these agency enforcement activities generate substantial amounts of nonexchange revenue, a Statement of Custodial Activity (SCA) forms part of the FTC's financial statement package.

The SCA is a required financial statement under *Statement of Federal Financial Accounting Concepts (SFFAC) No. 2* for those Federal agencies that collect nonexchange revenues (e.g., taxes, duties, fines, and penalties) for the General Fund of the Treasury, a trust fund, or other recipient entities. The fiscal year 1998 SCA for the agency shows nonexchange revenue of $122.2 million for activities performed by the agency under its two major enforcement missions: maintaining competition and consumer protection.

OFFICE OF
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Chairman Pitofsky:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 1998 and 1997, 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, 1998 and 1997, and the net costs and changes in net position, its budgetary resources, financing and custodial activities for the years then ended, in conformity with Federal accounting standards.

Opinion on Internal Control Structure

We considered the Commission's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Consequently, we do not provide an opinion on internal controls.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use or disposition;

- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements; and

- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, 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. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements do not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not notice any matter involving the internal control structure and its operation that we consider to be a reportable condition under Government Auditing Standards or Office of Management and Budget (OMB) Bulletin 98-08 "*Audit Requirements for Federal Financial Statements.*"

However; we noted certain other matters involving the internal control structure and its operation that we have reported to the Commission's management in separate letters for fiscal years 1998 and 1997.

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 selected provisions of laws and regulations. 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 tests of compliance disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin 98-08 "*Audit Requirements for Federal Financial Statements.*"

With respect to items not tested, nothing came to our attention to cause us to believe the Commission had not complied, in all respects, with those provisions. In addition, we noted certain nonmaterial instances of noncompliance that we have reported to the Commission's management in separate letters for fiscal years 1998 and 1997.

Responsibilities and Methodology

Management has the responsibility for:

- preparing the financial statements in conformity with the comprehensive basis of accounting described in Note 1 to the financial statements;
- establishing and maintaining an effective internal control structure; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on these financial statements based on our audit. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misrepresentation and presented fairly in accordance with the basis of accounting described in Note 1 to the financial statements. We considered the Commission's internal control structure for the purpose of expressing our opinion on these financial statements and not to provide an opinion on the internal control structure. 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

- 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 internal control structure over financial reporting;
- 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 audit was conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, as issued by the Comptroller General of the United States; and OMB Bulletin 98-08, "*Audit Requirements for Federal Financial Statements*." We believe that our audit provides a reasonable basis for our opinion.

While this report is intended for the information of the Federal Trade Commission, it is also a matter of public record, and its distribution is, therefore, not restricted.

Frederick J Zirkel

Washington D.C.
March 31, 1999

Inspector General
Federal Trade Commission

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 1998 and 1997

	1998	1997
Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 46,226,138	$ 31,521,043
Accounts Receivable, Net (Note 4)	81,918	357,805
Advances and Prepayments	1,073	13,911
Total Intragovernmental Assets	46,309,129	31,892,759
Cash and Other Monetary Assets (Note 3)	6,660	8,660
Accounts Receivable, Net (Note 4)	37,355	28,253
Property, Plant, and Equipment, Net (Note 5)	126,269	210,448
Total Entity Assets	46,479,413	32,140,120
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	31,567,384	28,570,379
Cash and Other Monetary Assets (Note 3)	18,479,538	32,232,043
Accounts Receivable, Net (Note 4)	2,634,532	7,861,778
Total Non-Entity Assets	52,681,454	68,664,200
Total Assets	$ 99,160,867	$ 100,804,320

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 1998 and 1997

	1998	1997
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Accounts Payable	$ 1,395,327	$ 2,269,536
Accrued Salaries	4,603,631	3,967,827
Total Liabilities Covered by Budgetary Resources	5,998,958	6,237,363
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Undisbursed Premerger Filing Fees	27,022,518	22,311,088
Other Liabilities (Note 6)	367,677	5,914,721
Total Intragovernmental Liabilities	27,390,195	28,225,809
Future Worker's Compensation	1,961,403	1,954,089
Accrued Annual Leave	6,179,794	5,470,567
With the Public (Note 6)	25,529,856	40,684,302
	33,671,053	48,108,958
Total Liabilities Not Covered by Budgetary Resources	61,061,248	76,334,767
Total Liabilities	67,060,206	82,572,130
Net Position: (Note 7)		
Balances:		
Unexpended Appropriations	1,981,161	2,092,424
Cumulative Results of Operations	30,119,500	16,139,766
Total Net Position	32,100,661	18,232,190
Total Liabilities and Net Position	$ 99,160,867	$ 100,804,320

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF NET COST
For the years ended September 30, 1998 and 1997

