AR 07-001

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2006

OFFICE OF INSPECTOR GENERAL

AUDITED FINANCIAL STATEMENTS
Fiscal Year 2006

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Office of Inspector General

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

Chairman Majoras:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 2005 and 2006, 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.

Responsibilities and Methodology

Management has the responsibility to:

- prepare the financial statements in conformity with generally accepted accounting principles described in Note 1 to the financial statements;
- establish and maintain an effective internal control over financial reporting; and
- comply with applicable laws and regulations.

Our responsibility is to express an opinion on these financial statements based on our audit. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misrepresentation and presented fairly in accordance with the generally accepted accounting principles. We performed tests of controls in order to determine our auditing procedures for expressing our opinion on these financial statements and not to provide an opinion on the internal control over financial reporting. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- obtained an understanding of the design of relevant internal controls and determined whether they had been placed in operation;
- assessed control risk;

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- tested compliance with selected provisions of the laws and regulations that may materially affect the financial statements; and
- performed other procedures that we considered necessary in the circumstances.

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, 2006 and 2005, and the net costs and changes in net position, its budgetary resources, financing and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States.

Other Accompanying Information

Our audits were conducted for the purpose of forming an opinion on the FY 2006 and 2005 principal financial statements of the Commission taken as a whole. The information discussed below is presented for purposes of additional analysis and is not a required part of the principal financial statements.

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

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

Opinion on Internal Control

In planning and performing our audits, we considered the Federal Trade Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control. We then determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03, *"Audit Requirements for Federal Financial Statements"*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. Because the objective of our audit was not to provide assurance on internal control, we do not provide an opinion on internal control.

With respect to internal control related to performance measures reported in the Management Discussion and Analysis and Program Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 06-03. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Reportable Conditions

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

We noted certain other matters involving the internal control over financial reporting that we have reported to the Commission's management in a separate letter (Management Letter AR 07-001A).

Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of the Commission's compliance with certain provisions of law and regulation, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also tested compliance with certain other laws and regulations specified in OMB Bulletin No. 06-03, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Commission. However, the objective of our audit of these financial statements, including our tests of compliance with selected provisions of applicable law and regulation, was not to provide an opinion on overall compliance with such laws and regulations. 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.

The results of our test of compliance disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin No. 06-03.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

With respect to items not tested, nothing came to our attention to cause us to believe the Commission had not complied, in all respects, with those provisions.

Our audits were conducted in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards,* as issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. We believe that our audits provide a reasonable basis for our opinion.

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

Washington, D.C.
November 13, 2006

Inspector General
Federal Trade Commission

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

Office of Inspector General

October 25, 2006

MEMORANDUM

TO: Deborah Majoras
Chairman

FROM: Howard L. Sribnick
Inspector General

SUBJECT: FY2006 FTC Management Challenges

The Federal Trade Commission is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget in November 2006. The PAR contains a number of sections that address issues ranging from performance to financial management. The financial management section requires that the Inspector General provide the Agency head with a summary of the management and performance challenges facing the Agency and a brief assessment of the agency's progress in addressing those challenges. This summary is included in the FTC's submission of the PAR.

OIG comments on management challenges are limited to those areas where the office has performed audit work. Consequently, this summary does not address all possible vulnerabilities and/or management challenges.

After careful analysis, it is my assessment that the areas of information technology security, redress administration, and the protection of personally identifiable information represent important management and performance challenges for the FTC. The rationale for this assessment is outlined in the attached document.

The Office of Inspector General has enjoyed strong support from Agency management and looks forward to working with you as we address matters of mutual concern. We also welcome any comments or reactions to our assessment.

Attachment

Office of Inspector General
Top Management Challenges at the Federal Trade Commission

Management Challenge: Safeguarding personally identifiable information

Agency Progress in Addressing the Challenge: Safety and security of personally identifiable information (PII) is an important component the Federal Trade Commission's (FTC) responsibility. Computer technology has made it possible for detailed personal information to be easily compiled and shared. Over the past year, FTC has taken significant action to assure that PII collected and stored electronically is protected, including measures to protect PII stored on portable equipment. As the amount of PII collected, used and shared by the agency inevitably increases, the FTC must continue to take precautions to protect PII.

The Challenge Ahead: All FTC managers must focus on the challenge of safeguarding the private, sensitive information in their care. The FTC managers must continue to take aggressive measures to control the collection, use and transmission of PII.

Management Challenge: Securing the agency's critical systems and networks from destruction, data loss, or compromise

Agency Progress in Addressing the Challenge: Information security has been an ongoing challenge at most Federal agencies, including the FTC. Some weaknesses identified in past security reviews included untested or inadequate system security plans, systems placed into production before accreditation by FTC's Office of Information and Technology Management (ITM), and failure to adhere to NIST standards in the certification and accreditation of major applications.

ITM continues to make progress in developing a mature information security program and has implemented or addressed OIG- identified security vulnerabilities discussed in previous security reviews. For example ITM:

- Certified and accredited CommentWorks^{SM}
- Conducted risk assessments, security plans, and security control reviews for an Internet Lab and the Litigation Support Lab
- Added 64 new weaknesses to the plan of action and milestones (POA&M) from a variety of information technology security reviews, while successfully taking corrective action on 45 existing weaknesses
- Made additional progress in developing an effective disaster recovery plan by developing a Continuity of Government kit that contains all the software and documentation ITM needs to reconstruct information technology operations
- Took steps to secure FTC's Private Automatic Branch Exchange (PBX) Voice Over Internet Protocol (VOIP) system
- Implemented controls that restrict access to FTC's share drives

The Challenge Ahead: While taking steps to safeguard systems and information, it is sometimes easy to overlook basic security controls, such as changing default passwords, limiting employees' access to systems and data needed to perform their job responsibilities and ensuring that background checks for employees with access to the agency's most sensitive systems are performed and updated regularly. The challenge for FTC managers is to remain focused on basic security controls as they strive to stay one step ahead of new, highly sophisticated security threats.

Management Challenge: Assure effective control and administration of the IT Security Program as "ownership" of IT systems is vested in management components.

Agency Progress in Addressing the Challenge: OIG has been advised that the agency intends to vest "ownership" of IT systems in its management components. As the ownership of IT systems is vested in various Offices and Bureaus in the FTC, protecting the IT infrastructure from being misused or compromised must be assured. This will involve a coordinated effort involving the Office of Information and Technology Management (ITM), senior FTC information security officer, authorizing officials, information system owners/program managers, and information system security officers.

The Challenge Ahead: The senior information security officer, acting on behalf of the Office of Information and Technology Management, should coordinate with organizational officials responsible for the development and implementation of the designated common security controls to ensure that the required controls are put into place, the controls are assessed, and the assessment results are shared with the appropriate information system owners. ITM should continue to set and enforce IT security policy for the FTC.

Management Challenge: Increased oversight of redress distribution by contractors

Agency Progress in Addressing the Challenge: As a deterrent to fraud by contractor employees, the RAO performs tests of select distributions to tie cancelled checks back to original claimant lists. Since contractor staff does not know which distributions will be selected, or the number of checks selected for audit, this practice serves as a deterrent to fraud.

The current testing procedure works as follows. RAO obtains all cancelled checks from redress contractors on selected distributions. RAO then pulls 10 checks from the universe of all checks issued to tie back to the claimant list. By increasing the sample size, and using computer assisted audit techniques, RAO could significantly improve the likelihood of uncovering fraud.

The Challenge Ahead: RAO should increase the sample size of tests of redress distributions. RAO should start using automated audit tools in its oversight of redress contractors. Data extraction and analysis software could be used to compare original claimant lists to positive pay records submitted to banks. Some tools, such as IDEA software by CaseWare International, Inc., can examine 1.4 million records in four seconds, once the data is imported into the software. Records can be compared to identify checks issued to people not on approved claimant lists maintained by RAO. Bank disbursements records could also be imported as an additional crosscheck.

Management Challenge: Improve oversight of receiver activities and due diligence in the recommendation of receiver candidates.

Agency Progress in Addressing the Challenge: Court appointed receivers are legally obligated to report to the court regarding their performance of their fiduciary obligations. Past experience demonstrates that the FTC cannot rely on most courts to oversee the activities of receivers and detect wrongdoing. In addition, staff attorneys are not fully aware of the past performance of receiver candidates. Thus, in one instance, FTC attorneys continued to recommend an individual to serve as a receiver because they were unaware that the receiver had failed to provide required reports in other cases. In another case, a receiver was recommended who had been found by a court to have violated his fiduciary duties in the past. FTC staff maintains some contact with receivers regarding the progress of receiverships, especially as it pertains to consumer redress. However, the FTC's authority to oversee receiver performance after appointment by the court is limited. Despite the agency's limited authority to police receiver's activities, there may be practical measures to assist the agency in ensuring receiver integrity and accountability. These measures derive from the fact that the FTC is called upon to recommend potential receiver candidates to the court, and the agency's authority to recommend that the court not authorize fees based on receiver performance.

The Challenge Ahead: When applying to be considered for recommendation to be a receiver the applicant should be required to identify any instance in which they were found to have failed to perform the fiduciary obligations required of a receiver.

RAO should serve as a central repository for information on the qualifications and past performance of receiver candidates. This information should be readily available to staff attorneys who are selecting potential receiver candidates to recommend to the court. RAO should also assist staff in reviewing receiver qualifications and past performance.

FTC attorneys should communicate to receiver candidates that the FTC takes seriously the integrity of the receiver's performance and will review all receiver reports filed with the court. The FTC should also ask that the court include a requirement for periodic reporting as part of the order appointing a receiver. Such requirements will make receiver candidates aware that the FTC will monitor their activities and will act to protect consumers' interests.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
Assets (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 70,139	$ 78,213
Accounts receivable (Note 5)	55	87
Total intragovernmental	70,194	78,300
Cash and other monetary assets (Note 4)	100,548	81,468
Accounts receivable (Note 5)	136,968	84,355
General property, plant and equipment, net (Note 6)	14,400	15,096
Total assets	$ 322,110	$ 259,219
Liabilities:		
Intragovernmental:		
Accounts payable	$ 2,213	$ 2,468
Other (Note 8)	20,096	12,825
Total intragovernmental	22,309	15,293
Accounts payable	5,769	7,731
Other (Note 8)	244,897	185,245
Total liabilities (Note 7)	272,975	208,269
Net position:		
Unexpended appropriations - other funds	14	14
Cumulative results of operations - other funds	49,121	50,936
Total net position	$ 49,135	$ 50,950
Total liabilities and net position	$ 322,110	$ 259,219

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF NET COST
For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
Program costs		
Maintaining Competition Mission:		
Gross costs	$ 88,275	$ 84,486
Less: earned revenue	(111,668)	(100,375)
Net program (revenue) costs (Note 11)	(23,393)	(15,889)
Consumer Protection Mission:		
Gross costs	119,430	111,992
Less: earned revenue	(21,776)	(18,169)
Net program (revenue) costs (Note 11)	97,654	93,823
Net cost of operations	$ 74,261	$ 77,934

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, 2006 and 2005
(Dollars in thousands)