	1998	1997
Costs:		
Maintaining Competition Mission:		
Intragovernmental	$ 14,291,391	$ 12,231,782
With the public	38,043,027	37,736,911
Total mission cost	52,334,418	49,968,693
Less exchange revenues (Note 9)		
Intragovernmental	(520,517)	(728,622)
With the public	(100,845,015)	(77,062,500)
Total exchange revenues	(101,365,532)	(77,791,122)
Net mission revenue	(49,031,114)	(27,822,429)
Consumer Protection Mission:		
Intragovernmental	15,343,023	14,129,909
With the public	42,386,209	43,592,546
Total mission cost	57,729,232	57,722,455
Net Cost of Operations	$ 8,698,118	$ 29,900,026

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 1998 and 1997

	1998	1997
Net Cost of Operations	$ (8,698,118)	$ (29,900,026)
Financing Sources other than Exchange Revenue:		
Appropriations	18,573,888	27,025,000
Imputed Financing (Note 1g)	4,103,964	4,746,048
Total Financing Sources	22,677,852	31,771,048
Net Results of Operations	13,979,734	1,871,022
Prior Period Adjustment (Note11)	-	(13,367,247)
Net Change in Cumulative Results of Operations	13,979,734	(11,496,225)
Decrease in Unexpended Appropriations	(111,263)	(541,235)
Changes In Net Position	13,868,471	(12,037,460)
Net Position - Beginning of Period	18,232,190	30,269,650
Net Position - End of Period	$ 32,100,661	$ 18,232,190

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 1998 and 1997

	1998	1997
Budgetary Resources:		
Budget authority	$ 18,500,000	$ 27,025,000
Unobligated balances-beginning of period	21,432,216	17,428,710
Spending authority from offsetting collections		
Hart-Scott-Rodino fees		
-- For current year apportionment	70,000,000	58,905,000
-- To be apportioned in subsequent fiscal year	30,845,015	18,157,500
Total Hart-Scott-Rodino fees	100,845,015	77,062,500
Reimbursable Authority	520,517	825,229
Adjustments	(667,723)	2,970,086
Total Budgetary Resources	140,630,025	125,311,525
Status of Budgetary Resources:		
Obligations incurred		
Maintaining Competition Mission	50,444,657	48,200,000
Consumer Protection Mission	56,203,668	55,679,309
Total obligations incurred	106,648,325	103,879,309
Unobligated balances available	32,588,187	20,431,094
Unobligated balances-not available	1,393,512	1,001,122
Total Status of Budgetary Resources	140,630,024	125,311,525
Outlays:		
Obligations incurred	106,648,325	103,879,309
Less: spending authority from offsetting collections and adjustments	(100,697,809)	(81,483,289)
Obligated balance, net - beginning of period	10,090,226	12,298,633
Less: obligated balance, net - end of period	(12,244,438)	(10,090,226)
Total Outlays	$ 3,796,304	$ 24,604,427

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the years ended September 30, 1998 and 1997

	1998	1997
Obligations and Nonbudgetary Resources:		
Obligations incurred	$ 106,648,325	$ 103,879,309
Less: Spending authority from offsetting collections and adjustments	(100,697,809)	(81,483,289)
Financing imputed for cost subsidies (Note 1)	4,103,964	4,746,048
Other	(37,374)	(248,042)
Total obligations and nonbudgetary resources	10,017,106	26,894,026
Resources That Do Not Fund Net Cost of Operations:		
Change in amount of goods, services, and benefits ordered but not yet received or provided	(2,112,394)	2,643,973
Costs That Do Not Require Resources:		
Depreciation and amortization	84,179	84,179
Financing Sources Yet to be Provided	709,227	277,848
Net Cost of Operations	$ 8,698,118	$ 29,900,026

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
Fiscal Year Ended 09/30/98
(With Combined Totals for Fiscal Year Ended 09/30/97)
(In Dollars)
(Refer to Note 12)

	MC Mission	CP Mission	1998 Total	1997 Total
Sources of Collections:				
Cash Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 100,845,015	$ -	$ 100,845,015	$ 77,062,500
Civil Penalties and Fines (b)	7,000,000	1,790,046	8,790,046	4,491,238
Redress (c)	-	17,812,538	17,812,538	22,613,597
Funeral Rule Violations	-	90,780	90,780	57,430
Net Collections	107,845,015	19,693,364	127,538,379	104,224,765
Accrual Adjustments (d)	(3,000,000)	(2,362,246)	(5,362,246)	5,040,341
Total Revenues	$ 104,845,015	$ 17,331,118	$ 122,176,133	$ 109,265,106
Disposition of Revenue Collected:				
Amounts Transferred to:				
Treasury General Fund	7,026,693	8,557,500	15,584,193	6,561,505
Department of Justice	96,819,989	64,119	96,884,108	58,709,736
Consumer Redress	-	20,941,837	20,941,837	4,835,712
Receiver and Other Accounts (e)	-	4,536,368	4,536,368	2,218,939
Contractor Fees Net of Interest Earned (f)	-	212,373	212,373	240,163
Net Disbursements	103,846,682	34,312,197	138,158,879	72,566,055
Change in Liability Accounts (g)	998,333	(16,981,079)	(15,982,746)	36,699,051
Total Disposition of Revenues Collected	$ 104,845,015	$ 17,331,118	$ 122,176,133	$ 109,265,106
Net Custodial Collections	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
Notes to the Financial Statements
For the years ended September 30, 1998 and 1997

Note 1 - Organization and Summary of Significant Accounting Policies

(a) Basis of Presentation

These financial statements have been prepared to report the financial position, net costs, and changes in net position of the Federal Trade Commission (FTC). They have been prepared from the books and records of the FTC in accordance with the form and content requirements for entity financial statements as specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements* and FTC's accounting policies which are summarized below.

In addition, the accompanying statements include information on the activities of the agency's consumer redress program. The financial records for consumer redress activity are maintained by independent agents contracted to administer the program under the oversight of FTC program offices. The consumer redress program is subject to independent audit and review by the Office of Inspector General.

These statements are different from the financial reports, also prepared by FTC pursuant to OMB directives, that are used to monitor and control FTC's use of budgetary resources.

(b) Basis of Accounting

Transactions are recorded on an accrual accounting basis as well as a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

(c) Reporting Entity

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

FTC has ten regional offices located in Atlanta, Georgia; Boston, Massachusetts; Chicago, Illinois; Cleveland, Ohio; Dallas, Texas; Denver, Colorado; Los Angeles, California; New York, New York; San Francisco, California; and Seattle, Washington.

The accompanying financial statements include the accounts for appropriated funds, and other fund groups described below for which the FTC maintains financial records, and for the consumer redress accounts for which the agency has management oversight.

<u>General Funds</u> These funds consist of salaries and expenses appropriation accounts used to fund the agency operations and capital expenditures, such as office equipment and furnishings.

<u>Deposit and Suspense Funds</u> These funds are maintained to account for receipts awaiting proper classification, or held in escrow until ownership is established and proper distributions can be made.

<u>Receipt Accounts</u> The FTC collects civil penalties and other miscellaneous receipts which are not retained by the FTC. These receipts are deposited directly to a U. S. Treasury receipt account.

(d) Budgets and Budgetary Accounting

Congress annually passes appropriations that provide FTC with authority to obligate funds for necessary expenses to carry out mandated program activities. These funds are available until expended. The funds appropriated are subject to OMB apportionment of funds in addition to Congressional restrictions on the expenditure of funds. Also, FTC places internal restrictions to ensure the efficient and proper use of all funds. Prior to fiscal year 1996, Congress passed one-year appropriations of funds for FTC's operations. These one-year appropriations are available for obligation for one year and are canceled and cannot be used for disbursements after five years have elapsed from the year in which the appropriation was available for obligation.

(e) Accounting Principles and Standards

The accompanying financial statements are prepared in accordance with the following hierarchy which constitutes an "other comprehensive basis of accounting":

1. Individual standards agreed to by the Comptroller General, the Secretary of the U.S. Treasury, and the Director of OMB, based upon recommendations from the Federal Accounting Standards Advisory Board (FASAB);

2. Form and content requirements included in OMB Bulletin 97-01;

3. Accounting standards contained in FTC accounting policy, procedures manuals and handbooks; and

4. Accounting principles published by authoritative standards-setting bodies and other authoritative sources (a) in the absence of other guidance in the first part of this hierarchy, and/or (b) if the use of such accounting standards improves the meaningfulness of these financial statements.

(f) Revenues and Other Financing Sources

The FTC received approximately 17 percent and 25 percent for 1998 and 1997, respectively, of the funding needed to support its operations through annual appropriations that may be used, within statutory limits, for operating and capital expenditures.

Additional amounts are earned through the collection of fees under the Hart-Scott-Rodino (HSR) Anti-Trust Improvement Act of 1976. This Act, in part, requires the filing of pre-merger notifications with the FTC and the Anti-Trust Division of the Department of Justice and establishes a waiting period before certain acquisitions may be consummated. The FTC retains one half of the HSR premerger filing fees collected. HSR revenue, to include carryover fees from prior years, funded approximately 80 percent and 70 percent for 1998 and 1997, respectively, of the agency's operations. Revenue is recognized when earned, i.e. all required documentation under the HSR Act has been received by the agency. Fees not retained by the FTC are not reported as revenue and are maintained in a suspense fund until transferred to the Department of Justice.