	2006	2005
Cumulative Results of Operations:		
Beginning balance, adjusted	$ 50,936	$ 35,496
Budgetary Financing Sources:		
Appropriations used	77,470	86,754
Less: Other - Recission	(12,000)	-
Other Financing Sources (Non-Exchange):		
Imputed financing	6,976	6,620
Total Financing Sources	72,446	93,374
Less: Net Cost of Operations	(74,261)	(77,934)
Net Change	(1,815)	15,440
Cumulative Results of Operations	**49,121**	**50,936**
Unexpended Appropriations:		
Beginning balance, adjusted	14	36
Budgetary Financing Sources:		
Appropriations received	78,390	87,838
Less: Other adjustments (Recission)	(920)	(1,106)
Less: Appropriations used	(77,470)	(86,754)
Total Budgetary Financing Sources	-	(22)
Total Unexpended Appropriations	14	14
Net Position	**$ 49,135**	**$ 50,950**

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	$ 13,926	$ 8,427
Recoveries of prior year unpaid obligations	1,043	773
Budget authority		
Appropriation	78,390	87,838
Spending authority from offsetting collections		
Earned		
Collected	133,475	118,579
Change in receivables from Federal sources	(32)	(34)
Change in unfilled customer orders		
Without advance from Federal sources	(167)	258
Subtotal	211,666	206,641
Permanently not available	(12,920)	(1,106)
Total Budgetary Resources	$ 213,715	$ 214,735
Status of Budgetary Resources:		
Obligations incurred (Note 13)		
Direct	69,653	82,007
Reimbursable	133,187	118,802
Subtotal	202,840	200,809
Unobligated balance		
Available	8,187	5,287
Not available	2,688	8,639
Total status of budgetary resources	$ 213,715	$ 214,735
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 47,045	$ 36,376
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(400)	(176)
Total unpaid obligated balance, net	46,645	36,200
Obligations incurred net	202,840	200,809
Less: Gross outlays	(201,592)	(189,367)
Less: Recoveries of prior year unpaid obligations, actual	(1,043)	(773)
Change in uncollected customer payments from Federal sources (+/-)	199	(224)
Obligated balance, net , end of period		
Unpaid obligations	47,250	47,045
Uncollected customer payments from Federal sources	(201)	(400)
Net Outlays		
Net Outlays:		
Gross outlays	201,592	189,367
Less: Offsetting collections	(133,475)	(118,579)
Less: Distributed offsetting receipts	(10,021)	(23,035)
Net Outlays	$ 58,096	$ 47,753

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 202,840	$ 200,809
Less: Spending authority from offsetting collections and recoveries	(134,319)	(119,576)
Obligations net of offsetting collections and recoveries	68,521	81,233
Other Resources		
Imputed financing from costs absorbed by others	6,976	6,620
Net other resources used to finance activities	6,976	6,620
Total resources used to finance activities	75,497	87,853
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	(2,058)	(9,225)
Resources that finance the acquistion of assets	(3,208)	(4,127)
Total resources used to finance items not part of the net cost of operations	(5,266)	(13,352)
Total resources used to finance the net cost of operations	70,231	74,501
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	113	87
Other	12	45
Total components of Net Cost of Operations that will require or generate resources in future periods	125	132
Components not Requiring or Generating Resources:		
Depreciation and amortization	3,905	3,301
Total Components of Net Cost of Operations that will not require or generate resources	3,905	3,301
Total components of net cost of operations that will not require or generate resources in the current period	4,030	3,433
Net Cost of Operations	$ 74,261	$ 77,934

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

(Refer to Note 16)

	MC Mission	CP Mission	2006	2005
Revenue Activity:				
Sources of Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 110,913	$ -	$ 110,913	$ 99,511
Civil Penalties and Fines (b)	-	20,458	20,458	6,479
Redress (c)	-	37,283	37,283	62,181
Divestiture Fund (d)	970	-	970	708
Funeral Rule Violations	-	170	170	7
Total Cash Collections	111,883	57,911	169,794	168,886
Accrual Adjustments (e)	-	52,613	52,613	21,476
Total Custodial Revenue	$ 111,883	$ 110,524	$ 222,407	$ 190,362
Disposition of Collections:				
Transferred to Others:				
Treasury General Fund	-	29,402	29,402	20,095
Department of Justice	109,861	-	109,861	96,652
Receivers (f)	-	7	7	182
Redress to Claimants (g)	-	14,367	14,367	66,109
Contrator Fees Net of Interest Earned (h)	-	905	905	6,291
Attorney Fees	-	-	-	8,712
Court Registry	-	1,600	1,600	2,755
Increase/(Decrease) in Amounts Yet to be Transferred	2,022	64,243	66,265	(10,434)
Net Custodial Activity	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements

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 Commission 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 two primary mission areas; maintaining competition and consumer protection that are supported by the Bureau of Competition (BC), the Bureau of Consumer Protection (BCP) and the Bureau of Economics (BE). Additionally, the following Offices provide mission support as described. The Office of the Executive Director is the FTC's chief operating officer and manager, responsible for such matters as administrative services, financial management, procurement, human resources management, information and technology management, as well as overall FTC program and policy execution. The Office of Congressional Relations works closely with members of Congress and their staffs. The Office of General Counsel is the FTC's chief legal officer and adviser. The Office of Public Affairs provides information to the public through the media. The Secretary is the Commission's "court clerk," responsible for implementing the Commission's voting procedures, creating official records of its decisions, receiving and serving Commission orders and other official documents, and coordinating the preparation of responses to congressional constituent inquiries. The Office of Inspector General is responsible for the detection and prevention of waste, fraud and abuse in agency programs.

The majority of FTC staff is located in Washington D.C., however the FTC's Regional Offices cover seven geographic areas. The regional offices work with the Bureaus of Competition and Consumer Protection 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. FTC regional offices frequently sponsor conferences for small businesses, local authorities, and consumer groups.

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.

(b) Fund Accounting Structure

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

General Funds Treasury Account Symbol (TAS) 29X0100 consists of salaries and expense appropriation accounts used to fund agency operations and capital expenditures.

Deposit Funds TAS 29X6013 consists of monies held temporarily by the FTC as an agent for others (e.g. redress funds).

Suspense Funds TAS 29F3875 represent receipts awaiting proper classification, or held in escrow, until ownership is established and proper distributions can be made.