The FTC also obtains funds through reimbursement for services performed for other Federal agencies, typically to provide technical assistance on anti-trust laws and competition policy. Revenue is recognized when the services have been provided under the reimbursable agreement.

(g) Imputed Financing

FTC recognizes costs of pensions and other retirement benefits during employees' active years of service, but does not fully recognize the cost for the pensions, health benefits, or life insurance that employees receive once they retire. Consequently, an imputed financing source is recognized in the amount of $4,103,964 and $4,746,048 as of September 30, 1998 and 1997, respectively. The amount recognized is equal to the amount of current year unfunded pension and other retirement benefits costs which are subsidized by other government agencies.

Associated costs are also included in the Statement of Net Costs. Factors used in the calculation of these benefit expenses were provided by the Office of Personnel Management in keeping with *SFFAS No. 5, Accounting for Liabilities of the Federal Government.*

(h) Fund Balances with the U.S. Treasury

With the exception of cash held in consumer redress custodial accounts by FTC's contracted agents, FTC does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Fund balances with Treasury are primarily appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, and restricted funds which include deposit and suspense funds. The FTC's fund balances with Treasury are carried forward until goods or services are received and payment is made, or until such time as funds are returned to the U.S. Treasury.

(i) Accounts Receivable

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

Opening judgment receivable balances reflect the FASAB standard for the recognition of losses using the collection criterion of "more likely than not". This criterion represents a more stringent criterion than used in the private sector under generally accepted accounting principles (GAAP). In *Statement of Federal Financial Accounting Standards (SFFAS) No. 1*, the Board states that it is appropriate to recognize the nature of federal receivables which, unlike trade accounts of private firms or loans made by banks, are not created through credit screening procedures. Rather, these receivables arise because of the assessment of fines from regulatory violations. In these circumstances, historical experience and economic factors indicate that these types of claims are frequently not fully collectible.

The FTC recognizes an allowance for uncollectible accounts receivable by individual account analysis based on the debtor's ability to pay, willingness to pay, and the probable recovery of amounts from secondary sources, including liens, garnishments, and other applicable collection tools.

(j) ***Advances and Prepayments***

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

(k) Property and Equipment

The land and buildings in which FTC operates are provided by commercial vendors and the General Services Administration, which charges FTC a Standard Level Users Charge which approximates the commercial rental rates for similar properties.

Equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis over the estimated useful life of the assets. All equipment with an acquisition value greater than $100,000 and a useful life of over two years is capitalized. Items purchased which do not meet this criteria are expensed. During fiscal year 1997, the FTC began capitalizing equipment in accordance with Statement of Federal Financial Accounting Standard Number 6, *Accounting for Property, Plant and Equipment.*

(l) 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 12). Also, FTC liabilities (other than contracts) can be abrogated by the Government, acting in its sovereign capacity.

(m) Future Worker's Compensation

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

(n) Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the liability is reduced as leave is taken. At year end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. All annual leave is unfunded, and accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave are expensed when incurred.

(o) Post-Retirement Health Benefits and Life Insurance

As required by SFFAS #5, *Accounting for Liabilities of the Federal Government*, the FTC is recognizing its share of the future cost of post-retirement health benefits and life insurance for FTC employees while they are still employed. OPM has provided the FTC with certain cost factors which estimate the true cost of providing the post retirement benefit to current employees.

During fiscal years 1998 and 1997, the cost factors relating to health benefits were $2,529 and $2,493 per employee enrolled in the Federal Employees Health Benefits program, respectively. The total cost recognized during fiscal years 1998 and 1997 were $2,008,026 and $1,944,540, respectively.

During fiscal years 1998 and 1997, the cost factor relating to life insurance was 0.02% of basic pay for employees enrolled in the Federal Employee Group Life Insurance program. The total costs recognized for the years ended September 30, 1998 and 1997 were $8,026 and $7,908, respectively.

(p) *Retirement Plans*

Approximately 39 percent of FTC's employees participate in the Civil Service Retirement System (CSRS), to which FTC makes matching contributions equal to seven percent of pay. On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security, while employees hired prior to January 1, 1984 may elect, during defined enrollment periods, to either join FERS or remain in the CSRS. The FTC also contributes to FERS on behalf of its employees.

One primary difference between FERS and CSRS is the government contribution to the Thrift Savings Plan (TSP) that FERS employees receive. FERS-covered employees may contribute up to 10 percent of pay to the TSP plan. FTC automatically contributes one percent of basic pay, in addition to matching employee contributions up to four percent of pay. CSRS covered employees may contribute up to five percent of earnings to TSP but do not receive a matching contribution. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which FTC contributes a matching amount to the Social Security Administration.

Although FTC contributes a portion for pension benefits and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee 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 its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

However, as required by Statement of Federal Financial Accounting Standard (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, beginning in fiscal year 1997, FTC is recognizing its share of the cost of providing a pension benefit to eligible employees. OPM has provided FTC with certain cost factors that estimate the true cost of providing the pension benefits to current employees. The cost factors range from 24.2% to 40% of basic pay for CSRS covered employees and 11.5% to 24.6% of basic pay for FERS covered employees during fiscal years 1998 and 1997. FTC recognized approximately $2,087,912 and $2,793,600 in pension expense during fiscal years 1998 and 1997, respectively (see Note 10).

(q) ***Net Position***

FTC's net position is comprised of the following:

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

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

(r) ***Comparative Data***

Certain 1997 financial statement line items have been reclassified to conform with the current year's presentation.

Note 2 - Fund Balances with Treasury

Fund balances with Treasury consisted of the following at September 30, 1998 and 1997:

	Obligated	Unobligated		1998	1997
		Available	Restricted	Total	Total
General Funds	$12,244,438	$32,588,187	$1,393,513	$46,226,138	$31,521,043
Suspense Funds:					
Undecided Civil Penalty Cases	-	-	-	100,430	100,544
Unassigned Costs	-	-	-	-	26,693
Undisbursed Filing Fees due DOJ	-	-	-	27,022,518	23,051,056
Amts.to be transferred to Treasury	-	-	-	8,564	388,501
Deposit Funds - Redress	-	-	-	4,300,872	5,003,585
Other	-	-	-	135,000	-
Total	$12,244,438	$32,588,187	$1,393,513	$77,793,522	$60,091,422

The restricted unobligated fund balance is related to expired authority and is only available for adjustments. The obligated balance includes accounts payable and undelivered orders which have drawn down on unexpended appropriations but have not yet decreased the cash balance on hand.

During fiscal years 1998 and 1997, the FTC returned $37,380 and $2,623, respectively to the U.S. Treasury from the expired appropriations 2930100 and 2920100.

Other Information Deposit and suspense funds amounting to $31,567,384 and $28,570,379 as of September 30, 1998 and 1997, respectively, stated above are not available to finance FTC activities and are classified as non-entity assets and a corresponding liability is also recorded. Unassigned costs of $26,693 as of September 30, 1997 represents balances to be transferred to salaries and expense accounts in subsequent periods. There were no such costs as of September 30, 1998, as all such costs were transferred prior to the end of the year.

Note 3 - Cash and Other Monetary Assets

Cash and other monetary assets held as entity assets consist of cash held in imprest funds. Cash and other monetary assets held as non-entity assets consist of deposits in transit for premerger filing fees and redress judgment amounts on deposit with FTC's distribution agents. A corresponding liability is recorded for these assets. Cash and other monetary assets consisted of the following at September 30, 1998 and 1997:

	1998	1997
Entity	$6,660	$8,660
Non-Entity - deposits in transit	180,000	405,000
- redress contractors	18,299,538	31,827,043
	$18,479,538	$32,232,043

Note 4 - Accounts Receivable

Accounts receivable consisted of the following, as of September 30, 1998 and 1997:

Entity Assets:	Gross	Provision	1998 Net	1997 Net
Intragovernmental -				
Accounts Receivable	$81,918	$ -	$81,918	$357,805
With the Public -				
Accounts Receivable	37,355	-	37,355	-
Canceled Checks Pending				28,253
Total Entity Assets	$119,273	$ -	$119,273	$386,058

Note 4 (continued)

Non-Entity Assets:

Consumer Redress	$16,075,806	$13,696,790	$2,379,016	$4,530,190
Civil Penalties	369,068	248,552	120,516	3,331,588
Other		-	135,000	-
Total Non-Entity Assets	$16,579,874	$13,945,342	$2,634,532	$7,861,778

For more detailed information on judgments receivable see Exhibit A

Note 5 - Property, Plant, and Equipment, Net

Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 1998 and 1997:

Asset class	Service Life	Acquisition Value	Accumulated Depreciation	1998 Net Book Value	1997 Net Book Value
Office Equipment & Furniture	5 Years	$420,895	$294,626	$126,269	$210,448

Property and equipment are depreciated using the straight line method. Depreciation expense was $84,179 for each of the fiscal years ending September 30, 1998 and 1997.