Miscellaneous Receipt Accounts TAS 29 1040 and 29 3220 reflects 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 financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, financing, and custodial activities of the FTC, in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and the Financial Reporting Requirements of the Office of Management and Budget (OMB) prescribed in OMB Circular A-136 (as revised July 2006). They have been prepared from the books and records of the FTC and include the accounts of all funds under the control of the FTC. Accounting principles generally accepted in the U.S. of America encompass both accrual and budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

In addition, the accompanying statements include information on the activities of the agency's consumer redress program. Independent agents are contracted to administer the program under the oversight of FTC program offices, which maintain the financial records for consumer redress activity.

(d) Budget Authority

Congress annually passes appropriations that provide the FTC with authority to obligate funds for necessary expenses to carry out mandated program activities. These funds are available until expended, subject to OMB apportionment and to Congressional restrictions on the expenditure of funds. Also, the FTC places internal restrictions on fund expenditures to ensure the efficient and proper use of all funds. Appropriated funding is derived from various revenues and financing sources.

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

Fund balances with Treasury consist of appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments, and restricted funds, which include deposit and suspense funds. The FTC's fund balances with Treasury are carried forward until such time as goods or services are received and payment is made or until the funds are returned to the U.S. Treasury. Cash receipts and disbursements are processed by the U.S. Treasury, with the exception of (redress) funds received and subsequently distributed (in accordance with court orders) by FTC agents to claimants.

(f) 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 these receipts, a corresponding liability is also recorded for non-entity accounts receivable. Gross receivables are reduced to Net Realizable value by an allowance for uncollectible accounts (see Note 5 Accounts Receivable).

(g) Property, Plant and Equipment

The basis for recording purchased general Property, Plant and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The FTC's PP&E consists of equipment, leasehold improvements, and software. Leasehold Improvements include all costs incurred during the design and construction phase of the improvement. These costs are amortized over the remaining life of the lease, or the useful life of the improvements, whichever is shorter. The land and buildings in which the FTC utilizes are owned by commercial vendors and the U.S. General Services Administration (GSA). Owners of Commercial buildings charge rent based on rates negotiated by GSA (on FTC's behalf). For GSA owned property, GSA charges the FTC a Standard Level Users Charge (SLUC) that approximates the commercial rental rates for similar properties. FTC policy is to capitalize all PP&E with an initial cost greater than $100,000 and a useful life over two years

(h) Cash and Other Monetary Assets

With the exception of cash held in consumer redress custodial accounts by FTC's contracted agents, the FTC does not maintain cash in commercial bank accounts. (See accompanying Statements of Custodial Activity).

(i) Accrued Liabilities and Accounts Payable

Accrued Liabilities and Accounts Payable represents 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 7 for information on "Liabilities not covered by budgetary resources" and Note 8 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) Post-Retirement Health Benefits and Life Insurance

FTC employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. The Office of Personnel Management (OPM) has provided the FTC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The FTC recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the FTC through the recognition of an imputed financing source on the Statement of Financing. During fiscal years 2006 and 2005, the cost factors relating to FEHBP were $5,229 and $4,903, respectively, per employee enrolled. During fiscal years 2006 and 2005, the cost factor relating to FEGLIP was 0.02 percent of basic pay per employee enrolled.

(l) Employee Retirement Benefits

FTC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Employees hired after December 31, 1983, are covered by FERS and Social Security, while employees hired prior to January 1, 1984, may elect to either join FERS or remain in CSRS. Approximately 24 percent of FTC employees participate in CSRS. For employees participating in CSRS, the FTC contributes seven percent of the employee's gross earnings to the CSRS Retirement and Disability Fund. For employees participating in FERS, the FTC contributes 11.2 percent to the Federal Employees' Retirement Fund. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which the FTC contributes a matching amount to the Social Security Administration. FTC contributions are recognized as current operating expenses. The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS and

FERS participating employees may contribute any dollar amount or percentage of basic salary to TSP, not to exceed an annual dollar amount of $15,000, for 2006. CSRS participating employees do not receive a matching contribution from the FTC. For FERS employees, the FTC contributes one percent of the employee's gross pay to the TSP. The FTC also matches 100 percent of the first three percent contributed and 50 percent of the next 2 percent contributed. FTC contributions are recognized as current operating expenses. Although the FTC contributes a portion for pension benefits and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee's retirement benefits, or the retirement plan assets. Therefore, the FTC financial statements do not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to employees. Such reporting is the responsibility of the OPM.

However, the FTC recognizes the full cost of providing future pension benefits to covered employees at the time the employees' services are rendered. OPM has provided the FTC with certain cost factors that estimate the true service cost of providing the pension benefits to covered employees. The cost factors used to arrive at the service cost are 25 percent of basic pay for CSRS covered employees and 12 percent of basic pay for FERS covered employees during fiscal years 2006 and 2005. 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 2006 and 2005 consisted of the following:

(Dollars in thousands)	2006 Total Pension Expense	2005 Total Pension Expense
Civil Service Retirement System	$ 4,029	$ 4,255
Federal Employees Retirement System	8,548	7,616
Thrift Savings Plan	3,374	3,164
Total	$ 15,951	$ 15,035

(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 appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation.

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

(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 (1) amounts received for services performed under reimbursable agreements and (2) amounts received from collection of fees under the Hart-Scott-Rodino (HSR) Act and the National Do Not Call Registry. For amounts collected under reimbursable work performed, revenue is recognized (accrued) when services are performed. Relative to fees, revenues are recognized when fees are earned. (See note 12)

In addition to exchange revenue, the FTC receives financing sources through direct appropriation from the general fund of the Treasury to support its operations. A financing source, appropriations used, is recognized to the extent these appropriated funds have been consumed. In fiscal years 2006 and 2005, the FTC received a financing source in the form of a direct appropriation that represented approximately 36 percent of total revenues and financing sources realized.

(o) Methodology for Assigning Cost

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

(p) Use of Estimates

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

(q) Reclassifications

Certain reclassifications to prior-year balances have been made in the accompanying financial statements to make disclosures consistent with those of the current year.

NOTE 2 -- NON-ENTITY ASSETS

The following summarizes Non-entity Assets as of September 30, 2006 and 2005:

(Dollars in thousands)	2006	2005
Intragovernmental:		
Fund balance with Treasury	$ 12,214	$ 17,642
Cash and other monetary assets (Note 4)	100,548	81,468
Accounts receivable	136,968	84,355
Total non-entity assets	249,730	183,465
Total entity assets	72,380	75,754
Total Assets	$ 322,110	$ 259,219

Non-entity Fund Balance with Treasury primarily represents undisbursed premerger filing fees and deposits held for the consumer redress program. Cash and other Monetary Assets consist of amounts on deposit with FTC distribution agents and divestiture fund deposits.

NOTE 3 -- FUND BALANCES WITH TREASURY

Fund balances with Treasury consisted of the following at September 30, 2006 and 2005:

(Dollars in thousands)	2006	2005
Fund Balances:		
Appropriated funds	$ 57,925	$ 60,571
Suspense fund - undisbursed HSR filing fees	10,441	9,389
Deposit funds - redress	1,773	8,253
Total	$ 70,139	$ 78,213

Status of Fund Balance with Treasury

	2006	2005
Unobligated balance		
Available	$ 8,187	$ 5,287
Unavailable	2,688	8,639
Obligated balance not yet disbursed	47,050	46,645
Non-Budgetary fund balance with Treasury		
Suspense fund - undisbursed HSR filing fees	10,441	9,389
Deposit funds - redress	1,773	8,253
Total	$ 70,139	$ 78,213

The 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.

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

NOTE 4 -- CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets held as non-entity assets consist of redress judgment amounts on deposit with FTC's distribution agents and divestiture fund deposits. A corresponding liability is recorded for these assets.

Cash and other monetary assets consisted of the following as of September 30, 2006 and 2005:

(Dollars in thousands)	2006	2005
Other monetary assets		
Redress contractors	$ 57,494	$ 39,384
Divestiture fund	43,054	42,084
Total other monetary assets	$ 100,548	$ 81,468

NOTE 5 -- ACCOUNTS RECEIVABLE

Opening judgment receivable (consumer redress and civil penalties) 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.

Accounts receivable consisted of the following as of September 30, 2006 and 2005:

(Dollars in thousands)	Currently Due	Allowance	2006 Net	2005 Net
Entity assets:				
Intragovernmental-				
Accounts Receivable	$ 55	$ -	$ 55	$ 87
Non-entity assets:				
Consumer Redress	$ 1,546,439	$ 1,415,926	$ 130,513	$ 84,023
Civil Penalties	7,242	787	6,455	332
Total Non-entity assets	$ 1,553,681	$ 1,416,713	$ 136,968	$ 84,355

NOTE 6 -- PROPERTY, PLANT, AND EQUIPMENT, NET

FTC policy is to capitalize all PP&E with an initial cost greater than $100,000 and a useful life over two years. Such assets are depreciated using the straight-line method of depreciation with service lives range from three to twenty years. Additionally, internal use software development and acquisition costs of $100,000 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, 2006 and 2005:

(Dollars in thousands) Asset Class	Service Life	Acquisition Value	Accumulated Depreciation	2006 Net Book Value	2005 Net Book Value
Equipment & Furniture	5-20 yrs	$ 7,173	$ 4,754	$ 2,419	$ 3,439
Leasehold Improvements	10-15 yrs	5,842	1,350	4,492	4,039
Software	3 yrs	9,060	6,001	3,059	5,201
Software-in-Development		4,430	-	4,430	2,417
Total		$ 26,505	$ 12,105	$ 14,400	$ 15,096

Depreciation expense was $3.9 million and $3.3 million for fiscal years ending September 30, 2006 and 2005, respectively and is contained in the accumulated depreciation.

NOTE 7 -- LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

A breakout of Intragovernmental Liabilities and Liabilities With the Public not covered by budgetary resources as of September 30, 2006 and 2005 are shown below:

(a) Intragovernmental and With the Public

(Dollars in thousands)	2006	2005
Intragovernmental:		
Undisbursed premerger filing fees due to DOJ	$ 10,441	$ 9,389
Civil penalty collections due to Treasury	6,455	332
FECA liability	2,400	2,388
Total intragovernmental	19,296	12,109
Unfunded leave	7,696	7,583
With the public :		
Undisbursed redress	59,267	47,637
Divestiture fund due	43,054	42,084
Redress receivables accrued and due to claimants	130,513	84,023
Total liabilities not covered by budgetary resources	$ 259,826	$ 193,436
Total liabilities covered by budgetary resources	13,149	14,833
Total liabilities	$ 272,975	$ 208,269

(b) Other Information

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

FECA Liability consists of workers compensation claims payable to the Department of Labor (DOL), which will be funded in a future period and an unfunded estimated liability for future workers' compensation claims based on data provided from DOL. The actuarial calculation is based on benefit payments made over the last 12 quarters, and calculates the annual average of payments. For medical expenses and compensation this average is then multiplied by the liability to benefit paid ratio for the whole FECA program.

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

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

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

Undisbursed Premerger Filing 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.