Note 6 - Other Liabilities

Other liabilities consisted of the following as of September 30, 1998 and 1997:

FEDERAL TRADE COMMISSION
Notes to the Financial Statements
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(a) *Liabilities Not Covered by Budgetary Resources*

	1998	1997
Other Intragovernmental -		
Civil Penalty Collections Due	$120,516	$3,331,588
Amounts to be Disgorged to Treasury	8,564	2,310,529
Accrued FECA Claims	238,597	245,911
Unassigned Costs	-	26,693
Total	$367,677	$5,914,721
With the Public -		
Undisbursed Redress	$22,600,410	$34,908,601
Redress Net Collections Due	2,379,016	4,530,190
Other	550,430	1,245,511
Total	$25,529,856	$40,684,302

(b) *Other Information*

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

Amounts to be Disgorged to Treasury include amounts for reconciled statements of differences and miscellaneous receipts.

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

Unassigned Costs represent credits from Treasury for limited liability payments which will be transferred to appropriate salaries and expense accounts in future periods.

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

Other consists primarily of deposits in transit and undisbursed cash in the suspense liability account for 1998, and prior year premerger fees collected on deposit which were identified and recognized into fee income in the current year for 1997.

FEDERAL TRADE COMMISSION
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For the years ended September 30, 1998 and 1997

Note 7 - Net Position

Net position consisted of the following as of September 30, 1998 and 1997:

	1998	1997
Unexpended Appropriations:		
Unobligated -		
Unavailable	$1,393,512	$1,001,122
Undelivered Orders	587,649	1,091,302
Total Unexpended Appropriations	1,981,161	2,092,424
Cumulative Results of Operations:		
Invested Capital	126,269	210,448
Retained Fees:		
Unobligated	32,588,187	20,431,094
Undelivered Orders	5,784,838	3,168,791
Future Funding Requirements	(8,379,794)	(7,670,567)
Total Cumulative Results of Operations	30,119,500	16,139,766
Total Net Position	$32,100,661	$18,232,190

Note 8 - Commitments and Contingencies

Commitments FTC is committed under obligations for goods and services which have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders were $6,372,487 and $4,260,093 as of September 30, 1998 and 1997, respectively.

Contingencies

(1) FTC is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of FTC management and legal counsel, the ultimate resolution of

these proceedings, actions and claims, will not materially affect the financial position or results of operation of the FTC.

(2) The FTC has contracted with the Department of Interior's (DOI's) Administrative Service Center in Denver, Colorado to provide payroll and vendor payment-related services. The FTC has discussed with DOI steps being taken to ensure continuity of its accounting operations on January 1, 2000 and beyond. DOI staff indicated that systems in use during fiscal year 1998 to process payroll and other administrative payments are in the process of being replaced with "Y2K" compliant hardware. The work is on schedule to be completed by March 31, 1999. The DOI's Office of Inspector General continues to monitor the transition.

Leases The FTC rents approximately 362,704 square feet of space in both commercial and government-owned properties for use as offices, storage and parking. Space leases for government-owned property are made with the General Services Administration (GSA). Leases of commercial property are made through and managed by GSA. The Commission has leases on three government-owned properties and 12 commercial properties. The FTC's current leases expire at various dates through 2002.

Rent expenditures for the years ended September 30, 1998 and 1997 were approximately $10.0 million and $9.9 million, respectively. This amount is net of a GSA credit of approximately $1.8 million for each of the fiscal years 1998 and 1997, relating to the main headquarters building.

Future minimum lease payments due under leases of government-owned property as of September 30, 1998 are as follows:

Fiscal year	
1999	$4,668,871
2000	4,808,937
2001	4,953,205
Thereafter	5,101,801
Total future minimum lease payments	$19,532,814

Future minimum lease payments under leases of commercial property due as of September 30, 1998 are as follows:

Fiscal year	
1999	$5,552,091
2000	5,718,654
2001	5,890,214
Thereafter	6,066,920
Total future minimum lease payments	$23,227,879

Note 9 - Exchange Revenue

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 which occur when each party to the transaction sacrifices value and receives value in return. (Statement of Recommended Accounting Standards No. 7.)* At the FTC, exchange revenue is recognized for premerger filing fees paid under the HSR Act. Filing fee amounts are set by law; in fiscal years 1998 and 1997, the statutory filing fee was $45,000 per qualifying filing. Amounts are earned when the premerger filing is accepted by the agency. Filing fees in the amount of $100,845,015 and $77,062,500 were earned during fiscal years ended September 30, 1998 and 1997, respectively.

Exchange revenue is also earned for services provided to other government agencies through reimbursable agreements. FTC recovers the full cost of services, primarily salaries and related expenses. Amounts are earned at the time the expenditures are incurred against the reimbursable order. During fiscal years 1998 and 1997, FTC earned $425,045 and $672,367 under agreements with the U.S. Agency for International Development to provide technical assistance on competition and antitrust laws to countries in the Former Soviet Union, Ukraine, Eastern Europe and South America. The FTC also earned $63,451 and $56,255 under agreements with the Federal Communications Commission during fiscal years 1998 and 1997, respectively. An additional $32,021 was earned for miscellaneous reimbursable agreements with the Housing and Urban Development Agency and the U.S. Merit Systems Protection Board during fiscal year 1998 only.

Note 10 - Pension Expense

The Commission recognizes the full cost of providing future pension benefits to eligible employees while they are working. The excess of total pension expense over the amounts contributed by FTC and it's employees must be financed by OPM. FTC recognizes an imputed financing source equal to this excess amount. Pension expense in 1998 and 1997 consisted of the following:

	1998			1997
	Employer Contributions	Accumulated Costs Imputed to OPM	Total Pension Expense	Total Pension Expense
Civil Service Retirement System	$2,332,741	$2,087,912	$4,420,653	$4,796,451
Federal Employee's Retirement System	3,697,343	-	3,697,343	3,605,896
Thrift Savings Plan	1,431,547	-	1,431,547	1,391,038
	$7,461,631	$2,087,912	$9,549,543	$9,793,385

Note 11 - Prior Period Adjustment

As indicated in the Summary of Significant Accounting Policies, FTC began depreciating capital assets, effective October 1, 1996. The change was based on the revised *Statement of Federal Financial Accounting Standards Number 6,* dated November 30, 1995, *Accounting for Property, Plant, and Equipment.* This change created a $13.4 million adjustment in prior periods as a result of a one-time write down of the recorded book value of assets for the year ending September 30, 1997.

Note 12 - 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) Hart-Scott-Rodino Pre-Merger Fees

All Hart-Scott-Rodino (HSR) premerger filing fees are collected by the FTC pursuant to P.L. 101-162, as amended, and are divided evenly between the FTC and the Department of Justice. The collected amounts are then credited to the appropriations accounts of the two agencies (FTC's "*Salaries and Expenses*" and DOJ's *"Salaries and Expenses, Antitrust Division").* During fiscal years 1998 and 1997, respectively, FTC collected $201,690,031 and $154,125,000 in HSR fees. Half of this amount, $100,845,015 in 1998, and $77,062,500 in 1997, was held for transfer to DOJ. As of September 30, 1998 collections not transferred to DOJ total $27,022,518 and $21,464,985, respectively.

(b) Civil Penalties and Fines

Civil penalties collected in connection with the settlement or litigation of the FTC's administrative or fede court cases are collected by either the FTC or DOJ as provided for by law. DOJ assesses a fee equivalent to three percent of amounts collected before remitting them to the agency. The agency then deposits these collections into the U. S. Treasury. In 1998 collections by DOJ remitted directly to Treasury amounted to an additional $500,000 which are not reflected in the financial statements.

(c) Redress

The Commission obtains consumer redress in connection with the settlement or litigation of both its administrative and its federal court cases. The Commission attempts to distribute funds thus obtained to consumers whenever possible. If consumer redress is not practical, the funds are paid (disgorged) to the

U. S. Treasury. 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 $17,812,538 and $22,267,721 during fiscal years 1998 and 1997, respectively.

The sources of these collections are as follows:

Source	1998	1997
Contractors	$11,325,346	$18,675,800
Receivers/Others	3,918,394	2,162,009
FTC	2,568,798	1,429,912
Total	$17,812,538	$22,267,721

(d) Accrual Adjustments

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

(e) Receiver Accounts

Receivers are court-appointed agents with the authority to execute certain duties relating to the assets of one or more defendants to a lawsuit which the Commission has brought. Since the receiver is an officer of the court that appoints him, he owes his undivided loyalty as a fiduciary to the appointing court. As of September 30, 1998, approximately $4.5 million was on deposit in receiver accounts ($3.0 million) or paid directly to other parties pursuant to the judgment, including two state governments and one public utility ($1.5 million). In fiscal year 1997 approximately $2.2 million was deposited in receiver accounts. Of this $2.2 million, about $1.6 million was distributed to consumers, used to pay receivership expenses, or claimed by creditors of the respective defendants.

(f) 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 $1,427,482 and $1,241,421 during the years ended September 30, 1998 and 1997, respectively.

Interest earned was $1,215,109 and $1,001,258 during fiscal years 1998 and 1997, respectively, with the difference of $212,373 and $240,163 representing expenses in excess of earnings.

(g) Change in Liability Accounts

Liability accounts contain funds which are in the custody of the agency or its agents, and are owed to others (consumers, receivers for fees, and/or the Department of Justice.) See Exhibit B for the computation of liability account changes.