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

NOTE 8 -- OTHER LIABILITIES

The following summarizes Other Liabilities as of September 30, 2006 and 2005, all are considered current:

(Dollars in thousands)	2006	2005
Intragovernmental:		
Undisbursed premerger liability	$ 10,441	$ 9,389
Civil penalty collection due to Treasury	6,455	332
FECA liability	2,400	2,388
Accrued benefits	800	716
Total Intragovernmental	$ 20,096	$ 12,825
With the Public		
Redress receivables accrued and due to claimants	$ 130,513	$ 84,023
Undisbursed redress	59,267	47,637
Divestiture fund due	43,054	42,084
Accrued leave	7,696	7,583
Accrued salary	4,367	3,918
Total Other Liabilities	$ 244,897	$ 185,245

NOTE 9 -- 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 2013. Two leases provide for tenant improvement allowances totaling $7.1 million and provide that these costs be amortized over the length of the leases. Under the terms of the leases, the FTC agrees to reimburse the landlord for the principal balance of the unamortized portion of the tenant improvement allowance in the event the agency vacates the space before lease expiration. The FTC rents approximately 571,734 square feet of space in both commercial and government-owned properties for use as offices, storage and parking.

Rent expenditures for the years ended September 30, 2006 and 2005, were approximately $17.5 million and $17.3, respectively.

Future minimum lease payments due under leases of government-owned property as of September 30, 2006, are as follows:

(Dollars in thousands)

Fiscal Year	
2007	$ 6,091
2008	6,045
2009	5,605
2010	17
2011	4
Total Future Minimum Lease Payments	$ 17,762

Future minimum lease payments under leases of commercial property due as of September 30, 2006 are as follows:

(Dollars in thousands)

Fiscal Year	
2007	$ 11,492
2008	11,086
2009	11,137
2010	11,277
2011	11,423
Thereafter	9,073
Total Future Minimum Lease Payments	$ 65,488

NOTE 10 -- COMMITMENTS AND CONTINGENCIES

Commitments The FTC is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders, net of unfilled customer orders from federal sources, were $33.9 million and $31.9 million as of September 30, 2006 and 2005, respectively.

Contingencies The FTC is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of FTC management and legal counsel, the ultimate resolution of these proceedings, actions, and claims, will not materially affect the financial position or the results of operation of the FTC.

NOTE 11 -- 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 in thousands)	**2006**	**2005**
Maintaining Competition Mission:		
Intragovernmental gross costs	$ 22,355	$ 21,833
Public costs	65,920	62,653
Total Maintaining Competition costs	88,275	84,486
Intragovernmental earned revenue	(755)	(864)
Public earned revenue	(110,913)	(99,511)
Total Maintaining Competition net earned revenue	(111,668)	(100,375)
Maintaining Competition net (revenue) costs	(23,393)	(15,889)
Consumer Protection Mission:		
Intragovernmental gross costs	30,244	28,941
Public costs	89,186	83,051
Total Consumer Protection costs	119,430	111,992
Intragovernmental earned revenue	(79)	(117)
Public earned revenue	(21,697)	(18,052)
Total Consumer Protection net earned revenue	(21,776)	(18,169)
Consumer Protection net (revenue) costs	97,654	93,823
Net cost of operations	$ 74,261	$ 77,934

NOTE 12 -- EXCHANGE REVENUES

Exchange revenues are earned through the collection of fees under the Hart-Scott-Rodino Act. This Act, in part, requires the filing of premerger notifications with the FTC and the Antitrust Division of the Department of Justice (DOJ) and establishes a waiting period before certain acquisitions may be consummated. Mergers with transaction amounts over \$53 million require the acquiring party to pay a filing fee. The filing fees are based on the transaction amount and follow a three-tiered structure: $45,000, $125,000, and $280,000. The FTC retains one-half of the HSR premerger filing fees collected. Revenue is recognized when all required documentation under the HSR Act has been received by the agency. Fees not retained by the FTC are maintained in a suspense fund until transferred to the DOJ and not reported as revenue to the FTC.

Exchange revenues are also earned through the collection of fees for the national Do Not Call Registry. This registry operates under Section 5 of the FTC Act, which enforces the Telemarketing Sales Rule (TSR). The Do Not Call Implementation Act, P.L. 108-010, gives the FTC authority to establish fees for fiscal years 2003 through 2007 sufficient to offset the implementation and enforcement of the provisions relating to the Do Not Call Registry. Telemarketers are required to pay an annual subscription fee and download from the Do Not Call Registry database a list of telephone numbers of consumers who do not wish to receive calls. Fees are based on the number of area codes downloaded. The minimum charge was $56 to download one area code. The maximum charge was $15,400 for all area codes within the United States. Effective September 1, 2006, the new minimum charge is $62 and the maximum charge is $17,030. Revenue is recognized when collected and the Telemarketer is given access to download data from the Do Not Call database. Fees collected over expenses are retained for use in other FTC missions.

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

Exchange revenue consisted of the following:

(Dollars in thousands)	2006	2005
HSR premerger filing fees	$ 110,913	$ 99,511
Do Not Call registry fees	21,697	18,052
Reimbursable agreements	834	981
Total	$ 133,444	$ 118,544

NOTE 13 -- APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSEABLE OBLIGATIONS

(a) Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in 2006 and 2005 consisted of the following:

(Dollars in thousands)	2006	2005
Direct Obligations:		
Category A	$ 69,653	$ 82,007
Reimbursable Obligations:		
Category A	132,610	117,563
Category B	577	1,239
Total Reimbursable Obligations	133,187	118,802
Total	$ 202,840	$ 200,809

NOTE 14 -- 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 15 -- 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 2006 and FY2005 are reflected as part of Components Requiring or Generating Resources in Future Periods on the Statement of Financing. The increase in Accrued Leave of $113,000 is included in the increase in Annual Leave Liability line on the Statement of Financing, and the increase in FECA Liability of $ 12,000 is included in the "Other" line as part of the resources that fund future periods.

NOTE 16 -- CUSTODIAL ACTIVITIES

The FTC functions in a custodial capacity with respect to revenue transferred or transferable to recipient government entities or the public. These amounts are not reported as revenue to the FTC. The major components of the FTC's custodial activities are discussed below.

(a) Premerger Filing Fees

All Hart-Scott-Rodino (HSR) premerger filing fees are collected by the FTC pursuant to section 605 of P.L. 101-162, as amended, and are divided evenly between the FTC and the DOJ. The collected amounts are then credited to the appropriations accounts of the two agencies (FTC's "Salaries and Expenses" and DOJ's "Salaries and Expenses, Antitrust Division"). During fiscal years 2006 and 2005 FTC collected $221.8 million and $199.0 million, respectively, in HSR fees. Total collections in the amount of $110.9 were retained for distribution, of which $100.6 million of this collection was transferred to DOJ in 2006 and $90.3 in 2005. As of September 30, 2006 the undistributed collections remaining in the amount of $10.4 million represent amounts to be transferred to DOJ in a future period.

(b) Civil Penalties and Fines

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

(c) Redress

The FTC obtains consumer redress in connection with the settlement or litigation of both its administrative and its federal court cases. The FTC attempts to distribute funds thus obtained to consumers whenever possible. If consumer redress is not practical, the funds are paid (disgorged) to the U. S. Treasury, or on occasion, other alternatives, such as consumer education, are explored. Major components of the program include eligibility determination, disbursing redress to claimants, and accounting for the disposition of these funds. Collections made against court-ordered judgments totaled $37.2 million and $62.2 million during fiscal years 2006 and 2005, respectively.

The sources of these collections are as follows:

(Dollars in thousands)	2006	2005
Contractors	$ 4,892	$ 3,076
Receivers	1,712	25,761
FTC	30,679	33,344
Total	$ 37,283	$ 62,181

(d) Divestiture Fund

One judgment obtained by the FTC on behalf of its maintaining competition mission stipulates the divestiture of assets by the defendants into an interest-bearing account to be monitored by the agency. The account balance represents principal and related interest held in one of the FTC's contractor accounts as stipulated in the judgment. A corresponding liability is recorded. Net interest earned in fiscal year 2006 and 2005, was $970,000 and $708,000, respectively.

Divestiture Fund activity in fiscal years 2006 and 2005 consisted of the following:

(Dollars in thousands)	2006	2005
Beginning Balance	$ 42,084	$ 41,376
Interest	1,838	866
Expense	(868)	(158)
Net Total	970	708
Ending Balance	$ 43,054	$ 42,084

(e) Accrual Adjustments

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

(f) Receivers

Funds forwarded to receivers for distribution to consumers was $7,560 and $182,000 for fiscal year 2006 and 2005, 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 2006 a total of $14.3 million was distributed to consumers: $12.6 million was paid by the FTC and its contracted agents, and $1.7 million was paid by receivers. In fiscal year 2005, a total of $66.1 million was distributed to consumers: $40.3 million was paid by the FTC and its contracted agents, and $25.8 million was distributed by receivers.

(h) Contractor Fees Net of Interest Earned

Collections against monetary judgments are often deposited with one of the agency's two redress contractors until distributions to consumers occur. Funds are deposited in interest-bearing accounts, and the interest earnings are used to fund administrative expenses. Contractor expenses for the administration of redress activities and funds management amounted to $2.5 million and $6.8 million during the years ended September 30, 2006 and 2005, respectively. Interest earned was $1.6 million and $.5 million during fiscal years 2006 and 2005, respectively, with the difference of $.9 million and $6.3 million 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 Department of Justice). See Exhibit B for the computation of liability account changes.

(j) Current Year Judgments

A judgment is a formal decision handed down by a court. Redress judgments include amounts that defendants have agreed, or are ordered to pay, for the purpose of making restitution to consumers deemed to have been harmed by the actions of the defendant(s) in the case. For purposes of presentation in Exhibit A, redress judgments include cases in which the FTC, or one of its agents, is directly involved in the collection or distribution of consumer redress. In fiscal years 2006 and 2005 the agency obtained and reported in Exhibit A monetary redress judgments against defendants totaling $315.2 million and $835.0 million, respectively.

The FTC does not include in the presentation of Exhibit A current redress judgment cases in which the FTC, or one of its agents, is not directly involved with the collection or distribution of consumer redress. These are cases in which the defendant, or other third party, has been ordered to pay redress directly to the consumers. In most of these cases, the judgment has ordered redress in the form of refunds or credits.

The agency also obtained civil penalty judgments of $27.3 and $6.6 million in fiscal years 2006 and 2005, respectively.

(k) Treasury Referrals and Prior Year Recoveries

Monetary judgments six months or more past due are referred to the Department of Treasury for follow-up collection efforts in keeping with the Debt Collection Improvement Act of 1996 (DCIA). Treasury's Debt Management Services (DMS) administers the program, and deducts 18 percent from amounts ultimately collected for its fee. Collections, net of fees, are returned to the FTC for distribution to either consumers, in the form of redress, or to the general fund of the Treasury as disgorged amounts. In fiscal years 2006 and 2005, $.9 million and $1.5 million (net of fees) were collected by DMS based on FTC referrals and are reported as collections on the Statements of Custodial Activity. The FTC refers to DMS only those cases as defined in DCIA. This excludes cases that are in receivership, or bankruptcy or foreign debt. During 2006 and 2005, $176.7 and $104.6 million were referred to the DMS for collection.

Prior year recoveries include amounts collected on cases that were written off in a previous year. In fiscal years 2006 and 2005, $1.7 million and $2.9 million were collected.

(l) Adjustments to the Allowance

Adjustments to the allowance for redress, totaling $233.1 million, represent adjustments to the provision for uncollectible amounts. Adjustments to the allowance for civil penalty, totaling $147,800, represent adjustments to the provision for uncollectible amounts.

NOTE 17 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amount of budgetary resources obligated for undelivered orders at the end of September 30, 2006 and 2005 is $33.2 and $32.5 million, respectively.