(h) Current Year Judgments

A judgment is a formal decision handed down by a court. For the purposes of this financial statement, judgments include amounts that defendants have agreed, or are ordered, to pay, for the purpose of making restitution to consumers deemed to have been harmed by the actions of the defendant(s) in the case. In fiscal years 1998 and 1997, the agency obtained monetary judgments against defendants totaling $55 million and $142 million, respectively.

(i) Write Offs

Opening judgment receivable balances on September 30, 1997 reflects the Financial Accounting Standards Advisory Board (FASAB) for the recognition of losses using the collection criterion *"more likely than not."* This Board criterion represents a more stringent criterion than used in the private sector under generally accounting principles (GAAP). In the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, the Board states that it is appropriate to recognize the nature of Federal receivables which unlike the trade accounts of private firms or loans made by banks are not created through credit screening procedures. Rather these receivables arise because of such activities as fines from regulatory violations. In these circumstances, historical experience and economic factors indicate that these types of claims are frequently not fully collectible.

Write offs represent amounts removed from the accounting records during the fiscal year. This management action does not remove the debtor's obligation to repay amounts owed to the government.

(j) Treasury Referrals

Monetary judgments six months or more past due are referred to the Department of Treasury for follow up collection efforts in keeping with the Debt Collection Improvement Act of 1996.

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 1998 and 1997, $361,732 and $345,876 (net of fees) was collected based on FTC referrals. The DMS will not accept cases where defendants are in bankruptcy or a foreign defendant is involved. The FTC does not refer cases to DMS while they are in receivership. During 1998 and 1997, $26,826,963 and $44,559,684 were referred to the DMS for collection.

Exhibit A

Federal Trade Commission
Notes to Statements of Custodial Activity
Accrual Adjustments
September 30, 1998 and 1997

	MC Mission	CP Mission			1998	1997
	Civil Penalty	Civil Penalty	Redress	Subtotal-CP	Total	Total
Part 1						
Judgments Receivable - Net Beginning	$ 3,000,000	$ 331,588	$ 4,530,190	$ 4,861,778	$ 7,861,778	$ 2,821,437
Add:						
Current Year Judgments (Note 12h)	4,000,000	1,176,355	55,062,048	56,238,403	60,238,403	148,793,109
Prior Year Recoveries		715,290	3,544,781	4,260,071	4,260,071	345,876
Less:						
Collections by FTC/Contractors/Receivers	(7,000,000)	(1,790,046)	(17,812,538)	(19,602,584)	(26,602,584)	(26,758,959)
Collections by DOJ for Litigation Fees/Other	-	(64,119)	-	(64,119)	(64,119)	(97,531)
Less:						
Write Offs (Note 12i)	-	(248,552)	(42,945,465)	(43,194,017)	(43,194,017)	(117,242,154)
Judgments Receivable - Net, Ending	$ -	$ 120,516	$ 2,379,016	$ 2,499,532	$ 2,499,532	$ 7,861,778
Part 2						
Judgments Receivable - Net Ending	$ -	$ 120,516	$ 2,379,016	$ 2,499,532	$ 2,499,532	$ 7,861,778
Judgments Receivable - Net Beginning	3,000,000	331,588	4,530,190	4,861,778	7,861,778	2,821,437
Accrual Adjustment:	$ (3,000,000)	$ (211,072)	$ (2,151,174)	$ (2,362,246)	$ (5,362,246)	$ 5,040,341

Exhibit B

Federal Trade Commission
Notes to Statements of Custodial Activity
Change in Liability Accounts
September 30, 1998 and 1997

	MC Mission			CP Mission			
	Pre-Merger	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal - CP	Total
Liabilities @ 09/30/98	$ 27,481,082	$ -	$ 27,481,082	$ 220,946	$ 24,979,426	$ 25,200,372	$ 52,681,454
Liabilities @ 09/30/97	23,482,749	3,000,000	26,482,749	820,632	41,360,819	42,181,451	68,664,200
Change In Liability Accounts	$ 3,998,333	$ (3,000,000)	$ 998,333	$ (599,686)	$ (16,381,393)	$ (16,981,079)	$ (15,982,746)

	MC Mission			CP Mission			
	Pre-Merger	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal - CP	Total
Liabilities @ 09/30/97	$ 23,482,749	$ 3,000,000	$ 26,482,749	$ 820,632	$ 41,360,819	$ 42,181,451	$ 68,664,200
Liabilities @ 09/30/96	5,129,985	150,000	5,279,985	805,223	25,879,941	26,685,164	31,965,149
Change In Liability Accounts	$ 18,352,764	$ 2,850,000	$ 21,202,764	$ 15,409	$ 15,480,878	$ 15,496,287	$ 36,699,051