FEDERAL TRADE COMMISSION
SUPPLEMENTARY INFORMATION
For the Years Ending September 30, 2006 and 2005
(Dollars in thousands)

Intragovernmental Assets:

Trading Partner Agency:	Fund Balance with Treasury Entity	Fund Balance with Treasury Non-Entity	Accounts Receivable	Total 2006	Total 2005
U.S. Department of Treasury	$ 57,925	$ 12,214	$ -	$ 70,139	$ 78,213
Agency for International Development	-	-	46	46	33
Other Government Agencies	-	-	9	9	54
Total Intragovernmental Assets	$ 57,925	$ 12,214	$ 55	$ 70,194	$ 78,300

Intragovernmental Liabilities:

Trading Partner Agency:	Accrued Benefits	Accounts Payable	NA	Total 2006	Total 2005
Covered by Budgetary Resources:					
General Services Administration	$ -	$ 694	$ -	$ 694	$ 416
Government Printing Office	-	603	-	603	1,274
Homeland Security	-	401	-	401	100
Department of Justice	-	253	-	253	-
U.S. Postal Inspection Service	-	114	-	114	125
U.S. Department of Treasury	198	94	-	292	256
Office of Personnel Management	602	37	-	639	593
Department of Transportation	-	17	-	17	416
Department of Labor	-	-	-	-	4
Total Covered by Budgetary Resources	$ 800	$ 2,213	$ -	$ 3,013	$ 3,184
Not Covered by Budgetary Resources:					
Department of Justice	$ -	$ 10,441	$ -	$ 10,441	$ 9,389
Department of Labor	-	2,400	-	2,400	2,388
U.S. Department of Treasury	-	6,455	-	6,455	332
Total Not Covered by Budgetary Resources	$ -	$ 19,296	$ -	$ 19,296	$ 12,109

FEDERAL TRADE COMMISSION
Supplementary Information
For the Years Ending September 30, 2006 and 2005
(Dollars in thousands)

Exchange Revenue from Reimbursable Agreements

Trading Partner:	**2006**	**2005**
U.S. Agency for International Development	$ 592	$ 332
U.S. Department of State	120	401
Federal Mine Safety & Health Review Commission	40	38
Medicare Payment Advisory Commission/GSA	20	19
U.S. Postal Inspection Service	20	17
Department of Commerce	9	4
Securities and Exchange Commission	8	21
Board of Governors of the Federal Reserve System	8	21
Federal Deposit Insurance Corp.	8	21
Office of the Comptroller of the Currency	8	21
National Credit Union Admin	1	15
Department of Justice	-	42
U.S. Trade and Development Agency	-	29
Total Exchange Revenue from Reimbursable Agreements	$ 834	$ 981

Related Costs:

Budget Function Classification:	**2006**	**2005**
Other Advancement of Commerce	$ 834	$ 981
Total Related Costs	$ 834	$ 981

FEDERAL TRADE COMMISSION
Supplementary Information
For the Years Ending September 30, 2006 and 2005
(Dollars in thousands)

Intragovernmental Expenses:

Trading Partner:	2006	2005
Office of Personnel Management	$ 22,268	$ 21,109
General Services Administration	18,389	18,422
Social Security Administration	5,591	5,254
Government Printing Office	1,762	2,270
Department of Homeland Security	1,655	1,038
Department of the Interior	872	865
Department of Transportation	722	709
Department of Justice	646	53
Department of Labor	378	265
Department of Health and Human Services	226	229
National Archives and Records Administration	47	46
Department of State	26	64
Library of Congress	10	-
Department of Commerce	9	4
U.S. Environmental Protection Agency	2	185
United States Postal Service	1	247
U.S. Department of Treasury	(5)	14
Total Intragovernmental Expenses	$ 52,599	$ 50,774

Mission:	2006	2005
Maintaining Competition	$ 22,355	$ 21,833
Consumer Protection	30,244	28,941
Total Intragovernmental Expenses	$ 52,599	$ 50,774

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2006 and 2005
(Dollars in thousands)

	CP Mission			2006	2005
Part 1	Civil Penalty	Redress	Subtotal CP	Total	Total
Judgments Receivable - Net Beginning	$ 332	$ 84,023	$ 84,355	$ 84,355	$ 62,879
Add:					
Current Year Judgments (Note 16j)	27,360	315,195	342,555	342,555	841,649
Prior Year Recoveries (Note 16k)	-	1,719	1,719	1,719	2,921
Less:					
Collections by FTC/Contractors Receivers	(20,458)	(37,283)	(57,741)	(57,741)	(68,660)
Collections by DOJ for Litigation Fees/Other	(631)	-	(631)	(631)	(199)
Less:					
Adjustments to Allowance (Note 16 l)	(148)	(233,141)	(233,289)	(233,289)	(754,235)
Judgments Receivable - Net, Ending	$ 6,455	$ 130,513	$ 136,968	$ 136,968	$ 84,355
Part 2					
Judgments Receivable - Net Ending	$ 6,455	$ 130,513	$ 136,968	$ 136,968	$ 84,355
Judgments Receivable - Net Beginning	332	84,023	84,355	84,355	62,879
Accrual Adjustment	$ 6,123	$ 46,490	$ 52,613	$ 52,613	$ 21,476

Exhibit B

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Change in Liability
September 30, 2006 and 2005
(Dollars in thousands)

	MC Mission				CP Mission			
	Pre-Merger	Divestiture	Civil Penalty	Subtotal MC	Civil Penalty	Redress	Subtotal-CP	Total
Liabilities @ 09/30/06	$ 10,441	$ 43,054	$ -	$ 53,495	$ 6,455	$ 189,780	$ 196,235	$ 249,730
Liabilities @ 09/30/05	9,389	42,084	-	51,473	332	131,660	131,992	183,465
Change in Liability Accounts	$ 1,052	$ 970	$ -	$ 2,022	$ 6,123	$ 58,120	$ 64,243	$ 66,265

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